

## **CHAPTER-II**

### **Performance Audit on Activities of Odisha Mining Corporation Limited**



#### EXECUTIVE SUMMARY

Odisha is considered a mineral rich State with 53 *per cent* of iron ore reserve, 73 *per cent* of bauxite ore and 100 *per cent* of chromite ore reserve. The mining sector contributes 10.8 *per cent* of Gross State Value Added (GSVA). Odisha Mining Corporation (OMC), being the only state public sector undertaking in the sector, its contribution to the State revenue in terms of royalty, dividend *etc.*, assumes critical importance.

OMC was incorporated in May 1956 with the main objective of harnessing the mineral wealth of the State. It obtains mining leases from the Government of Odisha (GoO) and carries out mining operations like excavation of ore, processing the same and selling ores. In each of these activities, the Company has to comply with provisions of statutes like the Forest Conservation Act 1980, the Mines and Minerals (Development and Regulation) Act, (MMDR) 1957, the Mineral Concession Rules 1960, the Ancient Monuments and Archaeological Sites and Remains (AMSAR) Act, 1958 *etc.*

#### 1. Management of Mining Leases

OMC has 36 mining leases as on date out of which 18 are operative while the remaining 18 are inoperative for the last six to 35 years. Regarding inoperative leases, it was observed that the main reason for non-operation of mines was mostly delay in submission of Forest Diversion Proposal (FDP) to get Forest Clearance (FC) for starting mining activities. In the process, OMC had to pay ₹9.09 crore towards dead rent and surface rent for these inoperative mines. Besides that, OMC had to incur expenditure of ₹154.27 crore towards manpower cost including watch and ward *etc.*, of these inoperative mines during 2018-23.

There were delays in surrender of mining leases due to unwarranted possession in non-permissible mining area, unnecessary re-exploration to prove non-mineralization *etc.*, leading to avoidable expenditure of ₹16.55 crore. Further, due to uneconomic extension, avoidable expenditure of ₹85.21 crore was incurred by OMC in case of the Unchabali mining lease.

#### 2. Penalty due to non-compliance with Statutes

Mining is a skilled work involving removing the overburden, then excavating the ore, crushing/beneficiating it to make it saleable. All these activities are again subject to compliance with the Mining Plans approved by the Indian Bureau of Mines (IBM), conditions stipulated in Environmental Clearance (EC) granted by the Ministry of Forest and Environment and Climate Change (MoEF&CC), and Consent to Operate (CTO) issued by the State Pollution Control Board (SPCB).

It was observed that OMC had to pay penalty of ₹3,761.88 crore due to production of 29.47 Million MT (MMT) in excess of quantities permitted under EC and FC. It was also noticed that OMC paid ₹602.27 crore for production of 5.56 MMT of minerals in excess of the quantities permitted under CTO and the Mining Plan. Further, it was noted that compliance with statutory conditions with regard to air, water and noise pollution were not adhered to in 12 working mines.

### **3. Deficiencies in stacking of ore**

There were also deficiencies noticed in stacking not being carried out as per statutory parameters. For example, in the case of Gandhamardan B, Kurmitar, Jhilling and Tiring Pahar mines, OMC had not segregated ores according to their grades. Hence, it had to pay royalty at a rate which was payable for the highest grade of ore. Consequently, OMC incurred an additional expenditure of ₹938.52 crore during 2018-23 for stacking without required segregation.

### **4. Deficiencies in implementation of capital projects**

For improvement in production level in terms of quantity and quality, OMC was executing six capital projects with an investment of ₹5,495.90 crore. Out of these, only two were completed and others were still in progress. However, due to lack of proper planning, even the completed projects could not be made operational. A chrome ore beneficiation plant completed by April 2023, could not be commissioned due to non-execution of Operation and Maintenance contract with any service provider. As a result, OMC could not produce quality ore from the sub-grade chrome ore and lost the opportunity to earn additional revenue of ₹61.16 crore.

### **5. Deficiencies in Contract Management for raising of ore**

All the jobs in the mining area are executed by OMC through the engagement of contractors. Hence, contract management was a key issue for successful operation of OMC's mines. However, OMC did not secure its financial interest while signing many contracts. There were instances of undue favour being extended to contractors with the contract clause being unfavorable to OMC. For example, in Daitari mines OMC paid ₹25.79 crore extra towards escalation charges for electricity which was over and above the actual cost of electricity. Similarly, OMC paid ₹1.59 crore towards explosives to the transport contractor at the Gandhamardan mines. OMC paid ₹32.64 crore extra towards raising cost by treating sub-grade ore as saleable ore in four mines.

### **6. Uneconomic disposal of ore**

There was under realization of revenue of ₹16.51 crore because of deficiencies in calculation of floor price for auction of sub-grade chrome ore in Sukrangi and South Kaliapani mines. While selling ex-lessee's stock on behalf of GoO, OMC short recovered the security and other expenditure of ₹7.01 crore from the sale proceeds.

## **7. Deficiencies in Financial Management**

OMC also did not timely adjust royalty paid to GoO as advance towards unlifted stock against subsequent lifting of stock/fresh orders, leading to lost interest revenue of ₹41.22 crore.

OMC extended inter-corporate loan of ₹3,211.71 crore to different entities without any policy for undertaking such financial risks. Out of this, an amount of ₹947.80 crore has already been defaulted on by IDCOL, to whom loans had been made by OMC to meet penalty levied for statutory violations by IDCOL.

Underestimation of advance income tax liability and short payment of advance income tax for the FYs 2020-21 and 2021-22 resulted in avoidable payment of interest of ₹20.55 crore under section 234(B) and (C) of the Income Tax Act for the aforesaid period.

### **Recommendations:**

**The Government may direct OMC to:**

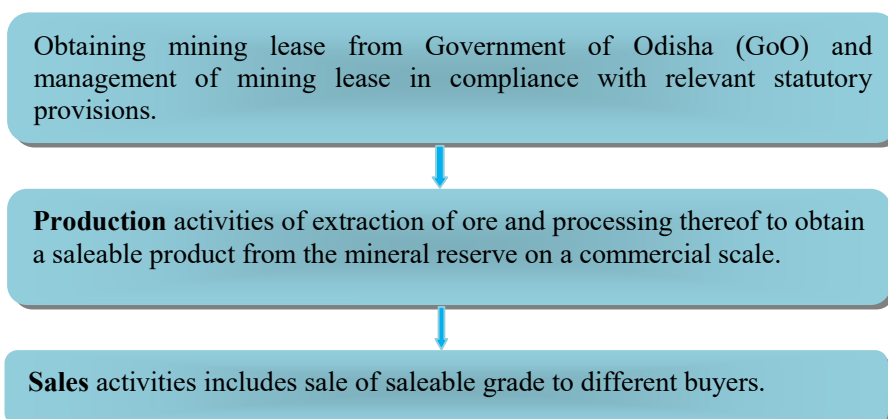
- 1. take measures to effectively manage the operations of its mining leases, ensure timely surrender of leases and avoid unwarranted extension of the same, leading to resultant unnecessary expenditure;**
- 2. evolve a clear-cut mechanism to obtain required statutory clearances in time and ensure their appropriate compliance. Further, establish an accountability structure to identify officials responsible for violation of rules/orders and payments of penalties therein;**
- 3. undertake measures to curb air/water/noise pollution due to mining operations and strengthen efforts towards achieving sustainable mining;**
- 4. ensure better planning and coordination in the execution of interdependent projects to guarantee their timely completion;**
- 5. carry out due diligence in thoroughly reviewing contract terms to understand their scope, conditions, potential implications and thus avoid any loss or risk to its financial interests;**
- 6. develop a mechanism to bridge the gaps in fixation of floor price for auction of ore and economic disposal of ex-lessee stocks;**
- 7. streamline its processes to avoid cases of delay in adjustment of royalty and in payment of statutory dues;**
- 8. take measures to accurately compute income tax liability and circumvent avoidable payment of interest; and**
- 9. OMC and GoO should carry out cost- benefit assessment and analysis of expected return from investments before entering into joint ventures and providing inter-corporate loans.**

## 2.1 Introduction

Odisha is considered a mineral rich State, being responsible for 100 *per cent* of chromite production, 73 *per cent* bauxite production and 53 *per cent* of iron ore production in the country. The mining and quarrying sector contributed 10.8 *per cent* to the Gross State Value Added in the Financial Year (FY) 2022-23. The mining sector is considered as a main source of revenue for the State in the form of royalties, rent, profits and interest from the functioning of mining related public sector enterprises. This makes performance of the Odisha Mining Corporation (OMC) critical for the augmenting of the State's revenue, since it is the only Public Sector Enterprise (PSE) engaged in mining activities in the State.

OMC was incorporated in May 1956 as a Corporation under the Companies Act, 1956. The main objective of OMC is to harness the mineral wealth of the State through exploration, extraction as well as value addition. Presently, activities of OMC are restricted to production and sale of major minerals *viz.*, iron, chrome and bauxite ore and minor mineral *viz.*, khondalite stones. OMC has eight<sup>20</sup> regional offices for carrying out its mining activities in 36 mines (18 operative and 18 inoperative). The main activities carried out by OMC can be broadly categorized as shown in **Chart 2.1**.

**Chart 2.1: Activities conducted by OMC**



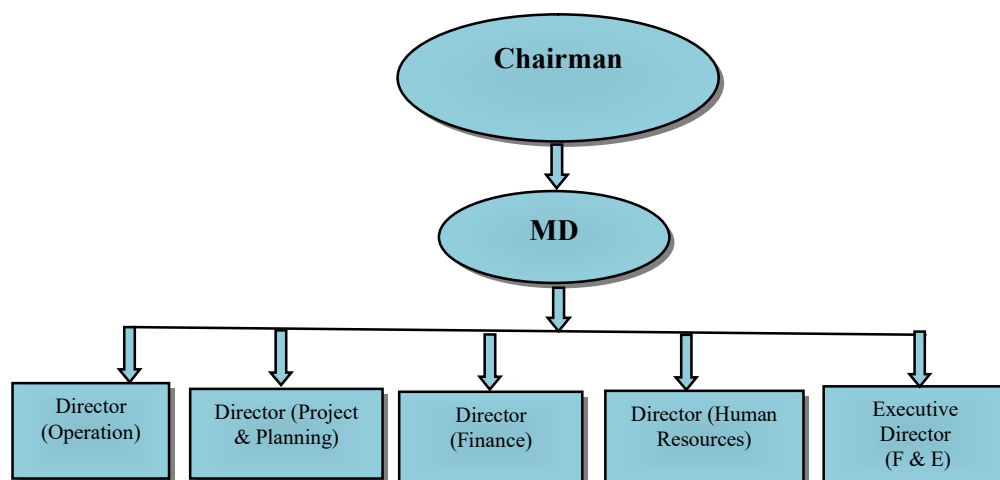
All these above activities have been examined as part of this Performance Audit and observations included in subsequent paras.

## 2.2 Organisational Setup

The OMC works under the administrative control of the Department of Steel and Mines, Government of Odisha (GoO). The management of OMC is vested with a Board of Directors (BoD) consisting of ten directors including a Chairman and a Managing Director (MD). The MD is the Chief Executive of OMC and is assisted by four directors and one executive director.

<sup>20</sup> Bangur, Barbil, Daitari, Gandhamardan, Jajpur Road, Khondalite, Koira and Rayagada

Chart 2.2: Organogram



At the operational level, the above executives are assisted by four Chief General Managers, ten General Managers, eight Regional Managers and one Chief Vigilance Officer.

