

CHAPTER-II

Detailed Compliance Audit on Viability of Continuance of Loss making PSUs

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GRIDCO Limited, IDCOL and its Subsidiaries and Odisha Rural Housing and Development Corporation Limited

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2.1 Introduction

Public Sector Undertakings (PSUs) are created both by the Central and State Governments as a measure of State intervention in separate sectors of the economy for development at macro level for welfare of the people. It is required that they must be well governed in order to achieve their envisaged objectives while guarding the huge public money invested in them. Loss in PSUs resulting in erosion of such investment is thus waste of public money. In this context, performance of certain loss making PSUs operating in different important sectors were analysed in this audit from viability view point.

As on 31 March 2022, Odisha had 82 State Public Sector Undertakings (PSUs) consisting of three Statutory Corporations and 64 Government Companies (including 26 inactive Government Companies) and 15 Government Controlled Other Companies under the audit jurisdiction of the CAG. Out of these, fourteen¹² PSUs had accumulated loss of ₹8,775.18 crore as on 31 March 2022. Five loss making PSUs *viz.*, GRIDCO Limited (GRIDCO), IDCOL Ferro Chrome and Alloys Limited (IFCAL), IDCOL Kalinga Iron Works Limited (IKIWL), Industrial Development Corporation of Odisha Limited (IDCOL) and Odisha Rural Housing and Development Corporation Limited (ORHDC), in which the total equity investment of ₹3,065.41 crore by Government of Odisha (GoO) was completely eroded by their accumulated loss of ₹8,313.34 crore and negative net-worth of ₹5,247.93 crore, have been identified to be covered in this Detailed Compliance Audit (DCA).

2.2 Scope and Methodology

The scope of the audit includes analysis of the financial and operational performance of these five loss making PSUs for last five years ending 31 March 2022 for ascertaining the reasons for loss and analysis of their viability for continued operation. Records maintained at GRIDCO, IDCOL, IKIWL, IFCAL and ORHDC and their respective Administrative Departments *i.e.*,

¹² GRIDCO Limited (₹7,886.18 crore), Odisha Power Transmission Corporation Limited (OPTCL) (₹110.76 crore), IDCOL Ferro Chrome & Alloys Limited (IFCAL) (₹33.89 crore), IDCOL Kalinga Iron Works Limited (IKIWL) (₹188.38 crore), Odisha Mineral Exploration Corporation Limited (OMECL) (₹13.48 crore), Water Corporation of Odisha Limited (WATCO) (₹0.46 crore), Odisha State Road Transport Corporation (OSRTC) (₹183.56 crore), Odisha Forest Development Corporation Limited (OFDC) (₹66.82 crore), Industrial Development Corporation of Odisha Limited (IDCOL) (₹58.84 crore), Bhubaneswar Smart City Limited (BSCL) (₹75.51 crore), Odisha Thermal Power Corporation Limited (OTPCL) (₹7.87 crore), Paradeep Plastic Park Limited (PPPL) (₹3.16 crore), Odisha Electronic Park Limited (OEPL) (₹0.22 crore) and Odisha Rural Housing and Development Corporation Limited (₹146.05 crore)

Energy Department, Steel and Mines Department, Housing and Urban Development Department and Public Enterprises Department were examined for this purpose.

The methodology adopted for audit involves analysis of data and information collected and issue of report to the Management/Government after incorporating their replies wherever received.

An entry conference with the companies was held on 29 September 2022 explaining the audit objectives and the methodology of audit. Exit conference was held on 18 March 2023 with the nominees from the audited entities and the State Government. Views expressed in the meeting have been duly considered for finalising this Report.

2.3 Audit Objectives

The audit objectives of the DCA were to assess whether:

- business Model, planning and monitoring mechanisms exist for acquisition and utilisation of material, capital, financial and human resources required to achieve the objectives of the PSUs;
- business operations were carried out in prudent manner for ensuring operational and financial efficiency and optimum utilisation of resources to achieve its desired objectives;
- targets for sales of the companies were fixed based on availability of production capacities, raw materials and market demand to achieve the desired objectives; and
- there is viability of continuance of these PSUs in view of Government Policy/Regulatory orders/changing macroeconomic and industry scenario and actions taken by the Government/PSUs.

2.4 Audit Criteria

Since this Detailed Compliance Audit had been taken up in PSUs working in five different areas, the audit criteria adopted are given separately for each PSU. Audit observations are given separately for GRIDCO and ORHDC. Audit observations on IDCOL and its two subsidiaries IFCAL and IKIWL have been clubbed together.

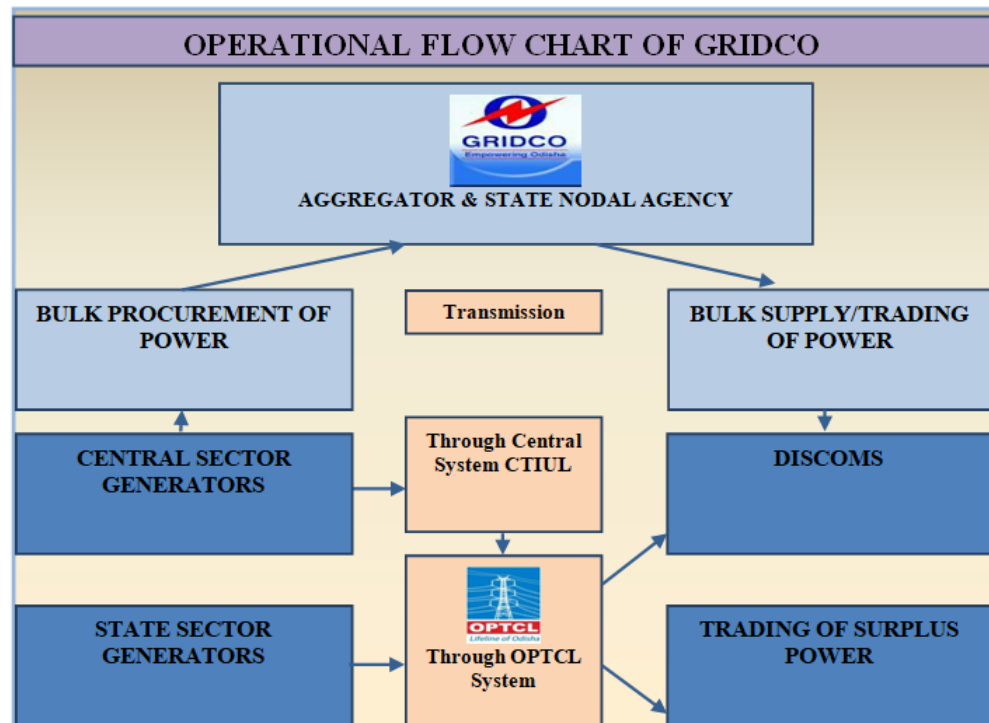
2.5 GRIDCO Limited

2.5.1 Introduction

GRIDCO was incorporated on 20 April 1995 as a fully owned Government of Odisha undertaking pursuant to the restructuring of the power sector in Odisha in terms of Odisha Electricity Reform (OER) Act, 1995. The said Act transferred all activities relating to the procurement, transmission and distribution of electricity of erstwhile Orissa State Electricity Board (OSEB) to GRIDCO. Subsequently, the distribution function of GRIDCO was hived off and vested in four Distribution Companies

(DISCOMs) with effect from 26 November 1998. GRIDCO, however, continued with power procurement from the generators. As the State designated entity, it executed Power Purchase Agreements (PPAs) with various central and state electricity generating companies for bulk supply of power to four DISCOMs to meet the electricity demand in the State. After meeting demand of the State, GRIDCO sells the surplus power outside the State. After enactment of Electricity Act (EA), 2003, the transmission function was also hived off from GRIDCO and vested with Odisha Power Transmission Corporation Limited (OPTCL) with effect from 1 April 2005. Thus, what remained with GRIDCO was the business of procurement of power from the generators and selling in bulk to the DISCOMs as a matter of legacy. This is a peculiar situation in Odisha where GRIDCO exists in power sector without any involvement in the three activities of power sector *viz.*, Generation, Transmission and Distribution of electricity. It is also not an independent power trader because it is under obligation to supply power to DISCOMs. Unlike other states, the DISCOMs are not having PPAs with the generators. In this connection, Odisha Electricity Regulatory Commission (OERC) while clarifying the legal status of GRIDCO, observed (18 March 2011) that bulk supply activity by a trader is not repugnant to any provision of EA, 2003. It is a historical legacy coming down from the period under OER Act, 1995. GRIDCO projects its procurement and sale of power annually and submits the same to OERC through Annual Revenue Requirement (ARR) application for approval. Rates for procurement and sale of power are determined by OERC in terms of Section 86(b) of EA, 2003. OERC also regulates procurement of power by GRIDCO under PPAs with generators. The operational flow chart of GRIDCO is given below:

Chart 2.1: Operation Flow Chart of GRIDCO



2.5.2 Organisation Structure

GRIDCO is under the administrative control of Department of Energy (DoE), Government of Odisha (GoO). The Management of GRIDCO is vested with the Board of Director consisting of the Chairman and 10 Directors including the Managing Director (MD). The organisation is primarily structured along three functional departments *i.e.*, Commerce and Power Procurement, Trading and Business Development and Finance and Corporate Affairs. The MD is the Chief Executive of the Company and the Directors of the three functional departments assist him in managing the affairs of the Company.

2.5.3 Financial Performance

GRIDCO has been incurring losses continuously since 2013-14. The financial performance of GRIDCO during five years ending 31 March 2022 are given in *Appendix 16*.

An analysis of the financial performance of the GRIDCO for last five years revealed that:

- The annual losses of GRIDCO had continuously increased from ₹197.50 crore in 2017-18 to ₹1,382.35 crore (600 *per cent* increase in four years) in 2020-21. GRIDCO could manage to reduce its loss to ₹440.18 crore during 2021-22 from previous year loss of ₹1,382.35 crore but even that loss was more than 157 *per cent* of loss during pre-Covid period (₹281.05 crore during 2018-19). Despite decrease in loss, the finance cost for the year 2021-22 has increased from ₹600.58 crore in previous year to ₹741.11 crore. It was observed that its peers in private sector (like PTC India) earned profit during these years (2019-20 and 2020-21).
- The revenue earned by GRIDCO declined from 97.55 *per cent* of total expenditure incurred in 2017-18 to 84.86 *per cent* in 2019-20. During 2021-22, this percentage was 95.34 despite improvement in power supply after Covid-19 pandemic.
- Accumulated losses went on increasing continuously during these period to reach the highest of ₹7,886.18 crore as on 31 March 2022. As a result, the entire investment of Government in the form of equity share capital of ₹2,791.22 crore has been eroded despite induction of fresh share capital of ₹2,214.51 crore by the GoO during 2021-22. The net worth of GRIDCO at the end of the year 2021-22 was negative at (-) ₹5,094.96 crore.
- It was also observed that continuous negative net worth of GRIDCO made it ineligible to get trading license from OERC. As a result, GRIDCO was unable to independently trade power outside the State.

The above facts revealed that the financial condition of GRIDCO was so precarious that its sustainability would be questioned unless proper timely

remedial measures were taken. Financial performance is basically a reflection of operational performance which is assessed in audit from Paragraphs 2.5.5 to 2.5.8 with the following Audit Criteria.

2.5.4 Audit Criteria

The audit criteria adopted in achieving the audit objective were as follows:

- Tariff Order, ARR and Regulations of OERC and Central Electricity Regulatory Commission (CERC);
- Power Purchase Agreements (PPAs), Bulk Supply Agreements and Power Sale Agreements (PSAs);
- Memorandum of Understanding with Government of Odisha;
- Perspective plan, Annual Plan and Annual Reports of the PSUs and Annual Budgets;
- Board minutes, agenda notes;
- Orders/ notifications/ circulars/ directions/ decisions/ regulations/ guidelines issued by the State/Central Government, OERC and CERC;
- Electricity Act, 2003 and Rules, Regulations and policies issued there under;
- National Electricity Policy (NEP) and National Tariff Policy (NTP); and
- Escrow Agreements with DISCOMs.

Audit Findings:

Operational performance

GRIDCO which is basically a power trader must correctly ascertain the power requirement and try to procure it efficiently and economically to make its business sustainable. As has been analysed in the following paragraphs, there were deficiencies in both the areas.

2.5.5 Planning and Monitoring:

Absence of Strategic Planning

Strategic planning is the process of identifying the long-term goals of the entity and the broad steps necessary to achieve the goals incorporating the concerns and expectations of the stakeholders. However, it was observed in audit that GRIDCO had not prepared any strategic/perspective plans since its inception. Section 13 of OER Act, 1995 required that GRIDCO had to plan and coordinate energy requirement of the State in coordination with Generating Companies, State Government, Central Electricity Authority (CEA) *etc.* Similarly, as per OERC (Conduct of Business) Regulations 2004, GRIDCO was required to submit a business plan to the OERC within three

months of Deemed Trading Licence¹³ coming in force and update it annually. The Business Plan would contain year-wise turnover, projected profit and loss account, projected balance sheets, projected cash flow statements and projected important financial parameters. However, GRIDCO did not formulate any such plan. This fact was also pointed out in the Performance Audit Report of this Office for the year 2012-13 when Government stated that GRIDCO would formulate Business Plans for effective power trading in future. But despite elapse of nine years till date (August 2022), no action had been initiated in this regard.

As per provisions of Memorandum of Understanding (MoU) of the Energy Department, GoO, GRIDCO was required to develop accurate short and long term power demand forecasting. But GRIDCO, instead of making any short and long term projection of power requirement of the State, signed (August 2006 to January 2011) 16 PPAs with NTPC's upcoming generating stations keeping in view the load forecast projected in 17th Electric Power Survey (EPS) of CEA published in 2006. However, during 2014, GRIDCO felt that the load growth was not in tandem with that as mentioned in 17th EPS. Hence, the Board of Directors of GRIDCO decided (15 March 2014) to float a proposal for surrender of power from NTPC stations located outside the State. Accordingly, GRIDCO requested (November 2014) the Principal Secretary, Department of Energy, GoO to take up the matter with the Ministry of Power, Government of India (GoI) for de-allocation of State's share of power supply from upcoming NTPC projects located outside the State. As satisfactory progress could not be made in this regard and GRIDCO incurred huge avoidable expenditure of ₹1,071.36 crore during 2014-15 to 2019-20 by way of fixed charges payable to these power projects without drawing power from them, GRIDCO appointed (15 May 2018) a consultant M/s Feedback Infra to carry out the Electricity Demand Forecasting and Development of Power Trading Strategy for the period 2018-19 to 2026-27. M/s Feedback Infra submitted its final report on 25 February 2019 recommending surrender of costly power of Central Generating Stations *i.e.*, M/s. Kanti Bijli Utpadan Nigam Limited (KBUNL) and Barh-II.

It was observed in audit that no effective actions had been taken by GRIDCO on the recommendations of M/s Feedback Infra like power trading with trading margins, sale of power to deficit states, surrender of high cost NTPC stations, *etc.* As a result, GRIDCO could not improve its performance and incurred huge losses over the years.

Government stated (March 2023) that GRIDCO had decided (February 2023) to adopt strategic planning for future. Further, in absence of interested beneficiaries, de-allocation could not take place from Barh-II and KBUNL (Muzaffarpur-II STPS) since 2015 which were subsequently de-allocated to Bihar and Tamil Nadu with effect from 19 February 2019 and 28 March 2022. However, the fact remained that due to inordinate delay in surrender of these power stations, GRIDCO suffered huge financial loss as cost of power from these power stations were very high and OERC did not approve these sources

¹³ Deemed Trading Licence is granted under 5th proviso of Section 14 of Electricity Act, 2003 to a Government Company

of power in the ARR of GRIDCO during those years as discussed in the following paragraph.

