Executive Summary

Background

NMDC Limited was incorporated in November 1958 with the main objective of exploring the mineral resources in the country. The production capacity of the Company was 44 million tons per annum (MTPA) of Iron ore as on 31 March 2017. The Company produces Iron ore through its open cast mines located at Kirandul (3 mines) and Bacheli (2 mines) in Bailadila sector of Dantewada district in Chhattisgarh State, and at Donimalai (2 mines) in Bellary district of Karnataka State. Apart from the production of Iron ore, the Company has taken several business diversification initiatives such as establishment of a Steel Plant at Nagarnar, Chhattisgarh, Diamond mining in Panna, Madhya Pradesh, setting up of a Captive Power Plant at Nagarnar, acquisition of a Sponge Iron unit at Paloncha, Telangana, establishment of a Pellet Plant at Donimalai, Karnataka, etc. Further, the Company has made investments in Joint Ventures with Central/State Government undertakings and private companies in India and abroad for establishment of Steel Plants and development of Coal and Iron ore mines. The production and sale of Iron ore by the Company was reviewed by the Comptroller and Auditor General of India and the audit findings were included in Report No. 20 of 2012-13 (Commercial). This Report examines the production, evacuation and sale of Iron ore, business diversification activities and investment in Joint Ventures by NMDC Limited during the period from 2012-13 to 2016-17.

Production, Evacuation and Sale of Iron Ore

In its Strategic Management Plan (SMP) – Vision 2025, the Company fixed (October 2015) over-ambitious targets for production of Iron ore viz. 75 MTPA by 2018-19 and 100 MTPA by 2021-22. The targets were fixed without giving due cognizance to adverse findings of the Consultant appointed for the purpose and without taking into consideration the declining trend in the domestic and international prices of Iron ore. Subsequently, the SMP was revised (September 2016) wherein the targeted production capacity was reduced to 50 MTPA and 67 MTPA by 2018-19 and 2021-22 respectively. However, the enabling action of setting up of various projects and infrastructure facilities to achieve the targeted production capacity were not in sync with the envisaged timelines.

(Paras 2.1.3 and 2.1.4)

The execution of all the packages for development of Deposit-11B mine in Bailadila sector was delayed beyond their scheduled completion dates. As a result, the project was still under implementation (March 2018) as against the scheduled completion time of June 2008. Against the installed capacity of 7 MTPA of the 11B mine, the Company could produce only 0.61 MTPA and 0.58 MTPA of Iron ore during the years 2015-16 and 2016-17 after commissioning the Crushing Plant and Downhill Conveyer System in August 2015, for want of screening facilities and non-completion of other package works.

(Para 2.3.1)

The execution of Kumaraswamy Iron Ore Project (KIOP) was still under implementation (March 2018) though the same was scheduled to be completed by March 2012. As such, the possibility of achieving the envisaged production target of 7 MTPA by 2018-19 as per the revised SMP-Vision 2025 by the Company seems to be remote. Further, due to non-availability of Screening Plant and Loading Plant with railway yard for KIOP, the Company had to resort to outsourcing of mining till the completion of the requisite facilities at KIOP, which was not an environment friendly step.

(Paras 2.3.2 and 2.3.3)

The Environmental Clearance for Screening Plant-II for KIOP was recommended (June 2017) by the Expert Appraisal Committee of the Ministry of Environment, Forest and Climate Change (MoEF&CC) subject to receipt of Stage-I Forest Clearance, after more than three years of application made (March 2014) by the Company. The delay was partly attributable to the Company as it failed to take prompt action for applying for revised Terms of Reference on account of increase in land requirement and submitted the requisite information to the MoEF&CC belatedly. Further, the Forest Clearance which was applied for in December 2014 was still awaited (March 2018) due to undue delay in conducting Differential Global Positioning System (DGPS) survey and non-submission of essential details sought by the Deputy Conservator of Forests, Bellary.

(Para 2.4.1)

In respect of Screening Plant-III for Kirandul complex, the Environmental Clearance (EC) was received by the Company in November 2013. However, the mistake in the area of the land mentioned in the EC as 65.936 hectares, against the land area of 74.236 hectares applied for, was not observed by the Company until it was pointed out (October 2016) by the Chhattisgarh Environment Conservation Board (CECB) before issue of Consent for Establishment (CFE). The Company requested (December 2016) MoEF&CC for issue of a revised EC which was received in March 2017. As a result, CFE was granted by CECB in July 2017. Thus, there was an avoidable delay of 38 months (from November 2013 to December 2016) on the part of the Company.

