

CHAPTER -2: PLANNING

2.1 PROJECT INITIATION

2.1.1 DIFFERENCES IN CAPACITY ENVISAGED

The Corporate Plan 2020 of RINL envisaged (February 2007) increase of steelmaking capacity up to 6.8 MTPA by 2009-10, 8.5 MTPA by 2011-12, 13 MTPA by 2016-17 and 16 MTPA by 2018-19. However RINL's capacity expansion plan under examination in Audit was for increase of capacity from 3 MTPA to 6.3 MTPA in Phase-2 expansion (still in progress as of August 2014).

On a review of project report submitted (30 December 2004) to MoS, Audit noticed that RINL projected its operating capacity as 3.7 MTPA against actual operating capacity achieved i.e. 3.5 MTPA. The said project report envisaged establishment of additional facilities of 2.6 MTPA (liquid steel) only. While issuing NIT, the steel making capacity was, however, mentioned as 2.8 MTPA. This indicated that RINL did not adopt correct data in respect of present operational capacity as well as the additional steelmaking capacity while taking approval for the project report, especially as the total capacity after Phase-2 expansion remained at 6.3 MTPA.

RINL in its reply (April 2014) stated that the intention of the expansion was to enhance the existing operating capacity to 6.3 MTPA.

Further, MoS in its reply (December 2014) stated that the consultant had assessed the potential capacity of the existing plant at 3.7 MTPA and projected the capacity as 2.6 MTPA from the new plant. However, at later stage, the SMS-2 with a production capacity of 2.8 MTPA liquid steel was envisaged in the capacity expansion. The reply of MoS is an afterthought since RINL did not consider the revised capacities of the present and new plants as projected while finalising the RCE in July 2011. This indicated that RINL / MoS did not ensure correctness of the data regarding existing capacity and projected addition of capacity as well as the additional steelmaking capacity in its proposal for expansion.

2.1.2 GOVERNMENT APPROVAL

RINL's proposal for capacity expansion along with draft Public Investment Board (PIB) note was submitted (30 December 2004) to MoS for approval of Cabinet Committee on Economic Affairs (CCEA) at an estimated cost of ₹ 8,259 crore with 'Go-ahead date' as 1 April 2005. MoS circulated the draft PIB note in January 2005 to all the Ministries/appraising agencies and pre-PIB meeting was held in February 2005. The Planning Commission (PC) had given in-principle approval for the Feasibility Report (FR) in March 2005. PIB meeting was held in June 2005. At the instance of the MoF, the project cost was updated to ₹ 8,692 crore (base June 2005) and GoI accorded (October 2005) approval with 'Go-ahead date'⁵ as 28

⁵ Zero date

October 2005. The project viability was assessed based on Incremental Rate of Return (IRR) and Pay-Back Period of the project at 23.04 *per cent* and six years respectively considering the plant life at 15 years. As per the project schedule approved by GoI, the Stage-I and Stage-II were scheduled to be completed by October 2008 and October 2009 respectively.

Examination in audit revealed that vide OM No. No.1 (2)-PF.II/03 dated 7 May 2003, GoI has fixed the time lines for every stage of approval of project. The project had got its approval in 40⁶ weeks against 16 weeks prescribed. This was due to delay in applying for Environment Clearance by RINL and MoS forwarding PIB Note to various ministries without ensuring applicable statutory clearances.

RINL confirmed (April 2014) the delays and stated that these could not be avoided despite best efforts. MoS in its reply (December 2014) stated that against the time frame of 11 weeks allowed from the date of forwarding the draft PIB Note to the date of PIB Meeting, the actual time taken was 14 weeks. Hence, the delay was 3 weeks only.

The replies of RINL/MoS need to be viewed against the fact that RINL/MoS was to ensure the applicable statutory clearances before submitting the proposal so as to avoid delay in getting approval from GoI. Since the actual time taken was 22 weeks from the date of forwarding the draft PIB note (18 January 2005) to the date of PIB meeting held (24 June 2005) as against the scheduled time frame of 11 weeks allowed. Thus there was delay of 11 weeks upto PIB meeting.