2.5.6 Procurement of Power

2.5.6.1 Purchase of high cost power from unapproved sources

As per OERC Regulations¹⁴, GRIDCO was required to project power requirement for the ensuing year in terms of quantity and sources of power procurement and submit the same to the OERC through ARR application for approval. The Regulations also provide that GRIDCO had to procure electricity required for the business in an economical and efficient manner and under a transparent power procurement process and generally based on the principles of least cost purchase. On the basis of ARR application submitted by the licensee and following the procedures as mentioned in the EA, 2003 and Regulations made there under, OERC analyses (i) actual requirement of power for that year, (ii) the sources of power procurement and (iii) other expenses proposed in the ARR application; and determines aggregate revenue requirement of GRIDCO for that year and bulk supply tariff at which power would be sold to DISCOMs. In case of any variation in actual power purchase cost as per audited accounts and approved power cost of that year, GRIDCO was required to appeal before OERC for truing up¹⁵ exercise after finalisation of audited annual accounts of that year.

It was observed in audit that GRIDCO filed truing up petition for its accounts for the financial years 2015-16, 2016-17 and 2017-18 in 2018 and two other applications for truing up of accounts for the financial years 2018-19 and 2019-20 in 2020 and 2021 respectively. But OERC took all three petitions for analogous hearing and disposed them in October 2021.

Audit observed that as against actual expenditure of ₹35,975.80 crore incurred by GRIDCO for purchase of power during these five years, OERC allowed only ₹35,052.52 crore in the truing up order and disallowed ₹923.28 crore due to following reasons:

- In the tariff orders of the GRIDCO for the financial years 2015-16 to 2019-20, OERC had disallowed power procurement from Barh STPS-II and KBUNL as the cost of power from these sources were very high, uneconomical and adverse to the interest of the consumers of the State. Further, the PPAs for procurement of power from those power stations were also not approved by OERC before the agreements were executed. Therefore, OERC directed GRIDCO and the State Government to expedite the matter with the Ministry of Power, GoI for immediate de-allocation of State share of these power stations. Although GRIDCO requested the State Government to take up the matter with the Ministry of Power, GoI, the State share of Barh STPS-II was deallocated to Bihar with effect from 19 February 2019 and that of KBUNL was re-allocated to Tamil Nadu with effect from 28 March

¹⁴ Conduct of Business Regulations, 2004

¹⁵ 'Truing up' is the adjustment of revenue gap between actual expenditure by the Licensee and the projected revenue determined under the ARR, through tariff order.

2022 for a period of five years. The power procurement cost of these projects before de-allocation/re-allocation were not allowed by OERC.

- GRIDCO sought for legal opinion from advocate of Supreme Court of India for surrender of allocation of NTPC power as the cost of power was very high and uneconomical and adverse to the interest of the consumers of the State. The advocate opined that the PPAs could lawfully be terminated for which GRIDCO had to approach the CERC for a declaration that PPAs stand discharged and directions given to the GoI to allocate its share of power from the aforesaid generating stations of NTPC to other states/utilities. Although the advocate had given his view during March 2016, management had not acted on this and continued purchase of power at higher rates till deallocation in February 2019/March 2022.
- As per provisions of PPAs with Barh STPS-II and KBUNL, the fixed cost was to be borne by GRIDCO so long as there was no reallocation even if it did not avail any power from that station. The loss due to higher fixed cost of these two power stations was disallowed by OERC on the ground that GRIDCO had not taken approval of OERC before execution of those PPAs.

It was observed in audit that during 2015-16 to 2019-20, GRIDCO incurred an expenditure of ₹1,850.13 crore towards purchase of power from Barh STPS-II and KBUNL. Out of this, OERC approved ₹926.85 crore and disallowed ₹923.28 crore in the truing up order in line with the aforesaid principles. Similarly, GRIDCO had also incurred an expenditure of ₹142.27 crore towards purchase of power from KBUNL power station during 2020-21 and 2021-22 which were not allowed as pass through in subsequent tariff orders as they were not approved in the tariff orders of respective years. Thus, if GRIDCO had not drawn any power from these unauthorised sources, but instead drawn power from the costliest approved source, it would have saved an amount of ₹1,065.55 crore. The Audit also observed that the loss could have been avoided if GRIDCO and the State Government had taken effective steps for early surrender of allocation of State share from these power stations and the PPAs were executed after taking approval from OERC.

In response to above audit observations, the Government replied (March 2023) that GRIDCO purchased power from high cost unapproved sources (Barh-II and KBUNL) to mitigate the exigency situation arising in the State due to the outage of generating stations or increase in demand. But no supporting document was produced to prove that power from these sources were purchased at the time of exigencies or increasing demand.

2.5.6.2 Shortfall in procurement of low cost IPP power

GRIDCO procured power from three¹⁶ out of five commercially commissioned Independent Power Producers (IPPs) during the period 2017-18

¹⁶ M/s Vedanta Limited, M/s Jindal India Thermal Power Limited, M/s GMR Kamalanga Energy Limited

to 2021-22. Power procurement from other two commercially commissioned IPPs was not yet started.

It was observed in audit that there was consistent shortfall in procurement of power from the IPPs against the entitlement as per PPA and the shortfall ranged from 3,636.13 MU to 5,642.76 MU¹⁷ during the period 2017-18 to 2021-22. The percentage of shortfall against the entitlement was ranged between 44.25 *per cent* and 68.67 *per cent* during the period 2017-18 to 2021-22. Since IPP power was one of the low cost power, GRIDCO incurred loss of ₹3,257.40 crore due to procurement of power from other high cost sources as discussed in the following cases.

2.5.6.2.1 As per the terms and conditions of the PPA (December 2012) with M/s Vedanta Limited, GRIDCO was entitled to procure 25,167.77 MU (5,009.97 MU to 5,039.45 MU each year) of power during the period 2017-18 to 2021-22 at the rate varying from ₹2.38 to ₹2.61 per unit from Vedanta Limited. In this regard, it was observed in audit that:

- Vedanta Limited consistently failed to supply the State entitled power as per PPA during the period 2017-18 to 2021-22. During the period 2017-18 to 2021-22, Vedanta Limited had generated 57,660.43 MU of power from its plant, of which it had supplied only 7,694.67 MU to GRIDCO against PPA entitlement of 25,167.77 MU. The balance power has been utilised by Vedanta Limited for captive consumption.
- Due to short supply of 17,473.10 MU (25,167.77 MU – 7,694.67 MU) of power which was 69.43 *per cent* of GRIDCO's entitlement under the PPA, GRIDCO procured high cost power from the market, the cost of which ranged from ₹3.13 to ₹4.66 per unit and incurred an additional expenditure of ₹2,020.65 crore during the period 2017-18 to 2021-22. Due to non-supply of State entitled power by Vedanta Limited, GRIDCO filed (November 2019) a petition¹⁸ before OERC under Section 142 of EA, 2003 which was still not disposed off even after lapse of more than 36 months (December 2022). Further, the matter had been brought to the notice of the Principal Secretary, Industries Department, GoO to convene a joint meeting among various departments for taking necessary action so as to prevent Vedanta Limited from non-compliance of various obligations towards State as agreed in the MoU and PPA. However, no concrete action had been taken by the Government in this regard till date.
- There was also no penalty clause in the PPA in case of default in supply of State entitled power by Vedanta Limited. However, GRIDCO had recovered compensation amount of ₹547.28 crore for the period 2017-18 to 2021-22 from Vedanta Limited as per direction (June 2020) of OERC due to short supply of power.

¹⁷ MU refers to Million Units

¹⁸ Section 142 of the Electricity Act, 2003 provides for penal action against violations of the PPA. GRIDCO filed a petition before OERC for seeking remedy against such violation by Vedanta Limited.

Thus, default in supply of State entitled power by Vedanta Limited resulted in loss of ₹1,473.37 crore (₹2,020.65 crore - ₹547.28 crore) to GRIDCO during the period 2017-18 to 2021-22.

2.5.6.2.2 Jindal India Thermal Power Limited (JITPL) had not supplied the full State entitled power after commercial operation of its units between February 2015 and April 2015. JITPL sold 25,286.33 MU of power outside the State during the period 2017-18 to 2021-22 wilfully defaulting in supply of power to the State. Against entitlement of 5,042.13 MU as per the PPA, JITPL supplied meagre 523.72 MU to GRIDCO during the above period. The shortfall in supply as per the PPA ranged between 74.09 *per cent* and 100 *per cent* during the five year ending March 2022. Although JITPL assured (September 2017) GRIDCO to compensate the shortfall in supply of State entitled power in subsequent months, it did not do so.

- Further, JITPL had filed a writ petition before Hon'ble High Court of Odisha challenging the MoUs with the GoO and PPA with GRIDCO and completely stopped supplying the State entitled power from 23 May 2019, citing the interim order (16 May 2019) of the Hon'ble High Court in the case that no coercive action would be taken against JITPL till the next date. Although no direction was given in the court order to stop supply of State share of power, JITPL did not resume supply of power.
- After delay of five years of not receiving entitled power and one year from complete stoppage of supply of State share of power, GRIDCO intimated (March 2020) GoO to convene a meeting among all concerned Departments of GoO to discuss the matter and decide upon the future course of action. After delay of six months from the intimation of GRIDCO, a meeting was convened (September 2020) under the chairmanship of Principal Secretary, Industries Department wherein GRIDCO requested Industries Department to take action against JITPL by withdrawing all the benefits extended to JITPL for setting up and operating its plant in the State. GoO asked GRIDCO to approach IDCO, Department of Water Resource, State Pollution Control Board, *etc.* to assess the concessional facilities extended to JITPL. Although GRIDCO submitted (February 2021) a report thereon, GoO didn't take any action. JITPL had been supplying the State share of power again from 29 April 2022 after its stoppage from 23 May 2019. So due to delayed action by GRIDCO and the GoO and lack of coordination amongst various departments of GoO and lack of robust mechanism to tackle such type of situation, JITPL took the advantage of wilfully not supplying the State entitled power.
- Due to non-supply of the State entitled low cost (cost per unit varied between ₹1.28 and ₹1.71) IPP power, GRIDCO was forced to procure power from high cost (cost per unit varied from ₹3.93 to ₹8.11) generating stations to meet State demand and thereby sustained a loss of ₹1,769.80 crore during the period 2017-18 to 2021-22.

2.5.6.2.3 Similarly, as per the PPA (September 2006/January 2011/February 2018) with M/s GMR Kamalanga Energy Limited, GRIDCO was entitled to 25 per cent of the power sent out from the thermal power plant excluding the quantum of power in excess of 80 per cent plant load factor. It was, however, revealed in audit that against entitlement of 10,824.90 MU as per the PPA, the IPP had supplied 8,740.16 MU during the period 2017-18 to 2021-22. The shortfall in supply as per the PPA ranged between 9.06 per cent and 31.36 per cent during the above period. Due to non-supply of State entitled low cost (cost per unit ranging from ₹3.08 to ₹3.23) IPP power, GRIDCO was forced to procure high cost (cost per unit ranging from ₹3.24 to ₹3.62) power during 2018-19 and 2020-21 for which GRIDCO sustained loss of ₹14.23 crore.

Hence, due to non-supply of State entitled power by the IPPs, GRIDCO incurred a loss of ₹3,257.40 crore (₹1,473.37 crore + ₹1,769.80 crore + ₹14.23 crore). Further, in the absence of a penalty clause in the PPAs, GRIDCO could not enforce the contract, to safeguard its interest at the time of default by the IPPs, for supply of state entitled power. However, no responsibility has been fixed by GRIDCO for faulty contractual agreements.

Government replied (March 2023) that calculation of shortfall quantum of power with reference to the normative availability of power from the IPPs was not correct. The shortfall quantum had to be worked out considering power sent out from the power plant *vis-à-vis* actual supply of power.

The reply of Government to calculate the shortfall based on power sent out from the plant was not tenable because power sent out was not to be worked out considering power sent out as such. It is to be considered by linking it to the normative generation at 85 per cent plant load factor as required under OERC (Terms and Conditions of Determination of Generation Tariff) Regulations, 2014.

2.5.6.3 Procurement of power from Odisha Hydro Power Corporation Limited

Among all sources of power, procured by GRIDCO, to meet the power demand of the State, hydro power procured from Odisha Hydro Power Corporation Limited (OHPC) is the least costly. The purchase rate per unit of hydro power varied from ₹0.79 to ₹1.08 during the period 2017-18 to 2021-22. It is thus in the interest of the State/GRIDCO to maximise procurement of hydro power.

It was observed in audit that:

- i. GRIDCO procured 28,857.55 MU of power from OHPC Limited against the target fixed by OERC for 29,408.70 MU during the period 2017-18 to 2021-22. Out of the above five years, in case of three years *i.e.*, 2018-19, 2019-20 and 2020-21 there were excess procurement of 272.58 MU, 286.68 MU and 396.22 MU respectively than the target fixed by OERC. However, during the year 2017-18 and 2021-22, there were short procurement of 292.14 MU and 1,214.49 MU respectively. Hence, there was aggregate shortfall in procurement of 551.15 MU than the target fixed by OERC during the five year period ending 31 March 2022. It was also revealed that OERC while approving the Bulk Supply Price (BSP) of GRIDCO during the year 2014-15 and 2021-22,

viewed that with proper planning and redesigning of priorities, power generation of OHPC can go beyond the design energy without sacrificing obligation towards flood control and irrigation and as a result GRIDCO with proper planning and co-ordination could trade 2,500 MU of power on a conservative basis to generate substantial amount of revenue. However, the same was not acted upon till date by State Government.

- ii. Further, during the year 2021-22 the procurement of power by GRIDCO reached new height with aggregate procurement of 33,641.65 MU which was 29.01 *per cent* higher than the procurement during the year 2017-18. However, in the same year, there was drastic shortfall in procurement of 1,214.49 MU power from OHPC which was 20.65 *per cent* lesser than the target fixed by OERC for that year. Due to short procurement of low cost hydro power, GRIDCO procured power from high cost sources. It was observed that the average procurement price of GRIDCO during the period 2017-18 and 2021-22 was ₹2.44 to ₹2.77 per unit against average cost of hydro power which was ₹0.79 and ₹1.08 per unit respectively for which GRIDCO sustained a loss of ₹76.18 crore during these period.

Hence, in procurement of power from OHPC, there was loss of ₹76.18 crore to GRIDCO during the period 2017-18 to 2021-22.

Government replied (March 2023) that during FY 2017-18 and FY 2021-22, there was hydrology failure due to poor monsoon and OHPC was not able to generate as per the design energy of its generating stations. To ensure energy security, GRIDCO was compelled to procure power from alternate sources at comparatively higher price.

However, it was revealed from the fortnightly reservoir level data submitted by OHPC to Energy Department that there was consistently higher water level than the minimum draw down level throughout the year in 2017-18 and 2021-22. Thus, proper planning and redesigning priorities would be required to generate more than the design energy as observed by OERC.

2.5.6.4 Procurement of renewable energy below the target

As per Section 61 (h) and 86(1)(e) of EA, 2003, the OERC shall promote co-generation and generation of electricity from renewable sources of energy and shall also specify amount of purchase of electricity from such sources as a percentage of total consumption of the State. In case, actual purchase from renewable sources falls below specified percentage, obligated entities are required to purchase Renewable Energy Certificates (RECs)¹⁹. Further, Para 4.2 of OERC (Procurement of Energy from Renewable Source and its compliance) Regulations 2015 and 2021, states that a minimum quantum of electricity to be procured from renewable sources by the obligated entity as percentage of total consumption. As per Para 9.1 of Regulations 2015 and Para

¹⁹ Certificate issued by Central Agency *i.e.*, National Load Despatch Centre. This can be bought and sold in any of the power exchange in India.

10.1 of Regulations 2021, in the event the obligated entity not being able to fulfill the Renewable Purchase Obligation (RPO) during any year and also do not purchase the certificates, the obligated entity shall deposit a penalty calculated by the State Agency on the basis of shortfall in units of RPO and the forbearance price decided by the Central Commission.