(Para 2.4.2)

In order to enhance the evacuation facility for Iron ore, the Company entered into (December 2012) Memorandum of Understanding (MoU) with the Railways for doubling of Kirandul to Jagdalpur section of the Kirandul-Kothavalasa railway line. The project was to be completed by the Railways by August 2018. Despite the fact that 88 *per cent* of the project execution timelines had elapsed (December 2017), the overall physical progress of work was only 41.50 *per cent*. The MoU did not incorporate any provision for project monitoring except for the requirement of a monthly progress report from the Railways.

(Para 2.5.1)

Diversification Activities

The Company proceeded (January 2010) with the establishment of an Integrated Steel Plant at Nagarnar, Chhattisgarh and awarded various packages based on the tentative details given in the Techno-Economic Feasibility Report (TEFR) instead of preparing a Detailed Project Report (DPR). As a result, the estimates were revised upwards and technical specifications were modified after the tenders were floated. This led to delays in tendering and award of packages. Further, the cost of the project was increased by 43 *per cent* from the estimated cost of ₹15,525 crore to ₹22,196 crore. The increase in cost amounting to ₹6,671 crore included ₹3,842 crore on account of change in scope of work, which could have been avoided if the Company had prepared the DPR. The project was still under execution (March 2018) even though it was scheduled to be completed by March 2014.

(Para 3.1)

In respect of Diamond mining at Panna, Madhya Pradesh, considerable quantity of unsold stock of Diamonds ranging between 39 *per cent* and 80 *per cent* of their production was lying at the end of each year during 2012-13 to 2016-17. The average production cost of Diamonds remained higher than the Net Realizable Value (NRV) during all these years. In view of this, the net loss of the Diamond Mining Project (DMP) as at the end of 2016-17 was ₹27.16 crore.

(Para 3.2)

The Company formed (June 2008) a Joint Venture Company viz., NMDC-CMDC Limited (NCL) with Chhattisgarh Mineral Development Corporation Limited (CMDC) for development of Deposit-13 situated in Bailadila Iron ore range. Forest Clearances for the project were received (January 2017) after 14 years from application (January 2003). The delay was partly attributable to the Company as it took four years time to submit the Indian Bureau of Mines (IBM) approved mine plan to the concerned authorities and also did not comply with some of the conditions of Stage-I Forest Clearance. Further, the Consent for Establishment and Consent to Operate were yet to be obtained from Chhattisgarh Environment Conservation Board (March 2018). Thus, the prospects of achieving the targeted production of 2 MTPA of Iron ore from Deposit-13 by 2018-19 as envisaged in the SMP 2025 appear to be bleak.

(Para 3.3)

The Company acquired loss making Sponge Iron India Limited in July 2010. The Sponge Iron production turned unviable due to higher cost of production and the losses of Sponge Iron Unit (SIU) accumulated to the tune of ₹194.77 crore as on 31 March 2017. The Company in its turnaround plan (01.10.2015) proposed to conduct a study for reduction in production cost and to utilize the available land (428.98 acres) for setting up of Thermal and Solar Power Plants which was yet to take off. The Company had not implemented the turnaround plan as envisaged and as of July 2017, the unit had idle staff strength of 167 (both executive and non-executive).

(Para 3.4)

The Company proposed (May 2009) to set up 1.2 MTPA Pellet Plant at Donimalai at a cost of ₹572 crore for production of Pellets by utilizing slimes (1.59 MTPA) and fines (0.30 MTPA) through beneficiation and pelletisation process. However, due to non-synchronization of major package works, commissioning of the project was abnormally delayed. The Pellet Plant was proposed to be set up on the strength of slimes available free of cost. However, in view of the directions of the Hon'ble Supreme Court regarding Iron ore sales in Karnataka State through e-auction under the supervision of the Monitoring Committee appointed by Central Empowered Committee, the Company had to procure the slimes/fines through e-auction at market price at par with others. On account of this, the production cost of Pellets was bound to increase which, in turn, had a negative impact on the viability of the project.