2.1.3 CONSENT FOR ESTABLISHMENT

The project report envisaged establishment of air pollution control measures for ensuring ambient air quality through adoption of suitable air pollution control technologies, heat recovery from BFs, establishing bag filters at SMS and effective usage of gases for electricity generation. As envisaged in the project report, RINL established pollution control measures and Captive Power Plant-2 (CPP-2) for power generation with BF gas as discussed in the para 2.5.3. In respect of conservation of water, RINL had taken up the Zero Water Discharge (ZWD) project.

Examination in Audit revealed that as part of conditions to Consent for Establishment (CEF), Sl. No 3 of Schedule B, issued by the APPCB⁷ (May 2005), RINL has to establish effluent treatment plant to adopt zero water discharge. RINL estimated the cost of the project for Zero Water Discharge (ZWD) at ₹ 114.85 crore. By treatment of 1180 to 1280 cum/hr of water after capacity expansion, a saving of ₹ 15 crore per annum was expected considering the raw water cost at ₹ 7.70 per KL. RINL committed to implement ZWD project by January 2010. RINL awarded five contracts out of which audit selected three contracts for examination, as given below:

⁶ Period between 18 January 2005 to 28 October 2005

⁷ Andhra Pradesh Pollution Control Board

Table-2

(₹ in crore)

Sr. No.	Spec. No.	Details of work	Name of the party	Cost estimate	Up-dated cost	Award Value	Fax LOA Date	Schedule Date of Completion	Actual / expected date of completion	Delay in months	Avoidable expenditure
1	10-WTS-002	Water system in TPP	M/s. VA TECH WA-BAG Ltd.,	43.15	43.15	24.78	19 April 2008	18 October 2009	12 March 2012	29	9.09
2	14-WTS-002	Sewage pump house,	M/s. ADTIL & M/s. PMPL ⁸	21.50	28.43	25.89	06 June 2008	05 August 2009	Time extension granted upto 31 August 2014	60	3.65
3	14-WTS-004	Balacheruvu treatment plant	M/s. ADTIL & M/s. PMPL	20.10	67.62	36.75	15 April 2008	14 October 2009	Time extension granted upto 31 August 2014	58	13.15
Totals				84.75	139.20	87.42					25.89

The delays in execution of the works were ranging from 29 to 60 months. These delays were mainly due to i) not concluding the contract as per schedule and delayed commencing the work (9 to 11 months), ii) deployment of inadequate manpower by contractors iii) non-handing over of site in time iv) non-availability of fronts and v) non-supply of equipment in time. As a result of these delays in completion of the Project, RINL could not fulfil its commitment given to the APPCB besides incurring avoidable expenditure on water charges of ₹ 25.89 crore between August 2009 and August 2014.

RINL in its reply stated (April 2014) that delays were mainly attributable to the contractors M/s Permionics and M/s Aeriff De Tox which could not be avoided fully despite best efforts and close follow up at various levels. However, recovery of LD and Milestone penalties would be made as per relevant contractual provisions, as per remedies available under the contracts. MoS in its reply (December 2014) endorsed RINL's reply. However, the fact remains that failure to achieve the ZWD resulted in avoidable expenditure of ₹ 25.89 crore.

2.2 PROJECT IMPLEMENTATION SCHEDULE

As per OM No 1(5)/PF.II/97, dated 06 August 1997 of MoF, it was required that every proposal should indicate in detail about the Project Implementation Schedule (PIS) giving all important milestones for various activities such as clearances, preparation of DFR, Notice of Inviting Tenders (NIT), Civil Engineering Works, placement of orders for plant & machinery, erection, trial runs etc.,. It should also be certified that the PIS is consistent with the projected phasing of expenditure. The PIS would be part of PIB approval⁹. Project report¹⁰ approved by RINL in December 2004, contained two broad time frames, one from zero date to awarding of contracts and second equipment supply, erection & commissioning. PIS were developed on the basis of estimated quantum of work, manufacture, delivery and installation schedule of various plant equipments and the commissioning schedules. It was, however, noticed in audit that the PIS was not supported by the detailed key milestones / time frames for each sub activity so as to demonstrate accountability and ensure timely completion of project.

