Chapter-2

Performance Audit

CHAPTER – 2

PERFORMANCE AUDIT

INDUSTRIES AND COMMERCE DEPARTMENT

2.1 Working of the Jammu and Kashmir Cements Limited

Executive Summary

The Jammu and Kashmir Cements Limited (Company) is a wholly owned Government Company with main objectives to manufacture, procure, sell and deal in cement, limestone and other materials used in manufacturing of cement.

Highlights

- **Accounts of the Company were in arrears since 2008-09. The Company which earned profit of ₹4.35 crore during 2011-12 suffered loss of ₹26.28 crore during 2014-15.**

  (Paragraphs: 2.1.6 and 2.1.6.1)

- **Capacity utilisation vis-a-vis installed capacity for clinker and cement production ranged between 25 *per cent* and 48 *per cent*. Raw mills, kilns and cement mills of old plant were under-utilised to the extent of 39 *per cent*, 24 *per cent* and 32 *per cent* and of new plant to the extent of 78 *per cent*, 33 *per cent* and 76 *per cent* of available operational hours. Low operation of kilns led to loss of production of cement valuing ₹187.21 crore.**

  (Paragraphs: 2.1.7.2 and 2.1.7.3)

- **Excess consumption of 58278 MTs of coal and of power to the extent of 658.04 lakh kWh in cement plants caused extra burden of ₹80.17 crore to the Company.**

  (Paragraph: 2.1.7.4)

- **The Company had not formulated a definite procurement policy. Failure of the Company to procure coal under e-auction from ECL Kolkata resulted in extra expenditure of ₹87.50 lakh.**

  (Paragraph: 2.1.8.1)

- **Grade slippages of 75179 MTs of Grade 'A' coal resulted in variation in cost of ₹26.02 crore which was not recovered from the defaulting contractors by the Company.**

  (Paragraph: 2.1.8.2)

- **Shortfall in production of 5.30 lakh MTs of clinker due to low capacity utilization of new cement plant at Khrew resulted in loss of production of cement valuing ₹388.19 crore. Delay in setting up of cement unit at Samba resulted in loss of production of 1.57 lakh MTs of cement valuing ₹113.40 crore.**

(Paragraphs: 2.1.10.1 and 2.1.10.2)

- **The Company failed to install pollution monitoring and dust control devices required as per norms of Ministry of Environment and Forests and in terms of Mines Act, 1952 and Metaliferous Mines Regulation Act, 1961.**

(Paragraph: 2.1.12)

2.1.1 Introduction

The Jammu and Kashmir Cements Limited (Company) was incorporated in December 1974 under the Companies Act 1956 as a wholly owned Government Company having its registered office at Srinagar. The main objectives of the Company are to manufacture, procure, sell and deal in cement, limestone and other materials used in manufacturing of cement. The Company is operating two cement manufacturing plants set up in October 1981 and January 2010 at Khrew (Pulwama) with installed capacity of four lakh Metric Tonnes (MTs) per annum. The other Cement Grinding cum Packing unit at Samba, Jammu with installed capacity of one lakh MT per annum was under implementation (March 2015).

2.1.2 Organizational set up

The Management of the Company is vested in a Board of Directors (BoDs) comprising 10 Directors including the Chairman[1] and the Managing Director. The day to day activities of the Company are managed by the Managing Director who is assisted by two General Managers and a Financial Advisor and Chief Accounts Officer. Besides, Corporate Office at Srinagar, the Company has one Cement Factory at Khrew and one Divisional Office at Jammu. As on March 2015 total of 749 persons were employed in the Company.

2.1.3 Audit objectives

The performance audit was taken up with the objective of assessing whether:

- financial management was efficient and effective;

[1] Hon'ble Minister of Industries and Commerce

- the capacity of plant was utilised to the optimum level, manufacturing and other operations carried out efficiently;
- due procurement process was followed and effective inventory management was in place;
- measures for pollution control were in place; and
- manpower resources utilized effectively and Internal Control Systems were in place.

2.1.4 Scope of audit and methodology

The Performance Audit of the Company covering the period from 2010-11 to 2014-15 was conducted between December 2014 and March 2015 by test-check of records of the Corporate Office at Srinagar, Factory at Khrew and Divisional Office at Jammu on the basis of simple random technique with high value transactions and having repeated nature and significance in the manufacturing process of cement.

The audit objectives, criteria and methodology were discussed during an entry conference held on 03 December 2014 by the Accountant General (Audit) with the Financial Commissioner, Industries and Commerce Department and Managing Director of the Company. The Exit Conference was held on 30 July 2015 with the Special Secretary, Industries and Commerce Department and Managing Director of the Company. The replies of the Management of the Company had been incorporated at appropriate places.

Performance Audit on the working of the Company for the period from 1995-96 to 1999-2000 was incorporated in the Report of Comptroller and Auditor General of India (Government of Jammu and Kashmir) for the year ended 31 March 2000. The report was partly discussed by the Committee on Public Undertakings. However, no recommendations were made by the Committee.

2.1.5 Audit criteria

Audit objectives were benchmarked against the following audit criteria :

- Industry norms for production of cement and performance levels of other cement manufacturing plants;
- Provisions of various Acts/ Rules/ Regulation applicable for Cement Plant, mining activities, pollution control, etc.
- Marketing and price fixation policy of the Company.

2.1.6 Financial position and working results

The Company had authorised share capital of ₹60 crore and the paid-up capital of ₹14.99 crore as on 31 March 2015 wholly contributed by the State Government. In addition to this, ₹35.32 crore contributed by the State Government towards share capital was kept under share application deposit[2]. Further loan of ₹62.47 crore was obtained from the State Government (₹8.84 crore)[3] and Jammu and Kashmir Bank Limited (₹53.63 crore) as on March 2015.

Based on the provisional accounts, Financial Position and Working Results of the Company for five years from 2010-11 to 2014-15 are summarised in ***Appendices-2.1 and 2.2.*** Analysis of the financial position and working results of the Company revealed as follows:

- The capital contribution increased from ₹41.76 crore as on March 2011 to ₹50.51 crore as on March 2015 for implementation of Cement Grinding-cum-Packing Unit at Samba which had not been completed despite delay of about two years.
- The secured loans decreased from ₹32.70 crore as on March 2011 to ₹21.70 crore as on March 2012 and again increased to ₹53.63 crore as on March 2015 due to part repayment of term loan availed for New Plant at Khrew, availing of term loan for Samba Project and cash credit facility of ₹20 crore.
- Inventories which stood at ₹26.25 crore as on March 2011 rose to ₹40.99 crore as on March 2015 as a result inventory to sale ratio rose from 32 *per cent* as on March 2011 to 51 *per cent* as on March 2015 leading to blockade of funds to a large extent.
- During the year 2011-12, the Company had earned profit of ₹4.35 crore. However during the years 2013-14 and 2014-15 the Company suffered loss of ₹16.93 crore and ₹26.28 crore respectively due to less production of clinker, less sales, increase in cost of power/ fuel and steady increase in administrative expenditure, etc. Despite refund of central excise duty of ₹37.88 crore during the period 2010-15 and assured captive market for cement, the Company had failed to maintain and increase its profitability.
- Due to loss, the return on capital employed became negative at 25.07 *per cent* during 2014-15 from positive 3.90 *per cent* during 2010-11.

