

Conclusion

6.1 *The Company operates in business of iron ore mining with limited number of major players where the operating margins and profits are high. The Company has been performing well on this front as it clocked a profit before tax of ₹ 10,760 crore on an income of ₹ 13,278 crore in 2011-12.*

6.2 *Based on the audit objectives set by us, we have observed the following:*

- *The Company's production capacity was in line with the target set in the Corporate Plan. The capacity utilization was 85 per cent or higher between 2005-09 and 2011-12. It declined below 80 per cent in 2009-10 and 2010-11 due to damage to the evacuation pipeline of ESSAR Steels Limited and also due to delays in implementation of evacuation capacity expansion projects.*
- *Anticipating the increase in demand, the Company decided to develop Kumaraswamy Deposit and 11B Deposit in the year 1997 and 2003 respectively. These two projects were still under implementation in March 2012. The delay in project implementation of Kumaraswamy Deposit was mainly due to delays in getting statutory clearances and Deposit 11B mainly due to external constraints. Delays were also noticed during implementation of packages which were due to deficiencies in project management. The project costs have gone up significantly.*
- *Production capacity needs to be supported by adequate transport facilities to evacuate production from mines to the buyers' sites. The evacuation facilities were inadequate in Bailadila sector. The alternatives available to increase the evacuation capacity were not pursued swiftly by the Company.*
- *The Company entered into long term agreements with JSM for supply of iron ore. The prices negotiated by the Company were in line with those paid by JSM to Australian and Brazilian suppliers. The export prices of the Company formed the basis for fixing domestic prices. However, due to non revision of domestic prices by the Company in line with the movement of market price, the Company suffered a revenue loss of ₹ 745.94 crore during 2007-10.*
- *By extending unwarranted reduction in price, the Company passed on benefit of ₹ 600.83 crore to the customers during 2010-11. Further, not increasing the prices by full percentage in line with increase in export prices led to loss of ₹ 227.40 crore during the same period.*
- *During 2011-12, the Company followed 'Net Back' method and 'Domestic Price Parity' method to fix the prices of iron ore. The net back method suppresses the price and the*

domestic price parity method which is based on OMC prices is an imperfect method of fixing prices as the ex-mine prices vary based on the quality of ore and transport distance. Considering that the end-product (steel) prices are market driven, it is desirable that NMDC follows a mechanism which fetches it optimum price while providing assured supplies and predictable prices to customers.

- *The Board of Directors is expected to monitor the key areas of operations and take remedial actions if the operations are found not to progress as intended. There were delays in implementation of two capacity expansion projects. Although the Board held 63 meetings during 2005-12, it did not adequately monitor the progress of key projects which were not progressing well. Subsequently, the Board formed a sub-committee in March 2010 to review the progress of various projects. In respect of price revision in case of domestic LTA, the Board did not provide any guidance regarding clarity in terms relating to revision of prices, i.e., when exactly to effect the revision in prices and by how much.*
- *The oversight by the Ministry was deficient to the extent that it did not set appropriate targets in RFD for the projects under implementation.*

Recommendations

6.3 *We make the following recommendations for improvement:*

- ❖ *The Company needs to formulate a strategy spelling out its plans for acquisition of new mines/ reserves;*
- ❖ *The Company needs to enhance its project management capability by focusing on project planning, implementation and monitoring. In this regard, the Company needs to specify the timeframes and milestones for all project activities and ensure their strict adherence through continuous monitoring and requisite remedial action;*
- ❖ *The Board should regularly monitor the progress of laying of slurry pipeline;*
- ❖ *The issues relating to doubling of K-K line should be taken up at the Railway Ministry level and pursued so as to expedite its completion;*
- ❖ *The domestic price fixation mechanism for iron ore may be established which would address the following issues:*
 - *Optimum price realization for NMDC's ore;*
 - *Assured supply to domestic steel producers; &*
 - *Predictability of price.*

- ❖ *The Board of Directors of the Company need to review the progress of ongoing projects periodically and suggest remedial action wherever warranted so that the projects are completed as envisaged.*

New Delhi
Dated:

(A K PATNAIK)
Deputy Comptroller and Auditor General
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Countersigned

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Dated:

(VINOD RAI)
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