It was observed that GRIDCO could not achieve the target set for procurement of power from renewable sources, nor procured the RECs during the period 2017-18 to 2021-22 leading to liability to pay penalty of ₹1,315.73 crore. It was observed that against target of procurement of 12,688.06 MU renewable energy during the period 2017-18 to 2021-22, GRIDCO could procure 7,134.62 MU leading to shortfall of 5,553.44 MU.

Government replied (March 2023) that while procurement of RECs would have helped GRIDCO comply to its RE procurement targets, it would have unnecessarily burdened the consumers of the State through increase in power procurement cost and ultimately consumer tariff. Further, they replied that no penalty had ever been imposed by OERC on account of shortfall in RE procurement by GRIDCO.

The reply was not acceptable as any imposition of penalty would further deteriorate the financial condition of GRIDCO and hence GRIDCO should take all out effort to meet the target fixed for procurement of renewable energy.

2.5.6.5 Loss of ₹91.12 crore due to excess transmission loss over the norms

The quantum of power and price at which GRIDCO procures and sells are determined by OERC in the tariff order based on Annual Revenue Requirement application submitted by GRIDCO every year. While determining the quantum of power to be sold during the year, OERC allows certain percentage of power as transmission loss *i.e.*, power lost in transmission from the point of procurement to the point of distribution to DISCOMs. As transmission loss to be recovered from the sale price is only up to the extent allowed by OERC in the tariff order, any excess transmission loss would be borne by GRIDCO. In this regard Audit observed that:

- OERC, while approving the tariff order for the year 2017-18 to 2021-22, allowed 3 to 3.5 *per cent* towards transmission loss for procurement of power from the generating stations. It was observed in audit that during the period 2017-22, the aggregate transmission loss incurred by GRIDCO was higher by 0.19 to 0.62 *per cent*, than the norms approved by OERC except 2021-22.
- The aforesaid excess transmission loss ranged from 33.73 MU to 153.68 MU during the year 2017-18 to 2020-21 for which GRIDCO sustained loss of ₹91.12 crore. Though GRIDCO had been sustaining heavy financial loss due to excess transmission loss, it had not taken any remedial measure in co-ordination with the Government of Odisha/OPTCL for reduction of transmission losses.

Government stated (March 2022) that any technicalities pertaining to transmission loss was outside the purview of GRIDCO. The transmission loss pertaining to the power availed from central sector includes both Central Transmission Utility (CTU) and State Transmission Utility (STU) loss, whereas for power availed from within the state, only STU loss was incurred. Hence, the aggregate transmission loss incurred was within the norm.

The reply was not acceptable because transmission loss (on power procurement through STU/CTU) is very much a factor having financial impact for GRIDCO. While OERC allows a definite percentage of transmission loss for deciding power procurement cost, any loss beyond that percentage (on energy procured through STU/CTU) would be a loss to be absorbed by GRIDCO. Since the overall loss has been computed to be more than the allowable percentage, there was loss to that extent.

2.5.7 Financial Management

2.5.7.1 Non-recovery of huge outstanding trade receivables

Sale of power to DISCOMs is the prime source of revenue for GRIDCO. But it was observed in audit that GRIDCO had been continuously failing to recover large portion of its revenue from these DISCOMs which had adversely affected the liquidity and solvency position of GRIDCO. As on 31 March 2022, GRIDCO's trade receivables were ₹2,933.01 crore which was 52.85 per cent of the total assets of GRIDCO as on that date. Out of this, ₹1,593.92 crore was outstanding for more than three years for which GRIDCO had provided an allowance loss of ₹959.51 crore. As huge capital was blocked in trade receivables, efficient management of trade receivables was inevitable for sustenance of GRIDCO in the long run.

It was observed that the amount (₹36,635.55 crore) collected from DISCOMs during these periods were not adequate to meet the power purchase cost (₹42,618.26 crore) required to be paid to the generators after meeting fixed overheads like employee cost and other administrative and general overhead expenditure. To recoup this deficient funds requirement, GRIDCO was compelled to borrow funds from the banks, financial institutions, Government and other PSUs for which it had to incur heavy interest expenses.

It was observed in audit that as against actual interest expenses of ₹2,770.03 crore incurred during these five years as per accounts, OERC approved ₹826.83 crore as pass through in tariff orders and disallowed ₹1,943.20 crore. In addition to this, GRIDCO had incurred ₹1,104.97 crore for interest during 2015-16 (₹532.62 crore) and 2016-17 (₹572.35 crore) against which OERC approved ₹616.63 crore only in the ARR of respective years leaving a gap of ₹488.34 crore. Thus due to failure of the Company to recover Bulk Supply Price (BSP) dues from DISCOMs in time, GRIDCO had to borrow funds to meet its operating expenses and incurred extra expenditure of ₹2,431.54 crore by way of interest cost during 2015-16 to 2021-22 which was not approved by OERC in the tariff orders.

OERC in the tariff order of GRIDCO for the year 2017-18 observed that the inability of GRIDCO to mobilise its internal resources by way of collection of BSP dues from DISCOMs had led GRIDCO to deficit balance *i.e.*, revenue

received from DISCOMs being not sufficient to discharge the dues of generators which was quiet alarming. Hence, OERC refused to allow the interest on loan taken during the year 2016-17 and onwards.

GRIDCO had appealed before OERC for truing up of revenue gaps for the years 2015-16 to 2020-21. But truing up exercises up to 2020-21 had not been finalised by the OERC till date (March 2023). As regards truing up of interest cost, OERC observed that on the analysis of the total revenue requirement and expected revenue for these years, GRIDCO was not required to borrow further from banks, if it was able to collect the approved revenue from DISCOMs. Hence, it reiterated its view in the tariff orders of respective years and approved interest cost of ₹1,284.19 crore which was same as approved in the ARR. Thus, due to failure of GRIDCO to mobilise its internal resources by way of collection of BSP dues from DISCOMs, GRIDCO suffered a loss of ₹2,391.54 crore by incurring extra expenditure towards interest on loans during the period from 2015-16 to 2021-22.

On analysis of reasons for huge accumulation of outstanding trade receivables which includes BSP dues, Delayed Payment Surcharge (DPS), securitised dues, transfer scheme and other dues over the periods, it was observed in audit that:

- The OERC vide its order dated 04 March 2015 revoked the Retail Supply Licences of the Reliance Infrastructure Limited (RIL) managed three DISCOMs, Western Electricity Supply Company of Odisha Limited (WESCO), Northern Electricity Supply Company of Odisha Limited (NESCO) and Southern Electricity Supply Company of Odisha Limited (SOUTHCO) due to poor performance. The management and control of these distribution companies along with all the assets, liabilities and rights were vested with the Chairman, GRIDCO in his capacity as the Administrator of these three distribution companies under the supervision and control of the Principal Secretary, Department of Energy, Government of Odisha. As on the date of revocation, the outstanding dues payable by these companies to GRIDCO was amounting to ₹4,234.09 crore for recovery of which GRIDCO filed a petition before OERC on 29 October 2019. OERC pronounced its order on 27 October 2021 holding the three RIL managed DISCOMs and RIL, squarely liable for settling the above claim. RIL challenged the said order of the OERC before Appellate Tribunal for Electricity (APTEL) the verdict of which was awaited. Thus, non-recovery of the amount led to undue advantage to the RIL managed DISCOMs.
- The Utilities of WESCO, SOUTHCO and NESCO have been vested with Tata Power Western Odisha Distribution Limited on 01 January 2021, Tata Power Southern Odisha Distribution Limited on 01 January 2021 and Tata Power Northern Odisha Distribution Limited on 01 April 2021 respectively. The utility of Central Electricity Supply Utility (CESU) was vested with Tata Power Central Odisha Distribution Limited (TPCODL) on 01 June 2020. However, the four transferee companies did not take over the liability of ₹7,128.60 crore payable to GRIDCO which were lying as receivable from the residual

utilities in the accounts of GRIDCO with nobody liable for that. This had negatively impacted the capabilities of GRIDCO to meet the debt service obligations. This led to undue advantage to the above DISCOM utilities.

Government replied (March 2023) that outstanding BSP dues could not be recovered from the DISCOMs as they could not generate sufficient revenue to meet the power purchase cost owed to GRIDCO and also to meet their operating cost. So, GRIDCO was compelled to avail loans from banks/financial institutions in order to settle the Generators's dues and maintain uninterrupted power supply to the State.

The replies of the Government were not acceptable, because the dues recoverable from DISCOMs were their contractual liabilities in as much as dues payable to generators were contractual liabilities of GRIDCO. Hence, GRIDCO should take steps to recover its dues when OERC was not buying its argument for uninterrupted power supply. Moreover, system of such power supply was unsustainable proposition in the long run.

2.5.7.2 Non-submission of detail documents of securitisation of OHPC dues to OERC for approval led to disallowance of interest cost of ₹193.71 crore in tariff orders

GRIDCO procures hydro power from hydro power stations of OHPC Limited. Pursuant to the decision of the 155th BoD (25 September 2014) for securitisation of energy dues of an amount of ₹619 crore payable up to 31 March 2013, an agreement was executed on 23 February 2015 with the OHPC and simple interest on the dues was payable at the rate of eight *per cent* from 01 April 2014 with repayment period of 10 years including three years moratorium period. During the moratorium period, the interest amount of ₹4.13 crore was to be paid every month within 10 days of the succeeding month and repayment of principal was to be made in 84 instalments of an amount of ₹7.37 crore per month from 01 April 2017 to 31 March 2024 along with interest. So, GRIDCO was required to deposit ₹619 crore and ₹323.94 crore towards principal and interest, respectively, up to April 2024. However, GRIDCO did not submit the detailed documents regarding securitisation of OHPC dues to OERC for approval as stated in paragraphs 482, 290, 277, 303 and 284 of OERC tariff orders of 2011-12, 2015-16, 2016-17, 2017-18 and 2018-19 respectively. OERC disallowed the interest cost of ₹193.71 crore on securitisation of debt in the tariff order during 2014-15 to 2018-19, causing loss to GRIDCO.

Government accepted (March 2023) the audit observation.

2.5.7.3 Improper analysis of funds requirement led to unwarranted guarantee fee payable ₹6.25 crore

GRIDCO borrows funds from Commercial Banks/Financial Institutions to meet its working capital requirement each financial year. GoO had been providing Guarantee for enabling GRIDCO to avail term loans from different Commercial Banks from time to time. GRIDCO was required to pay "Guarantee Commission/Fee" on the said Government Guarantee. As per the Finance Department Resolution No. 54323(14)/F, dated 26 November 2002,

all organisations availing Government Guarantee are required to pay Guarantee fee on the maximum amount of Guarantee sanctioned irrespective of the amount availed or outstanding till final liquidation of the loan. The resolution also allows surrender of unavailed guarantee vide Para No.4 and reduce the payable guarantee fee.

In this backdrop, Audit observed, that GRIDCO was well aware of the fact that the guarantee fee is required to be paid on the sanctioned amount and GRIDCO could surrender the unutilised guarantee to the Government, as per above notification, to reduce the guarantee fee burden on GRIDCO. However, GRIDCO utilised ₹2,350 crore out of sanctioned Government guarantee of ₹3,000 crore, but did not surrender the unutilised guarantee on the balance amount of ₹650 crore during the year 2018-19. Similarly, GRIDCO utilised ₹2,000 crore out of sanctioned Government guarantee of ₹2,600 crore, but did not surrender the unutilised Guarantee on the balance amount of ₹600 crore for the financial year 2020-21 causing unwarranted expenditure to the tune of ₹6.25 crore at the rate of 0.5 *per cent* on the unutilised guarantee amount.

Government accepted the observation and stated (March 2023), Finance Department, Government of Odisha in its demand for guarantee fee up to FY 2020-21, claimed ₹6.25 crore for FY 2018-19 and FY 2020-21 based on approved guarantee irrespective of sanction/issuance of guarantee against drawal of loan.

2.5.8 Non-amortisation of regulatory asset of ₹2,616.95 crore

Para 8.2.2 of the National Tariff Policy, 2016 states that the facility of a regulatory asset (deferral of expenses for adjustment against future revenue) has been adopted by some Regulatory Commissions in the past to limit tariff impact in a particular year. This should be done only as a very rare exception in case of natural calamity or force majeure conditions.

The regulatory assets of GRIDCO approved by OERC as on 31 March 2021 stands at ₹1,306.55 crore. This has been arrived at after finalisation of truing up exercise up to 2020-21. The truing up exercise for the year 2021-22 had not yet been finalised.

In this connection, the Audit observed that:

- Although the National Tariff Policy stipulates that the regulatory asset should be created only in very exceptional cases like natural calamity and force majeure conditions, the OERC adopted it on regular basis except in the years when there were estimated surplus revenue.
- GRIDCO had a regulatory asset of ₹3,588.02 crore as on 31 March 2015 which should have been amortised within seven years as per National Tariff Policy 2016. But the OERC in its truing up order of October 2021 allowed a revenue gap of ₹971.07 crore only as against claim of ₹3,588.02 crore by GRIDCO as it had in its earlier truing up order of 2016 directed GRIDCO to compensate the loss by way of trading of surplus power, UI charges, other miscellaneous receipts and budgetary support from GoO. But GRIDCO failed to earn adequate revenue from trading of surplus power, UI charges and miscellaneous receipts to compensate the said loss. GoO also did not provide any

budgetary support. Hence, GRIDCO suffered the loss of ₹2,616.95 crore due to non-amortisation of regulatory assets.

Government accepted (March 2023) above audit observations and stated that the erroneous orders of OERC had adversely affected the financial conditions of GRIDCO considerably for which GRIDCO had preferred for filing Appeal before the Hon'ble APTEL, the orders of which was pending.

Conclusion

GRIDCO as an entity is not involved in the three key functions of power sector viz., Generation, Transmission and Distribution. It is engaged in power procurement from generators for supply to DISCOMs which ideally should be done by the DISCOMs. In the above process, it is incurring heavy losses for inefficiency in procurement of power and realisation of its dues from the DISCOMs. It is also not getting required cooperation from the GoO to deal with the erring generators and DISCOMs. Its operation has become unviable in as much as it is into a debt trap for carrying out its activities. It is taking a fresh tranche of loan every year to service the old loan. OERC is not allowing reimbursement of its interest costs citing inefficiency in its operation. Consequently, it has a huge debt burden of ₹6,563.86 crore with a negative net worth of ₹5,094.96 crore for standing in between the generators and the DISCOMs. This is ultimately a burden on the general public because the loans which GRIDCO is unable to service are all against Government guarantee.

Recommendations

- **The role of GRIDCO needs to be redefined, as it is an intermediary with no specified role in generation, distribution or transmission of power, and it is operating with financial unsustainability, with its situation worsening continuously.**
- **Government may take prompt action regarding share of power in NTPC power stations located outside the State.**
- **Government may facilitate GRIDCO in its handling of IPPs for agreed State entitled share of power and realisation of dues from DISCOMs.**
- **GRIDCO should fix responsibility for faulty contractual agreements with IPPs, which did not keep the interest of the State exchequer in mind.**
- **Government may frame a mechanism to recover ₹7,128.60 crore lying with the residual utilities after vesting of distribution activities with the new partners.**

2.6 Industrial Development Corporation of Odisha Limited (IDCOL) and its subsidiaries i.e., IDCOL Ferro Chrome and Alloys Limited (IFCAL) and IDCOL Kalinga Iron Works Limited (IKIWL)

Introduction

2.6.1 IDCOL was incorporated (29 March 1962) as a wholly owned Government Company with the objectives to promote and establish industries, promote and operate schemes for industrial development of Odisha and carry out all kinds of exploration including buying and selling of mineral products. The role of industrial promotion and development assigned to IDCOL is critical for the economic development of Odisha. Structural change models for development focus on the mechanism by which developing countries/states transform their economic structure from a predominantly agriculture or primary sector based to a more industry and service sector led. In this context it is observed in the Economic Survey 2022 of the GoO that in Odisha per capita GSDP from industry is 38 per cent and that from agriculture is 22 per cent in 2019-20 against 50 per cent and 42 per cent from industry in small states like Uttarakhand and Himachal Pradesh against their contribution of 9 per cent and 14 per cent from agriculture respectively. But the agriculture sector still absorbs 48.31 per cent of State's total workers in 2019-20 against 26.93 per cent absorbed in industry. Further, Odisha ranks 9th in terms of area, 11th in terms of population in the country but ranks 20th among 36 states and union territories in terms of per capita income in 2019-20²⁰.