[2] The contribution was not transferred to paid up share capital in absence of approval of Registrar of Companies

[3] Included interest accrued and due: ₹3.67 crore

The Management of the Company stated (March/ July 2015) that the matter for enhancement of authorised capital was taken up with the Registrar of Companies which was however, pending (August 2015) for want of approval of shareholders. It was further stated that due to frequent breakdown of plant/ machinery during 2010-11 and 2013-14 and receipt of less advances from the State Government Departments against supplies, the Company suffered losses. Besides, the increase in holding of inventory was due to lesser sale and decline in demand from Government Departments due to elections and flood from February 2014 to March 2015. The fact however remained that the Company had not made efforts to meet demand of cement from the Government Departments despite receipt of huge advances for execution of supplies as at the end of years 2010-11 to 2013-14 advances for supply of cement varying between ₹27.06 crore to ₹47.44 crore were lying with the Company.

2.1.6.1 Non-finalisation of Annual accounts

The Company had finalised its accounts upto the year 2007-08. Thereafter accounts of the Company from the year 2008-09 onwards were in arrears. Non-finalisation of accounts is fraught with the risk of financial irregularities remaining undetected.

The Management of the Company stated (July 2015) that statutory audit of the accounts from the year 2008-09 to 2014-15 would be completed by March 2016.

2.1.7 Manufacturing process and operational performance

The cement is produced from clinker being an intermediary product which in turn is produced from raw materials viz limestone, clay, iron ore etc. The Company discontinued (1997) producing Pozzolana Portland Cement (PPC: Brick Bat Based) and instead started manufacturing Ordinary Portland Cement (OPC) 43-Grade under "JHELUM BRAND" with Bureau of Indian Standards (BIS) certification. The BoDs had decided (October 2007) to take into consideration proposal for production of PP Cement (Fly ash based) being cost effective, meeting growing demand and reducing pollution after completion (2010) of new Plant at Khrew. The Company also obtained license upto 31 May 2012 for this purpose from BIS. However, no efforts were made by the Company to produce PP Cement.

During Exit Conference the Managing Director stated that the procurement of fly ash from outside State would be costly. However, the Company had neither made any cost benefit analysis in this regard nor created additional facilities like fly ash handling storage and feeding system for manufacture of PP cement.

2.1.7.1 Mining of limestone

The State Government allotted (November 1977) land measuring 88.10 hectares on lease for 20 years for extraction of lime stone having 12.09 million tonnes (proved) and 5.75 million tonnes (probable) reserve of lime stone. The Company extracted 5.10 million tonnes of lime stone as of September 2014. The lease deed was renewed upto the year 2007 and thereafter no further renewal was obtained.

The extraction and transportation of lime stone was carried out by the Company through its Mining wing[4]. Against installed capacity for extraction of limestone of 4 lakh MTs of this wing, the capacity utilisation was 38 *per cent* during 2010-11 which increased to 54 *per cent* during 2011-12 and thereafter decreased to 48 *per cent* during 2012-13 and further to 33 *per cent* during 2014-15. The initiative taken (2009) by the Company to explore possibility of outsourcing mining activities had not been finalised.

After this was pointed out in audit, the Management stated (March/ July 2015) that the extraction was done as per requirement of the plant and that the matter of lease for non-captive use was in consideration with Director Geology and Mining.

2.1.7.2 Production performance of Factory

The Company has two Cement Plants at Khrew which were commissioned in April 1982 (old plant) and January 2010 (new plant). The installed capacity of production of cement of each plant was 2 lakh MTs per year. The year-wise position of targets and achievements of production of clinker as well as cement is given in the following table:

[4] Heavy earthmoving equipment/ machinery, shovels, trucks/ tippers, air compressor with manpower

Table-2.1

(Figures in lakh MTs)

Sl.No.	Year	2010-11	2011-12	2012-13	2013-14	2014-15
A	**CLINKER**					
1.	**Installed Capacity**[5]	**3.42**	**3.61**	**3.80**	**3.80**	**3.80**
2.	Production Targets	1.61	1.80	2.55	2.54	2.27
3	**Actual Production**	**1.15**	**1.72**	**1.52**	**1.42**	**0.95**
4.	Shortfall (2-3)	0.46	0.08	1.03	1.12	1.32
5.	Percentage shortfall in achievements	29	4	40	44	58
6.	Percentage of fixation of targets vis-a-vis installed capacity	47	50	67	67	60
7.	Percentage of actual production vis-a-vis installed capacity	34	48	40	37	25
8.	Year over year growth (percentage)	-20	+50	-12	-7	-33
B	**CEMENT**					
1.	**Installed Capacity**	**3.60**	**3.80**	**4.00**	**4.00**	**4.00**
2.	Production Targets	1.91	1.98	2.66	2.62	3.20
3.	**Actual Production**	**1.37**	**1.78**	**1.68**	**1.36**	**1.03**
4.	Shortfall (2-3)	0.54	0.20	0.98	1.26	2.17
5.	Percentage of shortfall in achievements	28	10	37	48	68
6.	Percentage of fixation of targets vis-a-vis installed capacity	53	52	67	66	80
7.	Percentage of actual production vis-a-vis installed capacity	38	47	42	34	26
8.	Year over year growth (percentage)	-16	+30	-6	-19	-24
C	**Capacity utilisation of other Cement plants**					
	Public Sector Undertakings					
	Cement Corporation of India Ltd.(CCI)	62	59	-	-	-
	Tamil Nadu Cements Corporation Ltd. (TCC)	-	78	97	-	-
	Local Private Cement plants					
	Tramboo Cements Industries, Khrew	17	55	75	81	105
	Tramboo Cements Industries Khanmoh	91	72	90	91	99
	Saifco Cements (P) Ltd. Khanmoh	39	40	40	37	36
	Khyber Cements Khanmoh	-	85	99	102	103

The capacity utilisation vis-a-vis installed capacity ranged between 25 *per cent* and 48 *per cent* during the period 2010-15. Due to low production of clinker, the Company had to purchase clinker from open market during the years 2010-11 and 2012-13 to the extent of 0.38 lakh MTs at a cost of ₹23.18 crore.

[5] Installed capacity of old plant as well as new plant: 2 lakh MTs per annum for each plant. The clinker production was taken at 95 *per cent* of installed capacity of cement. The Installed capacity of old plant was considered at 100 *per cent* while as for new plant it was considered at 80 *per cent,* 90 *per cent and* 100 *per cent* during 1st (2010-11), 2nd (2011-12) and 3rd (2012-13) years respectively

The capacity utilisation vis-a-vis installed capacity ranged between 26 *per cent* and 47 *per cent* during the period 2010-15.

The Management attributed (July 2015) reasons for lesser capacity utilisation of old plant to frequent breakdown followed by maintenance, interruption in power supply coupled with low voltage. For poor capacity utilisation of new plant the Management stated the contractor failed to bring the plant at the rated capacity and conduct performance guarantee test and the clinker production improved during 2011-12 as the contractor deputed team of experts to attend pending jobs. The reply could be viewed in light of the fact that the old plant performed better than the new plant and the contractor had imparted training to 31 employees[6] for operation of new plant. Despite this the Company failed to maintain the level of production of the year 2011-12.

2.1.7.3 Performance of cement plants

The Factory at Khrew had one Raw Mill in old Plant/ one Vertical Roller Mills (VRM) in new Plant for blending/ grinding of raw meal and two kilns in old Plant and one kiln in New Plant for production of clinker besides two Cement Mills (old and new) for blending/ grinding of clinker with gypsum for production of cement. Audit noticed that Raw Mills, Kilns and Cement Mills had not been utilized to their optimum level as discussed in succeeding paragraphs.