RINL replied (April 2014) that it prepared delay analysis in respect of 14 contracts only i.e. 5.5 per cent of the 252 contracts awarded for capacity expansion. The fact remains that RINL

⁸ M/s. Permionics Membranes Pvt. Ltd. (PMPL) & M/s. Aireff De Tox Incineration Limited (ADTIL).

⁹ O.M.No.1 (5)/PF.II/97 dated 06 August 1997

¹⁰ Para 44 of Executive Summary of PR

did not make any delay analysis at each stage i.e., awarding, execution and commissioning. Such analysis would have enabled RINL to identify the responsibility centres for delays and take corrective action.

2.2.1 DETAILED PROJECT REPORT

As per GoI OM No 1(2)-PF.II/03 (May 2003), Detailed Project Report (DPR) should highlight the important issues relating to responsibilities of different agencies for project management, implementation, the organization structure, as well as monitoring and coordination arrangements, identification, assessment of project risks, proposals for mitigation thereof etc.. However, RINL furnished only a project report (December 2004) to GoI for approval. In spite of taking up the mega project of a value of ₹ 8692 crore, RINL did not prepare DPR and MoS also approved the project proposal without insisting on DPR.

RINL in its reply (April 2014) stated that the project report submitted contained all the required details such as project concept, market prospects, raw material linkups, major production facilities, auxiliary facilities, utilities, construction schedule, cost estimates, fund resourcing, financial analysis, sensitivity analysis, implementation strategy, category-wise manpower requirement, environmental pollution control measures etc. This report met broadly the requirement of GoI OM No.1 (2)-PF/II/03 (May 2003). MoS in its reply (December 2014) endorsed the views of RINL.

The reply of RINL/MoS is not tenable as RINL's decision not to prepare DPR was in violation of GoI guidelines. In fact, RINL later realised the consequences of not preparing the DPR like increase in cost of the project, cropping of installation of additional equipment's etc. during the implementation of the project (July 2011).

2.2.2 COMMISSIONING SCHEDULE OF THE PROJECT

The capacity expansion was envisaged in two stages by establishing long product mills. Stage-I included all major process equipment like Raw Material Handling Plant (RMHP), Blast Furnace (BF), Sinter Plant (SP), Steel Melt Shop (SMS) and two mills of Wire Rod Mill (WRM) and Seamless Tube Mill (SLTM). Stage-II contained two more mills namely, Special Bar Mill (SBM) and Structural Mill (SM). However the SLTM proposed in Stage-I was dropped (February 2008). The commissioning of Stage-I and Stage-II units were to be completed by October 2011 and October 2012 respectively as per RCE approved by BOD of RINL.

2.2.2.1 MASTER NETWORK

RINL has changed milestone schedules of various activities in the master network such as order placement, equipment supply & erection and commissioning compared to the project report approved by GoI within the overall limit as below:

Table-3

Sl. No	Milestone activity	Schedule completion period from 'Go-ahead date' (October 2005) as per the approved plan.				Schedule completion period from 'Go-ahead date' (October 2005) as per RINL's master network.			
		Stage-I		Stage-II		Stage-I		Stage-II	
		Month	Duration	Month	Duration	Month	Duration	Month	Duration
1	Order Placement	April 2006	6 months	April 2007	18 months	August 2006	10 months	July 2007	21 months
2	Equipment supply & Erection	July 2008	27 months	July 2009	27 months	August 2008	24 months	August 2009	25 months
3	Trials / testing & Commissioning	October 2008	3 months	October 2009	3 months	October 2008	2 months	October 2009	2 months
	TOTAL DURATION		36 months		48 months		36 months		48 months

Examination in audit revealed that RINL compressed the time schedule of second milestone 'equipment supply & erection' from 27 months to 24 months for Stage – I and from 27 months to 25 months for Stage –II. The actual time allowed for supply of major equipment package like SMS -2, SP-3, BF-3, rolling mills etc., was ranging from 28 to 30 months. The adverse impact of revising the GoI approved milestone for completing order placement without providing adequate time for supply / erection and commissioning activities are discussed in Chapter-3.