(Para 3.6)

Strategic Investment in Joint Ventures

The Company formed (May 1989) a Joint Venture Company (JVC) named J&K Mineral Development Corporation Limited (J&KMDC) with J&K Minerals Limited for setting up a 30,000 TPA (tons per annum) capacity Dead Burnt Magnesite (DBM) manufacturing plant at Panthal village in Jammu & Kashmir. The mining lease was transferred (April 2011) in the name of the JVC and the JVC received the Environment Clearance in May 2011. However, in October 2016, MoEF&CC withdrew the Environmental Clearance citing that open cast mining in close proximity to holy shrine of Shri Mata Vaishno Devi may lead to irreversible damage to pristine, fragile and environmentally sensitive area. Thus, amount of ₹42.37 crore spent by the Company on the project proved infructuous and was written off from the books of accounts in 2016-17.

(Para 4.1)

The Company made an investment of ₹100.60 crore in the equity of Neelachal Ispat Nigam Limited (NINL) in anticipation of allotment of Mankadanacha Iron ore deposit in its favour which was under dispute. However, the dispute over the mining lease was still unresolved (March 2018). Thus, the investment made by the Company did not yield any returns so far.

(Para 4.2)

With the objective of securing Metallurgical Coking Coal and Thermal Coal supplies from overseas, a Special Purpose Vehicle (SPV) viz., 'International Coal Ventures Limited (ICVL)' was formed in May 2009 wherein NMDC Limited was one of the participating PSUs. In July 2014, ICVL decided to acquire the ownership portion of Rio Tinto Plc., UK in the Coal mine and Coal assets located in Mozambique. It was observed that the investment made by Company to the extent of ₹376.36 crore (on which there was no return so far) by relying upon the incorrect/ improper and unrealistic business plan of ICVL for acquisition of loss making Mozambique mining assets was not prudent.

(Para 4.4)

The Company decided (May 2011) to acquire 50 *per cent* shares in Legacy Iron Ore Limited, (LIOL), Australia to secure management control on the mining tenements that would be acquired by LIOL. The Company made a total investment in LIOL to the extent of ₹168.53 crore (Aus $31.01 million) despite the fact that the Consultant appointed for conducting evaluation study had opined that it was a negative Net Present Value (NPV) project and was a marginal asset in the short to medium term. The share value of LIOL eroded to 0.30 Aus cents per share (3 November 2017) from the initial acquired price of 6.55 Aus cents per share. On account of this, the value of investment made by the Company also declined to ₹17.13 crore from ₹168.53 crore. Further, the Company was bound to spend ₹89.67 lakh annually till the year 2030 to retain the tenements in addition to the expenditure for development of infrastructure facilities.

(Para 4.5)

Internal Control and Monitoring

The internal control mechanism of the Company was weak as evident from the fact that - (a) the Sub-Committee for reviewing ongoing Projects did not fix any timelines with clear milestones to be achieved which could be reviewed in its subsequent meeting; (b) the decisions on major investments such as acquisition of disputed Iron ore mine in Odisha (Neelachal Ispat Nigam Limited), investment in International Coal Ventures Limited, etc. were made without conducting proper due diligence on its own; (c) periodical mid-term review of implementation of Strategic Management Plan – Vision 2025 as prescribed by the Board was not done, due to which corrective action in plugging shortfalls in achievement of the projected targets were not addressed.

(Para 5.1)

Recommendations:

1) The Company needs to factor in market trends while fixing the targets in its periodic plans so that the set targets are realistic and achievable.
2) The Company may ensure timely submission of required documentation and follow up with the concerned statutory authorities with a view to secure statutory clearances within the timelines prescribed.
3) The Company needs to conduct proper due diligence and pay due cognizance to the risk factors before embarking on national and international investment ventures.

4) The Company needs to strengthen its project execution mechanism/ strategy to avoid delays in implementation of projects/construction works and to avoid time and cost overruns so that envisaged benefits are realized.
5) The Board of the Company may strengthen its monitoring mechanism with a view to ensure timely completion of projects.

Response of the Ministry on the audit recommendations:

The Ministry of Steel was in agreement with the Recommendations No. (2), (3) and (4) above. In respect of Recommendation No. (1), the Ministry stated that it is very difficult to forecast the exact market trends in advance in the Iron ore industry, in view of volatile market conditions. In respect of Recommendation No. (5), the Ministry stated that the Sub-Committee of Board of Directors reviews the progress of ongoing projects and gives its advice and remedial actions for completing the projects.

The above responses of the Ministry on Audit Recommendation Nos (1) and (5) have been duly considered and incorporated under the respective paras of this Report (Paras 2.1.4 and 5.1) along with further views of Audit thereon.