(I) Under-utilization of Raw mills

The position of operation of Raw mill (old plant) and Vertical Roller mill (new plant) during the period from 2010-11 to 2014-15 were as follows:

Table-2.2

Year	Available Hours for Operation[7]	Hours Actually Operated	Hours of Shutdown	Percentage Utilization of Raw Mills	Hours Actually Operated	Hours of Shutdown	Percentage Utilization of VRM
		Raw Mill (old Plant)			Vertical Roller Mill (new Plant)		
2010-11	6600	4165	2435	63	533	6067	8
2011-12	6600	4972	1628	75	1981	4619	30
2012-13	6600	3936	2664	60	1958	4642	30
2013-14	6600	3126	3474	47	2100	4500	32
2014-15	6600	3774	2826	57	600	6000	9
Total	**33000**	**19973**	**13027**	**61**	**7172**	**25828**	**22**

6 From all field i.e. Mechanical (8), Electrical (10), Instrumentation (5) and Process/ operation (8)

7 Total available hours calculated on the basis of 330×20 i.e. 6600 each

The percentage utilisation of Raw mill (old Plant) ranged between 47 and 75 while as percentage utilisation of VRM (new Plant) ranged between 8 and 32 during 2010-11 to 2014-15. The VRM (new plant) was operated for 7172 hours (22 *per cent*) only while as the Raw mill (old Plant) was operated for 19973 hours (61 *per cent*) against available 33000 hours during 2010-15.

The Management stated (July 2015) that the operation of Raw mills is dependent on operation of Kiln and that the Company was making all efforts to improve working of the plant especially the Kilns.

(II) Under-utilisation of kilns

The position of operation of kilns of both old and new plants during the period 2010-11 to 2014-15 was as follows:

Table-2.3

Year	Available Operational hours	Hours actually operated (Percentage operational)	Actual Production of clinker (in MTs)	Hours for which Kiln not operated	Loss of production of Clinker (in MTs)[8]	Loss of production of cement (in MTs)[9]	Value of cement not produced due to loss of production of clinker (₹ in crore)
1	2	3	4	5 (2-3)	6 (4/3x5)	7(6x100/95)	
Old Plant[10]							
2010-11	13200	9112 (69)	69017	4088	30964	32594	19.56
2011-12	13200	11636 (88)	79180	1564	10643	11203	7.62
2012-13	13200	10923 (83)	76178	2277	15880	16716	11.53
2013-14	13200	10569 (80)	72784	2631	18119	19072	13.47
2014-15	13200	8963 (68)	54483	4237	25761	27117	21.15
Total	**66000**	**51203 (76)**	**351642**	**14797**	**101367**	**106702**	**73.33**
New plant[11]							
2010-11	6600	2817 (43)	46525	3783	62479	65767	39.46
2011-12	6600	5717 (87)	93100	883	14379	15136	10.29
2012-13	6600	5518 (84)	75983	1082	14899	15683	10.82
2013-14	6600	4564 (69)	68804	2036	30693	32308	22.81
2014-15	6600	3460 (52)	40938	3140	37146	39101	30.50
Total	**33000**	**22076 (67)**	**325350**	**10924**	**159596**	**167995**	**113.88**

Against total available hours the old Plant was operated between 69 *per cent* and 88 *per cent* during the years 2010-11 to 2014-15. The low operation of old plant caused loss of production of 101367 MTs of clinker with consequent loss of

[8] Actual Production per hours x hours of shutdown
[9] Calculated after considering consumption of 95 *per cent* of clinker and 5 *per cent* gypsum
[10] Old Plant has two kilns of 300 TPD capacity: Total available hours calculated on the basis of 2 × 330 × 20 i.e. 13200 each
[11] New Plant has one kiln of 600 TPD capacity: Total available hours calculated on the basis of 330 × 20 i.e. 6600 each

production of cement valuing ₹73.33 crore[12] during the period 2010-15. Similarly, against total available hours the new Plant was operated between 43 *per cent* and 87 *per cent* during the years 2010-11 to 2014-15. The low operation of the new plant caused loss of production of 159596 MTs of clinker with consequent loss of production of cement valuing ₹113.88 crore during the period 2010-15. Thus due to low operation of kilns the Company had to suffer loss of production of cement valuing ₹187.21 crore.

The Management attributed (July 2015) low operation to frequent repair and maintenance of old Kilns and immediate repairs of Kiln-I involving substantial investment, besides, power failure, *hartals.* The Management further stated that the Company had engaged a team of expert to improve the working of Kiln-III of new plant. The reply should be viewed in light of the fact that the Company had not been able to utilise the kilns to optimum level by way of minimizing the period of general maintenance, timely supply of raw/ fine coal, avoid jamming of Mill, etc. The Company had also not taken timely action to improve the operation of Kiln-III.

(III) Poor performance of cement mills

The position of operation of two cement mills during the period from 2010-11 to 2014-15 was as follows:

Table-2.4

Year	Available Hours for Operation	Hours Actually Operated	Hours of Shutdown	Percentage Utilization of the Plant	Available Hours for Operation	Hours Actually Operated	Hours of Shutdown	Percentage Utilization of the Plant
	Old Cement Mills				New Cement Mills[13]			
2010-11	6600	4704	1896	71	-	-	-	-
2011-12	6600	5991	609	91	6600	639	5961	10
2012-13	6600	4322	2278	65	6600	2479	4121	38
2013-14	6600	4660	1940	71	6600	1458	5142	22
2014-15	6600	2625	3975	40	6600	1659	4941	25
Total	**33000**	**22302**	**10698**	**68**	**26400**	**6235**	**20165**	**24**

Against total available hours the old cement mill was operated between 40 *per cent* and 91 *per cent* during 2010-11 to 2014-15. The new cements mill was barely operated and its operation ranged between 10 *per cent* and 38 *per cent* of total available operational hours during 2011-12 to 2014-15. The old cement mill was utilised to the extent of 68 *per cent* while as new cement mill was utilised to the extent of 24 *per cent* only during the period 2010-15.

[12] Calculated on the basis of minimum sale rate during each year
[13] New Cement Mills started operation from 2011-12

The Company attributed (July 2015) low operation of cement mill to power failure, holidays, *hartals,* low voltage, repair/ maintenance, grinding media charging, non-availability of dozing machine and less off-take etc. Besides, the operation of Cement mills was dependent on operation of Kiln.

The above facts brought to fore that Raw/ Roller mills, kilns and cement mills of old plant were under-utilised to the extent of 39 *per cent*, 24 *per cent* and 32 *per cent* and of new plant to the extent of 78 *per cent*, 33 *per cent* and 76 *per cent* of available operational hours respectively during the period 2010-15 indicating that performance of new Plant was even worse than old Plant. The Company had not taken adequate measures to operationalise new plant to the optimum level as discussed in succeeding paragraph 2.1.10.1

2.1.7.4 Consumption of fuel

(I) Excess consumption of coal

For production of clinker, the Kilns are fed by raw meal where it is burnt at a very high temperature with the help of fine coal fed by coal mills. Coal constituted 48-61 *per cent* of total direct cost of production of clinker. While no norms for consumption of coal for production of clinker in respect of old Plant were fixed but performance guarantee test prescribed specific heat consumption at 825 kCal/ kg clinker with fuel consumption scale of 0.183 per MT of clinker production in respect of new Plant.