RINL in its reply (April 2014) stated that they compressed the duration of the second milestone to maintain the overall completion schedules as approved by GoI. This indicates that RINL did not consider the practicability of the implementation of the project with reference to the second milestone activity as RINL did not consider the supply schedules which were beyond the second milestone as per master network.

2.3 PROJECT SET UP

2.3.1 PROJECT IMPLEMENTATION TEAM

MoS directed (October 2005) RINL to strengthen the existing construction department by re-deploying personnel and to form an exclusive project division headed by a Director. Audit, however, observed that RINL, instead of creating an exclusive project division for capacity expansion, entrusted the project expansion work to the existing project division which was looking after the routine capital repairs and maintenance works, AMR schemes etc. Besides this, RINL also could not get an exclusive Director (Projects) for implementation of expansion required as per O.M. No. 13013/2/92-PMD (April 1998) within a reasonable time. There was a delay of 43 months in the said appointment. It could not be denied that this delay had deprived

RINL of increasing the effectiveness of and augmenting the monitoring mechanism of the project.

RINL had confirmed (April 2014) the audit observation.

2.4 APPOINTMENT OF CONSULTANT

In anticipation of the GoI approval for 6.3 MTPA capacity expansion by the end of March 2005, the BOD of RINL accorded (January 2005) approval to the appointment of consultant. Accordingly RINL floated (April 2005) Global Expression of Interest (EoI). In response to the EoI, three parties expressed their interest. RINL evaluated the offers and shortlisted (15 September 2005) two parties viz. M/s M.N. Dastur and Co. Pvt. Ltd, Kolkata and M/s MECON Limited, Ranchi. However, RINL finalised and issued General Conditions of Contract (GCC) to the short-listed parties in November 2005. The Techno-commercial bids and price bids of both the parties were opened on 28 November 2005 and 30 November 2005 respectively and Tender Committee recommended to award contract to L₁ party M/s M.N. Dastur and Co. Pvt. Ltd, Kolkata in December 2005 at a lump sum price of ₹ 273 crore inclusive of all taxes and duties excluding service tax.

Examination in audit revealed that the delay in finalization of consultancy contract for six months (May to November 2005) was due to delay in finalization of GCC which was issued to the short-listed tenderers belatedly (November 2005). Further, BOD delayed the approval by two months (December 2005 and January 2006).

BOD of RINL had decided in its 194th meeting to finalize the consultancy contract before obtaining the approval of GoI for capacity expansion i.e., before October 2005 so as to prepare, finalize GCC/SCC and to take up preparatory works of capacity expansion. The consultancy contract was finalized belatedly in February 2006. This contributed to delay in the first milestone of Stage-I i.e. award of contracts which was to be completed by April 2006 (i.e., 6 months from Go-ahead date). The same was belatedly completed during the period, November 2006 to December 2010.

The scope of consultancy contract comprised services relating to basic engineering, design and detailed engineering, deciding general scope and number of packages to cover capacity expansion, preparation of specifications with BOQ and price schedule on milestone achievement basis, furnishing estimates, assistance in tendering and placement of order for the various packages, carrying out design supervision, inspection services, surveying, site supervision, overseeing the erection activities, participation in testing and commissioning, project monitoring and cost control and post-commissioning services.

RINL in its reply stated (April 2014) that it had taken up timely action for appointment of consultant by issue of Global EoI so that the process of appointment could be completed before the receipt of approval for capacity expansion from GoI. In view of above, the appointment process of consultancy contract was completed within three and half months time from the date of approval from the GoI. MoS in its reply (December 2014) endorsed the views of RINL. The replies of RINL/MoS needs to be viewed against the fact that mere issue of Global EoI did not serve any purpose unless General Conditions of Contract (GCC) were finalised before issue of such EoI which contributed to delays in appointment of Consultant.