### 2.3 Scope of Audit

A performance review on the activities of OMC was included in the Report of the Comptroller and Auditor General of India for the year ended March 2017, which is pending for discussion (January 2024) in the Committee on Public Undertakings (CoPU). The present Performance Audit conducted during June to November 2023 covered the activities of OMC for five years ending March 2023. The activities of OMC were reviewed on the basis of test check of records at the Head Office and 12<sup>21</sup> out of 18 working mines, 07<sup>22</sup> out of 18 non-working mines and a stockyard<sup>23</sup> of OMC, selected on the basis of stratified random sampling method.

### 2.4 Audit Objectives

Audit objectives of the Performance Audit were to assess whether:

- Planning for mining was carried out efficiently and effectively.
- Production and sale of minerals was carried out in an economical, efficient and effective manner;
- Financial Management was effective; and
- Monitoring and Internal Control System was adequate and effective.

<sup>21</sup> Bangur, Banspani, Daitari, Gandhamardan A, Gandhamardan B, Guali, Jilling Langlota, Kodingamali, Kurmitar, Narangarh, South Kaliapani and Sukrangi

<sup>22</sup> Base of Mahagiri, Kaliapani, Kalarangi, Koira-Bhanjapali, Roida-78, Sakradihi-Dubuna and Serenda-Bhadrasahi

<sup>23</sup> Samanga in Puri

## 2.5 Audit Criteria and Methodology

The audit criteria adopted for assessing the achievement of the audit objectives were:

- Rules, regulation and provisions of the Mines and Mineral Development and Regulation (MMDR) Act, 1957 with amendments;
- Mineral Concession (MC) Rules, 1960 and 2016, Mineral Conservation and Development Rules (MCDR), 1988 and 2017, with amendments;
- Odisha Mineral (Prevention of Theft, Smuggling and Illegal Mining and Regulation of Possession, Storage, Trading and Transportation) Rules, 2007 and its amendments;
- Forest Conservation Act, 1980, Forest Conservation Rules, 2003;
- Water and Air (Prevention and control) of Pollution Act, 1974 and 1981, Environment Protection Act, and Rules, 1986;
- UN resolution regarding Sustainable Development Goal (SDG), Sustainable Development Framework and Notification related to Star Rating of Mines issued by Ministry of Mines, Government of India;
- Ancient Monuments and Archaeological Sites and Remains Act, 1958;

The audit methodology included an entry conference that was held in June 2023 at the Government level, review of records at the Head Office and Regional offices, issue of audit queries, interaction with the Management, issue of draft Performance Audit report to the Government/Management and discussion of audit findings during the Exit conference held on 19 July 2024. Response of the Government/Management and replies furnished (May 2024) by GoO have been included, wherever necessary, while finalising this report. Audit acknowledges the co-operation and assistance extended by OMC at various stages of conducting the Performance Audit.

## Audit Findings

Audit findings are discussed in the following paragraphs.

### Financial Position and Working Results

## 2.6 Financial Position

The financial position of OMC during the last five years (ending March 2023), was as under:

Table 2.1: Financial position for the five years ending March 2023.

(₹ in crore)

Particulars	2018-19	2019-20	2020-21	2021-22	2022-23
<b>Equity and Liabilities</b>					
Share capital	31.45	31.45	31.45	31.45	31.63
Reserves and surplus	5,608.40	5,978.79	6,363.50	8,794.31	12,259.16
Non-current liabilities	241.40	303.55	302.35	404.94	525.60
Current liabilities	577.97	647.54	1,253.19	3,955.82	3,058.04
<b>Total</b>	<b>6,459.22</b>	<b>6,961.33</b>	<b>7,950.49</b>	<b>13,186.52</b>	<b>15,874.43</b>

Particulars	2018-19	2019-20	2020-21	2021-22	2022-23
<b>Assets</b>					
Net block including capital WIP	728.31	931.94	1,143.95	1,513.02	1,624.51
Long term loans and advances	402.21	500.52	278.29	95.97	4.94
Non-current investments	417.49	497.07	341.68	374.33	371.58
Other non-current assets	537.12	544.76	524.36	535.62	682.76
Current assets	4,374.09	4,487.05	5,662.23	10,468.77	13,190.63
<b>Total</b>	<b>6,459.22</b>	<b>6,961.34</b>	<b>7,950.51</b>	<b>12,987.71</b>	<b>15,874.42</b>
<b>Net Worth</b>	<b>5,639.85</b>	<b>6,010.25</b>	<b>6,394.96</b>	<b>8,626.95</b>	<b>12,290.79</b>

*(Source: Annual Accounts of OMC Limited)*

It can be seen from the above that the company had built a robust financial position over the years with a net worth of ₹12,290.79 crore against a share capital of ₹31.63 crore as of March 2023. The optimization of deployment of resources was examined during audit, through analysis of working results as discussed below:

### **2.6.1 Interest loss due to premature encashment of fixed deposit**

Being a surplus cash company, OMC deposited its surplus funds ranging between ₹1,709 crore and ₹7,507 crore during the period 2018-23 with empanelled banks notified by GoO. The GoO notification (20 July 2019) for empanelment of banks for the year 2019-20 stipulated that SPSEs and State Level Autonomous Society (SLASs) should not have any upper ceiling on deposits in any of the empanelled banks.

In order to minimise risks to investment during the COVID period, OMC through its Audit Committee decided (April 2020) to impose a ceiling of ₹300 crore on fixed deposit (FD) investment in private banks with immediate effect. OMC therefore encashed (April 2020) existing FDs of ₹310 crore out of the ₹581 crore from one private bank<sup>24</sup>, while it had FDs of ₹545 crore with another private bank<sup>25</sup>. This indicated that the ceiling of ₹300 crore was imposed selectively in case of only one bank, without any clear reasons on record. Further, this amount of ₹310 crore was re-invested in a nationalized bank at a lower interest rate of 5.50 *per cent* (in comparison to 6.45 to 6.50 *per cent* offered by the private bank). The arbitrary action led to interest loss of ₹4.76 crore.

The Government stated (July 2024) that pre-mature encashment of FDs was required during COVID time. Reply was not tenable as the withdrawn amount was not used for any activity related to Covid pandemic but was reinvested in fixed deposits of another bank within three days.

### **2.6.2 Improper calculation of tax liability led to avoidable payment of interest**

Section 234B of the Income Tax Act, 1961 stipulates that subject to other provisions of this section, if in any financial year, an assessee who is liable to

<sup>24</sup> IndusInd Bank

<sup>25</sup> HDFC Bank

pay advance tax under section 208, has failed to pay such tax or where the advance tax paid by such assessee under the provisions of section 210 is less than 90 *per cent* of assessed tax, the assessee shall be liable to pay simple interest at the rate of one *per cent* for every month or part of a month. Section 234C *inter alia* provides for levy of interest on account of default in payment of installments of advance tax at specified rate or, at specified time periods. These rules thus call for proper estimation of taxable income to ensure deposit of advance tax as required, to avoid incidence of interest payment.

For the purposes of computation of quarterly advance income tax liability, OMC carries out an estimation of sales revenue. In this context, Audit noted that the sales revenue for the years 2020-22 was estimated based on actual revenue generated during the two months period of the first quarter of each year and by forecasting for the remaining period of the financial year. However, while estimating the sales revenue, for the period 2020-22 the budgeted sales for the year 2020-21 were not taken into consideration, while disallowed expenditure related to contribution to the Chief Minister Relief Fund (as per section 37 (1) of Income Tax Act) was included. Non-consideration of the budgeted sales figure coupled with consideration of disallowed expenditure as projected expenditure, led to under-estimation of profit for the year 2020-22. This resulted in an underestimation of advance income tax liability and short payment of advance income tax for the FYs 2020-21 and 2021-22. Shortfall in payment of advance income tax resulted in avoidable payment of interest of ₹20.55 crore (₹19.28 crore for 2020-21 and ₹1.27 crore for 2021-22) under section 234B and 234C of the Income Tax Act for the aforesaid period.

The Government stated (May 2024) that quarter-wise income tax was deposited based on the anticipated income and expenditure of that quarter. Due to unexpected increase in sales revenue during 2020-21 and 2021-22, there was short payment of advance tax which resulted in payment of interest.

Reply was not acceptable because the increase in sales during the year 2020-21 was already anticipated in the budget estimates (₹5,000 crore) but this was not considered while calculating the advance income tax payable. Further, considering the Contribution to Chief Minister Relief Fund as allowable expenditure, resulted in short estimation of profit and consequential payment of interest. Hence, the interest payment amounting to ₹20.55 crore was avoidable.

## 2.7 Working results

The working results of OMC for the last five years ended 31 March 2023 were as under:

**Table 2.2: Working results for the five years ending March 2023**

Particulars	(₹ in crore)				
	2018-19	2019-20	2020-21	2021-22	2022-23
Revenue from Operations	4,052.05	4,092.95	5,587.09	17,035.25	14,449.58
Other Income	435.65	287.47	282.61	295.15	1,253.91
<b>Total Income</b>	<b>4,487.70</b>	<b>4,380.42</b>	<b>5,869.70</b>	<b>17,330.40*</b>	<b>15,703.49</b>

<b>Particulars</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>
<b>Total Expenditure</b>	3,228.10	3,243.12	3,461.17	11,762.41**	9,617.63
Profit Before Tax	1,259.60	1,137.30	2,408.53	3,901.23	6,085.86
Total Tax	469.71	408.58	822.26	1,160.52	1,351.82
<b>Profit after Tax</b>	789.89	728.72	1,586.27	2,740.71	4,734.04
Increase in revenue from operations over previous year in <i>per cent</i>	-	1.01	36.51	204.90	-15.18
Increase in expenditure over previous year in <i>per cent</i>	-	0.47	6.72	239.84	-18.23

*(Source: Annual Accounts of OMC Limited)*

- \* The sudden increase in both revenue and expenditure was attributable to commencement of full-scale production in four mines during the year (Guali, Jilling-Langlotta, Khandbandh and Banspani).
- \*\* Total expenditure has been calculated after excluding onetime compensation of ₹1,666.76 crore for excess production of chrome ore.

As may be observed from the above, the percentage increase in expenditure up to 2020-21 was less than the percentage increase in revenue from operations. However, the trend reversed in 2021-22, necessitating regulation of expenditure by the Management through budgetary control, long-term planning, internal control measures *etc.*, as discussed in paragraphs 2.9.1, 2.12.1, 2.14 and 2.15.2. There was a sharp decline in revenue by 15 *per cent* in 2022-23 but as observed from the Annual Report of OMC for the year 2022-23 there was an increase in sales from 27.741 MMT in 2020-21 to 28.682 MMT in 2022-23 (3.39 *per cent*) in terms of quantity. The reduction in revenue was attributable to a decrease in sale price of mining products, as compared to 2021-22.

**Recommendation:**

- 1. OMC may take measures to accurately compute income tax liability and circumvent avoidable payment of interest.**

**2.8 Management of Mining Leases by OMC**

Mining leases are granted to an applicant under the Mines and Minerals (Development and Regulation) (MMDR) Act, 1957 the Mineral Concession (MC) Rules, 1960 and the Mineral Conservation and Development Rules (MCDR), 2017. As per extant rules and regulations, mining leases are granted by the Government of Odisha for a period not exceeding 70 years for which lease deeds are executed by OMC with the State Government. For carrying out mining operations, mining plans are approved by the Indian Bureau of Mines (IBM). Besides this, compliance with rules and regulations framed under the Forest Conservation Act, 1980, Environment (Protection) Act, 1986 and the Water (Prevention and Control of Pollution) Act, 1974 and Air (Prevention and Control of Pollution) Act, 1981 are to be ensured by State Government. Further, as per Rule 28 (1) and (2) of the Mineral Concession Rules, 1960, the lessee should commence mining operations within two years from the date of execution of the lease deed. The State Government may cancel the lease in the event of delay in operations or discontinuation of operations beyond a period

of two years. The State Government may, however, grant an extension of the lease after being satisfied that the reasons for non-operation were beyond the control of the lessee.