Evidently a lot is to be done for development of viable industry as agriculture sector is highly dependent on monsoon remaining vulnerable to climatic condition. The primary role of industry sector in Odisha is that of broadening the base of economy of the State, by adding value to the products of the primary sector and relieving the pressure of a large part of the population seeking a living from agriculture by creating additional employment. In terms of feasibility of doing this it is observed that Odisha is endowed with vast natural resources. It accounts for country's 96 per cent of chromite, 92 per cent of nickel, 51 per cent of bauxite, 33 per cent of iron ore, 43 per cent of manganese ore and 24 per cent of coal. Such endowment provides an opportunity to Odisha to build its industries based on natural resources.

In pursuance of the stated objective, IDCOL established/promoted 13 subsidiaries²¹ and one joint venture²² (JV) company till date (December 2022), out of which 11 subsidiaries and the JV were liquidated/disinvested. In seven subsidiaries, IDCOL could not recover its investment and sustained loss

²⁰ Odisha Economic Survey 2022 compares the economic growth in 2021-22 with that of 2019-20. Hence, this is the latest available data.

²¹ ABS Spinning Orissa Limited, East Coast Breweries and Distilleries Limited, East Coast Salt and Chemicals Limited, Hiraakud Industrial Works Limited, Hira Steel and Alloys Limited, IDCOL Cement Limited, IDCOL Ferro Chrome & Alloys Limited, IDCOL Kalinga Iron Works Limited, IDCOL Piping and Engineering Works Limited, IDCOL Rolling Mills Limited, IDCOL Software Limited, Konark Jute Limited and ORICHEM Limited

²² S N Corporation Limited

of ₹140.71 crore due to recovery of ₹206.73 crore only against investment of ₹347.44 crore towards Share Capital and Loans and Advances. Committee on Public Undertakings (CoPU) in its fourth report of Twelfth Assembly recommended (March 2001) disinvestment of the subsidiaries quickly. Though disinvestment proposal was initiated in October 2005, disinvestment of the remaining two subsidiaries IFCAL and IKIWL could not be carried out so far. This resulted in plants of IFCAL running with inadequate infrastructure resulting in low capacity utilisation, lower productivity and higher cost of production.

Presently activities of IDCOL are confined to operation of a chrome ore mine and to oversee functioning of two working subsidiaries incorporated on 26 March 1999. While IKIWL was engaged in operation of its iron ore mines, production/sale of pig iron/spun pipe, IFCAL was engaged in production and sale of high carbon ferrochrome after obtaining chrome ore from OMC.

In this backdrop, both financial and physical performance of IDCOL and its two subsidiaries were analysed which revealed that their failure to run efficiently in the competitive market as discussed in Paragraphs 2.6.5 to 2.6.7 had left them no longer viable with no taker for disinvestment.

Organisational Structure

2.6.2 IDCOL along with its subsidiaries are under the administrative control of Department of Steel and Mines, Government of Odisha (GoO). Management of IDCOL is vested in a Board of Directors (BoD) consisting of eight Directors including Chairman and Managing Director. Managing Director, being the Chief Executive of IDCOL, looks after day-to-day operation. Subsidiaries are managed by their respective BoD and Managing Directors.

Broad functions of the subsidiaries

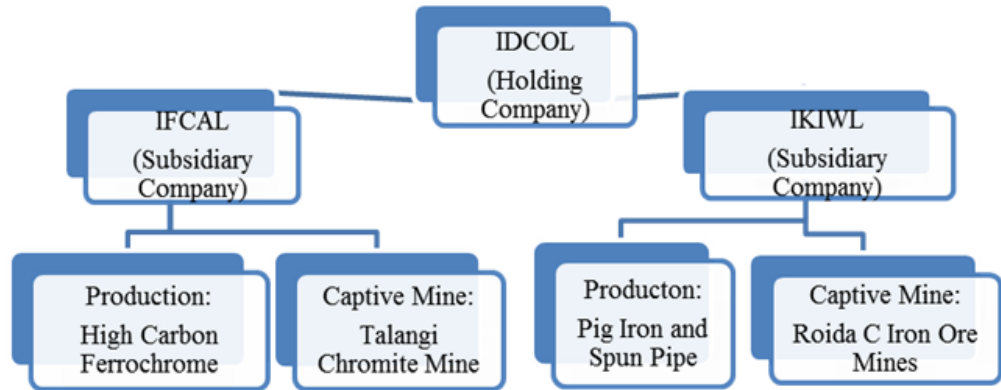
2.6.3 IFCAL produces High Carbon Ferrochrome (HCFC) through its two sub-merged Electric Arc Furnaces by charging chrome ore from its captive mines at Talangi. It also uses chrome ore purchased from Odisha Mining Corporation and briquettes produced in its briquetting plant out of concentrates. The existing briquetting plant is operated manually by charging input materials like chrome ore fines, lime and other additives.

IKIWL produces pig iron through four blast furnaces having annual installed capacity of 1.70 lakh MT. The essential raw materials required for production of pig iron is iron ore of blast furnace grade. In the process, the ore is converted into hot metal and is transported to pig casting machine for production of Pig Iron and part of hot metal is transferred to the spun pipe division for manufacturing cast Iron Spun Pipes. IKIWL is having Roida 'C' mine for production of pig iron and spun pipes. However, the plant at IKIWL was shut down since March 2015 due to uneconomical operation.

IDCOL analyses the quarterly financial performance of IFCAL plant and takes the decisions for operation/shutdown of the furnaces by analysing the

contribution margin²³ of the furnaces. IDCOL is also discharging the functions relating to finalisation of tenders for operation of mines and sale of HCFC and iron ores in the market.

Chart 2.2: Broad functions of the subsidiaries



Audit Criteria

2.6.4 The audit criteria adopted in achieving the audit objectives were drawn from the followings:

- Acts and Rules governing operation of mines and plants including guidelines and circulars of various statutory authorities;
- Annual budgets and plans of the Companies;
- Companies Act, 2013, Memorandum and Article of Association of the Companies, Memorandum of Understanding (MoU) signed by Companies with GoO and Corporate Governance Manual of GoO;
- Installed capacity, production and consumption parameters set for plants by the Companies; and
- Procurement/Sales policy of GoO/Companies.

Audit Findings

Analysis of Financial Performance

2.6.5 IDCOL and its subsidiaries have finalised their Accounts for the year up to 2021-22. The financial position as per the 'Balance Sheet' and working results as per the 'Statement of Profit and Loss' for the period 2017-18 to 2021-22 of these Companies are given in **Appendix 17**. From the Balance Sheets and Statements of Profit and Loss of the Companies, Audit observed the following:

- IDCOL had incurred loss in three out of five years mainly due to payment of mining compensation of ₹111.55 crore in 2017-18 for

²³ Contribution margin is the difference between the Sale Price and Variable Cost

operating Roida ‘C’ mines without lawful authority and writing-off of restructuring expenses of ₹43.09 crore in 2018-19 as the process of disinvestment with Kudremukh Iron Ore Company Limited (KIOCL) was not materialised as discussed in paragraph No. 2.6.10.6 infra. As a result the ‘Reserve and Surplus’ was negative which was further increased by ₹564.54 crore during 2021-22 on account of provisions made for payment of mining compensation to GoO in favour of Talangi Chromite Mines (TCM) due to operation of the mines without/in excess of environmental clearance.

- The ‘Revenue from Operations’ of IFCAL was less during 2019-20 and 2020-21 due to reduction in the sale of HCFC on account of sluggish market condition. As a result, the ‘Reserve and Surplus’ was negative with effect from 2019-20 which was attributable to continuous loss incurred by the Company.
- The ‘Revenue from Operations’ of IKIWL decreased from 2019-20 due to booking of revenue of Roida ‘C’ mines in the Accounts of IDCOL. The ‘Reserve and Surplus’ was negative due to continuous loss incurred by the Company.

Such adverse financial situation has been further analysed according to different viability parameters as discussed below:

Viability Parameters

2.6.6 Based on the Balance Sheets and Statements of Profit and Loss of IDCOL, IFCAL and IKIWL for the period from 2017-18 to 2021-22, the financial performance of the Companies in general was analysed in audit on following viability parameters.

Net Worth of the Companies

2.6.6.1 Net worth is an estimation of the absolute monetary value of a company which is determined by subtracting the sum of liabilities from the sum of assets. A high net worth of a company indicates to the lenders that a company’s assets are high relative to debt, making them a more attractive candidate for receiving a loan while a negative net worth implies that the financial position of the Company is weak. The table below indicates the financial performance of IDCOL, IFCAL and IKIWL in the terms of their Net Worth for the last five years ended 31 March 2022.

Table 2.1: Financial performance of IDCOL, IFCAL and IKIWL

(₹ in crore)

Years/ Particulars	IDCOL					IFCAL					IKIWL				
	2017-18	2018-19	2019-20	2020-21	2021-22	2017-18	2018-19	2019-20	2020-21	2021-22	2017-18	2018-19	2019-20	2020-21	2021-22
Income	41.57	80.96	82.87	122.52	209.22	145.05	85.28	44.01	48.66	110.88	84.60	134.29	22.79	29.13	0.59
Expenditure	131.11	88.21	80.41	112.99	773.76	149.88	93.71	66.77	73.01	112.03	98.95	138.99	26.24	13.61	38.23
Profit/(Loss)	(89.54)	(7.25)	2.46	9.53	(564.54)	(4.83)	(8.43)	(22.76)	(24.35)	(1.15)	(14.35)	(4.70)	(3.45)	15.52	(37.64)
Percentage of Income to Expenditure	31.71	91.78	103.06	108.43	27.04	96.78	91.00	65.91	66.65	98.97	85.50	96.62	86.85	214.03	1.54

Years/ Particulars	2017-18	2018-19	2019-20	2020-21	2021-22	2017-18	2018-19	2019-20	2020-21	2021-22	2017-18	2018-19	2019-20	2020-21	2021-22
Accumulated Profit/(Loss) up to the year ended	(63.57)	(70.83)	(68.37)	(58.84)	(623.38)	21.37	20.70	(2.06)	(31.94)	(33.89)	(158.12)	(162.82)	(166.27)	(150.75)	(188.39)
Share Capital	57.12	57.12	57.12	57.12	107.12	18.81	18.81	18.81	18.81	18.81	150.10	150.10	150.10	150.10	150.10
Net Worth (Share Capital + Accumulated Profit/(Loss))	(6.45)	(13.71)	(11.25)	(1.72)	(516.26)	40.18	39.51	16.75	(13.13)	(15.08)	(8.02)	(12.72)	(16.17)	(0.65)	(38.29)

(Source: Annual accounts of IDCOL, IFCAL and IKIWL)

From the table, it is evident that the percentage of income to expenditure of IDCOL varied from 27.04 to 108.43, for IFCAL it varied from 65.91 to 98.97 and that of IKIWL varied from 1.54 to 214.03 as the income was not sufficient to cover up their expenditure. The Accumulated Loss of IDCOL and IKIWL increased from ₹63.57 crore to ₹623.38 crore and ₹158.12 crore to ₹188.39 crore during the period while the Accumulated Profit of IFCAL of ₹21.37 crore in 2017-18 was converted into Accumulated Loss of ₹33.89 crore in 2021-22 due to loss incurred by these companies. As a result, the Net worth of the companies were negative at the end of 2021-22 which had eroded their share capital.

Liquidity positions of the Companies

2.6.6.2 Audit observed that the Current Ratio²⁴ of IDCOL increased from 0.46 in 2017-18 to 4.68 in 2021-22 due to stock of unsold iron ores at its Roida 'C' mines. IKIWL had Current Ratio less than one which indicated that it may not be able to serve its liabilities out of the assets in future as its liquidity position was not sound.

Debt to Equity Ratio of the Companies

2.6.6.3 Audit observed that the Debt to Equity Ratio²⁵ of IDCOL and IKIWL were negative for all these years and for IFCAL from 2020-21 due to negative Shareholders' Equity of the Companies on account of loss incurred which would be considered a sign of high risk. This usually happens when a company is losing money and is not generating enough cash flow to service its debts.

Return on Equity of the Companies

2.6.6.4 The Return on Equity²⁶ of the Companies was negative, due to continuous loss incurred, indicating the poor financial performance of the companies which would affect their future growth and sustainability and that would again render them unattractive for disinvestment.

Hence, the above parameters showed that the financial performance of the Companies was not sound for their future sustainability and growth. Based on

²⁴ Current Ratio = Current Assets/Current Liabilities

²⁵ Debt to Equity Ratio = Total Debt/Total shareholder's equity

²⁶ Return on Equity = Net Income/Shareholders' fund

the activities undertaken by the Companies during the period 2017-18 to 2021-22, Audit analysed the reasons for such dismal performances vide Paragraph 2.6.7.

Analysis of Physical Performances

2.6.7 Financial performance is the reflection of the physical performance. At present the operations of IDCOL and its two subsidiaries were limited to performance of the two sub-merged Electric Arc Furnaces of IFCAL producing HCFC with installed capacity of 13,000 MT and 6,000 MT *per annum* respectively and operation of Roida ‘C’ mines and TCM. Audit analysed them and observed as under:

Under-utilisation of the furnaces at IFCAL resulted in loss of production of HCFC

2.6.7.1 The production performance of the two furnaces at IFCAL for the last five years upto 31 March 2022 was as under:

Table 2.2: Production performance of IFCAL

Year	Installed Capacity (in MT)			Actual Production (in MT)			Loss in production as per I.C. (in MT)		
	F-I	F-II	Total	F-I	F-II	Total	F-I	F-II	Total
2017-18	13,000	6,000	19,000	11,836	4,182	16,018	1,164	1,818	2,982
2018-19	13,000	6,000	19,000	9,560	2,551	12,111	3,440	3,449	6,889
2019-20	13,000	6,000	19,000	5,925	2,078	8,003	7,075	3,922	10,997
2020-21	13,000	6,000	19,000	4,003	305	4,308	8,997	5,695	14,692
2021-22	13,000	6,000	19,000	7,852	2,643	10,495	5,148	3,357	8,505
Grand Total	65,000	30,000	95,000	39,176	11,759	50,935	25,824	18,241	44,065

(Source: Information furnished by IFCAL)

From the table, it is seen that as against the installed capacity of 95,000 MT, the actual production of HCFC during the period was 50,935 MT (53.62 *per cent*). Audit observed that the reasons for less production of HCFC were due to shutdown of the Furnace-I for 19 months and Furnace-II for 33 months during the five years period. Hence, Audit analysed the utilisation of the available working hours by the furnaces during the above period as under:

Table 2.3: Utilisation of furnaces at IFCAL

Year	Available Working Hours			Actual Working Hours			Loss of working Hours			Percentage utilisation of available hours		
	F-I	F-II	Total	F-I	F-II	Total	F-I	F-II	Total	F-I	F-II	Total
2017-18	8,472	8,472	16,944	8,181	6,112	14,293	291	2,360	2,651	96.57	72.14	84.35
2018-19	8,472	8,472	16,944	6,126	3,551	9,677	2,346	4,921	7,267	72.31	41.91	57.11
2019-20	8,472	8,472	16,944	4,033	3,023	7,056	4,439	5,449	9,888	47.60	35.68	41.64
2020-21	8,472	8,472	16,944	2,871	530	3,401	5,601	7,942	13,543	33.89	6.26	20.07
2021-22	8,472	8,472	16,944	5,990	3,959	9,949	2,482	4,513	6,995	70.70	46.73	58.72
Total	42,360	42,360	84,720	27,201	17,175	44,376	15,159	25,185	40,344	64.21	40.55	52.38

(Source: Information furnished by IFCAL)

From the table it is evident that as against 84,720 available working hours the furnaces were utilised for 44,376 hours. The percentage utilisation of available hours during the period ranged between 6.26 (Furnace-II) and 96.57 (Furnace-I) with an overall utilisation of 52.38 *per cent*. The main reasons for non-utilisation of working hours attributed by the management to electrical and mechanical shutdown of 8,427 hours, transformer connection changes and transfer troubles of 5,117 hours, maintenance shutdown of 1,777 hours, water leakage of 750 hours *etc.*

Government accepted the audit observation and stated (March 2023) that due to volatile market of HCFC and non-availability of captive ore, operation of furnaces were planned depending on market condition.