2.5 IMPROPER PLANNING TO INSTALL SUFFICIENT CAPACITY OF ROLLING MILLS

RINL had been producing and selling higher quantities of pig iron and billets with lower margins than on the finished steel due to insufficient rolling mills capacity. It resulted in financial imbalance and RINL sustained losses. The accumulated losses crossed over 50 per cent (around ₹ 3,626 crore by 31 March 1998) of net worth and RINL became sick in 1998-99 and qualified for a reference to Board of Industrial and Financial Reconstruction (BIFR). After capital re-structuring, RINL could finally wipe off the accumulated losses by 2005-06. In spite of the above bitter experience, RINL did not plan for deficit rolling capacity and inviting the risk of selling semi finished steel products with lower margins as discussed below :

It was evident that at 3 MTPA capacity, insufficient rolling mill capacity already existed and RINL had to sell surplus semis to the extent of 0.25 MTPA with lower gross margin. Again in the present Phase-2 capacity expansion also RINL did not plan for installation of rolling mills to match production capacities of the upstream units. Against the proposed increase in production capacity of liquid steel of 2.8 MTPA in the Phase -2, the minimum capacity of rolling mill to be installed was 2.48 MTPA¹¹. In spite of this fact, RINL planned for installation of rolling mills with a capacity of 2.35 MTPA¹² only which included SLTM also. However, the proposed SLTM was dropped, (February 2008) thereby bringing the plant rolling capacity down to 2.05 MTPA leaving total surplus semis of 0.43 MTPA. Thus the project planning was defective and RINL failed to take care of installation of matching capacity of rolling mills to the extent of increase in liquid steel capacity so as to roll the total surplus semis of 0.68 MTPA (0.25 + 0.13 + 0.30). In view of the above, RINL would be left with no option but to sell semis to an extent of 0.68 MT at lower gross margin and RINL would be incurring loss of margin of ₹ 52.70 crore¹³ per annum.

RINL in its reply stated (April 2014) that rolling mills were normally available in standard module sizes and surplus production of 0.38 MTPA semis for 6.3 MTPA plant was not considered abnormal. It was further stated that if all the mills were installed including SLTM, there would not be any loss of revenue margin.

MoS in its reply stated (December 2014) that sale in the form of semis under existing operations is limited to either value added category with higher margins or defectives (which are unavoidable). It was further replied that normally as the mill utilization increases over a period of time, semis would get consumed and quantum of surplus semis would come down.

The reply of RINL / MoS needs to be viewed in the light of the following:-

- The assumption of MoS that sale of value added semis fetch higher margins than that of finished steel is not tenable since the value added finished steel always earn higher margins than on value added semis.

¹¹ At the standard conversion rate of liquid steel to finished steel as per flow chart is 88.53 per cent. Thus the required installed capacity of mills worked out to 2.48 MTPA.

¹² WRM-2 of 6 lakh tonne+ Structural Mill of 7 lakh tonne + SBM of 7.5 lakh tonne + SLTM of 3 lakh tonne = 23.50 lakh tonne or 2.35 MTPA

¹³ At the difference of gross margin between MMSM (Rs 2334) and Billets (Rs 1559) Rs 775 per tonne X 6.8 lakh tonne = ₹ 52.70 crore (at the rates for the year 2012-13).

- RINL already under estimated the SMS-2 production capacity as 2.6 MTPA as against the rated capacity of 2.8 MTPA.
- Further, in case of higher utilisation of capacity of mills, the quantum of surplus semis would not come down due to similar higher capacity utilisation in SMS (the existing SMS capacity utilisation envisaged upto 123 *per cent* ($\{3.7 \text{ MTPA} / 3 \text{ MTPA} \times 100\}$)).

Thus RINL could have considered establishment of sufficient rolling capacity to ensure maximum production of finished products rather than sale of semis.

2.5.1 SEAMLESS TUBE MILL (SLTM)

RINL in its PIB Memorandum (December 2004) for approval of the project, included Seamless Tube Mill (SLTM) with a capacity of 0.3 MTPA and reported that the Feasibility Report was prepared based on complete studies and investigations. The NSR¹⁴ on sale of seamless tubes was estimated at ₹ 45,000 per tonne.