As of March 2023, 36 mining leases were granted to OMC by GoO out of which 18 were operative and 18 non-operative as below:

**Table 2.3: Status of mining leases**

Nature of the ore in mines	Number of operative mines	Number of inoperative mines				Total inoperative mines	Total Mines
		Since inception	Inoperative for number of years				
			6-15 years	16-25 years	26-35 years		
Chromite	3	2	1	2	1	6	9
Iron	9	0	1	2	1	4	13
Iron and Manganese	2	0	1	2	0	3	5
Manganese	0	2	0	1	0	3	3
Limestone	0	0	1	0	0	1	1
Gemstone	0	1	0	0	0	1	1
Bauxite	1	0	0	0	0	0	1
Khondalite	3	0	0	0	0	0	3
Others, if any	0	0	0	0	0	0	0
<b>Total</b>	<b>18</b>	<b>5</b>	<b>4</b>	<b>7</b>	<b>2</b>	<b>18</b>	<b>36</b>

(Source: Information furnished by Odisha Mining Corporation Limited)

It can be seen from Table 2.3 that 50 per cent (18 out of 36) of the mines with OMC were inoperative as of 31 March 2023. These mines were inoperative due to absence of statutory clearances like Forest Clearance, Environment Clearance etc. The following was observed with regard to the 18 inoperative mines during audit:

### 2.8.1 Inoperative Mining Leases

In terms of Section 2 and 6 of Forest Conservation (FC) Act, 1980, it was mandatory to obtain Forest Clearance (FC) from the Ministry of Environment, Forest and Climate Change (MoEF&CC) for use of forest land for non-forest purpose. To obtain forest clearance for a mining lease, a Forest Diversion Proposal (FDP) was to be submitted to MoEF&CC by the project proponent (OMC), through the Forest Department of the State.

- Out of 18 inoperative leases, seven leases<sup>26</sup> having forest land, were selected for audit. In all these seven leases, there were delays in submission of FDPs. Out of these seven, in four cases where lease deeds were executed prior to commencement of FC Act, 1980, OMC submitted FDPs with delays ranging from 180 to 446 months (15 to 37 years)<sup>27</sup>. In remaining three cases, the delay ranged between 233 months and 366 months from the date of execution of the lease deeds.

<sup>26</sup> Kaliapani, Kalarangi, Koira-Bhanjapali, Roida-78, Sakradini-Dubuna and Serenda-Bhadrāsahi

<sup>27</sup> Since October 1980 i.e, when FC Act, 1980 came into force

The delay was mainly because of non-compliance with required formalities viz., finalisation of joint verification of forest land, delay in finalizing the land use plan, lack of assessment of ore reserves and delays in complying with the directions of the Forest Department. Thus, all these seven mines could not be operationalized due to non-obtaining of forest clearances by OMC.

As per section 9A of MMDR Act, 1957, a lease holder has to pay dead rent and surface rent, for inoperative mines and royalty and surface rent for operating mines.

- OMC had paid ₹9.09 crore towards surface rent/water rent in respect of 18 inoperative mines during 2018-23. Further, OMC also incurred ₹154.27 crore towards watch and ward and manpower cost for these mines during 2018-23. This includes ₹3.97 crore towards surface rent/water rent and ₹50.50 crore towards watch and ward and manpower cost during 2018-23 on seven selected inoperative mines. Hence, OMC should have explored the possibilities of either operationalizing the inoperative mines or surrendering them, in order to avoid wasteful expenditure on these mines. For this purpose, Rule 29(1) of MC Rules, 1960 provides that whole or part of lease hold area devoid of mineralization could be surrendered to the State Government, if the land was properly surveyed. However, OMC did not operate/surrender the 18 inoperative mines, which resulted in unfruitful expenditure of ₹163.36 crore towards dead rent, surface rent and watch and ward during the period 2018-23. It is pertinent to mention here that similar status with regard to inoperative mines was highlighted in CAG's Audit Report No. 5 of the year 2017 wherein payment of ₹57.26 crore towards dead rent and watch and ward expenditure during the period 2012-17 was highlighted. Despite this, OMC did not take corrective measures and incurred wasteful expenditure of ₹163.36 crore during the period 2018-23.

Five specific cases of imprudent handling of inoperative mines are discussed as below:

#### **2.8.1.1 Unwarranted possession of Sukhuapara khondalite mine in non-permissible area**

Section 19 of the Ancient Monuments and Archaeological Sites and Remains (AM&ASR) Act, 1958 provides that no mining, quarrying, excavating, blasting or any operation of a like nature should be carried out in a protected area without permission of the Central Government. Further, Rule 4(3) of Odisha Minor Mineral Concession (OMMC) 'Rules', 2016 also prohibits mining lease over an area, which in the opinion of the State government is of historical, cultural, archaeological and scientific importance.

GoO granted Sukhuapara Khondalite mining lease in favour of OMC in July 2021. In this connection an MoU was signed (February 2022) by OMC with the GoO. The MoU stipulated that OMC was to take all necessary steps in compliance with applicable laws to operationalise the mining lease. The

mining operation, which was started in February 2022 by OMC, was stopped by GoO in May 2023 because the mine was within 500 meters from the archaeological site of Lalitgiri and mining operation in that area was against the provisions of the AM&ASR Act, 1958. During the period 2021-23, an amount of ₹9.47 crore was spent by OMC on making the mines operational including on account of Stamp duty, Registration fees, Royalty for felling of trees and raising of bald head plantation, peripheral development, dead rent and surface rent *etc.* Hence, without doing due diligence with respect to the location of the mine and limitations invited by the provisions of the applicable AM&ASR Act, OMC started the mining operation in the Sukhuapara Khondalite mine. This led to an infructuous expenditure of ₹9.47 crore, besides creating a liability on OMC to pay dead rent and surface rent till the time the mine is surrendered.

The Government accepted the audit observation and stated (July 2024) in the exit conference that the closure of the mine is underway and it will be closed shortly. However, Government did not address the audit observation on initiating the mining operations in the non-permissible area.

#### **2.8.1.2 Delayed surrender of non-mineable land resulted in avoidable payments of ₹1.37 crore**

OMC was allotted Boula Chromite mines located over an area of 207.36 hectares in Keonjhar district of Odisha for a period of 20 years with effect from 07 August 1965. The lease was under operation till 1992-93 after which the operation was stopped due to want of forest and other statutory clearances. In this connection, GoO communicated (07 October 1998) to OMC that MoEF&CC, GoI had expressed its inability to approve the diversion proposal of forest land under section 2 of the FC Act, 1980, as the area falls under the Hadagarh Wildlife Sanctuary since 1978.

Further, on 14 February 2000, the Hon'ble Supreme Court, in Interlocutory Application (IA) No.548, ordered that no mining activity would be permitted within the areas which were notified as Sanctuary, National Park under Section 18 and 35 of the Wildlife (Protection) Act, 1972 or any other Act or Rules made thereunder, even if prior approval was obtained from the MoEF&CC under the FC Act, 1980 in such area. In view of the GoI and Hon'ble Supreme Court orders, there was no scope of operationalization of the mine.

Audit observed that in spite of the clear communication from GoI and orders of the Hon'ble Supreme Court, OMC did not take steps towards surrender of the Boula Chromite mining lease (ML) and instead filed (03 August 2004) a second Renewal of Mining Lease (RML) for a further period upto 06 August 2025 under the Mineral Concession (MC) Rules, 1960. It was further observed that OMC again requested (03 May 2016) GoO for extension of validity of lease period under MMDR Act (Amendment), 2015 to undertake mining operations in case of relaxation of restriction in sanctuary area.

After an interval of 16 years from the order of the Hon'ble Supreme Court, an internal committee was constituted by the Managing Director, OMC as per the

directions of the Chairman (16 August 2016) to examine the status of MLs of OMC. Based on its assessment, the Committee observed (26 August 2016) that in respect of Boula Chromite ML, the mining area came within Hadagarh Wildlife Sanctuary and mining operation was prohibited within the sanctuary as per order of the Hon'ble Supreme Court. Despite this, the Steel and Mines Department, GoO again sought (18 May 2018) views of the Forest and Environment Department regarding extension of validity of lease period. Forest and Environment Department also clarified (27 June 2018) that in view of the prevailing orders of the Hon'ble Supreme Court, no mining activities were permitted within the notified Protected Areas like National Park/Sanctuary. Thereafter, BoD of OMC in their 427<sup>th</sup> meeting (22 September 2018) decided to surrender the Boula ML. The possession of the area under the ML was eventually handed over to Forest Department on 12 October 2022 *i.e.*, after four years of the decision to surrender.

Audit observed that despite clear refusal by GoI in 1998 for diversion of forest land and orders of the Hon'ble Supreme Court regarding prohibition of mining in Wildlife Sanctuaries/protected areas in 2000, the process of surrender was delayed by OMC and the ML was finally surrendered in 2022. Such delayed surrender resulted in avoidable payments of ₹1.37 crore (Dead rent: ₹0.86 crore and Surface rent: ₹0.51 crore) for the period from 2005-06 to 2022-23.

The Government stated (January 2024) that it had put in all efforts to obtain the permits and clearances involving the State Government machinery, so that the mining operation could resume.

The reply is not acceptable because there was unwarranted delay of over 20 years due to a futile exercise of seeking permits and clearances, which were forbidden as per the orders of both GoI and the Hon'ble Supreme Court.

### **2.8.1.3 Avoidable expenditure of ₹3.47 crore on exploration works**

The OMC executed a chromite mining lease of 185.81 hectares of land with GoO, in September 1970, in Base of Mahagir (Jajpur district), for a period of 20 years (1970 to 1990). GoO extended the mining lease upto September 2040 in pursuance to Mineral (Mining by Government Company), Rules, 2015. However, mining operations could not be taken up for want of forest and other clearances.

In terms of the provisions of the Mineral Conservation and Development Rules (MCDR), 1988 and MCDR (Second Amendment), 2003, an account of geological feasibility, economic viability studies and estimate of reserves, in respect of the concerned mine, is to be submitted to the IBM by the lessee. For compliance with the above provision, OMC engaged (September 2004) M/s Mineral Exploration Corporation Limited (MECL), a Government of India undertaking, to carry out exploration work to delineate chrome ore mineralisation zones, and carry out a quantitative and qualitative assessment of chrome ore deposits in the mining lease area. MECL carried (October 2004 to May 2005) out geological mapping and geophysical prospecting (magnetic survey) over the entire mining lease area of 185.81 hectares.

The geological and magnetic geophysical investigations led to identification of three small anomalous zones viz., Zone A, Zone B and Zone C as promising areas for chromite mineralisation. Out of the above promising zones, Zone B and Zone C were located in the Base of Mahagir mining lease. However, Zone A fell under the Saruabil-Sukrangi mining lease<sup>28</sup> of OMC. MECL drilled 19 boreholes over the entire potential mineralized area in Zones B and C. However, none of the results of these 19 boreholes drilled in the Zone B and C were found to be promising. MECL reported (September 2006) that Base of Mahagir leasehold area was not promising for chromite mineralization and recommended that these leasehold areas do not need further investigations.

Despite the recommendation of MECL, OMC did not initiate the process for surrender of the said mine and continued with the mining lease for further exploration. Moreover, after a gap of almost eight years since the MECL recommendation (September 2006), OMC applied (November 2014) to the Forest and Environment Department, GoO for permission to undertake a fresh exploration against payment of ₹0.17 crore towards compensatory afforestation for the use of forest land. After receiving (December 2018) stage-II forest clearance, OMC engaged (May 2019) a private agency viz., M/s Thriveni Earthmovers Private Limited (TEPL) at a cost of ₹3.63 crore with the same objectives as envisaged for exploration through MECL. M/s TEPL drilled a total of 25 boreholes in the entire lease hold area. Out of the 25 boreholes, only one borehole had intersection of chromite dissemination but the results from all the other holes were found to be negative. M/s TEPL, in its report (May 2021) stated that the mining lease was devoid of mineable chromite ore and the lease hold area may be considered for non-chromite mining. Thereafter, OMC submitted (December 2022) the draft Final Mine Closure Plan to the Regional Controller of Mines for the purpose of surrendering the Base of Mahagir chromite mining lease area.