The position of production of clinker and consumption of coal during the period 2010-11 to 2014-15 in respect of both old and New Plants at Cement Factory Khrew was as follows:

Table-2.5

Sl. No	Particulars	2010-11		2011-12		2012-13		2013-14		2014-15	
	Plant	Old	New	Old	New	Old	New	Old	New	Old	New
1.	Clinker Production (MTs)	69017	46525	79180	93100	76178	75983	72784	68804	54483	40938
2	Coal consumed (MTs)	20930	13905	23839	27966	20799	20696	22600	21370	17159	12947
3.	Imported coal consumed out of '2' above (Percentage of total consumption)	-	-	-	-	2176 (10)	1230 (6)	9142 (40)	8892 (42)	4760 (28)	3179 (25)
4.	Coal consumption per MT of Clinker Production	0.30	0.30	0.30	0.30	0.27	0.27	0.31	0.31	0.31	0.32
5.	Norms in case of New Plant and Old Plant	0.24	0.183	0.24	0.183	0.24	0.183	0.24	0.183	0.24	0.183
6.	Consumption of coal as per Norms	16564	8514	19003	17037	18283	13905	17468	12591	13076	7492
7.	Excess Consumption of coal (2-6)	4366	5391	4836	10929	2516	6791	5132	8779	4083	5455
8.	Average cost per MT of coal (in ₹)	6764	6764	9451	9451	10082	10082	11220	11220	11220	11220
9.	Value of excess coal consumed (₹ in crore)	2.95	3.65	4.57	10.33	2.54	6.85	5.76	9.85	4.58	6.12

Against a norm of 0.183 MT in new Plant, consumption of coal was between 0.27 MT and 0.32 MT during 2010-11 to 2014-15 resulting in excess consumption of 37345 MTs of coal valuing ₹36.80 crore. The consumption of coal in old Plant was also shown at same level. Coal consumption ranged between 0.20 MT and 0.21 MT in Tamil Nadu Cements Corporation Ltd. (TCC) and between 0.23 MT and 0.24 MT in Cement Corporation of India Ltd. (CCI). Audit noticed that consumption of coal in old plant was more than CCI (0.24 MT) resulting in excess consumption of coal to the extent of 20933 MTs valuing ₹20.40 crore. Thus excess consumption of 58278 MTs of coal caused extra burden of ₹57.20 crore to the Company.

All India Industry average thermal energy consumption was 725 kCal/ Kg clinker. The average thermal energy consumption of the Company however ranged between 1229 kCal and 1628 kCal/ Kg clinker during 2010-11 to 2014-15.

The Management attributed (July 2015) reasons for high coal consumption in old plant to frequent power failure, extreme climatic conditions, unstable conditions of old kilns, poor performance of coal mills and inconsistency in chemical composition of raw material and in respect of new plant to non-conducting of performance guarantee test for coal consumption by the contractor. The reply should be viewed in light of the fact that consumption level of coal was same in both plants and that the Company had not made any efforts to optimise the coal consumption.

(II) Excess consumption of power

The power consumption constituted about 13 *per cent* to 18 *per cent* of total direct cost of production of clinker during the period 2010-15. No norms for consumption of power in respect of old Plant were fixed by the Company. However, norm for power consumption at 100 kWh per tonne of cement was fixed in respect of new Plant in its TEVR[14]. Further, power consumption of Cement Corporation of India Limited (CCI) was approximately 150 kWh and of TCC was below 120 kWh per MT of clinker. The All India Industry average electrical energy consumption was 82 kWh per MT of cement.

[14] Techno Economic Viability Report

The clinker production and consumption of power during 2010-11 to 2014-15 at Old and New Plants at Cement Factory was as follows:

Table-2.6

Sl. No.	Particulars/Year	2010-11		2011-12		2012-13		2013-14		2014-15	
	Plant	Old	New	Old	New	Old	New	Old	New	Old	New
1.	Clinker Production (MTs)	69017	46525	79180	93100	76178	75983	72784	68804	54483	40938
2.	Actual power consumed (in 1000 KWh)[15]	22871	4541	25883	10633	21026	13771	22576	10887	13264	5522
3.	Power consumption per MT of Clinker Production (in KWh)	331	98	327	114	276	181	310	158	243	135
4.	Norms as per TEVR in case of New Plant and as per CCI in case of old plant (in KWH per MT Clinker)	150	100	150	100	150	100	150	100	150	100
5.	Power consumption as per norms (in 1000 kWh)	10353	4652	11877	9310	11427	7598	10918	6880	8172	4094
6.	Excess Consumption of power (in 1000 kWh)	12518	-	14006	1323	9599	6173	11658	4007	5092	1428

Power consumption in new Plant remained below norm during 2010-11 (first year of operation) and thereafter during 2011-12 to 2014-15 power consumption ranged between 114 kWh and 181 kWh per MT of clinker resulting in excess consumption of power to the extent of 129.31 lakh kWh valuing ₹4.74 crore during the period 2010-15. In old plant power consumption was between 243 kWh and 331 kWh per MT of clinker during 2010-11 to 2014-15 against 150 kWh per MT[16] of clinker resulting in excess consumption of power to the extent of 528.73 lakh kWh valuing ₹18.24 crore during the period 2010-15. Thus excess consumption of power to the extent of 658.04 lakh kWh caused extra burden of ₹22.97 crore to the Company.

The Management attributed (July 2015) reasons for higher power consumption in old plant to its poor health and frequent power failure and stated that power consumption could be brought down by replacement of old drives and equipment involving substantial investment which the Company was not in position to undertake at present and in respect of new plant to non-conducting of performance guarantee test for power consumption by the contractor.

2.1.7.5 Poor performance of Kiln-II despite major repairs

The Company allotted (May 2011/ October 2011) the works "Repair and improvement of Kiln-II" (₹1.87 crore) and "Design, Supply, Installation, Testing and Commissioning of Mechanical Equipment" (₹1.50 crore) on turnkey basis to

[15] For conversion of KVAH to KWH 0.92 factor was used as agreed by the Company to JKPDD
[16] Comparison was made with power consumption in CCI

a contractor[17]. The contractor was required to provide guarantee for the repaired Kiln to run at minimum of 1.5 Revolution per minute (RPM).

Audit observed that the work was started belatedly in April 2012. The contractor executed works to the extent of ₹3.66 crore[18] upto September 2012 against which payment of ₹3.30 crore was made[19] after withholding ₹0.36 crore for non-installation of pneumatic seal. The Company further incurred expenditure of ₹2.01 crore on electrical, mechanical/ civil works and hiring of crane during July 2011 to January 2013. The Company released (August 2014) ₹15 lakh out of withheld sum of ₹0.36 crore to the contractor for rectification and installation of pneumatic seal. However, no rectification was carried out by the contractor (March 2015).

Audit check of records showed that the Kiln performed between 0.65 RPM and 1.1 RPM only after repairs/ renovation during September 2012 to December 2014 resulting in loss of production of 77753 MTs[20] of clinker and 81845 MTs of cement valuing ₹56.47 crore. The Company had neither included any provision for recovery of liquidated damages for under performance of Kiln-II after repairs nor taken any action against the contractor. The contractor had utilised crane for 2 ½ months and the Company paid full hire charges of ₹38 lakh thereof against 3 days as per allotment order thereby resulting in extra payment of ₹36.48 lakh.

Thus expenditure of ₹5.46 crore incurred on repair/ renovation of the Kiln was rendered unproductive as the desired RPM level of 1.5 was not achieved.

The Management stated (July 2015) that efficiency of the Kiln was dependent upon working of other allied sections and that the crane was utilised on need basis. The reply could be viewed in light of the fact that the crane was utilised for extra days for a considerable period as against 3 days and the Kiln had not been operated at a minimum level of 1.5 RPM.

2.1.8 Procurement of raw material/ stores

The BoDs of the Company had desired (July 2014) for formulation of a 'definite policy for procurement as per standards and norms'. However, no action was initiated by the Management (July 2015) to formulate the procurement policy. Further, the Central Purchase Committee meetings for making purchases had not been held since December 2013.