While appraising the PIB note, the Planning Commission (February 2005) highlighted the need for detailed study / investigation justifying the establishment of SLTM and stated that estimation of demand was based on expected projects and not based on detailed analysis. Similarly, the ERU¹⁵ also commented in its appraisal report (March 2005) that the data provided by RINL was sketchy and did not look completely reliable and RINL should have undertaken a detailed market survey on seamless pipes. Despite the adverse comments of the appraising agencies, GoI accorded approval (October 2005) for installation of SLTM without ensuring detailed further study / investigations. At a later stage, based on the results of detailed study done by RINL in January 2008, RINL dropped setting up of SLTM (February 2008) on the grounds of increase in cost estimates, technological and unfavourable market conditions. By the time RINL took a decision to drop the SLTM, RINL incurred avoidable expenditure of ₹ 18.27 crore towards civil works.

RINL in its reply (April 2014) stated that under the same location where SLTM was originally envisaged, it is now planned to install a Rebar Mill of about 0.6 MTPA capacity for which the consultant had already submitted the DPR which is under scrutiny to proceed further. It was further replied that all attempts shall be made to make use of the Piles and civil foundations to the extent possible by providing the relevant details, drawings etc. to the Mill Supplier and the related executing agencies. MoS in its reply (December 2014) endorsed the views of RINL.

The reply of the RINL/MoS needs to be viewed in the light of the following:

- The delayed decision of RINL to install a rebar mill in the place of dropped SLTM after nine years from the zero date (October 2005) and six years after dropping the proposal for installation of SLTM (February 2008) indicates managerial inefficiency.
- The establishment of bar mill was in primitive stage and the proposal was not even put up to the BOD of RINL for approval (December 2014).

¹⁴ Net Sales Realization

¹⁵ Economic Research Unit vide its letter dated 18 March 2005 conveying its appraisal report.

- Further making use of the existing civil works of SLTM for the new rebar mill may not be practicable since the design and capacities of rebar mill and SLTM would be different.

Thus, due to improper assessment and appreciation of the background to the establishment of SLTM and taking up civil works prematurely resulted in avoidable expenditure of ₹ 18.27 crore on civil works.

2.5.2 LOSS OF PRODUCTION DUE TO TIME OVERRUN IN COMMISSIONING OF THE MILLS

As per original approved schedule by GoI, the capacity expansion was to be completed by October 2008 in respect of Stage-I units i.e. RMHP, SP-3, BF-3, SMS-2 and WRM-2 and October 2009 in respect of Stage-II units i.e. SM and SBM. The Stage-I of the project was completed in March 2014 against the revised time schedule of October 2011 i.e. with a delay of 29 months and Stage-II was still in progress and was expected to be completed by February 2015 (as of August 2014) with a delay of 28 months against the time schedule of October 2012. Thus both the stages of capacity expansion were delayed and the time overrun worked out to 65 and 64 months respectively from the original GoI approved schedule. Delay in commissioning of various production units of capacity expansion has resulted in loss of production of 55.63 lakh tonne of saleable steel during the period from the scheduled date of commissioning as approved by BOD of RINL to the end of March 2014. At the gross margin earned by RINL during the above periods on the respective products, RINL has foregone opportunity to earn gross margin¹⁶ of ₹ 1560.54 crore¹⁷ as detailed below:

Table-4

LOSS OF PRODUCTION IN MILLS DUE TO DELAY IN COMMISSIONING OF THE CAPACITY EXPANSION														
YEAR	WRM			STRUCTURAL MILL			SPECIAL BAR MILL			BILLETS			Loss of saleable steel production	Grand total of loss of gross margin
	Loss of Production	Gross Margin	Loss of Gross margin	Loss of Production	Gross Margin	Loss of Gross margin	Loss of Production	Gross Margin	Loss of Gross margin	Loss of Production	Gross Margin	Loss of Gross margin		
	Tonne	₹ per tonne	₹ in crore	Tonne	₹ per tonne	₹ in crore	Tonne	₹ per tonne	₹ in crore	Tonne	₹ per tonne	₹ in crore		
2011-12	200000	4537	90.74	0	0	0	0	0	0	642525	2902	186.46	842525	277.20
2012-13	530000	3487	184.81	233333	2334	54.46	250000	4448	111.20	1208487	1559	188.40	2221820	538.87
2013-14	600000	3487	209.22	618333	2334	144.32	662500	4448	294.68	617390	1559	96.25	2498223	744.47
Totals	730000		484.77	851666		198.78	912500		405.88	2468402		471.11	5562568	1560.54