Audit observed that there was no rationale for undertaking fresh exploration by a private agency in May 2019 at a cost of ₹3.30 crore, as MECL had already conducted exploration activities equivalent to preliminary exploration<sup>29</sup> over the entire lease area and detailed exploration<sup>30</sup> over the identified potentially mineralized area. Secondly, MECL had specifically recommended that the lease hold area did not need further investigation. However, the Company went for a second such exploration and in the process, spent ₹0.17 crore towards compensatory afforestation and ₹3.30 crore towards exploration work of the mining lease. Thus, non-acceptance of the recommendations of MECL and undertaking such unfruitful work resulted in avoidable expenditure of ₹3.47 crore.

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<sup>28</sup> Another chromite mining lease of OMC located adjacent to the Base of Mahagir mining lease

<sup>29</sup> Preliminary Exploration involves the initial delineation of an identified mineral deposit area of previous stage by furthering the exploration to extend and identify both laterally and vertically down (third dimension) of the ore body

<sup>30</sup> Detailed Exploration involves the detailed three-dimensional delineation of a known mineral deposit achieved through sampling, such as from outcrops, pits, trenches, boreholes, shafts and tunnels *etc.*

The Government stated (December 2023) that MECL recommendation was inadequate for interpretation of the entire lease area as non-mineralised. The reason cited for the same inter alia included that (a) several boreholes could not be taken up due to approachability problem and thick forest, (b) after geological mapping and geophysical magnetic survey, MECL had narrowed the target area to 10.345 hectares for drilling in the anomalous Zone of B and C.

The reply of the Government is not acceptable because as per records, there was no approachability problem in Zones B and C. This issue was only there in case of Zone A, which was located in another mining lease viz., Saruabil-Sukrangi mining lease. Secondly, in comparison to area of 6.55 hectares covered by TEPL, MECL had already covered an area of 10.345 hectares. Further, TEPL had drilled 19 out of 25 boreholes in north and north-eastern parts of the lease area, where MECL had already found these areas to be non-mineralised. Consequently, the exploration result of TEPL also indicated the area to be devoid of minable chromite ore as already recommended by MECL in 2006.

#### 2.8.1.4 Delayed surrender of two mines

During 2018-23 two mines were surrendered, the details of which are as follows:

**Table 2.4: Status of surrender of mines of OMC**

Name of Mine	Mineral	Year of grant of Mining lease	Decision of OMC to surrender	Actual date of application for surrender	Date of surrender of mine	Delay in surrendering the mine from date of decision
(A)	(B)	(C)	(D)	(E)	(F)	(G)=(F)-(D)
Mallipada	Ruby	September 2001 (for 20 years)	08.06.2015	01.06.2019	19.10.2020	64 months
Saruabil-Sukrangi	Chromite	January 1981 (for 15 years, extended twice (20+10 years) upto 2031)	09.01.2020	31.07.2020	28.04.2021	15 months

*(Source: Information furnished by OMC)*

*\* Delay from the date of decision to surrender the mines*

As may be observed from the above:

- OMC decided to surrender the above two mines as these were devoid of mineralisation. There were, however, delays ranging from 15 to 64 months from the date of the decision by OMC to surrender the mines and the actual date of surrender. Due to delay in surrender of these two mines, OMC had to pay dead rent and surface rent amounting to ₹0.20 crore for the period.
- In terms of Rule 23(5) of the Mineral Conservation and Development Rules, 1988, a lease holder cannot surrender a mine without an approved final mine closure plan (FMCP). FMCP is submitted by OMC based on the mining plan and is approved by IBM only when it

is proven that there is no mineral reserve in the mine proposed to be surrendered. The Saruabil-Sukrangi chromite mines were granted in 1981 to OMC and the exploration work was carried out in 1992 which proved that there was no mineral reserve. Despite this, no action was taken by OMC to surrender the mine.

- OMC decided to initiate the surrender process only in January 2020. Meanwhile, in terms of the order dated 29 October 2002 of the Hon'ble Supreme Court, payment of a Net Present Value (NPV) by the leaseholder became applicable for the diversion of forest land for non-forest purposes. In order to submit a FMCP for the closure of the Saruabil-Sukrang mine, a forest diversion permission was required to carry out the necessary exploration to prove lack of mineral reserves. Consequently, an NPV was payable by OMC to obtain such permission from MoEF&CC and subsequently surrender of mine.
- OMC sought permission from the MoEF&CC in January 2015 to carry out the required exploration for finalizing the FMCP. The FMCP was approved by IBM in compliance with the aforesaid Rule 23(5) of Mineral Conservation and Development Rules, 1988 in August 2020. In the process, OMC had to pay an amount of ₹2.24 crore towards NPV during February 2014 to May 2016 and the mine was finally surrendered in April 2021. Thus, had a decision to surrender the mine been taken immediately in 1992, after it was proven that there was no mineable reserve, the payment of NPV could have been avoided.

The Government stated (May 2024) that considering the quantum of area under Mining Lease, OMC had explored very few boreholes for assessment of mineralization and in the absence of any provision for submission of diversion proposal for exploration, OMC waited till the enforcement of Forest (Conservation) Amendments Rules, 2014.

The reply was not acceptable because OMC was aware of the non-availability of ore in 1992 itself and provisions of the Mineral Concession Rules, 1960 allowed for the lessee to surrender non-mineable lease. Hence, retaining the lease was a financially imprudent action with consequential avoidable expenditure on NPV of ₹2.24 crore. The Government reply stating that OMC waited for a possible change in law seems to be an afterthought, as no such reasons were found on records.

### **2.8.2 Avoidable expenditure of ₹85.21 crore due to unwarranted extension of lease in respect of Unchabali iron ore mines**

As per MMDR Rule 3(1), 2015, all mining leases for minerals granted to a Government Company or Corporation before the date of commencement of the MMDR (Amendment) Act, 2015 *i.e.*, 12 January 2015 shall be deemed to have been granted for a period of 50 years. Subsequently, Section 7(4) of the MMDR (Amendment) Act, 2021 stipulated that such Government companies shall pay an additional amount equivalent to 150 *per cent* of the royalty payable. GoO extended the period of original lease of Unchabali iron ore mine, from 20 years to 50 years *i.e.*, from June 2008 to June 2058 subject to OMC executing the supplementary lease deed for the extended period of lease

from June 2028 to June 2058. OMC executed the supplementary lease deed in February 2022 paying ₹27.72 crore towards stamp duty and ₹11.09 crore towards registration fee. The execution of supplementary lease deed in February 2022 attracted payment of additional amount equivalent to 150 per cent of the royalty payable with immediate effect.

It was seen during audit that the lease period of Unchabali iron ore mines was valid for 20 years from June 2008 to June 2028. As per the approved mining plan, Unchabali iron ore mine had a mineable reserve of 10.56 MMT of iron ore as on 2018-19, and considering the production capacity of one Million Tonne per Annum (MTPA), as stipulated in the Environment Clearance, the reserves would have exhausted by 2028 *i.e.*, coterminous with the validity of the existing lease deed. Therefore, there was no evident need to execute the supplementary lease deed for a further period of 30 years. Such execution led to the Company bearing an additional expenditure of ₹46.40 crore towards additional amount of 150 per cent of royalty for the year 2022-23, besides ₹38.81 crore towards Stamp Duty and Registration fee of the deed which was avoidable. Further, the Company would also become liable towards an additional expenditure of approximately ₹232.00 crore<sup>31</sup> till 2028 towards payment of future royalty.

The Government stated (July 2024) that OMC signed the supplementary lease deed for doing further exploration after exhaustion of reserve. The mines would be used for beneficiation of low-grade ores produced by nearby mines of the Company. The reply of the Government is not tenable as further exploration should have been done before deciding to execute the supplementary lease deed. Further, use of mines for beneficiation of low-grade ores produced by nearby mines was not permissible under the approved mining plan of the mine.

**Recommendation:**

- 2. OMC may take measures to effectively manage the operations of its mining leases, ensure timely surrender of leases and avoid unwarranted extension of the same, leading to resultant unnecessary expenditure.**

**2.9 Production Performance**

Production in the mining industry includes raising of ore from under the ground, then crushing, beneficiating it to get quality ore of required size and stacking it before sale. All these are required to be done in compliance with relevant statutes to minimise the adverse impact of mining on the environment. Secondly, production must be duly regulated with fixation of realistic targets and proper inventory management to avoid stock piling. Moreover, since OMC carries out all the production activities by engagement of contractors, it calls for effective contract management to secure its financial interest. In this backdrop the production activities of OMC were examined during audit under broad headings *viz.*, raising of ore, stacking of ore,

<sup>31</sup> Actual Royalty paid in 2022-23 was ₹46.40 crore and if we assume same dispatch till 2028, the avoidable expenditure is ₹46.40 crore X 5 years = ₹232.00 crore

compliance with relevant statutes, inventory management and contract management.

### 2.9.1 Raising of ore

OMC produced three major minerals viz., iron, chrome and bauxite and produced minor minerals such as khondalite decorative stones, through engagement of private contractors. The production of ores, however, was subject to the ceiling fixed in the Mining Plan (MP) of each mine approved by IBM. The annual production targets for each mine were decided by the BoD of OMC based on clearances obtained from statutory authorities viz., MoEF&CC and State Pollution Control Board (SPCB) etc. The production achievements of OMC vis-à-vis targets during the audit review period 2018-23 were as follows:

**Table 2.5: Targets vis-à-vis production of ore during 2018-19 to 2022-23**

Mineral Ore	(in MMT)										Total BE	Total Achiev	Shortfall
	2018-19		2019-20		2020-21		2021-22		2022-23				
	Target (BE)	Achiev	Target (BE)	Achiev	Target (BE)	Achiev	Target (BE)	Achiev	Target (BE)	Achiev			
Iron ore	9.720	10.479	12.175	12.386	13.004	13.033	29.197	27.568	34.508	29.678	98.604	93.144	5.460
Chrome	1.163	1.189	1.235	0.835	1.145	1.093	1.515	1.164	1.715	1.077	6.772	5.358	1.414
Bauxite	3.00	2.700	3.000	3.000	3.000	3.000	3.000	3.000	3.000	3.000	15.000	14.700	0.300

*(Source: Information provided by OMC. Performance of khondalite mining has been kept out of the analysis as it has started in 2021-22 only)*

The mine-wise budget target and actual production of ore during 2018-23 are shown in **Appendix 22A**. From these budget targets and actual production, it was observed that:

- There was a shortfall of 1.12 to 63.42 per cent in iron ore production as compared to the targeted Budget Estimate. Similarly, the shortfall as compared to the targeted Budget Estimate in case of chrome ore was 1.22 to 49.91 per cent during the year 2018-23. In case of bauxite ore there was a shortfall of 10 per cent in the year 2018-19 only, as compared to the budgeted figure.
- Moreover, the Management had fixed revised targets for each year during the period 2018-23 in the month of March i.e., last month of the financial year, when the actual achievement for the whole financial year had already been ascertained. Consequently, the achievement was shown as 100 per cent or near to 100 per cent for iron, chrome and bauxite during 2018-23. Therefore, to examine the actual achievement in realistic terms, Audit compared the same again (**Appendix 22B**) with the targets set in approved MP and observed:
  - In case of iron ore there was a shortfall of 15 to 88 per cent as compared to the targeted Mining Plan (MP) quantity.
  - Similarly, shortfall as compared to targeted MP in case of chrome ore was 28 to 75 per cent during the year 2018-23.
  - In case of bauxite ore the shortfall was 39 per cent.