[17] M/s Ashoka Gears, Noida
[18] Including taxes
[19] December 2011 to June 2012
[20] Considering 12.5 MTs per hour production at 1.5 RPM of Kiln-II

The Management stated (July 2015) that the Company was in the process of framing procurement policy. During exit conference the Special Secretary, Industries and Commerce Department informed that e-tendering process would be introduced for procurement in the Company. The transgression in following codal procedures in procurement is instanced in the succeeding paragraphs:

2.1.8.1 Procurement of coal

The Company entered into two Fuel Supply Agreements (FSA) with M/s Eastern Coalfields Limited, Kolkata (ECL) in respect of Old Plant (April 2008) for allocation of 24000 MTs of coal and for New Plant (December 2009) for 26000 MTs[21] of coal. The Company also participated in e-auction for procurement of coal from ECL in case of short supply or non-meeting the requirement of coal at Factory besides procured imported coal from open market and Jammu and Kashmir Minerals Limited (JKML). The position of coal procured by the Company during 2010-11 to 2014-15 was as follows:

Table-2.7

(Quantity in MTs)

Year	Allocation[22] as per FSA	Coal received under FSA	Shortfall of coal under FSA	Percentage shortfall	Coal procured under e-auction	Total from ECL	Coal procured from JKML	Imported coal procured	Total coal procured
2010-11	37000	25482	11518	31	21619	47101	2939	300	50340
2011-12	37000	21771	15229	41	18575	40346	4185	-	44531
2012-13	37000	19153	17847	48	15242	34395	1829	3406	39630
2013-14	37000	18015	18985	51	-	18015	2245	19352	39612
2014-15	37000	25397	11603	31	-	25397	1319	6704	33420

The shortfall in supply of coal under FSA ranged between 31 *per cent* and 51 *per cent* during 2010-11 to 2014-15. The Company had not participated and procured coal under e-auction from ECL from October 2012 to March 2015 despite availability of coal under e-auction with ECL and had instead resorted to purchase of imported coal from open market at higher rates. This resulted in incurring of extra expenditure to the tune of ₹87.50 lakh during the said period.

The BoDs had directed the Company in July 2013 to procure maximum possible coal from JKML. However, no efforts were made by the Company in this regard as against purchase of 4185 MTs of coal during 2011-12 from JKML the Company reduced its procurement in subsequent years and during 2014-15 only 1319 MTs of coal was purchased from JKML.

[21] (13000 MTs from Colliery and 13000 MTs through Imported coal)
[22] Excluding imported coal

The Management stated (July 2015) that against the requirement of 80000 MTs annually, the ECL could supply between 18000 MTs and 25000 MTs and the Company had to bank upon other sources. Besides, the imported coal was procured almost at par with e-auction rates and endeavour had been made to procure coal from JKML which was utilised by blending with ECL coal in a proper ratio and that the Company was in the process of procuring 1000 MTs coal from JKML on monthly basis. The reply should be viewed in light of the fact that there was difference of rates in procurement of imported coal and e-auction coal from ECL and that the Company had not followed the open tendering system.

2.1.8.2 Irregularities in transportation of coal

The coal was loaded by the ECL at colliery, Kolkata and weighed at Railway's siding from where it was transported through Railways upto Bari-Brahmna, Jammu and from there to Cements Factory at Khrew by road in trucks. The Company allotted (March 2010, January 2012 and August 2014) contract for supervision, handling and transportation of coal from ECL coal mines at Kolkata upto Cement Factory at Khrew to two contractors[23].

- As per terms of the contract the contractor was required to have registered office in the Jammu and Kashmir State and a Branch office in Kolkata (West Bengal). Audit noticed that both the contractors had not established any Branch office at Kolkata and instead a firm was appointed as representative of the contractor in contravention of the conditions of the contract.

- The conditions of the contract provided that the contractors were required to arrange adequate trucks and dispatch coal to Factory at Khrew after clearance from Railways at Bari-Brahmna within 4 to 5 days. The contractors, however, delivered 43 out of 44 coal rakes received from ECL Kolkata during April 2010 to December 2014 at Cements Factory Khrew after delays ranging from 3 days to 315 days. The Company allowed dumping of 15 coal rakes at Jammu and paid dumping charges of ₹1.38 crore. Further in five cases dumping was allowed without payment of dumping charges and the remaining 23 coal rakes were unauthorisedly dumped by these contractors and delivered at Factory after considerable delays. No penalty was imposed on the contractors for delay in delivery of coal as no such provision was kept in the contract/ agreement.

[23] M/s Jay Kay Enterprises, Jammu (period from 10 March 2010 to 09 March 2012 and 25 January 2012 to 24 January 2014) and M/s Sharma Trading Company, Bari-Brahmna, Jammu (19 March 2014 to 18 March 2016)

- As per FSA, the ECL was required to take all reasonable steps to remove stone, shale and extraneous matters before loading of coal and complaint, if any, was to be made by the purchaser at colliery site/ delivery point. The Company claimed ₹23.89 crore for the period from 2010-11 and 2011-12 for grade slippages from the ECL which was not acknowledged by it on the plea that proper size and quality of coal was dispatched and that representative of the Company had supervised the rake and recorded satisfactory loading in the joint inspection register kept at the loading siding. However the Company kept on claiming grade slippage and during 2012-13 to 2013-14 further ₹18.48 crore was claimed by the Company from ECL.
- The contractors were fully responsible to deliver to the Plant at Khrew the quality of coal as received from the collieries and billed by the supplier (ECL). The delivered coal was to be sampled and analysed at Khrew and variation, if any, found in respect of quality was to be recovered from the dues of the contractors. Audit noticed that the laboratory at Kolkata from where the contractors had got samples of coal tested was not approved by the Company neither had any sample of coal got tested from any independent Laboratory. 20 coal rakes (75179 MTs) of Grade 'A' was billed by the ECL during the period 2012-15 and was handled by the contractors. Instead of Grade 'A' quality of these rakes the Company received coal at Cements Factory Khrew of quality of Grade 'B' (2582 MTs), Grade 'C' (15449 MTs), Grade 'D' (27902 MTs), Grade 'E' (25410 MTs) and Grade 'F' (3836 MTs) which was delivered by these contractors. These grade slippages resulted in receipt of lower grade of coal by the Company than as billed by the ECL and consequent variation in cost to the extent of ₹26.02 crore which was recoverable from the contractors in terms of the contract. The Company had not taken any action against the defaulting contractors.

The Management stated (March/ July 2015) that contractors had no independent branch at Kolkata and had appointed M/s Abhishekh Enterprises to act as bridge between contractors and ECL. The delivery of the coal at Khrew was dependent upon the condition of Jammu-Srinagar Highway besides other force majeure conditions which took 10-20 days and that large number of trucks was required to arrange transportation which led to dumping of coal at Jammu. For abnormal delay in delivery of coal at Khrew, necessary punitive clause would be incorporated in future contracts. Further the Company had also taken up the matter for variation in quality of coal with ECL and no response was given thereof. During exit conference the Director Finance, Industries and Commerce Department informed that the Company had been instructed to depute personnel for coal handling at Kolkata.

2.1.8.3 Excess payment

The Company allotted (April 2010) contract for handling and transportation work of coal to contractor[24] at a rate of ₹1485 per metric tonne (PMT) effective from 10 March 2010 to 09 March 2012. The Company again allotted (January 2012) the same contract to the same contractor at a rate of ₹1999 PMT of coal effective from 25 January 2012 to 24 January 2014. Audit check of records showed that instead of making effective the second contract from 10 March 2012 after expiry of the first contract, the Company made the contract effective from 25 January 2012 resulting in excess payment of ₹39.53 lakh to the contractor.

The Management stated (February/ July 2015) that the contract was allotted with effect from 25 January 2012 for the period of two years. The reply is not acceptable as the currency of the earlier contract at rate of ₹1485 PMT was effective upto 9 March 2012.