RINL confirmed (April 2014) the audit observation. MoS replied (December 2014) that had the unfortunate accident not taken place in SMS-2, while commissioning the Pressure Reducing Station (PRS) due to which the overall commissioning schedule of various units got affected, all units of Stage-I and II would have been commissioned by October 2012 and October 2013 respectively.

The reply of the MoS needs to be viewed in the light of the following :

- Though there was no impact of fire accident on SP-3, the crucial unit SP-3 of Stage-I, which supplies feed material to BF-3 was commissioned belatedly in August 2013. Incidentally, delay in commissioning of SP-3, forced all the BFs to operate in throttled condition.

¹⁶ Average net sales realization minus cost of goods sold or Works cost

¹⁷ Figures for 2013-14 are provisional

- Similarly, though there was no impact of fire accident on rolling mills, WRM-2, the rolling mill of Stage – I was commissioned belatedly in March 2014 and the remaining two mills of Stage – II are yet to be commissioned (December 2014).

In view of the above, MoS's contention that the loss of production due to reasons beyond control of RINL because of unfortunate accident in PRS is not convincing since upstream and downstream units of SMS-2 were not yet ready for commissioning.

RINL would further forego the opportunity of earning gross margin because of subsequent delays in commissioning of the rolling mills beyond March 2014.

2.5.3 DELAY IN COMMISSIONING OF THE POWER PLANTS

Project Report envisaged outsourcing of construction of two power plants (PP-I¹⁸ and PP-II¹⁹) by engaging a private party on Build-Own-Operate (BOO) basis for meeting the power requirement of capacity expansion. RINL however took a decision²⁰ (July 2007) to install PP-I on captive basis under AMR scheme (Addition, Modification and Replacement) at an estimated cost of ₹ 291.77 crore to maintain the health and safety of critical equipment. Accordingly, with approval of the BOD (September 2007), RINL awarded the work to M/s BHEL at a cost of ₹ 465.29 crore. RINL had granted 14 extensions and the PP-I was yet to be commissioned (August 2014) as against scheduled completion date of December 2009. The main reasons for delay were non-availability of erection fronts, delay in approval of drawings and abnormal delay in supply of equipment by BHEL. Due to delay in completion of the PP-I, RINL enhanced the Maximum Demand (MD) from 1,00,000 KVA to 1,35,000 KVA in January 2010 and incurred avoidable additional expenditure of ₹ 17.46 crore for purchase of power including demand charges on enhanced MD over and above the 1,00,000 KVA.

Similarly, considering the tax benefits, RINL further decided (August 2008) to go for installation of PP-II (2x60 MW)- a Blast Furnace (BF) gas based power plant on its own instead of on BOO basis. After issue of NIT (November 2008) RINL continued to issue amendments/addendum/corrigendum to the tender documents making revisions to all key factors like (a) eligibility criteria, (b) evaluation criteria, (c) checklist, (d) certain parts of technical specification, (e) performance guarantee parameters, (f) liquidated damages (LD) clause and (g) terms & conditions, (h) price format and (i) duration of the contract. Frequent revisions of all key factors of a tender, that too after prolonged discussions, pointed to deficiency in preparation of tender specifications / documents. In this process, enormous time of 950 days was taken from the NIT to Contract. BOD approved (February 2011) award of contract with 27 months completion period (i.e., by 17 September 2013) on M/s Thermax, at a cost of ₹ 366.34 crore in April 2011. The duration was, however, extended by nine months till June 2014 due to delay in fulfilment of milestone activities by M/s Thermax. Thus the PP-II operations were yet to commence as on date (August 2014).