It was further observed in the audit that despite availability of approval for use of the full forest area (under the total lease area), in case of Gandhamardan-A, Gandhamardan-B, Kurmitar, Banspani and Kodingamali mines, the MP targeted production quantity could not be achieved. Further, production also fell short of quantities permitted with respect to other clearances like EC/CTO etc., as indicated in the table below:

**Table 2.6: Ore wise MP/MS, CTO, EC quantity and actual production during 2018-23**

*(All quantities of ores in lakh MT and khondalite stone in CBM)*

Sl. No.	Year	Ore name	Actual production	MP/MS quantity	CTO quantity	EC quantity
1.	2018-19	Iron	104.79	184.46	148.70	148.70
		Chromite	11.89	17.80	15.90	17.60
		Bauxite	27.00	30.00	30.00	30.00
		Khondalite	0.00	0.00	0.00	0.00
2.	2019-20	Iron	123.86	218.03	148.70	148.70
		Chromite	8.35	17.71	15.90	17.60
		Bauxite	30.00	30.00	30.00	30.00
		Khondalite	0.00	0.00	0.00	0.00
3.	2020-21	Iron	130.32	211.53	307.78	307.78
		Chromite	10.93	17.22	15.90	17.60
		Bauxite	30.00	60.00	30.00	30.00
		Khondalite	148.02	25,037.00	25,186.00	25,186.00
4.	2021-22	Iron	275.68	382.82	337.78	307.78
		Chromite	11.64	13.58	17.60	17.60
		Bauxite	30.00	60.00	30.00	30.00
		Khondalite	16,542.72	77,867.00	78,031.00	77,867.00
5.	2022-23	Iron	296.79	677.95	372.38	372.38
		Chromite	10.77	17.60	17.60	17.60
		Bauxite	30.00	60.00	30.00	30.00
		Khondalite	9,645.76	80,905.00	81,086.00	81,086.00
6.	Total (2018-23)	Iron	931.44	1,674.79	1,315.34	1,285.34
		Chromite	53.58	83.91	82.90	88.00
		Bauxite	147.00	240.00	150.00	150.00
		Khondalite	26,336.50	1,83,809.00	1,84,303.00	1,84,139.00
7.	Shortfall and Percentage	Iron	0	743.35	383.90	353.90
		Percentage	0	44.38	29.19	27.53
		Chromite	0	30.33	29.32	34.42
		Percentage	0	36.14	35.37	39.11
		Bauxite	0	93.00	3.00	3.00
		Percentage	0	38.75	2.00	2.00
		Khondalite	0	1,57,472.50	1,57,966.50	1,57,802.50
		Percentage	0	85.67	85.71	85.70

*(Source: Information provided by OMC, Mine-wise details compiled in Appendix 22B)*

Failure of OMC in achieving production targets and other deficiencies in production process has been discussed in the following paragraphs.

### **2.9.2 Shortfall in production due to non-utilisation of enhanced Environment Clearance quantity in Daitari iron ore mine**

Environment Clearance (EC) is one of the statutory clearances given by MoEF&CC, wherein maximum quantity permitted to be mined is mentioned in Million Tonne Per Annum (MTPA). After obtaining EC, lessee is required

to get 'Consent to Operate' (CTO) from the SPCB before starting mining operations.

In case of Daitari iron ore mines, on the request of OMC, MoEF&CC enhanced (July 2021) EC quantity from three MTPA to six MTPA for one year (upto July 2022). It took four months to obtain CTO (obtained in November 2021) from the date of receipt of EC. The application for CTO was submitted to SPCB, 39 days after receipt of EC by OMC. Further, the issue was also not followed up by the OMC with SPCB due to which the CTO was finally received only in November 2021 and consequently, the Company could utilise only two MTPA out of the enhanced quantity of three MTPA in the available eight months of the year (November 2021 to July 2022) resulting in short production of one MTPA with potential revenue loss of ₹606.43 crore<sup>32</sup>.

The Government stated (May 2024) that after receipt of EC from MoEF&CC, the other clearances viz., Consent to Establish (CTE) followed by CTO for the enhanced capacity were obtained from SPCB in the month of November 2021 following due procedure that took four months' time. The reply was not acceptable as in case of Banspani, Guali and Jilling Langlota mines, CTO was obtained by OMC from SPCB within 60 days of application after fulfilling the same procedural requirements. However, in this case although OMC knew the fact that the validity of enhanced EC was only for one year, sufficient efforts were not made for early receipt of CTO which indicates lack of commercial prudence.

### **2.9.3 Deficiencies in compliance with statutes**

#### **2.9.3.1 Payment of penalty for excess/unauthorised production**

Hon'ble Supreme Court in its Judgement (August 2017) in the Writ Petition (Civil) No. 114 of 2014 observed in para 128 of the judgement *ibid* that mining lease holder is required to adhere to the terms of the mining scheme, the mining plan and the mining lease as well as the statutes such as the Environment Protection Act, the Forest Conservation Act, the Water (Prevention and Control of Pollution) Act, 1974 and the Air (Prevention and Control of Pollution) Act, 1981. If any mining operation is conducted in violation of any of these requirements, then that mining operation is illegal or unlawful. Any extraction of a mineral through an illegal or unlawful mining operation would become illegally or unlawfully extracted mineral. Further, Section 21(5) of the MMDR Act, 1957 states that whenever any person raises, without any lawful authority, any mineral from any land, the State Government may recover from such person, the mineral so raised, or where such mineral has already been disposed of, the price thereof.

- During the period 2000-11, in case of 14<sup>33</sup> mines, Audit observed that 29.47 MMT of minerals were produced either in excess of the quantity

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<sup>32</sup> 10,00,000 MT X ₹6,064 per MT (Average sale price of quantity sold by OMC during 2021-23)

<sup>33</sup> Banspani, Daitari, Balda Palsa Jajang, Gandhamardan A, Gandhamardan B, Khandabandh, Bhanjapali, Kasira, Kurmitar, Serenda, Sekradihi, Dubuna, Sukarangi and South-Kaliapani

permitted as per the EC or were extracted without obtaining FC. Due to this, a penalty of ₹3,761.88 crore was paid by OMC during the period 2017-22 to the Department of Steel and Mines, GoO. Out of the above penalty, ₹99.19 crore was paid with delays ranging from 67 to 70 days due to which OMC had to pay an interest amount of ₹2.67 crore.

- Further, penalty of ₹1,666.76 crore out of ₹3,761.88 crore related to production of 5.40 MMT of chrome by two<sup>34</sup> chromite mines beyond the approved quantity was paid by OMC with a delay ranging from 1,405 to 1,406 days. Due to this delay in payment, OMC is liable to pay interest of approximately ₹898.23 crore. The demand for this amount has not yet been raised by the Department of Steel and Mines, GoO.

Consent to Operate is provided by SPCB to the lessee to produce certain volume of ore for a specified period. Subsequent to that, the Mining Plan is approved by IBM for mining operations that specifies volume of ore to be extracted year-wise.

- It was noticed that in eight mines<sup>35</sup>, 5.56 MMT of minerals were produced in excess of CTO and MP for the period 2000-11 for which a penalty of ₹602.27 crore was paid by OMC during 2018-23. Further, OMC paid interest of ₹91.34 crore for delays (260 to 261 days) in payment of the aforesaid penalty to the Government of Odisha.

Thus, production of minerals by violating the EC/FC/CTO/MP, resulted in payment of penalty of ₹4,364.15 crore (₹3,761.88 crore + ₹602.27 crore) and interest of ₹94.02 crore (₹91.35 crore + ₹2.67 crore) for delayed payment of aforesaid penalty.

The Government stated (May 2024) that delay in payment of the demand was because OMC was pursuing legal remedies as available under the laws. However, the reply was silent about reasons for violation of statutory provisions of Acts and Rules with regard to production quantity which resulted in such huge avoidable expenditure.

In all such cases of excess production of minerals, poor monitoring and internal control on the part of OMC, also played a pivotal role, as discussed in paragraph 2.14.

### **2.9.3.2 Production beyond approved quantity making OMC liable towards penalty**

During audit, two other cases where production limits stipulated in the EC and CTO were violated during 2018-19 and for which OMC would be liable to pay a penalty of ₹1,328.37 crore were noticed, as discussed below:

<sup>34</sup> Sukarangi and South-Kaliapani

<sup>35</sup> Daitari, Balda Palsa Jajang, Gandhamardan A, Gandhamardan B, Khandabandh, Kurmitar, Dubuna and SBBK

- Audit observed that in Sukrangi chromite mine, 1.67 lakh MT of chromite was produced against the approved EC capacity of 1.30 lakh MT during 2018-19. As a result, 37,100 MT of chromite ore was produced in violation of the approved EC quantity. Due to excess production, OMC would be liable to pay a penalty of ₹29.98 crore<sup>36</sup>.
- Further, in Kodingamali bauxite mine, 27 lakh MT of bauxite was produced against the approved CTO quantity of 22.6 lakh MT<sup>37</sup> during 2018-19. As a result, 4.4 lakh MT of excess ore was produced in violation of CTO quantity, which would attract a penalty of ₹1,298.39 crore<sup>38</sup> against OMC.

Hence excess production in violation of EC and CTO capacity in these two mines, would make OMC liable to pay a penalty of ₹1,328.37 crore (₹29.98 crore + ₹1,298.39 crore).

The Government stated (July 2024) that in Sukrangi mine 1.27 lakh MT of chromite was produced against the EC capacity of 1.30 lakh MT as per return submitted to IBM. In respect of Kodingamali mines 27 lakh MT of bauxite ore produced against the CTO quantity of 30 lakh MT per annum.

The reply was not acceptable because as per the production records provided by the Mine Manager of Sukrangi chromite mines, OMC raised 1.67 lakh MT of chromite, against the EC capacity of 1.30 lakh MT. Thus, the quantity reported to IBM needs to be cross-checked with the production records. Further, in respect of Kodingamali mine, CTO quantity of 30 lakhs MT per annum was approved by SPCB on 04 December 2018 for a period upto 31 March 2020 from the date of issue of the order (16 months). Hence, the annual CTO quantity needed to be considered on a prorata basis for the part of the financial year of 2018-19 as was done in case of Daitari Mines. This would have been (from 04 December 2018 to 31 March 2019) 22.60 lakh MT. However, against 22.60 lakh MT, 30 lakh MT was extracted during 2018-19, which was higher than the CTO quantity.

### **2.9.3.3 Payment of Penal Net Present Value (NPV) due to use of forest land without approval**

The FC Act, 1980 stipulates that any forest land or any portion thereof may be used for non-forest purpose, only with the approval of GoI and on payment of NPV<sup>39</sup>. Further, in cases of forest land being utilized for non-forest purpose without obtaining FC, lessee would have to pay a penal NPV as per norms decided by MoEF&CC.

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<sup>36</sup> 37,100 MT X ₹8,081 per MT

<sup>37</sup> 1.26 MTPA as per August 2018 CTO and proportionate one MTPA as per December 2018 CTO orders of SPCB, Odisha

<sup>38</sup> ₹4,40,000 MT X ₹29,509 per MT (The price of bauxite ore has been considered as ₹29,509 per MT based the formula prescribed (January 2011) by IBM for determination of price for calculation of Royalty since, OMC has been charging ₹1,000 per MT as provisional sale price as per the Order of the High Court of Odisha till final outcome of the verdict of the High Court)

<sup>39</sup> It is a mandatory onetime payment that a user has to make for diverting forest land for non-forest purpose under the FC Act, 1980

Audit observed that OMC had constructed infrastructure facilities at Siligora and Rajbasa Mining Lease prior to 1980. The mining leases were surrendered in 1987. However, OMC continued to utilize the infrastructure facilities from 1983 to 2018 for operation of other mining leases without obtaining the forest clearance as stipulated under FC Act, 1980 which became effective post 1980. For this unauthorized activity, OMC paid (March 2019) penal NPV of ₹4.34 crore as demanded by DFO.