However, the fact remained that there was failure on the part of the Company to reduce the variable cost by modernising the briquetting plant as well as replacement of transformer for achieving better production and productivity with reduction in the cost of production of HCFC as recommended (September 2018) by Plant Level Committee of IFCAL

Audit analysed the reasons for less utilisation of available working hours and observed the followings:

Delay in repairing of 6.5 MVA transformer of Furnace-II

2.6.7.2 The 6.5 MVA transformer of Furnace-II was tripped on 25 January 2018 due to over current. During investigation, it was felt that the transformer needed complete rewinding. IFCAL placed (23 March 2018) work order on the contractor for rewinding and design modification of the transformer at a cost of ₹82.32 lakh to complete the work within 45 days from the date of receipt of the transformer. The contractor received the transformer on 05 April 2018 which was supposed to be delivered by 20 May 2018. The contractor on 30 April 2018 informed IFCAL that the design modification of voltage table was not feasible but IFCAL did not finalise the matter in spite of repeated requests by the contractor and the contractor intimated on 12 June 2018 his inability to repair the transformer with modified design and insisted for carrying out the repairing as per the existing design only. Since there had already been delay in repairing work, IFCAL agreed with their suggestion to repair the transformer as per the original design and issued the amended work order on 14 June 2018. Finally, the contractor delivered the transformer on 11 October 2018 which was put to load on 29 October 2018. In the meantime, IFCAL was carrying out relining work of its furnace which was completed on 20 July 2018. However, the same could not be put to use till 28 October 2018 due to delay in repairing of the transformer. This had resulted in loss of production of 1,632.288 MT of HCFC with consequential loss of contribution of ₹1.14 crore as per norms fixed by IFCAL.

Government accepted (March 2023) the audit observation and stated that performance of the transformer after repair was satisfactory. Liquidated damages were levied for delay and EMD deposited was forfeited. For production loss due to delay in delivery, the balance amount payable was withheld.

However, the fact remained that IFCAL could recover only ₹6.62 lakh from the party as against the loss of ₹1.14 crore

Non-availability of concentrates from the mines due to strike by the mine workers

2.6.7.3 Low grade chrome ores from the TCM were converted to chrome concentrates through Chrome Ore Beneficiation Plant (COBP). The Concentrates along with high grade OMC ores²⁷ were used for production of briquettes²⁸ for charging the furnaces for production of HCFC. The available concentrates from TCM could not be brought to the plant since April 2019 due to obstructions by the mine workers resisting closure of mines. As a result, the operations of both the furnaces of IFCAL were stopped for 8,520 hours during June to November 2019 resulting in loss of production of 9,421.728 MT of HCFC with consequential loss of contribution of ₹4.83 crore.

Government stated (March 2023) that operation of both furnaces were planned depending on availability of input and market condition of HCFC.

However, the fact remained that considering the market trend and liquidity position of the company, IFCAL Board decided (May 2019) that only Furnace-I may be continued to operate by procuring ore from OMC by liquidating the available stock till the exhaustion of concentrate in the TCM but, the available concentrate from Talangi mines could not be brought to the plant since April 2019 due to obstruction by the mine workers. Hence, ultimately the Company was not able to operate the plant for the period from June to November 2019 due to non-availability of concentrates for which there was loss of production.

Loss of production due to non-operation of Furnace-II during July to September 2021

2.6.7.4 From April to June 2021 the furnaces were shut down due to restriction in supply of industrial oxygen by the Government and unfavourable market conditions. Keeping the Covid-19 pandemic situation in view, the Board of IFCAL advised (28 April 2021) management to ensure the procurement of required raw materials including oxygen before starting the operation of furnaces. After the supply of industrial oxygen and inputs like OMC ore and coke were ensured, operation of Furnace-I was resumed from 01 July 2021. The Board had also advised (25 August 2021) to make necessary planning and arrangement to run both the furnaces and to take advantage of the current good market price of the HCFC. However, IFCAL did not operate Furnace-II during this period to take the advantage of the favourable market condition without any reasons on record. This had resulted in loss of production of 1,482.384 MT of HCFC with consequential loss of contribution margin of ₹3.68 crore during July to September 2021.

²⁷ Chromite ore procured from OMC

²⁸ Small compressed lumps of chrome ore

Government stated that both furnaces were shutdown from April 2021 due to non-availability of industrial oxygen on account of Covid-19. After availability of oxygen, initially planning was made for operation of Furnace-I. After ensuring arrangement of all input for Furnace-I and stabilisation of production, action was initiated for procurement of required input and briquette. Furnace-II was put into operation during October 2021.

However, the fact remained that IFCAL did not carry out the advice of their Board by operating Furnace-II to take advantage of the prevailing good market price of HCFC even after resumption of supply of industrial oxygen from July 2021.

Lower productivity of the furnaces

2.6.7.5 The standard rate of production of HCFC for Furnace-I and Furnace-II are 1.520 MT and 0.694 MT per hour respectively. The standard and actual rate of production of both the furnaces during the period 2017-18 to 2021-22 were as per the table below:

Table 2.4: Productivity of the furnaces at IFCAL

Year	Furnace-I					Furnace-II				
	Actual working hours	Standard rate of production per hour	Expected production (in MT)	Actual production (in MT)	Difference (in MT)	Actual working hours	Standard rate of production per hour	Expected production (in MT)	Actual production (in MT)	Difference (in MT)
2017-18	8,181	1.520	12,435	11,836	599	6,112	0.694	4,242	4,182	60
2018-19	6,126	1.520	9,312	9,560	-248	3,551	0.694	2,464	2,551	-87
2019-20	4,033	1.520	6,130	5,925	205	3,023	0.694	2,098	2,078	20
2020-21	2,871	1.520	4,364	4,003	361	530	0.694	368	305	63
2021-22	5,990	1.520	9,105	7,852	1,253	3,959	0.694	2,748	2,643	105
Grand Total	27,201		41,346	39,176	2,170	17,175		11,920	11,759	161

(Source: Cost sheet of IFCAL)

Considering the standard rate of production per hour, the expected production on the basis of actual working hours, would be 53,266 (41,346+11,920) MT during the period from 2017-18 to 2021-22 for both the furnaces. Due to lower productivity of the furnaces, 50,935 (39,176+11,759) MT of HCFC was produced resulting in loss of production of 2,331(2,170+161) MT. Audit observed that the lower productivity was mainly attributable to use of lower quality of briquettes and under-utilisation of furnaces with age old transformers as detailed below:

Loss of productivity due to use of low quality briquettes

2.6.7.6 The Plant Level Committee of the IFCAL observed (September 2018) that the quality of ore, concentrates available from the TCM and procured from OMC were suitable for production but the size of the ores were not suitable as the ores were mostly fines. Therefore, the fines required to be briquetted to the extent possible for charging to the furnaces to achieve optimum production capacity. Based on the recommendations of the Committee, the Board of Directors of the Company approved (September 2018) for mechanisation of briquetting plant and procurement of new

transformers for the furnaces in order to get long term benefits of increased productivity with reduction of cost.

IFCAL floated (April 2019) the tender for mechanisation of the existing briquetting plant which was subsequently dropped (June 2020) by the Board without citing any reason. Hence, IFCAL continued with manual operation of the briquetting plant with less efficiency. Due to use of lower quality of briquettes, the production of HCFC was adversely affected.

Audit noticed that during the period 2017-18 to 2021-22, a quantity of 1,09,252.989 MT of Cr₂O₃ (chrome) and briquettes were charged to the furnaces as input having 48,980.289 MT of chrome. The input of chrome contained 33,512.818 MT of chromium (Cr₂). During the process, 50,935 MT of HCFC was produced with 30,830.990 MT of Cr₂. Therefore, in the reduction process, there was short recovery of 2,681.839 MT of Cr₂ with a sale value of ₹21.64 crore. Besides this, the Plant Level Committee of IFCAL had also estimated (July 2018) an annual saving of ₹1.09 crore with the mechanisation of the briquetting plant with 100 *per cent* OMC ore. However, due to continuing the operation of the briquetting plant by manual means the Company was incurring losses of revenue on account of loss of chromium in the metal instead of the benefit in annual saving as envisaged by the committee.

Government stated (March 2023) that IFCAL was using chrome ore briquettes for production of HCFC processed through manual briquetting machines. In absence of availability of chromite mines, there was uncertainty in furnace operation for which the decision for mechanisation of the briquetting plant was cancelled.

The reply appeared to be an afterthought as this reason *i.e.*, uncertainty of availability of chromite mines, for cancellation of mechanisation of plant, was not found on record. However, even in absence of availability of chromite mines, IFCAL continued the operation of the furnaces with OMC ore with manual briquetting machines with less efficiency and failed to save ₹1.09 crore per annum by using 100 *per cent* OMC ore as envisaged by the committee.

Under-utilisation of furnaces due to inefficient transformers running at lower load

2.6.7.7 Both the transformers for Furnace-I (9 MVA) and Furnace II (6.5 MVA) were in service for more than 55 years owing to which these were running with troubles resulting in lower production and productivity of the furnaces. Hence, the Board agreed (24 September 2018) for procurement of new 9 MVA transformer with an estimated cost of ₹1.50 crore while it was decided to defer the procurement of 6.5 MVA transformer since the same was put to load on 29 October 2018 after its repair. The Company had initiated the proposal and received (19 October 2019) the offer price at ₹10.39 crore from M/s ABB who was the original manufacturer of 9 MVA transformer. However, IFCAL decided (December 2020) to drop the proposal considering the current financial state of affairs of the Company. Audit observed that

operation of the plant had come to such a pass where inefficiency had become both the cause and effect of poor performance.

Government (March 2023) stated that the decision for procurement of new transformer was dropped as the main source of chrome ore from Captive mine became uncertain. However, the records showed that the reason for this decision was the poor financial status, which itself is indicative of poor financial and operational performance.

Analysis of reasons for failure

Besides the aforesaid analysis of failure in both financial and physical performance over the last five years, Audit also examined the reasons adversely affecting the viability of the three companies from the perspectives of strategic, operational and transactional deficiencies.

2.6.8 Strategic deficiencies

Non-compliances to the Corporate Governance Manual

2.6.8.1 The Corporate Governance Manual (the Manual) of GoO provides (November 2009) a set of guidelines to strengthen the structure and systems of PSUs with the objectives to define the roles and responsibilities of the Board, improve accountability in reporting and improve compliance with statutory and regulatory requirements. The Manual requires the preparation of a three years Corporate Plan with annual operating and financial plans which provides a detailed description of how a PSU intends to deliver its long term goals and objectives. It also incorporates the requirement of the mandate in terms of commercial and developmental goals and objectives which will be achieved by preparing a budget integrating the resource requirements.

Audit scrutinised the compliances to the Manual for better planning and monitoring in respect of the Companies during the period 2017-18 to 2021-22 and observed as follows:

Non formulation of the Corporate Plans

- The Companies did not have any Corporate Plan depicting the long term strategies for their growth. IFCAL and IKIWL were carrying out their activities by preparing Annual Revenue Budgets with budgeted production and sales of HCFC and mines respectively. In absence of corporate planning, it was not possible to go for renovation and modernisation of production facilities and strategising marketing moves to sustain in a competitive environment where there were private players also.

Government stated (March 2023) that Cabinet Committee on Divestment had taken decision for divestment of stake in IKIWL and IFCAL in favour of central PSU during the year 2010. All out efforts made by IDCOL and GoO for early divestment could not materialise. In anticipation of divestment no corporate plan could be formulated.

The reply was not acceptable because the importance of planning for disinvestment cannot be undermined.

- Though IDCOL decided (February 2018) to undertake mining activities and fixed its mandate to do merchant mining as per Memorandum of Understanding (MoU) signed with Government it had not prepared any Corporate Plan with the long term strategy to get mining leases from the Government. In absence of a Corporate Plan, IDCOL failed to reserve the mining leases required for inducting strategic investors for revival of its loss making subsidiaries and to mobilise resources for operation of the mines in future as a merchant miner.
- The operation of Talangi Chromite Mine which was the captive mine of IFCAL was suspended since November 2018. Due to non-availability of chrome ore at cheaper rate, the operation of the furnaces was carried out depending on chrome ore purchased from OMC which had increased the cost of production. However, the Company had not devised any Long Term Plan in order to operate the furnaces economically in order to sustain in the long run.

Non-fulfilment of the commitments by GoO as per the MoU

2.6.8.2 IDCOL signed the MoUs with GoO reflecting the activities of IFCAL and IKIWL with the mandate to establish/promote industries including modernisation/expansion of existing factories at IFCAL and IKIWL and to do merchant mining of its own. As per the MoU, the Administrative Departments of GoO were committed to facilitate IDCOL in getting some more mines reserved for the purpose of their merchant mining, to monetise the land available with it for financing the mining development expenses and conversion of all outstanding Government dues into equity capital of IDCOL. The Administrative Departments further committed to grant mining leases for IFCAL and IKIWL for economical operation of their plants and to expedite Government decisions with respect to IKIWL after backing out by KIOCL from the disinvestment process as discussed in paragraph No. 2.6.10.6 infra.

It was, however, observed that the Administrative Departments did not fulfill their commitments in compliance with the MoUs for the future growth and sustainability of the Companies. As a result, in the absence of availability of ore from the captive mines at lower rates there was increase in the cost of production of HCFC for which IFCAL had been running in losses and IKIWL had been incurring expenditure on the salary and wages of the employees deputed at the plant since closure of the plant in March 2015.

In reply Government stated (March 2023) that after deliberation of all the issues and in view of greater synergy of IDCOL with OMC, GoO has decided to merge IDCOL along with its two wholly owned subsidiaries with OMC, which would be a win-win situation for both the companies.

The reply was not acceptable because the merger plan did not contain any element for the revival/ sustainable existence of the merged units.

Illegal mining with penal consequence of ₹751.74 crore

2.6.8.3 As per the decision (August 2017) of the Hon'ble Supreme Court, IDCOL received (April 2018) a demand notice from GoO to pay compensation amount ₹338.65 crore in respect of TCM for production without/in excess of the Environment Clearance corresponding to the period 2000-01 to 2010-11 under Section 21(5) of MMDR Act, 1957. Since, IDCOL had to clear all dues of GoO relating to mining compensations before surrendering TCM, it paid (August 2022) the compensation amount with interest of ₹300.16 crore by arranging an inter-corporate loan from OMC of ₹635.26 crore due to its funds constraints and the balance of ₹3.55 crore out of its own source.

Similarly, as per the decision (August 2017) of the Hon'ble Supreme Court, IDCOL received (September 2017) demand notices from GoO to pay compensation amount ₹111.55 crore in respect of Roida 'C' mines for production without/in excess of the Environment Clearance and for production in excess of the lower of the approved limits under the mining plan and consent to operate corresponding to the period 2000-01 to 2010-11 under Section 21(5) of MMDR Act, 1957. IDCOL paid (January/September 2018) the compensation amount along with interest of ₹1.37 crore by arranging an inter-corporate loan from OMC due to its fund constraints.

Therefore, the Company, despite being a State PSU, had indulged in illegal mining, by violating the law of the land. This had also adversely impacted its financial position, due to payment of a huge amount of penalty, out of borrowed funds.

