CHAPTER X: DEPARTMENT OF HEAVY INDUSTRIES

Bharat Heavy Electricals Limited

10.1.1 Loss due to inadequate internal controls and co-ordination

Lack of coordination between the High Pressure Boiler Plant, Trichy and Boiler Auxiliaries Plant, Ranipet led to non-inclusion of Gates & Dampers in the budgetary prices and consequential absorption of unjustified expenditure of Rs.8.17 crore by BHEL.

The Power Plant Performance Improvement Business group (PPIB) of Bharat Heavy Electricals Limited received project enquiry for Renovation and Modernisation (R&M) works relating to refurbishing 5x200 MW OBRA project of Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (Customer). PPIB instructed (August 2005) the Trichy unit to submit the budgetary price relating to their scope of work. The Trichy unit forwarded (August 2005) a copy of the instruction to the Boiler Auxiliaries Plant (BAP), Ranipet to submit budgetary prices for the scope of work falling under their product mix. Accordingly, BAP, Ranipet submitted (September 2005) a budgetary price for Rs.129.59 crore.

The Trichy unit informed (November 2005) BAP, Ranipet that since the Gates and Dampers had been excluded from the scope of the Trichy unit, BAP, Ranipet must submit revised prices to PPIB after including these items in its scope of work. However, BAP, Ranipet did not include the items Gates and Dampers in their budgetary prices, even at the time of submission of revised budgetary prices to PPIB in February 2006.

Based on the Letter of Intent received (May 2006) from the Customer, PPIB allocated (August 2006) a price of Rs.127.08 crore to BAP Ranipet according to their budgetary price. BAP, Ranipet later sought (July 2007) an additional price allocation of Rs.13.80 crore for Gates and Dampers. However, PPIB rejected (July 2007) the claim stating that the offer had already been compiled based on the budgetary prices received from the Units. As a result BAP, Ranipet, executed the item Gates and Dampers in its scope of work though not included in its budgetary price. The Company had no choice but perforce absorb the expenditure of Rs.8.17 crore towards the cost of Gates and Dampers.

The Ministry while accepting (February 2009) the lapse stated that:

- The offer for this project was made during the transition period of the product from Trichy to Ranipet.

- The price estimation for Gates & Dampers were overlooked due to lack of scope clarity between the Units, which had been resolved for subsequent orders vide the meeting held on 30 June 2006 between Ranipet and Trichy.

- Now, system is in place to avoid such omissions for future contracts.

Thus, due to inadequate co-ordination between Trichy and Ranipet and lack of internal controls in submission of bids, the Gates and Dampers were not included in the budgetary prices which resulted in unjustified absorption of expenditure of Rs.8.17 crore. Had the PPIB verified inclusion of all items in the estimates before submitting the bid, the error could have been detected at that stage. Therefore, it is recommended that the Company should evolve a system of appropriate check of bid estimates before its submission to the customer.

HMT Machine Tools Limited

10.2.1 Violation of tender conditions in sale of property and delay in completion of sale

The process of sale of property belonging to Praga Tools Limited suffered from certain deficiencies viz., (i) non compliance with the tender conditions in accepting a defective bid document and (ii) failure to initiate timely action to shift the factory to the new premises resulting in delay in realisation of sale proceeds and consequent loss of interest of Rs.1.24 crore.

Praga Tools Limited (PTL)[♣] a subsidiary Company of HMT Limited (HMT) was declared as a sick Company during May 1999 by Board for Industrial and Financial Reconstruction (BIFR). The revival scheme approved (November 2005) by the Government of India inter alia included sale of property (land & building) at Kavadiguda (Secunderabad) and shifting of plant and machinery at Kavadiguda to Balanagar Plant at Hyderabad.

It was observed in Audit that the process of sale suffered from certain shortcomings on the part of the Company as discussed below:-

(i) Non compliance of tender conditions

The task of sale of property of PTL was entrusted (December 2005 and March 2006) to Asset Sale Committee of HMT. Accordingly, tenders were invited (April 2006) by HMT for sale of 8.56 acres of land and 1,89,927 sq. ft. building and structures. In response to the tender advertisement, Rajalaxmi Griha Nirman (P) Limited (Rajalakshmi) which quoted Rs.82.30 crore was considered as the highest bidder (H1).

Audit observed that the financial figures i.e., both the land value and the total bid value were completely altered by striking off earlier figures in the bid documents and the original signatory of the bid did not authenticate the corrections which were in violation of the tender conditions. As the corrected bid amount of Rs.82.30 crore was close to the reserve price fixed by the Company i.e., Rs.80.96 crore, it creates suspicion about the amount which was originally mentioned in the bid, the reasons for such alteration and the necessity of accepting the same. The bid was not rejected and re-tendering was not resorted to.

[♣] ***Merged with HMT Machine Tools Limited w.e.f., 1 April 2007 as per BIFR orders***

(ii) Loss of interest due to delay in completion of sale

As per the conditions of the allotment letter and sale agreement, the Company should have executed the sale deed by handing over the peaceful possession of the property within three months, i.e., latest by 25 October 2006. However, the Company executed the sale deed on 31 January 2007 after a further delay of about three months due to delay in the shifting of the factory. This resulted in consequent delay in receipt of balance 50 *per cent* consideration of Rs.39.55 crore (after adjusting the Earnest Money Deposit amount of Rs.1.60 crore), which was received on 29 January 2007, with consequential loss of interest amounting to Rs.1.24 crore[♣].

The Management stated (July 2009 and October 2009) that:

- The tenders were opened by the Tender Opening Committee in presence of all the parties or their authorised representatives. The corrections in the bid documents were done prior to submission of the bids by the parties or their authorised representatives, who were present during the tender opening process and no objections, were raised about the corrections by any of the other tenderers present.

- Re-tendering would have seriously affected the implementation of the revival plan since the funding of the revival plan depended on funds generated from sale of land.

- It was impracticable to work out the shifting of a running factory unless the deal was finalised: The award of contract for shifting was also delayed and released in October 2006 and hence shifting could be completed by mid December 2006.

The replies of the Management are not convincing since:

- If the correction in the bid was done prior to submission of bid, authentication should have been with the initials of the original signatory;

- Possible delay in implementation of revival plan is not a justification for compromising on transparency.

- The Company had initiated action (April 2006) for sale of land after five months of the approval of revival plan (November 2005) and the Company took three months in awarding (October 2006) the contract for shifting of the machinery from the date of issue of allotment letter (25 July 2006) to the successful bidder. In the light of the fact that shifting the factory was completed within two months from the date of award of contract, proactive action to shift the factory soon after the deal was finalised in July 2006, would have avoided the delay.

Thus, in spite of the unauthenticated corrections made in the bid documents, the Company continued the process of sale in favour of the party which was in violation of the tender conditions and failure to initiate timely action to shift the factory to the new

[♣] ***calculated at 12 percent per annum (Bank Prime Lending Rate of interest for 95 days from 26 October 2006 to 29 January 2007)*** premises resulted in delay in realisation of sale proceeds and consequent loss of interest of Rs.1.24 crore.

The matter was reported to the Ministry in September 2009; their reply was awaited (November 2009).