In this context, Audit observed that even after payment of penal NPV, OMC did not get forest clearance for continuing non-forest activities as the leases of Siligora and Rajbasa were already surrendered. Hence, the occupation of OMC was unauthorised and liable to penal action by relevant authorities in future.

The Government stated (July 2024) that assets were constructed prior to commencement of FC Act, 1980 and the infrastructure was inevitable because the same was used for mining activities of surrounding mines and expansion of Kurmitar Mine. The reply was not acceptable because after commencement of the FC Act, 1980 the use of the infrastructure should have been discontinued with the surrender of the mine.

#### 2.9.3.4 Status of compliance with statutory conditions with regard to air, water and noise pollution

As per rules/notifications/guidelines by GoI/GoO statutory clearances such as EC, CTE, CTO *etc.*, are required by mine operators before operation of mines and these clearances are issued to the lessees by MoEF&CC and SPCB. Further, these statutory clearances specify certain conditions that are required to be complied with by the lessee, to ensure that mining operations are conducted in compliance with environmental regulations and to minimize the adverse impact of these operations on the environment.

**Air Pollution:** Audit observed that during the period 2018-23, seven out of 12 sampled mines did not comply with conditions specified in the statutory clearances issued by MoEF&CC/SPCB, related to air pollution. These non-compliances covered multiple issues like air quality being monitored with less than required frequency, non-provision of required equipment *etc.* The detailed non-compliance issues are enumerated in the following table:

Table 2.7: Non-compliance with statutory conditions with regard to air pollution

Sl. No.	Conditions Specified in the statutory clearances	Name of the mine	Non-adherence to conditions specified in the statutory clearances
1	CTO: Fugitive emission monitoring to be done at mine face, haul roads, crushing plant, screening plant, ore storage and waste dump. This is to be carried out twice a week on 24 hourly basis. The permissible limit for particulate matter of	Daitari, Kurmitar, Banspani, Guali, Gandhamardan A and B Iron ore mines and Kodingamali Bauxite ore mine	During audit period (2018-23), monitoring was done only once a month <i>i.e.</i> , 12 times/Year against the requirement of 104 times/Year

Sl. No.	Conditions Specified in the statutory clearances	Name of the mine	Non-adherence to conditions specified in the statutory clearances
	fugitive dust emissions to be within 1,200-micron gm/CBM.		
2	EC, CTO and CTE: High efficiency dust extraction system with suction points at primary crusher discharge chute, screen and all discharge points, secondary crusher discharge chutes and another dust generating sources shall be provided. This system shall be connected to bag filter.	Daitari, Kurmitar, Banspani, Guali, Gandhamardan A and B Iron ore mines and Kodingamali Bauxite ore mine	Dust extraction system not installed (as of July 2023)
3	CTO: Monitoring of fugitive dust emissions was to be done at six primary dust generation sources viz., mine face/benches, haul roads/service roads, crushing plant, screening plant, ore storage and loading and waste dump.	Daitari, Kurmitar, Jilling, Banspani, Guali, Gandhamardan A and B Iron ore mines and Kodingamali Bauxite ore mine	During the period 2018-23, monitoring was not carried out at the site of crushing and screening plant.
4.	CTE: The crusher, screen and conveyors shall be placed under covers to reduce air pollution.	Jilling, Banspani, Gandhamardan A and Gandhamardan B Iron ore mines	In course of visits to these mines during July to October 2023 Audit noticed that the crusher, screen and conveyors were not placed under covers, contributing to air pollution.
5.	CTE and CTO: The mine was to be provided with a mechanized wheel washing system along with effluent treatment and recycling facilities at the exit point of the mine.	Gandhamardan iron ore mine-B (GIOM-B)	As seen by Audit on 23 September 2023, Wheel wash system was not provided at the exit point.

*(Source: As per information provided by OMC and verified by Audit during visits)*

In the absence of adherence to required conditions as stipulated in the CTE and CTO, the possibility of increase in the permissible limit of fugitive dust emissions and resultant air pollution by these mines, cannot be ruled out.

**Water/Noise Pollution:** Besides air pollution, cases of non-compliance with statutory provisions leading to water/noise pollution were also noticed during the period 2018-23 in case of nine mines out of 12 test-checked mines, as detailed in the following table:

**Table 2.8: Non-compliance with statutory conditions with regard to water and noise pollution**

Sl. No.	Conditions specified in the statutory clearances	Name of the mine	Non-adherence to statutory conditions noticed during audit
1.	EC and CTO: Domestic effluents shall be treated in a Sewage Treatment Plant (STP) or shall be discharged to soak pit via septic tanks, constructed as per BIS standard. Further, Effluent Treatment Plant (ETP) shall be operated all the time for workshop and wastewater generated during mining operations. The quality of treated water shall remain within the standards specified.	Sukrangi Chromite mine	Separate ETP was not installed. The effluents of the mine were routed to the ETP of the adjoining mining lease area of South Kaliapani Chromite mine.
		Bangur Chromite mine	No STP was provided in the residential colony
		Kodingamali Bauxite mine	No STP/ETP were provided in the mining lease area. Industrial wastewater from the workshop, wastewater from the vehicle washing bay and domestic sewage from the workers camp in the mining lease were all routed to a single storage which was not subsequently treated.
		Hill Top Quarry of GIOM B	Only oil and grease trap were provided. Further, the same were not maintained properly as the wastewater along with oil and grease generated during washing of vehicle and other activities like storage of burnt oil was seen to flow out in the open ground thereby polluting the environment.
		Guali Iron ore mine	STP that was required for treatment of domestic/ mines effluent before discharge to inland surface water, was not yet completed.
		Banspani Iron ore mine	Both ETP and STP were not installed in the mine
		Jilling Iron ore mine	ETP cum oil and grease trap not installed in the mine
2.	CTO and CTE: Online noise monitoring system shall be installed to monitor noise level during night hours	Banspani, Daitari, Kodingamali, Gandhamardan A and Gandhamardan B	Online noise monitoring system was not installed in the said mines to monitor noise level during night hours.

(Source: Information provided by OMC and physical inspection at site)

The above issues highlight that OMC did not adhere to statutory conditions stipulated in EC/CTO/CTE for production of ore. Further, in the absence of ETPs and STPs as pointed out in the Table above, discharge of untreated wastewater and domestic sewage had the potential to cause water pollution by way of contamination of water bodies, lead to adverse impact on soil quality, spread of waterborne diseases *etc.* Besides, OMC also did not curb noise pollution by not implementing control measures as stipulated in the CTO/CTE.

The State Government while accepting the audit observation stated (May 2024) that audit comments with respect to Fugitive emission monitoring,

covering of crusher, screener and conveyers, online noise monitoring *etc.*, had been complied with. Construction of Sewage Treatment Plant and Effluent treatment Plant was under consideration for implementation. Further, the Government stated that dust extraction systems were not required as per conditions set in the statutory clearances and a wheel wash system was provided at GIOM-B.

The reply was not based on facts because the conditions regarding dust extraction system and the wheel wash system were also stipulated in the statutory clearances (EC and CTO). The wheel wash system, although provided, was not available at the exit point of GIOM-B, where it was actually required.

### **2.9.3.5 Non-compliance with stipulation for land reclamation<sup>40</sup>**

Mining is carried out according to the stipulations prescribed in the Mining Plan approved by IBM under Mineral Concession Rule, 1960. However, considering the practical conditions during mining, the lessee can submit a modified Mining Plan for approval to IBM. Under rule 23 of the Mineral Conservation and Development Rules (MCDR), 2017, the holder of a mining lease shall submit a progressive Mine Closure Plan as a component of the Mining Plan, at the time of submission to IBM, or at the time of modification and review of the Mining Plan.

A Mine Closure Plan involves effective planning to check degradation of the landscape through land reclamation and restoration of the quality of the mined area. The Mine Closure Plan is approved by IBM along with the Mining plan. Once approved, the stipulations in the MP and the Mining Closure Plan cannot be violated.

The modified Mining Plan and progressive Mine Closure Plan in case of Jilling-Langlota iron ore mine and Bangur chromite mine were approved by IBM on 18 November 2021 and 06 November 2019 respectively. The approved Mine Closure Plan stipulated land reclamation to restore the quality of land in 2,01,447 m<sup>2</sup> of the Jilling-Langlota iron ore mine and 1,42,000 CBM for the Bangur chromite mine during 2020-23. However, OMC could back fill/reclaim only 51,000 m<sup>2</sup> (25 *per cent*) and 24,957 CBM (18 *per cent*) of land respectively, against the target specified in the Mine Closure Plan.

Non-achievement of reclamation targets was not only in violation of the Mining Plans but also could not restore land quality for beneficial use like afforestation and plantation *etc.* OMC neither analysed the reasons for slow reclamation nor did it review the progress of implementation of the Mine Closure Plan/Mining Plan.

The Government while accepting the audit observation stated (May 2024) that in respect of Bangur mine, targeted backfilling could not be done due to

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<sup>40</sup> Land Reclamation is the process by which adverse environmental effects of surface mining are minimized and mined lands are returned to a beneficial and use. The reclamation targets are fixed in square meters in opencast mines and in CBMs in underground mines.

termination of the then raising contractor, while for Jilling Langlotta mine backfilling would be started after confirming that the area is non-mineralized.

The reasons given for non-completion of the mine closure activities are not tenable as OMC was required to take necessary steps to achieve the targets set in the Mine Closure Plans or approach IBM for revision of the same.

#### 2.9.4 Lapses in sustainable mining

Rule 35 of the MCDR Rules, 2017, states that every holder of a mining lease shall take all possible precautions for undertaking sustainable mining while conducting prospecting, mining, beneficiation or metallurgical operations. Further, as per Rule 35 (2), every mining lessee shall also monitor mining and allied activities as per the notified template of 'star rating', as prescribed by IBM. Accordingly, a Star Rating System<sup>41</sup> (SRS) was introduced by IBM (in February 2017) for mines to assess sustainable mining which conveys how well the mine is performing against environment parameters, in context of adoption of technologies, economic performance, rehabilitation and resettlement *etc.*

Further, MCDR (Amendments), 2021 stipulates that every holder of a mining lease shall achieve at least a three-star rating within a period of four years with effect from February 2017 or four years from the date of commencement of mining operations, as the case may be, and thereafter maintain the same on a year-on-year basis. As per the process, the lessee had to fill in online self-appraisal templates circulated by IBM each year. IBM would inspect the mines as per different parameters mentioned in the templates which include management of mining activities (compliance with the provisions of relevant acts and rules), environmental impacts (use of renewable energy, re-use of water resources, plantation *etc.*) and social impacts (implementation of community welfare programmes for health, education, livelihood, rehabilitation *etc.*). Based on the assessment and points scored by the mines, IBM through gazette notification would publish lessee-wise star rating position in a year-wise manner.

As of March 2023, OMC had 15 working mines (excluding<sup>42</sup> three khondalite mines<sup>43</sup>) out of which, 11 mines were test checked and it was observed that only Daitari iron ore mine and Kodingamali bauxite mine had achieved the five star rating. Besides this, six mines<sup>44</sup> had three to four star ratings and the remaining three mines were yet to complete four years of operation.