Government stated (March 2023) that they had operated the mines during the period of processing of documents for obtaining EC, otherwise the mining project would have been stopped and deposited the compensation amount along with interest as per the order of the Hon'ble Supreme Court of India by taking an inter corporate loan from OMC.

The reply was not acceptable because illegal mining cannot be rationalised by any means.

Future prospects of IDCOL as a merchant mining company

2.6.8.4 As the manufacturing activities of IDCOL were reducing after disinvestment/sale of assets/liquidation of the subsidiary companies and stoppage of operation of IKIWL since March 2015, it decided (February 2018) to focus on mining activities and to request GoO to consider IDCOL as a mining company and for allotment of mines. IDCOL identified and requested (February 2019) GoO for reservation of five operating iron ore mines, the leases of which would expire on 31 March 2020 as per the MMDR Amendment Act, 2015. However, GoO did not consider the proposal of IDCOL for allotment of these iron ore mines. As on date, IDCOL has one operating mine *i.e.*, Ampavalli limestone mine and the Thakurani iron ore mine which is in the prospecting stage. Besides these, IDCOL had three other

limestone mines²⁹ which were inoperative since 23 December 2003 due to disinvestment of its captive cement plant. Hence, in this connection, a review in relation to the prospects of IDCOL as a merchant miner was conducted and the followings were observed:

- As per Rule 28(2) of Mineral Concession Rule, 1960 IDCOL was required to submit the application to GoO by October 2005, explaining the reasons for discontinuation of the three limestone mines. However, IDCOL belatedly submitted the applications to GoO in respect of these three inoperative limestone mines on 11 August 2011 with a request to condone the delay for late submission. Further, IDCOL had no approved Mining Plan/Review of Mining Plan/valid financial assurance and had not obtained the Environment Clearance for these mines. In view of these deficiencies, Indian Bureau of Mines (IBM) issued (December 2017) the order of suspension of mining operations in all these mines which had an estimated deposit of 12.221 million tonne. The mining leases were lapsed by GoO in July 2019. Hence, such absence of proper planning for submission of application in required manner leading to loss of mining leases was evidently repugnant to the objective of getting into merchant mining.
- IDCOL requested (February 2019) GoO for allotment of five operating iron ore mines, through the reservation route, under section 8 (A) of the MMDR Act 2015, in addition to the Thakurani Block 'A' iron ore mine. However, GoO had conveyed (13 November 2020) its approval for reserving Thakurani Block 'A' iron ore mine only, with an area of 416.512 ha, to undertake prospecting and mining operations. IDCOL awarded (June 2022 *i.e.*, after a delay of 18 months) the work for detailed exploration with the scheduled completion period of six months. Hence, here also the development was not in line with the objective of getting into merchant mining.

As may be observed from the above, having lost its viability in industrial operations, IDCOL was trying for a diversification through merchant mining. There also it failed for lack of proper planning and absence of required cooperation from Government.

Government accepted the observation of the audit and stated (March 2023) that GoO did not consider the request of IDCOL to allocate the mines which were expiring on 31 March 2020. Further, IDCOL participated in the auction process but could not compete with other bidders.

Thus, this indicated that there was absence of proper planning and required cooperation from the GoO in achieving the renewed objective of IDCOL as a merchant miner.

²⁹ Dampalla, Rohenpadar and Chandapalla

2.6.9 Operational deficiencies

Non-utilisation of grants received under the scheme of Technology Development Centre

2.6.9.1 IFCAL received ₹10 crore during the year 2018-19 as grants under the State Plan Scheme for establishment of Technology Development Centre (Scheme) for conversion of huge quantity of slag of nominal value into saleable product, to modernise the briquetting plant *etc.* The Company had utilised ₹2.73 crore for installation of Metal Recovery Plant-II and other miscellaneous purposes, retained ₹2.04 crore for carrying out various energy saving measures and refunded ₹5.23 crore in September 2020 to the Government.

Audit observed that the Company was not able to utilise the amount of grants received to modernise the briquetting plant for achieving better production and productivity.

Besides this, the Company had also received grants of ₹3 crore during 2015-16 to 2017-18 under the Scheme to carry out technological development in the existing operation of COBP and Jigging Plant for its overall improvement. The Company had utilised ₹1.59 crore in the modification of COBP and ₹1.99 crore in the installation of Metal Recovery Plant-I. Modification and commissioning of the COBP was completed in February 2018 but the operation of TCM was stopped from November 2018 due to un-economical and unsafe condition of the mine. Hence, the COBP modified with an additional investment of ₹1.59 crore could be used only for nine months.

Government stated (March 2023) that since chrome ore is the main input for briquetting plant, due to absence of assured supply, the decision was taken not to go for modernisation of briquetting plant.

The reply was not acceptable because manual operation of the briquetting plant with less efficiency adversely affected the productivity of HCFC thereby increase in cost of production. That rendered the product non competitive in the market resulting in long period of shutdown of the furnaces.

Non-operation of Talangi 'B' chromite mines (TCM) and loss of ₹11.23 crore

2.6.9.2 Government of India had granted (December 1992) approval for mining lease of TCM over 221.22 hectares (ha) in favour of IDCOL. As per the approval, IDCOL had to obtain permission for diversion of forest land of 158.921 ha before mining lease could be executed. IDCOL applied for diversion of 92.42 ha of forest land but only 17.483 ha of forest land was granted (June 2001) by MoEF, GoI. Subsequently, IDCOL made a proposal for splitting the mining lease into two blocks. The proposal was accepted by GoO in June 2003 by splitting the total area into 65.683 ha as Talangi A and the rest area of 155.537 ha as Talangi B with the condition that forest clearance from MoEF for Talangi B had to be obtained before using the mining lease.

The mining lease for Talangi 'A' was executed in September 2003. The lease of Talangi B mine could not be executed within the stipulated time *i.e.*, 11 January 2017 because of delay in getting statutory clearance as required under Section 10A (2) (c) of MMDR Amendment Act, 2015. Approval for the Talangi B mine lapsed because of delay in fulfilment of the statutory conditions, hence, to ensure operation of the IFCAL plant, GoI was requested (November 2018) to consider reservation of the mine under Section 17A (2) of the Act. However, proposal was not approved by GoI indicating that the mineral blocks are to be put to auction. Hence, IDCOL could not start mining operations in Talangi B due to delay in getting the statutory clearances even after paying ₹11.23 crore towards Net Present Value (NPV) for the forest area of the mines.

Government accepted the audit observation and stated that steps were being taken for refund of the NPV amount.

Operation of Talangi 'A' Chromite mine

Extra expenditure of ₹22.99 crore on the procurement of OMC Ore at high rate

2.6.9.3 The chrome ores produced from the mines having more than 40 *per cent* Cr₂O₃ (chrome) were directly dispatched to IFCAL plant for charging to the furnaces and for production of briquettes. The chrome ores having less than 40 *per cent* chrome were processed at COBP to produce concentrates which were subsequently used for production of briquettes. During the period 2017-18 to 2021-22, 25,591.280 MT of high grade ore directly despatched to IFCAL plant. The Company sold 65,579.230 MT of low grade chrome ore (below 30 *per cent* chrome) and despatched 65,218.819 MT to COBP. There was no production from the year 2019-20 due to stoppage of the operation of the mines with effect from 11 November 2018.

The Ferrochrome plant at IFCAL was not continuously operating since December 2019 mainly because of problem of chrome ore after stoppage of operation of TCM in November 2018. After exhaustion of high grade ore from the mine the low grade ore available in the mines were raised and converted to concentrate by engaging contractor for use in its ferrochrome plant. The high cost of ore purchased from the market (mostly OMC ore) being the main raw material increased the cost of production owing to which the Company had been incurring losses.

Audit observed that during 2017-18 and 2018-19 the Company had sold 65,579.230 MT of low grade chrome ore in the market without beneficiation, while at the same time the Company was procuring high grade chrome ore from OMC at market price for use in its plant. The percentage of Cr₂O₃ content in the low grade chrome ore sold during the period was ranged between 20.36 and 29.21 with the average grade of 26.359 *per cent* Cr₂O₃. During the period 2017-18 the contractor had processed 29,384.398 MT of low grade chrome ore with average 24.97 *per cent* Cr₂O₃ and produced 12,895.000 MT of concentrates having 50.40 *per cent* of average Cr₂O₃

contents. The cost of beneficiation was ₹760 per MT of concentrates produced with 43.88 *per cent* of average recovery. By considering the similar average *per cent* of recovery the 64,643.460 MT of low grade chrome ore sold during the period could have been beneficiated to produce 28,365.551 MT of concentrates by incurring ₹2.16 crore towards cost of beneficiation. At the same time IFCAL was procuring OMC ore at higher rate ranging from ₹7,526 to ₹17,429 per MT for using in its plant for production of HCFC. In comparison to that IFCAL had received ₹10.81 crore out of sale of the low grade chrome ore and incurred ₹35.96 crore in purchasing the similar quantity of OMC ore at higher rates.

Instead of selling the low grade chrome ore from its captive mines at ₹10.81 crore, had the Company, used it for beneficiation by spending ₹2.16 crore, there would not have been any need for buying OMC ore at higher rates by spending ₹35.96 crore. Against the total cost of ₹12.97 crore (₹10.81 crore + ₹2.16 crore), the Company spent ₹35.96 crore, which resulted in extra expenditure of ₹22.99 crore, for taking out the same output.

This had resulted in extra expenditure of ₹22.99 crore (₹35.96 crore - ₹10.81 crore - ₹2.16 crore) in purchasing OMC ore at a higher rate, due to selling the available low grade chrome ore at its captive mines without beneficiation, for subsequent use in its plant for production of HCFC.

Government replied (March 2023) that for payment of ₹10.00 crore for supplementary lease deed within the stipulated time, it took decision to generate fund by selling low grade chrome ore.

The reply was not acceptable as IFCAL had spent ₹35.96 crore in purchasing the similar quantity of OMC ore at higher rates against realisation of ₹10.81 crore out of sale of the low grade chrome ore. Improper utilisation of available resources indicated poor financial management and operational performance.

Inefficient execution of Agency agreement for Ampavalli Limestone mine

2.6.9.4 IDCOL executed an agreement with Toshali Cement Private Limited (TCPL) on 30 August 2004 for operation of Ampavalli Limestone mine for their cement plant for a period of five years with provisions for extension. Accordingly, the agreement was renewed (24 March 2009) with revised terms of agency fee basis (increasing from 30 to 50 *per cent* of the royalty gradually at 5 *per cent* biennial addition) for ten years (with minimum guaranteed extraction of 0.24 million tonne *per annum*) with a condition to carry out expansion of the cement plant from 600 tonne per day (TPD) to 0.7 million tonne per annum in 1st phase and up to 1 million tonne per annum in 2nd phase. The agreement stipulated that after one year of expansion the minimum guaranteed quantity was to be revised with consequent increase in agency fee.

Audit observed that, TCPL did not pay ₹1.02 crore of arrear agency fees under the existing agreement for the period from September 2019 to April 2022. Further, despite expansion of capacity of their plant up to 0.33 million tonne in May 2015, IDCOL could not claim additional agency fee because there was no timeline in the agreement for expansion of capacity up to 0.7 million tonne as

referred to above. Hence, IDCOL failed in running the mine on agency fee basis also.

Government replied (March 2023) that after expansion of the plant, the same had not been stabilised due to various technical issues and local administrative issues in addition to frequent power failure. Also dispatch of limestone from mines to their cement plant was even less than the contracted quantity hence, minimum despatch quantity was not revised.

The reply was not acceptable because while putting forth arguments in favour of TCPL, no documentary evidence was given in support of those.

Transactional deficiencies

2.6.10 Besides the strategic and operational deficiencies which were affecting the viability of the companies, Audit also observed that there were transactional deficiencies in the day to day affairs further complicating their sustenance in a competitive market as illustrated below:

Sales of HCFC and iron ores at lower rates

2.6.10.1 IDCOL used to sell various grades of HCFC and iron ores by inviting tenders in the newspapers and through its website. The terms and conditions of sale of iron ores through open tender by IDCOL did not have the condition to charge the differential rates during the period of extension. As a result, the Company had allowed the extension of the validity period of the tender and lifting of iron ores at contractual rates, while it had already obtained higher rates for the same grades and size of iron ores through subsequent tenders.

Audit observed that the Company had allowed to lift iron ores from the mines by extending the lifting period at pre-revised rates varying from ₹270 to ₹5,215 per MT whereas during the extension period it had already obtained enhanced rates of iron ores varying from ₹1,650 to ₹8,505 per MT. This had resulted in short recovery of ₹3.46 crore in the sale of 28,562.820 MT of iron ores at lower rates by allowing extension of the lifting periods.

IDCOL had allowed the buyers to lift the materials beyond stipulated delivery period without going for fresh tender and deprived itself of the advantage of enhanced price for the minerals. Since June 2020, IDCOL got the enhanced rate for sale of Calibrated Lump Iron Ore (CLO) from ₹3,370 to ₹5,701 per MT and ₹1,674 per MT for screen iron ore fines against the last tender rate of ₹404 per MT obtained in February 2020. Thus, it was evident that there was an increasing trend of the price of the iron ores in the market after June 2020. However, IDCOL did not invite any fresh tender for Crushed Iron Ore Fines(CIOF) since June 2020 to get the advantage of the increased price of the minerals to earn additional revenue. During the period from June to October 2020 it allowed the parties to lift 39,647.810 MT materials in extended period at the pre-revised rate of only ₹295/300 per MT. IDCOL obtained ₹2,258 per MT as the sale price for CIOF as per the tender floated in December 2020.

Government replied (March 2023) that the Company could not supply the materials to the buyers due to stack/labour problem and non obtaining ore removal permission hence, it was not prudent to ask for higher price. The terms and conditions of the open tender allowed delivery period of 60 days and during the above period no extension beyond that period was allowed. Hence, no higher rate was applicable.

The reply was not acceptable as the Company allowed the parties to lift the materials at pre-revised rate with an extension period ranging from 95 to 401 days which were beyond the scheduled delivery period of 60 days.

Short realisation of ₹11.46 crore due to fixing the floor price at lower rate for sale of iron ores

2.6.10.2 Audit observed that from July 2021 to March 2022 IDCOL had conducted eight e-auctions and fixed the floor prices of 5-18 mm of CLO iron ore at lower rate ranging from ₹5,700 to ₹11,000 per MT by considering the last floor price instead of the last bid price of the corresponding minerals. Due to fixing the floor price at lower rate, the Company lost an opportunity to get additional revenue of ₹11.46 crore in the sale of 1,10,083.43 MT of 5-18 mm CLO during the period.

In reply, Government stated (March 2023) that the floor price of iron ore was fixed considering last bid price, ASP of last published month, present market price as per steel mint and price of Sponge Iron. Since market was volatile, sale price cannot be fixed considering the last bid price only. Buyers quote their price considering the prevailing market price and demand on the day of auction.

The reply was not acceptable as the last bid price was the primary source of information on market condition. Hence, it should have been given priority over other sources as long as it was higher than the corresponding floor price.

Short realisation of ₹3.08 crore due to fixation of floor price at lower rate for sale of HCFC

2.6.10.3 IDCOL conducted seven e-auctions for sale of HCFC by fixing the floor price. Before introducing the e-auction, the sale prices of HCFC were finalised by comparing the prevailing market conditions *i.e.*, steel mint prices³⁰. However, under e-auction method, IDCOL considered the last floor price as their base, upon which the impact of changes of the steel mint prices from the date of last tender was added /subtracted to derive the floor prices of HCFC to be fixed for the ensuing tender. As a result, the floor price was fixed at lower side than the prevailing market price. Since, the steel mint price of HCFC reflected the present market price, the floor price should have been fixed by considering the prevailing steel mint price instead of the last floor price. This had resulted in short realisation of ₹3.08 crore in the sale of 4,485.308 MT of HCFC.

