

Chapter-5 Conclusion and Recommendations

5.1 CONCLUSION

5.1.1 RINL took the capacity expansion from 3 MTPA to 6.3 MTPA at a cost of ₹ 8,692 crore from zero date i.e. 28 October 2005 with envisaged date of completion of Stage-I in October 2008 and Stage-II in October 2009. Subsequently, RINL was conferred with Navratna status in November 2010 by GoI. Accordingly, the Board of Directors (BoD) of RINL in July 2011 approved Revised Cost Estimates (RCE) of capacity expansion at an amount of ₹ 12,291 crore. The completion dates of Stage-I and Stage-II were also revised to October 2011 and October 2012. However, RINL has not achieved the dates of completion of capacity expansion and kept revising the same. The construction work in Stage-II units was still under progress (as of August 2014). Thus despite prolonged time and cost overrun, the capacity expansion has not yet materialised.

5.1.2 Initially RINL estimated IRR at 14.02 *per cent*. However, based on the audit observations, MoS has now agreed that the IRR would come down to 12.96 *per cent* against the originally projected 14.02 *per cent*. This indicates that assessment of project viability was not done by RINL/ MoS holistically based on which decision on the expansion proposal was to be taken. Thus IRR, cash flow and PAT calculated in the project report, were not realistic and not achievable.

5.1.3 The appointment of consultant has not served the intended purpose as the consultant was to perform an important role right from conceptualisation of the project to execution of the capacity expansion. Instead of preparing a Detailed Project Report (DPR), the consultant had prepared only a Project Report, which was in turn submitted by RINL to MoS which communicated the approval of capacity expansion to RINL without insisting for DPR. Further, there were variations from (-) 47 *per cent* to (-) 122 *per cent* in the updated cost estimates prepared by the consultant. RINL has not given any timeframes to the consultant for furnishing its recommendations on eligibility criteria, techno-commercial bids, finalizing the various stages of the tenders, which eventually contributed to the delays in execution of the project.

5.1.4 With a view to having an uninterrupted supply of raw material, RINL acquired (January 2011) 51 *per cent* shares valuing ₹ 361 crore in Eastern Investments Limited (EIL) which had six licenses for iron ore and manganese mines in Odisha. However, RINL could not draw any benefit from this investment and all the six licenses had expired. No license was renewed by the State Government (March 2014). RINL has no captive mine of its own for iron ore and coking coal and hence post capacity expansion, RINL is likely to be exposed to the risk of paying higher cost towards raw material.

5.1.5 RINL in 3 MTPA stage was operating on insufficient rolling mills and earning lower margins on sale of semi steel instead of finished steel. RINL has not planned for establishment of sufficient matching capacity of rolling mills in the present capacity expansion. Further, RINL has dropped the work of SLTM (February 2008). Thus, the project planning was deficient as it did not take care for installation of matching capacity of rolling mills to the extent of increase in capacity so as to roll the semi steel into finished product in order to earn higher revenue.

5.1.6 There were considerable delays in release of specification, issue of NIT, opening of PQC, Techno-Commercial bids and issue of letters of acceptance which has resulted in delay in pre-implementation and execution process of capacity expansion. There was absence of internal timeframes for finalising the contracts and delay in formulation of tender conditions resulting in time overrun. RINL has not managed the contracts efficiently and granted extensions to contractors without examining the factors contributing to such delays.

5.1.7 Despite BOD's directions (February 2006) for reporting the progress (both physical and financial) made in respect of capacity expansion at every Board meeting for its information, neither RINL ensured compliance with the decision nor BOD insisted for compliance of its own directives. The project monitoring mechanism by RINL / BOD was thus, deficient.

5.1.8 RINL made commitments in the Memorandum of Understanding (MOU) entered with MoS for the year 2008-09 to commission the capacity expansion by 2010-11. Though RINL could not achieve the MOU target, it continued to make similar commitment in MOUs for the years 2009-10, 2011-12 and 2012-13 with revised commissioning dates. Thus the MOUs between MoS and RINL did not serve as an effective tool for monitoring the progress of capacity expansion.

5.2 RECOMMENDATIONS

We recommend the following :-

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.
2. RINL may put in place a time bound programme to complete the work of capacity expansion by dovetailing the same with the revised scheduled dates of completion.
3. RINL may critically review the role of and value addition achieved with the engagement of the consultant in expediting the project of capacity expansion.
4. RINL may strengthen the monitoring mechanism to minimize controllable delays in project execution and delivery by fixing periodicity and levels of monitoring up to the Board of Directors.
5. MoS/RINL may ensure that there is a verifiable link between MOU targets and actual execution of work relating to capacity expansion.

In respect of the above recommendations, MoS stated (December 2014) that RINL acknowledged the recommendations of audit and would make all attempts to duly comply with them.



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Countersigned



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