Chapter 6 Conclusion and Recommendations

6.1 Conclusion

The Phase III expansion project of the Company was conceived in 2006 to increase the capacity of the refinery from 11.82 MMTPA to 15 MMTPA and to produce value added products. In the year 2009, a Poly Propylene Unit was added to the scope of expansion and then in the year 2010 a Single Point Mooring facility was also conceived. The total cost of the project was estimated at ₹ 15,008 crore out of which the Company had incurred an amount of ₹ 14,832 crore till March 2016. The Phase III Expansion Project, supposed to be commissioned by October 2011, was completed in September 2014. Similarly, Poly Propylene Unit (PPU) was commissioned after a delay of 34 months in June 2015. The Single Point Mooring (SPM) facility was commissioned in August 2013 after a delay of 16 months.

The major issues noticed during the course of review of the planning and execution of the Phase III Expansion Project are summarised below:

- Deficiencies in planning, were noticed which led to change in the scope at project conceptualisation stage resulting in time overrun of more than two years and cost overrun of ₹ 2,509 crore.
- External borrowings were arranged without hedging the associated foreign currency fluctuation risk. This resulted in loss of ₹ 13.70 crore (net of currency hedging cost) on loan repayments till September 2016. Funds for the project were drawn in excess of requirement which resulted in idling of ₹ 768.46 crore in non-interest bearing current account.
- In the selected 87 major contracts, there were delays in execution of formal contract in 84 cases.
- Delayed commissioning of Captive Power Plant resulted in idling of various units even though they were mechanically complete.
- Even though SPM was commissioned in August 2013, it could not be utilised effectively due to non completion of associated Cavern by Indian Strategic Petroleum Reserves Limited (ISPRL). Consequently, the objective of setting up of SPM facility such as savings in freight, avoidance of demurrage and improvement in Gross Refinery Margin (GRM) could not be achieved.
- Non synchronisation of revamped Hydrocracker units with Petrochemical Fluidized Catalytic Cracking unit (PFCCU) led to production of low value products in place of high value products during the period from 2011-12 to 2014-15 and consequent loss of revenue of ₹ 6328.76 crore.

- Non production of Propylene, as per the designed yield and its non conversion to Poly Propylene, a high value product, in the PPU during the period from August 2014 to May 2015 resulted in a loss of margin of ₹ 382.83 crore.
- There was excess consumption of Steam in various utilities during 2015-16 which resulted in extra expenditure of ₹ 231.94 crore.
- There were delays on the part of the Company in complying with environmental directives issued by the statutory authorities.

6.2 Recommendations

- In future, the Company may draw up a comprehensive plan before finalising the projects in order to avoid time and cost overrun. Requirement of funds for the projects may be made on a realistic basis to avoid excess drawal of funds.
- The Company may ensure timely completion of utilities like Power Plants which have cascading effect on commissioning of other units. The Company may also ensure sequential completion and proper integration of the processing units to avoid their idling and underutilisation.
- The Company may make urgent efforts to optimise the utilisation of SPM.
- The Company may ensure optimum capacity utilisation of all the processing units.
- The Company may evolve a system for evaluating the consumption of utilities by the various processing units so as to ensure optimum utilisation of these utilities.

New Delhi
Dated: 18 July 2017

(NAND KISHORE)
Deputy Comptroller and Auditor General
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Countersigned

New Delhi
Dated: 18 July 2017

(SHASHI KANT SHARMA)
Comptroller and Auditor General of India