³⁰ The prices of minerals published by Steel Mint

Avoidable payment of additional amount of ₹8.25 crore in the sale of iron ores

2.6.10.4 As per the terms and conditions of the tender in the case of sale on H₁ bid basis, the bidders were requested to quote the basic price exclusive of Royalty, contribution to DMF any other Government levies and taxes as applicable at the time of delivery. However, the tenders did not have the provisions for recovering the amount from the buyers in case of any tax or duty levied by the Government other than Royalty and DMF, NMET *etc.* As per the Sections 8(4), 8A(8) and 17A(2C) of the Mines and Minerals (Development and Regulations) Amendment Act, 2021, IDCOL was required to pay an additional amount equivalent to 1.5 times of the Royalty payable for the quantity of iron ores sold from the mines from the date of notification of the Act *i.e.*, 28 March 2021. Since, the terms of the tender did not have the clause to indemnify IDCOL for such additional amount levied by the Government, it had to pay (December 2021/January 2022) the additional amount of ₹8.25 crore on sale of 60,110.050 MT of iron ore out of its own source of funds.

Government in their reply stated (March 2023) that after issue of notification on 28 March 2021, all parties were asked to deposit the additional amount but they refused as they have quoted the price not considering the additional amount. It was further stated that even if the terms of tender specified indemnification of additional amount levied by Government, the party might have quoted lesser price after considering the amount payable towards additional amount.

The reply was not acceptable because it was an ordinary prudence to have a clause for passing on any increase in statutory duties to the buyers. IDCOL had rightly included such conditions for recovering the amount from the buyers in case of any enhancement of any tax or duty to be levied by the Government in subsequent tenders from July 2021 onwards.

Role of Government in revival of the loss making PSUs

2.6.10.5 As had been observed in the beginning, CoPU had advised for strong disinvestment plan for the loss making PSUs. In this context, it was revealed in audit that the framework instituted by GoO for this purpose was ineffective resulting in making such PSUs unattractive for the strategic investors as under:

Procedures of disinvestment of PSUs in Odisha

2.6.10.6 The decision of disinvestment of PSUs is required to be approved by the Board of the Directors and the Members of the Company and to be informed to the Public Enterprise (PE) Department being the nodal department for disinvestment. The PE Department had laid down (November 2002/January 2021) a three tier decision making and implementation mechanism for disinvestment of PSUs in Odisha. These are (a) Inter Department Core Group (IDCG) chaired by the Principal Secretary of the Administrative Department, (b) Public and Co-operative Enterprise Restructuring Committee (PCERC) chaired by the Chief Secretary and (c)

Cabinet Sub-Committee on Disinvestment (CCD) chaired by Ministers (Finance, PE, Industries and Law). All the decisions taken by the CCD would be finally approved by the Cabinet.

Audit observed that in the meeting of the CCD held on 27 September 2010, it was decided that IDCOL would negotiate with Steel Authority of India Limited (SAIL) for Joint Venture/Sale of IKIWL and IFCAL. SAIL submitted its financial bids on 26 November 2014 with additional conditions which were not accepted by PCERC. However, during the period from 2017-18 to 2021-22, three meetings of IDCG and two meetings of PCERC were held, while no meeting with CCD was held till date since September 2010 to take a final decision on the disinvestment of the loss making subsidiaries.

After failure to negotiate with SAIL, the PCERC recommended (July 2015) that IDCOL should request CPSUs for 51 *per cent* equity participation in its subsidiaries *i.e.*, IFCAL and IKIWL. All the CPSUs³¹ had informed that a lease/linkage was extremely important for survival and sustainable operation of IKIWL and IFCAL. Hence, IDCOL requested (26 November 2015) GoO to consider allotment of one iron ore mine and one chrome ore mine to bring one PSU as a strategic partner for expansion and modernisation for long term sustenance of IDCOL. However, that was never materialised.

KIOCL, the only interested CPSU, apprised that IDCOL group's current operations as such were neither technically nor financially sustainable even after the proposed change of management/ownership without allotment of mines/assured coal linkage in favour of IDCOL and submitted the financial bids on 25 April 2016. KIOCL offered (April 2016) at ₹235.49 per share for acquiring the 51 *per cent* equity shareholding with total amount of ₹140 crore against the reserve price of ₹226.72 per share with certain assumptions and conditions. PCERC in its meeting held on 09 June 2016 deliberated the issue and advised IDCG to discuss with KIOCL about their assumptions and conditions of the bids. During discussion (12 August 2016) KIOCL informed that the grant of iron and chrome ore mining leases with a reserve of 100 million tonne and 1 million tonne respectively were the fundamental issue without which it would not be possible to invest and revive IKIWL and IFCAL.

IDCOL requested (23 September 2016) to the Steel and Mines Department, GoO for grant of iron ore and chrome ore mines for captive consumption in IKIWL and IFCAL. Further, in the PCERC meeting held on 24 December 2016, it was decided that KIOCL may be requested to send their final confirmation for further necessary actions at Government level for obtaining approval of the CCD. In the meantime, KIOCL submitted (January 2017) their revised proposal comprising investment of ₹8,335 crore for the mine development and operation and setting up 1.2 MT of an Integrated Steel Plant at IKIWL. They also requested IDCOL to consider and confirm the decision of GoO to reserve/notify Thakurani 'A' iron ore mine for IDCOL. KIOCL also

³¹ SAIL, National Mineral Development Corporation (NMDC), Rastriya Ispat Nigam Limited (RINL), National Aluminium Company Limited (NALCO) and Kudremukh Iron Ore Company Limited (KIOCL)

requested (April 2017) to issue the minutes of the PCERC meeting held on 24 December 2016 on the subject so that KIOCL could take the matter forward towards the strategic partnership with their Board/GoI. However, PE Department submitted the minutes of the meeting on 19 June 2017 after a delay of six months, without any confirmation with regard to the reservation of captive mines for IKIWL. Hence, KIOCL decided (August 2017) not to accede to the request for further extension of the financial validity. This had brought an abrupt end to the process of IDCOL in reviving its loss making subsidiaries by inducting KIOCL as a strategic investor with ₹140 crore as share capital.

Government stated (March 2023) that after taking into consideration, the delay in divestment and poor response of the potential investor for divestment, it was decided by State Cabinet to merge IDCOL, along with its wholly owned subsidiaries *i.e.*, IKIWL and IFCAL with OMC.

The reply was not acceptable because the decision for merger had been taken only in August 2022. The reply was also non-specific about the issues relating to period prior to that decision as highlighted in the para.

Delay in taking decisions by the GoO for disinvestment of IKIWL

2.6.10.7 After failure of disinvestment process of IKIWL due to backing out of KIOCL in August 2017, IDCOL decided (February 2018) to request GoO to consider it as a mining company and a justification of reservation of Thakurani Block A mine was submitted to GoO in July 2018. No decision was, however, taken on that request instead, PCERC decided (November 2019) to sell the plant and machineries of IKIWL at e-auction route through Metal Scrap Trade Corporation (MSTC) as these were very old and obsolete. The same was yet to be approved by the CCD due to non-convening of their meeting.

Since continuation of IKIWL and IFCAL under the management of IDCOL would put financial burden on it, the Board of IDCOL decided (October 2021) to approach the GoO for 100 *per cent* disinvestment of its subsidiaries. Considering the fact that IDCOL was not able to pay off its huge outstanding loan, PCERC decided (02 May 2022) to merge IDCOL and its subsidiaries with OMC by which OMC would take over its entire liabilities, corresponding tax benefits accruing from IDCOL's accumulated loss and benefit from access to huge land bank for mining related business diversification. The said decision was finally approved by the Cabinet on 12 August 2022.

Government accepted the audit observation and stated (March 2023) that due to non-constitution of the CCD by the Department of Public Enterprises, there was delay in the disinvestment of the companies.

Conclusion

Industrial development is acceptably the key for economic development of Odisha and IDCOL has an important role to play in this regard. The strategic, operational and transactional deficiencies in IDCOL rendered it ineffective as a tool for economic development of the State and both the

mineral based industries became unviable. GoO also failed in its role as a stakeholder which required policy intervention in terms of both revival and disinvestment. Consequently, IDCOL became unviable and unattractive for disinvestment despite its operation in mineral based industries. Finally, decision was taken for merger with OMC who is no way associated with management of manufacturing industries. The consideration of tax benefit to OMC accruing from the accumulated loss of IDCOL was just indicative of ignoring the core issues of inefficiencies.

Recommendations

- **Government may clearly re-define the role of IDCOL in the present day context with the parameters of their contribution to the economic development of the State.**
- **Government may develop and institute a robust mechanism for consistent review of performance of IDCOL for early diagnosis of the imminent sickness and timely action for revival.**
- **Government may ensure compliances with the relevant statutes to avoid penal actions.**
- **Government may consider an alternate mechanism to perform the role of industrial promotion through intervention of the State as a supplement to the private initiative.**
- **Government may consider making the disinvestment mechanism effective to achieve its envisaged goal.**

2.7 Odisha Rural Housing and Development Corporation Limited

Introduction

2.7.1 The Odisha Rural Housing and Development Corporation Limited (ORHDC) was incorporated on 19 August 1994 as a wholly owned Government Company under Housing and Urban Development Department, with the main objective of financing, promoting and developing rural housing. Rural housing, as a concept for State intervention, is very much important even today. Government of Odisha (GoO) is continuing with the schemes for rural housing like Biju Pakka Ghara Yojana, Prime Minister Aawas Yojana, *etc.* Even then the Company could not sustain its operation and consequently the main activities of the company *i.e.*, financing for housing schemes have been discontinued (July 2003) due to restriction imposed by Finance Department owing to poor recovery of loans and paucity of funds. The Company is technically alive without any Board of Directors, which did not even prepare its accounts for last 13 years. During five years ending March 2022 the Company had recovered ₹6.69 crore *i.e.*, 0.28 *per cent* against an outstanding dues of ₹2,405.11 crore. Audit analysed the state of affairs in the following paragraphs.

2.7.2 Organisation Structure

The Board of Directors of the Company had not been formed since June 2016. The day to day operation of the Company was being managed by the Managing Director who was holding additional charge along with his original charge as an additional secretary to the GoO.

2.7.3 Audit Criteria

- Corporate Plan and scheme guidelines;
- Annual budget and long term perspective plans of company;
- Companies Act, 2013, Memorandum and Article of Association of the Company, Memorandum of Understanding (MoU) signed by the Company with GoO and Corporate Governance Manual; and
- Policies of GoO, notifications, guidelines *etc.*

Audit Findings

2.7.4 Financial Performance

The Company had prepared provisional accounts for the period 2017-18 to 2020-21. The Company had not compiled even the provisional figures for the financial year 2021-22. The financial position and working results of the Company for the last four years ended 31 March 2021 are given in **Appendix 18**.

It was observed that the Company had incurred losses in all the financial years from 2017-18 to 2020-21 and the loss ranged between ₹38.82 crore in 2017-18 and ₹39.38 crore in 2020-21. The accumulated loss of the Company had increased from (-) ₹426.23 crore in 2017-18 to (-) ₹543.76 crore in 2020-21. The loss was mainly attributed to the yearly finance cost of ₹38.29 crore on borrowings from GoO. The employee benefit expenses of the Company ranged between ₹1.05 crore and ₹1.28 crore during the period 2017-18 to 2020-21 against total revenue ranging from ₹0.27 to ₹0.76 crore in the same period. It was observed that 15 employees of the Company had been deployed in Housing and Urban Development Department from time to time without finalising the terms and conditions of the deployment and payment of their salaries by the Department. As a result, the Company had paid ₹2.70 crore from 2017-18 to 2021-22 to these deployed employees without availing their services. Though the Company requested (30 September 2022) the Department to relieve these employees, the same was pending till date.

ORHDC replied (March 2023) that another reminder had been submitted on 21 March 2023 to the Principal Secretary, H&UD Department, besides earlier letter dated 30 September 2022.

The poor financial state of affairs was analysed in audit wherein it revealed that such position was mainly attributable to lapses in planning, monitoring and internal control in general. Further, for recovery of loans, provisions of Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest (SARFAESI) Act, 2002 and Odisha Public Debt Recovery (OPDR) Act, 1962 for taking possession of the mortgaged assets were not enforced for better recovery.

2.7.5 Planning, Monitoring and Internal Control

- i.** The Company had neither formulated any corporate long term plan nor annual budgets as required under the corporate governance manual of GoO to integrate the resource requirements with the achievements of financial and non-financial targets. Memorandum of Understanding (MoU) with the Administrative Department had also not signed as required under the manual which specified development of key performance indicators based on corporate plan and specify the targets against each performance criteria. Due to non-formulation of corporate plan and MoU, the evaluation of performance of the Company against the targets could not be ascertained in audit.
- ii.** The Company had not conducted any meeting of the Board of Directors since June 2016. The Company neither had any Audit Committee nor had any internal audit wing to safeguard the integrity of the business process and reliability of financial reporting.

There was complete lapse of internal control in absence of Board of Directors, which was primarily responsible for internal control and monitoring of the Company.

No reply was furnished by ORHDC/GoO.

2.7.6 Management of Loan Scheme Operations

The Company had raised a total capital of ₹614.49 crore³² and disbursed loans amounting ₹554.47 crore during the period 1995 to 2003 under six different schemes to 1,60,362 beneficiaries. As disbursement of loans had been discontinued since July 2003, presently main activity of ORHDC was to monitor recovery of these loans. Audit observed that there was huge overdue amount of loans sanctioned under these schemes and the recovery of outstanding loans was meagre during the period 2017-18 to 2021-22, as discussed in the following paragraphs.

2.7.6.1 Project Finance Scheme

The Company launched Project Finance Scheme in May 1996 for facilitating bridge loan³³ to builders/construction companies for construction of apartments in urban areas. Under the scheme, loans were disbursed to 25 beneficiaries during the period 1996 to 2001 for an amount of ₹19.74 crore. The rates of interest for the loans were varied from 17 to 21 *per cent* per annum with further penal interest of 2 to 3.5 *per cent* per annum in case of default in payment of interest or principal or both. Land documents were taken as mortgage against the loans. Audit observed as below:

- Ten beneficiaries had repaid and closed the loan accounts during the period 1998 to 2007 and one beneficiary repaid the loan amount in 2018. During the period 2017-18 to 2021-22, only one beneficiary closed its loan account by repaying ₹0.29 crore. No recovery from the other 14 beneficiaries was made during the above period. As of March 2022, the outstanding loan amount against the 14 beneficiaries was ₹71.55 crore including interest of ₹64.55 crore.
- Demand notices for repayment of the loans were not served regularly. During the period 2017-18 to 2021-22 the demand notices have been served once only to three beneficiaries and no demand notices were served to other beneficiaries during this period.
- The Board resolution by circulation (November 2012) appointed Managing Director as authorised officer for enforcement of SARFAESI Act, 2002. However, out of 14 beneficiaries, no notice has been served to seven beneficiaries under SARFAESI Act for possession of mortgaged assets. This indicated undesirable discrimination being exercised while dealing with beneficiaries. Though notices had been served to seven beneficiaries, the possession of assets was not taken in case of five beneficiaries. Two beneficiaries from whom the possession of assets were taken under the Act, the Company could recover partial amount of ₹4.23 crore through sale of mortgaged assets in July 2010 and October 2013. Hence, due to non-enforcement of the SARFAESI Act, 2002 against all the defaulted

³² Borrowing from HUDCO (₹438.33 crore) + Share capital infusion by GoO (₹48.16 crore) + Retained labour component under Credit Linked Housing Scheme and Kalinga Kutira Scheme (₹102 crore + ₹26 crore)

³³ A bridge loan is a short-term loan used until a person or company secures permanent financing or pays an existing obligation

beneficiaries and non-persuasion for repayment of the loan amount, ₹71.55 crore as of March 2022 remained unrealised.

- Further, it was observed in audit that the loan settlement amount had been incorrectly calculated by the Company in case of settlement of loan outstanding of M/s B. Engineers and Builders during July 2018. The loan ledger of M/s B. Engineers and Builders had not been updated since December 2006. The loan was settled based on demand (July 2018) made by the Company for ₹0.29 crore. However, it was recalculated in audit as per terms and conditions of the loan agreement and found that there was short realisation of ₹0.66 crore from M/s B. Engineers and Builders towards loan settlement amount due to incorrect calculation.