Audit observed that the presence of the following deficiencies restricted the mines from achieving a five-star rating (i) absence of use of recycled water, (ii) non-use of green/renewable source of energy, (iii) lack of backfilling, (iv)

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<sup>41</sup> A web enabled online system for evaluation of measures undertaken for sustainable mining

<sup>42</sup> Khondalite is minor mineral for which provisions of MCDR, 2021 are not applicable

<sup>43</sup> Narangarh, Gobindpur and Sukhuaparha

<sup>44</sup> Kurmitar, Gandhamardan-A, Gandhamardan-B, South Kaliapani, Sukarangi, Bangur (Guali, Jilling and Banspani came into operation in 2020-23 and were relaxed from star rating)

absence of plantation and (v) ground water recharge. Non-achievement of higher star rating indicates lack of OMC's commitment towards sustainable mining.

The Government while accepting the observation stated (May 2024) that several actions are being taken by OMC for attending to the deficiencies and improving the Star Ratings like use of recycled water for gardening and dust suppression, installation of Solar power, ground water recharging through artificial ponds, plantation of saplings *etc.*

### **2.9.5 Deficiencies in stacking**

After extraction from the mine, ore is often stacked in large stockpiles for storage before further processing (such as crushing or beneficiation). These stockpiles can be in the form of temporary or long-term storage facilities. Stacking plays a vital role in managing large quantities of material, optimizing ore processing and ensuring that production schedules are met without disruptions.

#### **2.9.5.1 Idle expenditure towards development of stacking yard**

OMC planned to develop a stockyard for the Gandhamardan iron ore mines outside the lease area of the mine, at Talakansari and accordingly acquired (May 2021) 12.52 hectare of land at a cost of ₹2.65 crore. However, it was seen during Audit (December 2023), that even after lapse of two years, the said land could not be utilized as a stockyard due to legal complications<sup>45</sup>. Further, as the above land was outside the mining lease area of the Gandhamardan mine, necessary permissions were required from the Deputy Director of Mines for the development of the stockyard but the same were not obtained by OMC as of May 2024. These issues could have been avoided had a proper survey been conducted by OMC to ascertain the status of the land before purchasing it. Non-conducting prior ground survey before acquisition, and lack of necessary permissions, resulted in idle expenditure of ₹2.65 crore.

The Government stated (May 2024) that though the land was acquired for the purpose of stacking of ore and dispatch, the same could not materialize due to stiff resistance from villagers. However, the land is being used for parking of trucks that has increased the dispatch quantity of ore.

The reply was not acceptable because it does not explain why due diligence was not done by OMC to ascertain the status of the land before acquiring it. Besides this, there was also lacunae in the process followed by the Government for acquiring the said land, leading to legal complications.

#### **2.9.5.2 Irregular stacking and storage of ore**

As per Odisha Mineral (Prevention of Theft, Smuggling and Illegal Mining and Regulation of Possession, Storage, Trading and Transportation) Rules, 2007 and their subsequent amendment in 2021, the produced minerals should

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<sup>45</sup> Complaint of villagers before National Human Rights Commission regarding purchase of SC/ST land without conducting Palli Sabha (public hearing)

be stacked in the mines in separate stacks according to their quality/grade after due sampling. In case of fully mechanized mines, if the lessee declares that they would pay royalty applicable for the highest grade, irrespective of actual grade of ore dispatched, grade-wise stacking and sampling would be dispensed with.

In respect of five mines<sup>46</sup>, OMC requested (August 2012 and March 2021) GoO to dispense with the requirement of stacking of ores on the grounds of space constraint and agreed to pay the highest rate of royalty applicable. GoO agreed to the proposals (August 2012) and granted stacking exemption for all the five mines. The produced ores were thereafter not stacked as per quality and size by OMC but were instead dumped in the mines. As a result, all dispatches from these iron ore mines were carried out by paying the highest rate of royalty.

A comparison of the area available in these mines that had forest clearance and the mining area of these mines revealed that although OMC had sufficient open area in four mines<sup>47</sup> for storing of mineral ore, it resorted to a stacking exemption and opted to pay the highest royalty. Further, in the case of Guali iron ore mine (IOM), while sufficient leased areas were available, forest clearance was available for a lesser area. In this case also, OMC instead of obtaining forest clearance from MoEF&CC for the idle leased area available, opted to get a stacking exemption. Consequently, royalty was paid at the rate applicable for the highest grade of ore even though five mines produced three different grades of ore subject to varying rates of royalty. The option of stacking exemption had financial implications as can be seen in the illustrative case of Kurmitar mines for one month of May 2019 detailed in the table below:

**Table 2.9: Comparison of Kurmitar mine royalty paid at highest rate and the royalty payable on the basis of actual grade and size**

Iron ore Grade	Qty in MT	Actual sale price as notified by IBM		Highest rate of sale price as notified by IBM		Difference in royalty (in ₹/MT)	Royalty paid in excess (in ₹)	
		IBM sale price (In ₹/MT)	Royalty (at 15%) (In ₹/MT)	IBM sale price (In ₹/MT)	Royalty (at 15%) (In ₹/MT)			
-65% lump	16,76,443.865	3,466	519.90	4,796	719.40	199.50	33,44,50,551	
-62% Cr. Fines	3,681.645	3,466	519.90	4,796	719.40	199.50	7,34,488	
-62% Sr. Fines	1,35,350.295	1,349	202.35	2,174	326.10	123.75	1,67,49,599	
-58% Sr. Fines	48,300.225	1,140	171.00	2,174	326.10	155.10	74,91,365	
<b>Total</b>								<b>35,94,26,003</b>

*(Source: Assessment order (Royalty) of DDM in respect of Kurmitar IOM for the month of May 2019)*

It is evident from the above table that by opting for stacking exemption, OMC paid an additional royalty of ₹35.94 crore. On similar lines, Audit calculated, the royalty that would have been paid and compared it with royalty actually

<sup>46</sup> Gandhamardan B, Kurmitar, Jilling-Langlota, Tiring pahar and Guali

<sup>47</sup> Gandhamardan B, Kurmitar, Jilling-Langlota and Tiring pahar

paid at highest rate (as per assessment orders) and observed that OMC paid ₹938.52 crore as additional royalty on 48.90 MMT during 2018-23 in respect of all the five mines under scrutiny.

The Government stated (July 2024) that the exemption from the requirement of stacking was a business decision. However, Audit observed that the business decision was not in the interests of OMC as it only increased the input cost of inventory while diluting inventory controls.

## 2.9.6 Inventory Management

The inventory of OMC mainly comprised stock of ores. OMC was to undertake all necessary steps to liquidate the stock available by synchronizing production with the evacuation mechanism. However, the stock position of different ores with OMC was not found synchronized, as given below:

Table 2.10: Ore-wise inventory during 2018-23

*(Qty in lakh MT)*

Year	Iron Ore			Chrome Ore			Bauxite Ore		
	Opening Stock	Closing Stock	Percentage increase in Closing balance	Opening Stock	Closing Stock	Percentage increase in Closing balance	Opening Stock	Closing Stock	Percentage increase in closing balance
2018-19	71.90	72.48	0.81	7.91	8.55	8.09	0.53	10.63	1,905.66
2019-20	72.48	67.67	-6.64	8.55	1.18	-86.20	10.63	14.83	39.51
2020-21	67.67	75.01	10.85	1.18	5.03	326.27	14.83	14.35	-3.24
2021-22	75.01	96.43	28.56	5.03	6.25	24.25	14.35	8.05	-43.90
2022-23	96.43	162.60	68.62	6.25	3.93	-37.12	8.05	1.90	-76.40

*(Source: Information provided by OMC)*

- In case of chrome ore, the closing stock kept fluctuating during 2018-23, with respect to the three operational mines of OMC.
- The position of closing stock in case of the one bauxite mine was better during the period 2020-23 since it was less than the opening stock in these three years.
- It was observed that in case of eight iron ore mines, the year-end stock was on an increasing trend during the period 2020-23. Closing stock position of iron ore during the year 2018-23 indicated that OMC could not liquidate the old stocks in time. The closing balance of iron ore as on March 2023 was 162.60 lakh MT valuing ₹919.00 crore and showed an increasing trend during the last three years when it increased from 67.67 lakh MT (in 2019-20) to 162.60 lakh MT (140 per cent) in 2022-23. OMC could not dispose of the stock mainly due to non-availability of faster evacuation facilities<sup>48</sup> such as dispatch through rail siding in its major operating mines viz., Daitari, Gandhamardan and Kurmitar iron ore mines. Non disposal of ores resulted in blockage of funds as well as shortage of space for storage of ore after production.

<sup>48</sup> Evacuation facilities implies dispatch of ore produced, through rail/road mode

The Government accepted the observation (July 2024) and stated that OMC is strengthening the existing evacuation facilities.

Further, as per the policy of OMC, physical verification of closing stock of ores at different mines is to be carried out annually by team members nominated at Headquarters of OMC. The limit of handling loss of ore permitted in the stock was five *per cent* of the book balance in case of continuous stacking and sale of ore. Further, where stacking was done only when the existing stock is completely exhausted, the permissible limit was 0.60 *per cent*. It was observed that in case of 21 mines (both operative and in-operative), there was a shortage of 3.95 lakh MT<sup>49</sup> of ore in the verified (physical) stocks, as compared to stocks available as per record as of March 2023. This includes a shortage of 1.93 lakh MT of ore beyond the permissible limit set in its own policy valuing ₹68.52 crore in two mines as tabled below:

**Table 2.11: Closing stock as per book and verified stock of iron and bauxite ore as on March 2023**

Name of the mines	Ore	Closing balance as of March 2023 (in Lakh MT)	Physically verified balance as of March 2023 (in Lakh MT)	Shortage (in Lakh MT)	Percentage of loss	Permissible loss (in Lakh MT) (5% of the CB)	Shortage beyond the permissible loss	Rate (₹/MT)	Loss (₹ in lakh)
1	2	3	4	5=3-4	6	7=3*5%	8=5-7	9	10=8*9
Daitari	Iron	0.98	0.01	0.97	98.98	0.049	0.921	6,500	5,986.5
Kodingamali	Bauxite	1.9	0.94	0.96	50.53	0.095	0.865	1,000	865.0
<b>Total</b>				<b>1.93</b>					<b>6,851.5</b>

(Source: Information provided by OMC)

- The physical verification report also indicated that there was loss of stock due to wind and rain as the same was not kept covered. This was an indication that precautionary measures had not been taken to safeguard stocks, further contributing to the loss.

The Government stated (May 2024) that in case of Daitari, handling loss quantity was well within the approved norms of 0.6 *per cent*. In case of Kodingamali the entire stock was not exhausted hence the actual loss was unknown.

The reply of the Government was not acceptable because in case of Daitari and Kodingamali mines the permissible limit of loss is 05 *per cent* as continuous stacking is done there. However, the actual loss turned out to be 99 *per cent* and 51 *per cent* respectively.

- It was also observed that 27.78 lakh MT of iron ore<sup>50</sup> valuing ₹909.22 crore and 0.90 lakh MT of chromite ore<sup>51</sup> valuing ₹20.42 crore were lying as on March 2023 without movement for more than five years.

<sup>49</sup> Iron ore: 2.91 lakh MT, chrome ore: 0.08 lakh MT and bauxite: 0.96 lakh MT

<sup>50</sup> Gandhamardan-A and Gandhamardan-B

<sup>51</sup> Sukarangi and South Kaliapani

The Government stated (May 2024) that due to non-grant of statutory clearance and low demand of ore in the market, stocks could not be sold for prolonged period.

The reply is not acceptable because it was the responsibility of the management to obtain statutory clearance in time as well as to explore the market for disposal of old stock to avoid losses therein.

**Recommendations:**

**The Government may direct OMC to:**

- 3. Evolve a clear-cut mechanism to obtain required statutory clearances in time and ensure their appropriate compliance. Further, establish an accountability structure to identify officials responsible for violation of rules/orders and payments of penalties therein.**
- 4. Undertake measures to curb air/water/noise pollution due to mining operations and strengthen efforts towards achieving sustainable mining.**

**2.10 Status of Capital Projects**

OMC, in order to augment its production in the long-run, needs to develop required infrastructure by undertaking new capital intensive projects. Therefore, as a first step, OMC should prepare a realistic capital budget and monitor it effectively for timely completion of the projects. In this context, both capital budgeting and project execution have been analysed in audit as follows.