2.1.8.4 Procurement of clinker without any requirement

The Company had projected requirement for procurement of clinker from market to the extent of 8000 MTs during 2012-13 in its Budgets proposals. Audit noticed that the Company procured 21363.09 MTs of clinker during 2012-13 at a cost ₹14.53 crore from the private Cement Manufacturers (M/s Shree Cement Ltd and M/s J K Laxmi Cement Ltd.) without ascertaining reasonability of rates by invitation of tenders. The availability of clinker produced at the Factory ranged between 15693 MTs and 42814 MTs while the consumption of clinker ranged between 4306 MTs and 21761 MTs during 2012-13. This indicated sufficient availability of clinker produced at the Factory and as such there was no need to procure clinker from the open market. Besides, average direct cost of clinker produced at the Factory amounted to ₹4350 PMT during 2012-13 while the Company procured clinker from open market at rate of ₹6803 PMT thereby resulting in incurring of extra expenditure to the tune of ₹5.24 crore.

The Management stated (July 2015) that to meet the demand of cement from Leh and Kargil divisions the Company resorted to procurement of clinker from the manufactures of national repute. The reply was not tenable as there was abundance of own produced clinker at the Factory which was sufficient to meet demand of both Leh and Kargil divisions.

[24] M/s Jay Kay Enterprises Jammu

2.1.9 Inventory management

The Company had not fixed maximum, minimum and re-ordering levels of the inventory. The position of sales, stocks of semi-finished[25] and finished material[26] and closing balance (CB) of clinker during 2010-11 to 2014-15 was as follows:

Table-2.8

(₹ in crore)

Year	Sales	Closing Balance of semi-finished/ finished material	Percentage of semi-finished/ finished material to sales	Value of closing Balance of clinker (Percentage of clinker to sales)	Value of closing Balance of cement (Percentage of cement to sales)	Closing Balance of clinker (in MTs)
2010-11	81.87	1.72	2	1.03 (1)	0.46 (0.56)	2251.52
2011-12	120.50	6.01	5	5.34 (4)	0.43 (0.36)	11130.72
2012-13	116.00	15.63	13	15.31 (13)	0.21 (0.18)	23283.42
2013-14	93.29	26.92	29	23.02 (25)	3.17 (3)	33856.92
2014-15	80.28	25.19	31	20.85 (26)	3.63 (4)	30223.22[27]

The inventory under semi/ finished material increased from meagre 2 *per cent* of sales as on March 2011 to 31 *per cent* as on March 2015 mainly due to increase of stock of clinker from 1 *per cent* to 26 *per cent* of sales during the corresponding period. As of March 2015, the Company had pending orders for supply of 43669 MTs of cement for which ₹34.06 crore were received from various Government Departments. However, the Company had not converted the available stock of clinker to cement to meet the required demand as a result investment of ₹20.85 crore in the shape of closing balance of clinker as on 31 March 2015 remained blocked thereby adversely affecting financial health of the Company. Further in September 2014, the Company reflected 20000 MTs of clinker as lost/ deteriorated due to rain/ floods in its stock. Had the Company made efforts to produce the cement by consumption of available stocks of clinker in time, its loss/ deterioration due to flood/ rain could have been minimised.

2.1.9.1 Physical verification of store/ stock

Financial rules provided that physical verification (PV) of store/ stock articles should be conducted at least once a year and discrepancies, if any, noticed are to be settled/ adjusted immediately. The PV report (December 2013) of raw materials showed discrepancies in book balance and ground balance of various items which *inter-alia,* included shortage of clinker of 17294 MTs valuing

[25] Lime stone, Clay, Silica stone, Iron ore, Clinker
[26] Cement
[27] Includes 20000 MTs of clinker deteriorated/lost due to rain/flood in September 2014

₹7.52 crore. After noticing shortages, the Managing Director decided (January 2014) to conduct PV of raw material again at the end of March 2014. The PV conducted in April 2014 showed shortage of only 160 MTs of clinker. Audit observed that PV team had not recorded ground balances in the stock registers. The variation of shortages detected by PV teams had not been investigated by the company.

The clinker (20000 MTs), coal (1200 MTs), gypsum (500 MTs), raw clay (1000 MTs) and iron ore (300 MTs) was reported lost/ deteriorated during floods of September 2014 and the Company accounted these losses in stock registers. The insurance claim lodged (September 2014) by the Company in this regard with the National Insurance Company to the tune of ₹17.69 crore was repudiated (November 2014) on the plea that the loss, if any, caused was due to rain and not due to flood.

The Management stated (April 2015) that PV of December 2013 was conducted as and where basis and stocks were scattered throughout the plant as such figures were tentative and scheduled PV was conducted in April 2014 when stocks were shifted to storage granaries and the discrepancies reduced comparatively. The reply should be viewed in light of the fact that the discrepancies in PV conducted in December 2013 were huge and could not be ignored and that no responsibility had been fixed in this regard.

2.1.10 Project Implementation

For expansion in cement manufacturing, the Company took up project of new Plant at Cement Factory Khrew with installed capacity of 600 TPD (2 lakh MTs annually) during the year 2005 and Cement Grinding cum Packaging unit at Samba, Jammu (capacity: 300 TPD:-1 lakh MTs annually) in September, 2011.

2.1.10.1 Dismal Performance of new cement plant

The project work of the new cement plant[28] was allotted (September 2005) on turnkey basis to M/s Promac Engineering Industries Ltd., Bangalore (contractor) at a cost of ₹71.01 crore. As per terms of contract the contractor was to commission the plant within 26 months and in case of reduction in capacity of plant, increase in power/ fuel consumption and delay in contract execution the contractor was liable to pay prescribed liquidated damages. Audit noticed that the contractor started (June 2006) execution of work with slow pace and

[28] Supply of Plant equipment (Mechanical/ Electrical), Instrumentation, Erection and commissioning including all civil works

with inadequate manpower executed work to the extent of ₹77.37 crore[29]. The contractor did not execute further work of the project since July 2010 and left the site of work in August 2010. Several notices were issued to the contractor who did not respond and the Company encashed Bank Guarantee of ₹2.39 crore in September 2012. The Company had also incurred expenditure of ₹1.43 crore for acquisition of land (₹0.66 crore), construction of electric sub-station (₹0.77 crore) and consultancy charges (₹0.81 crore) of the project. Meanwhile the Company had started commercial production of the plant from January 2010 on as is where is basis despite delay in execution of work and non-cooperation by the contractor.

Against installed capacity of plant to produce 8.45 lakh MTs of clinker during April 2010 to December 2014, 3.15 lakh MTs of clinker was produced resulting in shortfall of 5.30 lakh MTs of clinker (37 *per cent* capacity utilisation) and consequent loss of production of cement valuing ₹388.19 crore. Further packing plant costing ₹2.19 crore and being part of the project though installed and trial run conducted was not made operational thereby rendering it idle (March 2015).

The Company had also released (March 2007 to October 2008) ₹2 crore for execution of civil work of 'Patented Taiheiyo Coating Solution (TCS) System' for use of high sulphur pet coke[30] and local Kalakote coal[31] to the same contractor. The mechanical works of this system were allotted (December 2008) for ₹3.67 crore and the contractor was required to complete these works within six months from January 2009. The contractor supplied (March 2010 to December 2010) material/machinery/spares costing ₹3.88 crore and the Company released ₹3.19 crore but the TCS system had not been installed resulting in unfruitful expenditure of ₹5.19 crore.