The Company had also adopted the policy of adjusting the repayment amount first from interest and principal and then from penal interest instead of adjusting the repayment amount first from penal interest and then from interest and principal. That was despite an expert opinion obtained from a Chartered Accountant in this regard. For this reason, there was short realisation of ₹1.06 crore in settlement of loan amount of M/s B. Engineers and Builders. Hence, there was loss of ₹1.72 crore (₹0.66 crore + ₹1.06 crore) in settlement of loan of M/s B. Engineers and Builders sanctioned under Project Finance Scheme.

ORHDC replied (March 2023) that updated demand notice would be sent to the loanees. Further, fresh demand notice was now being sent to M/s B. Engineers and Builders as per observation of audit.

2.7.6.2 Building Centre Scheme

The Company implemented Building Centre Scheme in February 2000 under which loans were given for production of low cost building materials in thirteen cyclone (Super Cyclone 1999) affected districts to meet the needs of building materials. Under the scheme, loan was disbursed to 67 NGOs/private bodies, engaged in production of building materials, for an amount of ₹5.84 crore during the period 2000 to 2002. The loan was disbursed with interest rate of 13.5 *per cent* per annum. Land documents were taken as mortgage against the loan.

The detailed position of recovery and outstanding balances for loans sanctioned under the scheme were analysed and observed that out of 67 beneficiaries, only nine beneficiaries had repaid and closed the loans. No loan amount had been recovered during the period 2017-18 to 2021-22 towards principal and interest outstanding. Demand notices for recovery of loans were not served regularly. During the period 2017-18 to 2021-22 only once during March 2020 the demand notices were served. No action had been taken under SARFAESI Act, 2002 for taking possession of the mortgaged assets against any beneficiary. As a result, an amount of ₹69.96 crore remained unrealised, as of March 2022.

ORHDC replied (March 2023) that actions were being taken for issuing the updated demand notices to the loanees under this scheme.

2.7.6.3 Corporate Loan scheme

Under the Corporate Loan Scheme, the Company provided loans to the employees of State/Central Government/PSU/Semi-Government institutions/Local Self Government at the rural as well as urban sector of the cyclone affected districts of Odisha, whose houses were affected in Super cyclone during the year 1999. The loans were disbursed with interest rate of 13.5 *per cent* per annum. The loans disbursed were guaranteed by the employers of the beneficiaries. The Company had disbursed an amount of ₹116.22 crore during the period 1999 to 2003 to 25,793 beneficiaries under the scheme. Out of these, 16,906 beneficiaries repaid the loan and closed their loan accounts.

It was further observed that the Company had recovered an amount of ₹3.39 crore towards principal and ₹1.41 crore towards interest during the period 2017-18 to 2021-22 indicating a meagre recovery of 8.72 *per cent* towards principal and 0.69 *per cent* of the interest, leaving a balance amount of total interest and principal of an amount of ₹203.96 crore and ₹38.88 crore respectively, as on 31 March 2022. As a result, an amount of ₹242.84 crore against 8,887 beneficiaries remained unrealised. The Company did not initiate any action under OPDR Act, 1962 for recovery of the loan outstanding.

ORHDC replied (March 2023) that in the mean time lot of demand notices were sent to the respective Drawing and Disbursing Offices and actions would be initiated against each individual defaulted loanees under OPDR Act.

2.7.6.4 Kalinga Kutira Scheme

Government of Odisha (GoO) decided (October 1994) to implement Kalinga Kutira Scheme through the Company for providing easy loan assistance to Economically Weaker Section (EWS) of rural areas at low rate of interest of 10 *per cent* per annum. The loan was secured by Record of Rights³⁴ (RoR) and title deeds of the land and lien of fixed deposit of ₹4,500 with the Company till the repayment of the loan. Under the Scheme, the Company had disbursed ₹59.23 crore to 28,524 beneficiaries during the period 1995 to 2003. Out of which, 4,114 beneficiaries had repaid and closed the loan leaving an overdue amount of ₹128.83 crore including cumulative interest of ₹75.38 crore till 31 March 2022 against the remaining 24,410 beneficiaries. It was observed that:

- i. There was no recovery of principal during last five years ending on 31 March 2022 and no recovery of interest during the FY 2019-20 and 2020-21. However, the Company was able to recover a meagre amount of ₹0.01 crore interest during the period 2017-18, 2018-19 and 2021-22, leaving an outstanding amount of ₹128.83 crore including interest amount of ₹75.38 crore as on 31 March 2022.
- ii. No steps had been taken by the Company to issue any demand notice to the defaulted beneficiaries under the provisions of OPDR Act, 1962. Due to which an amount of ₹128.83 crore remained unrealised under the scheme. However, GoO decided (July 2018) that the Company

³⁴ 'Record-of-Rights' is a legal document that gives the details about the land and who owns it

would submit proposal before Government for complete waiver of loan liabilities of EWS borrowers under the Kalinga Kutira Scheme. However, no such proposal was submitted by the Company till date (September 2022).

ORHDC replied (March 2023) that updated demand notices to the defaulted beneficiaries would be issued shortly and actions would be taken to invoke OPDR Act/SARFAESI Act against the defaulted beneficiaries.

2.7.6.5 Individual Housing Finance Scheme (IHFS)

For construction and acquiring of dwelling accommodation, for purchase of new house from private party, purchase of a new house/flats being constructed through any Semi-Government Organisation, Central Government, Autonomous Bodies and expansion of existing living accommodation, the Company provided long term housing loan specially designed for individuals, working couples, businessmen, self-employed professionals and multi income families under the Individual Housing Finance Scheme (IHFS) introduced in May 1995. The loan was secured by land documents or an undertaking from the employer for deduction from the salary. The loan was provided with rate of interest ranging from 14 to 14.5 *per cent* per annum.

The Scheme was implemented by the Company from May 1995 to July 2003 with disbursement of ₹59.21 crore as housing loan to 3,198 beneficiaries. Out of that 2,076 loanees repaid and closed their loan accounts. The outstanding balance of ₹294.33 crore including interest was due from the 1,122 beneficiaries as on 31 March 2022. It was observed that:

- i. A meagre loan amount of ₹1.39 crore was recovered during the last five years ending on 31 March 2022. Only 15 beneficiaries closed their accounts during the period 2017-18 to 2021-22 due to poor recovery of loan account.
- ii. The Company had not issued any demand notice after June 2018 to the above 1,122 beneficiaries even after a lapse of more than four years and no action had been taken by the Company to take possession of the secured assets under the provisions of SARFAESI Act, 2002, except issuing demand notice under the Act during October 2008. Non-enforcement of the above Act, in violation to Board directives, had resulted in non-recovery of ₹294.33 crore under the scheme.

ORHDC replied (March 2023) that notices under SARFAESI Act had been issued against 14 defaulted loanees and similar actions would be initiated for balance defaulted loanees.

2.7.6.6 Credit Linked Housing Scheme (CLHS)

Subsequent to the super cyclone in the year 1999, the GoO decided (13 January 2000) to provide Credit Linked Rural Housing Scheme (CLHS) through the Company, to cyclone affected districts of the State in favour of those cyclone affected families who belonged to the BPL category and whose

houses had been collapsed or washed away. The housing loans were extended to the people in 13 super cyclone affected districts under this scheme as rehabilitation and reconstruction measure with the rate of interest of 11 *per cent* per annum.

Under the scheme, the Company had sanctioned and disbursed loans to 1,02,755 beneficiaries, of an amount of ₹294.23 crore during the period 1999 to 2002 out of which only 767 loanees closed their accounts. The loan overdues amount of ₹1,597.60 crore including cumulative interest of ₹1,311.45 crore against 1,01,988 beneficiaries was outstanding as on 31 March 2022. It was observed that:

- i. There was no recovery of principal and the Company recovered a meagre amount of ₹0.20 crore towards interest during last five years ending on 31 March 2022.
- ii. Further, the Company did not issue any notice of demand under OPDR Act to recover the loan overdue amount since the disbursement of loan during the years 1999-2002. As a result, an amount of ₹1,597.60 crore remained unrealised. However, GoO decided (July 2018) that the Company would submit proposal before Government for complete waiver of loan liabilities of BPL borrowers under this Scheme. However, no such proposal had been submitted by the Company till date (September 2022).

ORHDC replied (March 2023) that the Company would submit the complete waiver proposal to the Government in H&UD Department, Public Enterprise Department and Finance Department.

2.7.7 Non-preparation of accounts

Preparation of annual accounts is the only communication device for explaining the state of the affairs of a company to the outside world. The Company had not finalised its accounts since 2009-10 violating the provisions of the Section 134, 129, 96 of the Companies Act 2013 read with Section 210, 166 and 216 of the Companies Act 1956. The Company thus failed to place its annual report together with the audit report and comments of the CAG of India before the house of the State Legislature as envisaged in the Act.

The fact of arrear in finalisation of accounts and lack of sincere efforts in liquidating the arrears by the Company had also been pointed out in the Paragraph No. 3.14 of Report No.4 (Commercial), GoO for the year ended 31 March 2010, which was pending for discussion in the meetings of the Committee on Public Undertakings (CoPU).

In spite of these, the Company had failed to chalk out a time bound programme and initiate concrete and effective steps for clearance of arrear accounts for the last 13 years.

Audit observed that, due to non-finalisation of accounts, bank reconciliation statements had not been prepared, ledgers were not updated and there were

transactions in cash violating Government circular (July 2012) leaving the books of accounts for these years remained open and were exposed to the risks of fraud, leakage of public money *etc.*, by way of possible tampering with these accounts. Thus, the Company failed to make the accounts up to date as well as in maintaining proper records of accounts.

No reply was received from ORHDC/GoO.

2.7.8 Non-payment of Government of Odisha loan amounting to ₹966.81 crore

The Company borrowed an amount of ₹438.33 crore during the period 1995-96 to 2002-03 upon Government Guarantee from Housing and Urban Development Corporation (HUDCO) for implementation of Kalinga Kutira Scheme (₹74.33 crore) and Credit Linked Housing Schemes (₹364 crore). The Company, with the assistance of Government had repaid the entire dues of HUDCO amounting to ₹765.92 crore out of which Government paid ₹489.55 crore and the Company paid ₹276.37 crore. The Government assistance of ₹489.55 crore was provided as loan to the Company with rate of interest eight *per cent* per annum. The sanction of loan by the Government was made with condition that the total income of the Company including amount received towards recovery of loans, rental *etc.* would be deposited in escrow account to be jointly operated by Under Secretary to GoO, H&UD Department and MD, ORHDC, Bhubaneswar. Further, the Company was allowed to withdraw maximum of rupees one crore per annum towards establishment cost from the escrow account and deposit the balance in Government account towards repayment of State Government loan on quarterly basis.

As on 31 March 2022, an amount of ₹966.81 crore was outstanding towards the Company for payment to Government including interest ₹488.13 crore. The escrow account was seized by the Income Tax Department during March 2017 due to non-payment of income tax dues for the assessment year 2006-07 and the repayment of loan to Government was stopped since then. As a result, ₹966.81 crore remained outstanding for payment to Government.

No reply was received from ORHDC/GoO.

2.7.9 Investment of funds in violation of the guidelines of the Government led to non-realisation of ₹25.89 crore

ORHDC subscribed (10 April 1999) to 300 numbers of 14.90 *per cent* non-convertible, secured, redeemable debenture bonds of face value of ₹1 lakh each issued by Uttar Pradesh State Yarn Company Limited (UPSYCL) for a sum of ₹3 crore. The bonds were allotted to the Company in February 2000 and were secured by the unconditional and irrevocable guarantee of the Government of Uttar Pradesh. As per terms and conditions of the subscription, the bonds were redeemable on 10 February 2004 (33 *per cent*), 10 August 2004 (33 *per cent*) and 10 February 2005 (34 *per cent*). The interest was payable annually up to the date of redemption. UPSYCL remitted (August 2000) ₹37.47 lakh towards interest up to 10 February 2000 and ₹1.90 crore towards principal leaving a principal balance of ₹1.10 crore. Subsequently,

UPSYCL neither paid any interest nor redeemed the principal amount till date. The balance principal and interest outstanding as on 10 February 2022 was ₹25.89 crore. In this regard, Audit observed that:

- The Company subscribed to the bonds without prior approval of the Board of Directors violating the guidelines of Department of Public Enterprises, GoO (November 1996) and only obtained (January 2000) their retrospective approval. Further, as per the guidelines, no investments other than term deposit in banks could be made for tenure exceeding one year. The investment was thus in violation of the above directive to the extent that the maturity period of the bonds were five years. No approval from GoO had also taken for subscription to the bonds of UPSYCL.
- Though UPSYCL did not pay any interest and principal amount since August 2000, the Company only raised demand notice during February 2005 *i.e.*, after 53 months from the last payment. Further, the Company issued demand notice during December 2006 and July 2007 and filed a writ petition in this regard in the Odisha High Court in the year 2013 which was dismissed (September 2022) by the court upon submission of the UPSYCL to make payment of the principal amounts which was not objected by ORHDC. However, no further payment was made by UPSYCL.
- The bonds were stated to be secured by the unconditional and irrevocable guarantee of the Government of UP. The Company, however, did not obtain confirmation from the Government of UP with respect to their guarantee against the bonds, nor did it invoke the guarantee in view of the failure of UPSYCL in servicing and redeeming the bonds in time.

Further, the Company had not taken up the matter with Government of UP for the unconditional and irrevocable guarantee given against the bonds. This indicated failure of the Company in taking required steps for realisation of the dues. As a result, ₹25.89 crore as of February 2022 remained unrealised.

ORHDC replied (March 2023) that the Company requested (March 2023) advocate of Odisha High Court to take up the matter with appropriate judicial authority/institution for recovery of the debt.

Role of Government

2.7.10 Non-expediting of the proposal of Government of Odisha to liquidate the Company

ORHDC had disbursed loans to Economically Weaker Section (EWS) and Below Poverty Line (BPL) borrowers under Kalinga Kutira Scheme and Credit Linked Housing Scheme which constituted 82 *per cent* of the borrowers and 65 *per cent* of the total loan disbursement by the Company. As chances of recovery of the loans under the schemes were extremely low and Government schemes were now providing EWS housing under various schemes such as

Prime Minister Awas Yojana (PMAY), Biju Pakka Ghara Yojana, *etc.* and banks were also offering housing loans with more lenient terms and interest, GoO felt that ORHDC had lost its significance and did not serve the purpose anymore. Hence, GoO decided (July 2018) that ORHDC should submit suitable proposal for liquidation, in accordance with the provisions of the Companies Act, 2013 with suitable plans for rehabilitation of employees and management of the assets of the ORHDC and seek in-principle approval of the Government. Though, ORHDC had submitted (September 2018) the proposal for liquidation of the Company to GoO, no further action had been taken in this regard till date. Even after lapse of more than four years from the date of decision of Government to liquidate the Company, the Company had not taken any substantial steps except writing (March 2021) a letter to a Chartered Accountant for providing the guidelines and process of liquidation. Necessary steps may be taken to expedite the process for early liquidation of the Company.

No reply was received from ORHDC/GoO.

Conclusion

The Company was incorporated to cater to a basic need for rural poor in the form of finance for housing. Presently, EWS housing is being provided under various schemes such as PMAY, BPGY *etc.* and banks are offering house loans with more lenient rate of interest. Financial assistance for rural housing had been stopped as the Company could not run its operation viably. Consequently, there was drainage of public money without the corresponding social benefit being achieved.

Recommendations

- **Government may consider to ensure enforcement of recovery provisions under the SARFAESI Act and OPDR Act for better recovery.**
- **Government may also consider to offer option for One Time Settlement (OTS) to beneficiaries considering the fact that the market rate of interest at present is substantially less than the rate charged by the Company.**
- **Government may consider to take early actions for liquidation of the Company.**

