Executive Summary

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National Steel Policy 2005 envisaged a compounded annual growth of 7.3 *per cent* per annum of steel production during 2004-2020. The Company aimed to take advantage of the buoyant steel market conditions by moving quickly to implement the entire modernization and expansion plan (MEP) to enhance hot metal production from 13.83 million tonnes per annum (mtpa) in 2006-07 to 23.46 mtpa. It also compressed the implementation period by two years to year 2010 against 2012 set out in the Corporate Plan.

This Performance Audit covered the entire range of activities from 2006-07 to 2012-13 relating to the implementation of the MEP undertaken in five integrated steel plants, Salem Special Steel Plant, and captive mines. Audit selected 244 contracts valuing ₹ 43,825 crore (90 *per cent*) out of 852 MEP contracts valued at ₹ 48,810 crore awarded up to March 2013. All the contracts of ₹ 100 crore and more valuing ₹ 37,274 crore were reviewed in audit.

There were deficiencies at each stage of the project cycle i.e., project planning, tender finalisation, project execution, and monitoring of MEP implementation as discussed in the succeeding paragraphs.

1. The capacity of the equipment suppliers and contractors were limited. Simultaneous implementation of all the MEP projects across all plants within the compressed timelines stretched their capacity and resulted in increase in price. The prices obtained through tender during 2006-08 were 70 - 100 *per cent* higher than the cost estimates. Total cost of proposed MEP projects increased from ₹ 43,142 crore approved by the SAIL Board during 2006-07 to ₹ 77,691 crore, an increase of 80 *per cent*. SAIL management had option to stagger the capacity building plan in phases to allow the prices of equipment and works to calm down. But the SAIL Board chose to continue with its earlier decision.

(Para 2.1.1)

2. Twenty contracts totalling ₹ 10,556 crore were awarded on single qualified bid basis. This was ₹ 2,125 crore (25 *per cent*) higher than the cost estimates updated for all scope creep and price escalation up to opening of price bids. Similarly, 20 contracts valuing ₹ 6,600 crore were awarded on two qualified bid basis which was higher than the cost estimates by ₹ 578 crore (9.6 *per cent*). In 13 contracts the awarded price was higher by 33 - 75 *per cent* than cost estimates and 10 of them were not re-tendered. In the absence of sufficient competition the reasonableness of the ordered price could not be verified in audit.

(Para 2.1.1 and 3.2)

3. The Company did not factor in the requirement of funds for development of captive mines. To accommodate such additional requirement of ₹ 10,264 crore for captive mines it had to scale down (June 2009) the scope of MEP to ₹ 64,886 crore.

(Para 2.1.2)

4. There was adhocism in selection of projects to be deferred. The Company could defer only such projects which were not ordered at the time of review in June 2009. Deferment of some of the MEP projects created a situation where full production stream of integrated steel making was broken resulting in capacity mismatch among the projects in upstream and downstream.

(Para 2.1.2 and 2.1.3)

5. The Company appointed MECON as the consultants for MEP projects on nomination basis without adequate assessment of project management capacity of MECON. MECON's project consultancy capacity was found to be deficient. There was shortage of skilled supervisors and surveyors for supervision and inspection of structural erection at ISP site.

(Para 2.2)

6. Out of 153 projects of ₹ 20 crore and above awarded during 2008-13, the Company took more than two years in 25 cases and more than three years in 87 cases in completing the tender finalization process. The average time taken was 37 months which was four times more than the 9 months prescribed in the internal guidelines of the Company.

(Para 3.1)

7. In 20 contracts of ₹ 100 crore or more, there were 3 to 12 rounds of negotiations conducted with L-1 bidders over a period ranging from 5 to 27 months (over 9 months in 11 contracts) from the opening of price bids to award of contract.

(Para 3.3)

8. The Company did not have a clear and transparent policy for dealing with cases which could be re-tendered or negotiated, threshold for acceptance of quoted prices which were higher than cost estimates, and split of main package into number of sub-packages to obtain more competition, and took these decisions in a random manner.

(Para 3.4)

9. All the 104 contracts of ₹ 100 crore or more were not completed within the scheduled completion time stipulated in the contracts. Delay in 21 contracts was between 1-2 years, in 39 contracts 2-3 years, while in 38 contracts it was more than three years.

(Para 4.1)

10. For many projects the sites were not in 'ready to handover' condition at the time of award of technological contracts. In 14 contracts of ₹ 7,472 crore, there were 11 months to 53 months delays in handing over the front/site to the contractors for construction and erection of main plants. Delays in providing sites/fronts for these projects resulted in considerable delay in integrated commissioning of these plants.

(Para 4.1.2)

11. The Company failed to ensure synchronisation of various production facilities in ISP, BSP and RSP which was crucial for achieving the envisaged capacity expansion of the respective steel plants. Splitting of contracts into multiple packages also caused interface problems and delays.

(Para 4.1.3 and 4.1.4)

12. Risk and cost purchase clause included in the contracts to safeguard the interest of the organisation against the negligence of the contractors did not ensure execution of MEP contract within the contractual timelines. It was neither deterrent to the contractors to complete the job expeditiously nor could it ensure realisation of the risk purchase cost from the defaulting contractors.

(Para 4.2)

13. Oversight of SAIL Board and Board sub-committee (BSC) on monitoring capital projects over implementation of MEP projects was not effective and they failed in containing delays. BSC met infrequently. There was no deliberation on minutes of the BSC in the SAIL Board meetings and matter was marked as “Noted” by the Board. There were 77 Board meetings between January 2008 and 11 August 2014 and in total 49 Board meetings, the physical and financial progress of capital projects was either not discussed or just noted.

(Para 5.1)

14. Despite global economic slowdown , there was growth in domestic demand for steel products. Per capita use of steel in India in term of per kg of crude steel had also increased from 47.3 kg in 2007 to 63.9 kg in 2013. The Company failed to take advantage of growth in steel market as the integrated commissioning of capacity expansion projects in five integrated steel plants could not be completed by the year 2010 as planned, which is now scheduled for completion during 2015. Company’s market share to India’s total saleable steel had decreased from 25 *per cent* in 2004-05 to 14.6 *per cent* in 2013-14.

(Para 5.2)

15. The company had envisaged annual gross margin of ₹ 9,438 crore from MEP projects. Due to delays in completion of capacity expansion in five integrated steel plants by over four years on which ₹ 49,565 crore has already been spent as of 31 December 2014, obtaining envisaged annual gross margin has also got delayed.

(Para 5.2)