Thus, non-operation of new plant at full capacity due to non-completion of works by the contractor and failure of the Company to take effective steps in this regard resulted in under-utilisation of the plant and consequent loss of production of cement valuing ₹388.19 crore. Further no liquidated damages in terms of contract were levied against the contractor. The Company had also borne interest burden of ₹23.04 crore on term loan of ₹46 crore availed by the Company for the project. The in-efficient running of plant also caused excess consumption of coal and power to the tune of ₹41.54 crore as discussed in preceding paragraphs 2.1.7.4 (I) and (II).

[29] Mechanical/Electric and Instrumentation: ₹55.11 crore, Civil works: ₹20.02 crore and E&C: ₹2.24 crore, including taxes/ duties and excluding service tax of ₹3.63 crore

[30] Having more calorific value

[31] Being economical due to lower rates

The Management stated (July 2015) that the contactor failed to bring the plant at the rated capacity and conduct performance guarantee test and that the clinker production improved during 2011-12 as the contractor deputed team of experts to attend pending jobs. The Management further stated that contractor demanded three months shut down for putting in place the machinery/ equipment who was, however, asked to first make the new plant fully operational after conducting performance guarantee test. The reply should be viewed in light of the fact that the Company had not taken any action to levy any liquidated damages against the contractor for reduction in capacity, increase in coal/ power consumption, delay in project execution and non-installation of TCS system of new plant.

2.1.10.2 Delay in setting up of Cement Grinding-cum-Packing unit

To augment cement production and to accommodate migrant staff stationed at Jammu BODs recommended (April 2002) setting up of 300 TPD Cement Grinding-cum-Packing unit at Samba Jammu. The Detailed Project Report prepared (March 2004) through M/s J&K ITCO[32] envisaged estimated cost of ₹8.56 crore of the project. The land for the project was acquired in February 2009. Another Consultant[33] engaged (October 2009) by the Company submitted Techno Economic Viability Report (TEVR) in January 2010 envisaging cost of project at ₹19.69 crore which was revised (April 2011) to ₹26.97 crore. The State Government approved (September 2011) the project alongwith funding share of ₹8.09 crore to be contributed by the State Government and balance ₹18.88 crore to be arranged by way of term loan. The Company allotted (September 2011) work for supply, erection and successful commissioning of project to the contractor[34] at a cost of ₹18.31 crore who was required to commission the plant within 16 months. For delay in commissioning of the plant the contractor was liable to pay liquidated damages.

Audit noticed that the project which was required to be completed by January 2013 had not been completed despite delay of more than two years and the contractor executed work to the extent of ₹13.51 crore (74 *per cent* of total work) as of March 2015. Besides, the Company had made payment of ₹0.41 crore to the consultant and incurred further expenditure of ₹7.86 crore on the works beyond scope of the contract[35]. The Company revised (July 2014) cost of project to ₹39.51 crore. The Company had not taken any action against the contractor in

32 J&K Industrial and Technical Consultancy Organisation Ltd.
33 M/s ERCOM Engineers (P) Ltd.
34 M/s Ashoka Gears, NOIDA
35 Interest on term loan; service tax, constructions of electric receiving station/ sub-station, office building/ boundary wall etc.

terms of contract for delay in execution of the project. The Company received (January 2012 to March 2014) ₹7.25 crore from the State Government and availed term loan of ₹19.29 crore[36] for the project for which the Bank charged interest of ₹4.67 crore[37] as of January 2015.

Thus, failure of the Company to take any action against the contractor for delay in execution of the project resulted in loss of production of 1.57 lakh MTs[38] of cement valuing ₹113.40 crore.

The Management attributed (July 2015) reasons to delays in release of equity by the State Government and in commissioning of receiving station by the State Power Development Department. Further the revision in cost was necessitated due to additional items of work and that the plant would come into commercial operation shortly. The reply should be viewed in light of the fact that the delay in execution of work by the contactor was abnormal and that usage of receiving station was required after installation of the unit. Further the Company had parked funds in Fixed Deposit Receipts out of the funds received from the State Government and loan raised from the Bank.

2.1.11 Marketing activities

The sale rate of cement was to comprise basic cost of raw material, direct expenses (coal, power, transportation, etc.), administrative overheads, other variable overhead and applicable duties and taxes and a profit margin fixed by the Company. Audit observed that the Company had not prepared cost sheet and instead sale rate of cement had been fixed on the basis of market rate after considering change, if any in taxes/duties and increase in input costs.

The Company had not framed any sales policy and depended mostly on sales to the Government/ semi-Government Departments. During 2010-11 to 2014-15 these Departments constituted 82 *per cent* to 91 *per cent* of total sales of the Company while as the sales to the private market (distributors and consumers) ranged between 9 *per cent* and 18 *per cent* only. The cement was supplied against advance payment and also on credit basis to Government/ Semi Government Departments. As on 31 March 2015, an amount of ₹11.49 crore was outstanding against 32 Government/ Semi Government Departments of which ₹1.38 crore was outstanding against these 8 Departments since 1996-2010 resulting in their blockade and subsequent loss of interest to the tune of ₹1.11 crore.

[36] Original term loan: ₹15.98 crore: and Additional term loan: ₹3.31 crore

[37] Payment of ₹2.28 crore has been made so far

[38] For 25 months (from February 2013 to February 2015) @ 1.00 lakh MTs per annum

The Management stated (July 2015) that the Company was in the process of framing sales policy giving due regard to market conditions as well as competition and promotion through print and electronic media and also to establish own sale depots.

2.1.11.1 Sale performance

The position of sale targets fixed in the Annual Budget proposals and achievements made thereagainst and Year-over-Year (YOY) growth of the Company during 2010-11 to 2014-15 was as follows:

Table-2.9

(Quantity in MTs and value in crore of Rupees)

Year	Targets		Achievements (Actual Sales)		Shortfall		YoY Growth
	Quantity	Value	Quantity	Value	Quantity	Value (Percentage of shortfall)	
2010-11	182000	108.48	137039	81.87	44961	26.61 (25)	-12
2011-12	197600	133.67	177693	120.50	19907	13.17 (10)	47
2012-13	266500	180.68	168317	116.00	98183	64.68 (36)	-4
2013-14	261000	180.74	131314	93.29	129686	87.45 (48)	-20
2014-15	320000	247.50	103138	80.28	216862	167.22 (68)	-14

The Company failed to achieve annual targets of sale of cement and shortfall was 25 *per cent* during 2010-11 which improved to 10 *per cent* during 2011-12. The performance of sales of the Company worsened in subsequent years with shortfall of 36 *per cent* during 2012-13, 48 *per cent* during 2013-14 and 68 *per cent* during 2014-15. In the absence of non-preparation of cost sheet by the Company the profit margin, if any, considered while fixing sale rate could not be ascertained.

The Management stated (July 2015) that the sales was mainly dependent upon the demand from State Government that had remained very low during last two years. The non-achievement of targets was also attributed to poor performance of the plant and that the Company was adopting various schemes of incentive or reducing sale price.

2.1.12 Environmental issues

The cement plant has impact on the ecology of its surrounding areas due to mining as well as plant operation. The Company was required to obtain 'Consent to operate' (CTO) certificate from the State Pollution Control Board on yearly basis. Audit observed that the said certificate had not been renewed since March 2014. The Company had not installed self pollution monitoring device, three Ambient Air Quality Monitoring Stations, Low Nox burners to control Nox emissions and vacuum dust cleaning system as required under the guidelines of MOEF (GoI). Further, Bag House[39] installed during 2009-10 was not made functional due to non-replacement of filter bags since February 2013.