RINL in its reply (April 2014) was silent about the delay in finalising the tender but accepted that there were delays in execution attributable to the contractor M/s BHEL which could not be avoided fully despite best efforts and close follow up at various levels and recovered

¹⁸ 67.5 MW TG

¹⁹ 2X 60 MW TG

²⁰ Board meeting No. 228 dated 29 July 2007.

/withheld about ₹ 9.85 crore towards milestone penalty/LD. MoS in its reply (December 2014) stated that during the period January 2010 to November 2013, the implication of import of power from State Grid works out to ₹ 2.70 crore only.

The reply of MoS needs to be viewed against the following facts :-

- PP-I was scheduled to be commissioned by December 2009. Due to delay in completion, RINL was forced to increase (January 2010) the MD from 1,00,000 KVA to 1,35,000 KVA.
- Commissioning PP-I according to schedule would have avoided need for increase in MD and additional expenditure on purchase of power, including demand charges payable over and above 1,00,000 KVA, amounting to ₹ 17.46 crore.

2.6 RAW MATERIAL TIE-UPS AND WATER AGREEMENT

The project report assessed the required additional major raw materials, i.e. iron ore, coking coals, limestone and dolomite for the production of liquid steel. RINL had captive mines only for dolomite and limestone. To meet the additional requirement of dolomite and limestone for capacity expansion, RINL had taken up expansion of the existing captive mines. RINL did not possess captive mines for its primary raw materials like iron ore and coking coal. Though RINL prepared Corporate Plan (for the years 2007-2012) to increase its capacity to 16 MTPA by RINL, it started filing applications for allotment of mines from 2003 onwards and could not make any break-through in acquiring captive mines (March 2014). RINL acquired (January 2011) 51 *per cent* stake of ₹ 361 crore in Eastern Investments Limited (EIL) which had six licenses for iron ore and Manganese mines in Odisha. In spite of this investment, RINL was unable to derive any benefit even after three years as all the six licenses that were available with EIL had expired and no license was renewed by the Government of Odisha (March 2014). This resulted in blocking of funds amounting to ₹ 361 crore as no benefit could be drawn from the investment by RINL for more than three years.

In respect of iron ore, there is a commitment from NMDC for supply of iron ore of 10.5 million tonne to feed RINL upto 6.3 MPTA capacity expansion. In absence of own captive mines for iron ore and coking coal, RINL is exposed to risk (likely to pay higher cost at a later stage) to achieve the objectives of the capacity expansion.

In respect of imported coking coal (ICC), as per RINL's procurement policy, up to 95 *per cent* of the requirement of ICC is tied up through long term agreements and balance five *per cent* through global tenders. Accordingly, RINL along with SAIL²¹ was jointly procuring its full requirement of ICC through Empowered Joint Committee (EJC) by negotiating with long term suppliers from Australia, USA and New Zealand. In respect of medium coking coal (MCC), the maximum requirement was estimated at 4.67 lakh tonne per annum (6.3 MTPA capacity) which was slightly higher than the requirement at 3 MTPA stage. RINL intended to meet the additional requirement from Central Coalfields Limited with whom RINL entered into an MOU²².

²¹ Steel Authority of India Limited.

²² Memorandum of Understanding.

Coming to water, RINL had an agreement with Visakha Industrial Water Supply Company (VIWSCO) for supply of water required for the plant. Though RINL projected the requirement of 204 million litres of water per day at the time of 100 *per cent* capacity utilization i.e., from December 2010, VIWSCO had given commitment for only 136 million litres per day. There was no requirement of additional water as the commissioning of capacity expansion was itself delayed. RINL otherwise also planned to meet the deficit water, if any, from ZWD scheme (Zero Water Discharge scheme).

RINL and MoS confirmed (April 2014 and December 2014 respectively) the audit observation.

Recommendation :-

- 1. RINL may take up the matter of non renewal of mining licenses in Odisha with the MoS/GoI, which in turn may take up the issue with the appropriate agencies.**