In terms of provisions of the Mines Act, 1952 and Metaliferous Mines Regulation Act, 1961, dust control equipment on the drill for mining activity were required to be installed. The dust control equipment was not installed on one drill machine while as the equipment installed on another drill machine was not properly functional. The State Pollution Control Board advised (January 2011) the Company to blacktop the internal road of the factory which was not carried out.

The Management stated (March/ July 2015) that obtaining of CTO certificate and procurement of dust collector was under process and black topping would be done in the next financial year. Further the bag house had been made operational satisfactorily by replacing the old bags. However, no measures were taken in respect of other equipment.

2.1.13 Manpower

Manpower plays an important role in the organisation. Being an industrial undertaking, the Company was required to ensure that the employees possessing the right skills were in right place at the right time. The Company had not assessed requirement of staff on technical and non-technical basis. As on March 2015, a total of 749 employees (Head Office: 102, Divisional Office Jammu: 85[40] and Factory Khrew: 562) remained posted in the Company against sanctioned strength of 902. Of the 749 employees[41], 543 were technical and 206 non-technical. The company had incurred expenditure of ₹138.58 crore on employees remuneration during the period 2010-15.

2.1.13.1 Employees productivity

The year-wise details of per employee production of clinker, sale and employee cost of the Company as well as that of Cements Corporation of India (CCI) during the period 2011-15 are given in **Table-2.10.**

[39] A Bag House is an air pollution control device that removes particulates out of air or gas released from commercial processes. Bag House is capable of withstanding high temperature by using bags made of fabric which sustain high heat

[40] Including Samba Project

[41] It included 68 consolidated/ daily wager and 13 contractual employees

Table-2.10

Year	No of employees of the Company	No of employee per lakh installed capacity	Per employee			CCI[42]			
			Clinker production (in MTs)	Sale (₹ in lakh)	Employee cost (₹ In lakh)	No of employees	Per employee		
							No of employee per lakh installed capacity	Clinker production[43] (in MTs)	Sale[44] (₹ in lakh)
2010-11	762	190	152	10.74	2.82	888	61	911	34.01
2011-12	739	184	233	16.31	3.71	815	56	1028	40.83
2012-13	731	183	208	15.87	3.88	815	56	859	34.88
2013-14	732	183	193	12.74	4.13	905	57	905	39.60
2014-15	749	187	127	10.72	4.16	-	-	-	-

Clinker production per employee decreased from 233 MTs during 2011-12 to 127 MTs during 2014-15 while as it was between 905 and 1028 MTs in CCI during 2010-14. Similarly sales per employee decreased from ₹16.31 lakh to ₹10.72 lakh during the corresponding period while as it was between ₹34.01 lakh and ₹40.83 lakh in CCI during 2010-14. Further, per employee cost consistently increased from ₹2.82 lakh during 2010-11 to ₹4.16 lakh during 2014-15.

The Management stated (July 2015) that the Government was reviewing keenly towards its employment and their productivity and that Government Policy would be enforced to clear dead wood.

2.1.14 Corporate governance and internal control system

Against prescribed 20 meetings of BoDs, only 6 meetings[45] were held during the period 2010-15. Audit noticed that no concrete action was taken by the Company on the following directions of BoDs:

- The BoDs had approved (October 2007) framing of proposal of re-organisation of Human Resources Structure for submission to Establishment sub-committee of the Board.
- The BoDs had desired (July 2014) to frame a 'definite policy for procurement as per standard and norms' with the approval of Chairman.
- The BoDs had allowed (February 2010) revision of delegation of powers which was to be put up to Establishment/ Budget sub-committee of the Board.
- The BoDs had desired to prepare a policy for regularisation of employees.

[42] Installed capacity: 14.46 (excluding defunct/ closed units). Figures for 2014-15 were not available as of December 2015
[43] Total production of clinker- 2010-11: 809835 MTs and 2011-12: 838065 MTs
[44] Total Sales- 2010-11: ₹302.03 crore and 2011-12: ₹332.73 crore
[45] 2010-11: One, 2011-12: two, 2012-13: one, 2013-14: one and 2014-15: one

The Management stated (July 2015) that as directed by the BoDs necessary reports were being compiled and would be placed before BoDs.

As per Companies Auditor's Report Order (CARO), 2003 read with Section 209 (1) (d) of the Companies Act, 1956 and Cost Accounting Records (Cement) Rules, 1997 every cement manufacturing Company was required to maintain cost records and get the cost accounts audited under Section 233 B of the Companies Act, 1956. Audit noticed that relevant cost records on day to day basis and cost statements on yearly basis were not maintained by the Company.

The Company established Internal Audit Cell in July 2012 to be headed by Manager (Finance). Though Dy. Manager (Finance) was posted as In-charge Manager no other staff was posted in the Internal Audit Cell. The Internal Audit wing had conducted internal audit of the Head office and Cements Factory at Khrew for the year 2013-14 only. No action was taken by the Company on the issues pointed out in the Internal Audit Reports. Audit noticed that the Company had not devised a proper management information system to evaluate the results and to monitor performance parameters and targets.

Audit observed that no defined internal control system existed in the Company as would be seen from following instances:

- The daily production registers to record the consumption and production of raw material, raw meal, clinker and cement in different section of Cement Factory Khrew had not been maintained.
- The Crusher Section had recorded 7.33 lakh MTs of lime Stone during 2010-11 to 2014-15 (November 2014) in its records while as Research Development and Quality Assurance (RD&QA) Wing had accounted for 8.34 lakh MTs showing excess accountal of lime stone to the extent of 1.01 lakh MTs during 2010-11 to 2014-15.
- Less accountal of production of 6441 MTs of Clinker during December 2010 to March 2012 and from April 2013 to November 2014 and excess accountal of 475 MTs of clinker during 2012-13 by RD&QA Wing than as recorded by the Central Control Room of New Plant was noticed.
- RD&QA Wing accounted for less production of clinker in Kiln-II in August 2014 (328 MTs), November 2014 (317 MTs) and December 2014 (205 MTs); and excess in March 2012 (75 MTs), November 2012 (23 MTs).
- In New cement mill discrepancies in accounting of cement production between cement mill Section and RD&QA Wing were noticed viz. less accountal during October 2012 (32 MTs), January 2013 (19 MTs) and July 2013 (21 MTs); and excess accountal of cement production in

November 2012 (326 MTs), December 2012 (73 MTs), March 2013 (749 MTs), July 2014 (23 MTs) and October 2014 (270 MTs).

The Management stated (July 2015) that the Company was reviewing the internal control system and necessary improvement would be made for sound internal control system.

2.1.15 Conclusion and Recommendations

The Company failed to clear arrears in accounts. Capacity utilisation vis-a-vis installed capacity for clinker and cement production was very low. The decreased production of clinker and low sale of cement coupled with higher administrative cost affected financial health of the Company. No norms for consumption of coal and power were fixed and excess consumption of coal and power in cement plants caused extra burden to the Company.

The Company may consider taking effective steps for finalisation of accounts, improving functioning of plants for achieving production of clinker and cement to optimum level and fixing norms for consumption of coal and power.

The Company had not formulated a definite procurement policy. The Company failed to enforce contractual clauses for transportation of coal and there had been abnormal delay in delivery of coal by the contractors. Grade slippages of Grade 'A' coal resulted in variation in cost which was not recovered from the defaulting contractors.

The Company may frame definite procurement policy for making purchases in a transparent manner and to improve inventory management system. It should enforce contractual clauses for execution of projects and for transportation of coal.

The Company had not installed pollution monitoring and dust control devices. The Company failed to achieve targets of sales and continued to depend on the Government Departments.

The Company should comply with provisions of relevant environmental laws relating to cement plants. Effective steps may be taken to frame a robust sale policy with due regard to market conditions and competition in open market.