**2.10.1 Capital Budget**

Budget estimates for capital projects of the Company for a particular year are prepared prior to commencement of the financial year, based on data/information available and details received from different sections. Subsequently, during the same financial year, a mid-term assessment is carried out and revised budget estimates for capital projects are prepared for the remaining period of the year.

Based on the above processes, the budget of capital projects of OMC, during the period 2018-23 was as under:

**Table 2.12: Capital projects budget**

*(₹ in crore)*

Capital Projects					
Year	Budget Estimates	Revised Estimates	Difference (BE-RE)		Actual expenditure
			(₹ in crore)	(In %)	
2018-19	625.00	54.00	571.00	91.36	Not available in the Annual
2019-20	507.61	59.63	447.98	88.25	

Capital Projects					
Year	Budget Estimates	Revised Estimates	Difference (BE-RE)		Actual expenditure
			(₹ in crore)	(In %)	
2020-21	304.47	237.05	67.42	22.14	Budget for capital projects.
2021-22	454.81	158.03	296.78	65.25	
2022-23	1,053.11	157.35	895.76	85.06	
<b>Total</b>	<b>2,945.00</b>	<b>666.06</b>	<b>2,278.94</b>	<b>77.38</b>	

(Source: Annual budget of OMC)

In this regard Audit observed the following:

- Though the Company prepared a budget for capital projects each year, no data regarding actual cash outflow (or expenditure) as compared to budgeted cash outflow on projects, was prepared and maintained by OMC leading to poor financial planning.
- There were also variations of Budget Estimates (BEs) and Revised Estimates (REs) ranging from 22.14 to 91.36 per cent in capital projects during 2018-23. This was mainly due to non-commencement of many projects, allotment of funds being done without assessment and withdrawal of projects at a later stage.

During the period 2018-23, six capital projects were undertaken by OMC at a total cost of ₹5,495.90 crore. The detailed status of six capital projects was as follows:

**Table 2.13: Status of Capital Projects executed during 2018-23**

(₹ in crore)

Sl. No.	Name of the Projects	Approved project cost	Date of initiation of projects	Stipulated date of completion	Date of completion/	Status of the Project
1	Balance work of New COBP, South Kaliapani, Jajpur	28.61	09.10.2017	25.03.2020 (Commissioning)	10.02.2023	Final Acceptance Certificate (FAC) process not completed
2	Tailing Pond <sup>52</sup> for COBP, South Kaliapani, Jajpur	56.59	27.03.2017	23.04.2023 (Commissioning)	23.04.2023	FAC process not completed.
3	Tailing Beneficiation Plant, South Kaliapani, Jajpur	10.79	-	23.07.2023	-	In progress
4	6 MTPA Project at Kurmitar, Sundargarh	5,250.00	29.01.2019	04.01.2024	-	In progress
5	9.47 MTPA Project at Gandhamardan (DPR & Costing), Keonjhar	36.93	16.08.2016	11.08.2024	-	In progress

<sup>52</sup> Tailing pond is a composite type of Dam with earthen and masonry embankment constructed to store the tailings generated during the chrome ore beneficiation process

Sl. No.	Name of the Projects	Approved project cost	Date of initiation of projects	Stipulated date of completion	Date of completion/	Status of the Project
6	Chromite Tailing Beneficiation Plant <sup>53</sup> , South Kaliapani, Jajpur	112.98	15.09.2020	Not available	Not available	Kept on hold
<b>Total</b>		<b>5,495.90</b>				

(Source: Information provided by OMC)

Thus during 2018-23, six projects were undertaken by OMC for ₹5,495.90 crore, out of which:

- only two (*i.e.*, Balance work of New COBP and tailing pond for COBP South Kaliapani mines) were completed. It was, however, further revealed that these two projects could not be made operational due to non-synchronization of related works as discussed in paragraphs 2.10.2 and 2.10.3(A).
- two (*i.e.*, Tailing Beneficiation plant, South Kaliapani and 6 MTPA project at Kurmitar mine<sup>54</sup>) were in progress beyond their scheduled date of completion;
- one project (*i.e.*, 9.47 MTPA project at Gandhamardan) was in progress for completion by August 2024; and
- one (*i.e.*, chromite tailing beneficiation plant, South Kaliapani) was kept on hold due to non-feasibility.

It was, however, further revealed that the two completed projects as stated above could not be made operational due to non-synchronization of related works as discussed in the following paragraphs.

### 2.10.2 Inordinate delay in operationalisation of new Chrome Ore Beneficiation Plant (COBP) at South Kaliapani chromite mines

During the course of mining for chrome, a large quantity of low-grade chrome ore is generated, which does not find any value in the market and is thus stockpiled for future use. This low-grade ore can be beneficiated to produce high grade chrome concentrate to increase its marketability. During the period 2018-23, OMC operated three numbers of chrome ore mines to produce saleable chrome ore.

Keeping in view the beneficiation requirement, OMC was operating a Chrome Ore Beneficiation Plant (COBP) at South Kaliapani chromite mine since 1995 to beneficiate low grade chrome ore. Due to the age of the existing plant, OMC decided (March 2004) (i) to modify the existing plant and (ii) to install another new COBP adjacent to the old one. OMC awarded (October 2009) the work of installation of new COBP to M/s MBE-CMT limited at a price of ₹37.41 crore with a completion period of 16 months (*i.e.*, by February 2011).

<sup>53</sup> To recover chrome concentrate from the tailings generated from chrome ore beneficiation plant

<sup>54</sup> The 6 MTPA project at Kurmitar was being executed by M/s Adani Enterprises Limited in Mine Developer cum Operator mode, where the total capital expenditure was to be borne by the MDO

In this context, Audit observed that the contract for installation was awarded 66 months after the decision of the Board of Directors to construct the new plant. Further, due to slow progress of work by the agency, OMC extended the scheduled date of completion (five times) time upto December 2015 against the initial date of February 2011. However, the work was not completed by the contractor even during this extended period. Finally, OMC terminated the contract with effect from December 2015 and the balance work was awarded to M/s KIOCL in July 2018 *i.e.*, after a gap of around 30 months.

The revised scheduled completion date for the re-awarded contract was March 2020 but M/s KIOCL completed the balance work in February 2023 after a delay of around three years. Thus, the project was completed with a time over run of 12 years (from February 2011), with consequential cost over-run of ₹48.09 crore (final cost ₹85.50 crore less estimated cost of ₹37.41 crore).

Besides this, as seen from above, OMC did not get the installation work of the new COBP completed within the scheduled time despite being aware that the existing COBP was closed in March 2017. Such lack of planning and ineffective execution led to inordinate delay in operationalization of new COBP, and idling of the investment of ₹85.50 crore made for its installation.

In the meanwhile, the old COBP was closed under orders of IBM from March 2017 due to non-compliance with the EC conditions of MoEF&CC *i.e.*, non-construction of tailing pond for discharge of wastes (tailings)<sup>55</sup> from the COBP. Though the tailing pond was subsequently completed in April 2023, it was noted that the commercial operation of both the COBPs (old and new), could not commence as of May 2024<sup>56</sup> due to non-finalisation of an agency for Operation and Maintenance (O&M) of both the Plants.

As per the production capacity, the COBP could beneficiate 1.5 lakh MT of sub-grade chrome and produce 72,000 MT of chrome concentrate annually at 48 *per cent* of recovery rate. Thus, during the six years period when neither of the COBPs were operational (2017-23), OMC could potentially not produce 4.32 lakh MT (72,000 MT x 6) of chrome concentrate from beneficiation of 9 lakh MT (1.5 lakh MT x 6) of sub-grade chrome ore. Further, OMC sold (2020-23<sup>57</sup>) 5.83 lakh MT sub-grade ore without beneficiation, at a lower price. Had the same sub-grade ore been beneficiated, it could have produced 2.80 lakh MT<sup>58</sup> of chrome concentrate. Due to non-operation of the new COBP and closure of old COBP, OMC could not beneficiate the said quantity (5.83 lakh MT) of sub-grade ore and lost the opportunity to earn a revenue of ₹61.16 crore as detailed in *Appendix 23*.

The Government stated (May 2024) that the new COBP could not be operationalised due to non-construction of tailing pond. Construction of tailing pond was delayed for more than six years (from May 2015 to July 2021) due to delay in obtaining the approval for modification of the EC conditions from

<sup>55</sup> While sub-grade chrome ore are beneficiated by COBP, it produces huge quantity of tailings which contains unrecovered valuable mineral

<sup>56</sup> The date of reply of the Government

<sup>57</sup> OMC started sale of sub-grade chrome ore from 2020 onwards

<sup>58</sup> Being 48 *per cent* yield rate of from sub-grade chrome ore to chrome concentrate

the statutory authority. Due to delay in construction of tailing pond, OMC sold the sub-grade ore in the market. OMC also claimed in reply that by selling sub-grade ore it earned revenue for the Company.

The reply was not acceptable because OMC did not comply with the conditions of MoEF&CC regarding the tailing pond, due to which there was an abnormal delay of more than six years in obtaining the amended EC (as explained in the subsequent paragraph). Further, OMC's claim that by selling sub-grade chrome ore it had earned revenue does not hold good because, had these quantities of sub-grade ore been sold after beneficiation it would have earned a higher revenue.

### **2.10.3 Improper planning led to idle investment**

(A) The Environment Clearance (EC) in respect of South Kaliapani chromite mining project which includes COBPs was granted by MoEF&CC, GoI in July 2010 for production of 1.4 MTPA of chromite ore. The EC was granted subject to fulfilment of specific and general conditions for use of the mining lease area, including the condition that the COBP should be operational along with its tailing pond.

The proposal of OMC for grant of EC for the mine, included the setting up of a tailing pond to the north of the existing COBP. However, as the same was topographically and commercially not feasible, OMC decided to shift the tailing pond to the Southeast portion of the lease hold area. Accordingly, OMC applied to MoEF&CC for amendment to the EC conditions in May 2015. The matter was discussed by the Expert Appraisal Committee of MoEF&CC in September 2015 and after OMC met the compliance issues, EC was granted in July 2021 (after a lapse of 69 months). Thus, improper assessment of feasibility by OMC led to change in location for the tailing pond and avoidable delay in seeking revised EC approval.

OMC awarded the work of setting up the tailing pond (September 2021), after receipt of modified EC, for ₹67.34 crore with a completion period of 16 months. The work was finally completed in April 2023, after a delay of 90 months from the date of application of EC. Even after completion of the tailing pond, the operation of both COBPs could not commence as of May 2024, as the O&M contract to operate the COBPs could not be awarded by OMC to a suitable service provider. Thus, due to non-operation of the COBP, the tailing pond, set up at a cost of ₹67.34 crore, remained idle (since April 2023).

The Government stated (May 2024) that the agency which had implemented the COBP project, quoted higher price for O&M of the same. Accordingly, OMC invited open tenders in November 2023 and an agency was appointed in January 2024. It was also stated that the reasons for the delay were beyond the control of OMC.

The reply was not acceptable because non-finalisation of the terms of operation and maintenance of the COBP, before completion of the Plant, indicated poor planning on the part of OMC.

(B) During the beneficiation of sub-grade chrome ore through operation of COBP, a significant quantity of tailings is generated and accumulated in a pond, which contains about 15-16 *per cent* of chromium. To recover chromite values from tailings of COBP accumulated in the tailing pond, OMC decided to set up a Tailings Beneficiation Plant at South Kaliapani. Accordingly, OMC awarded (August 2017) the work of preparation of Detailed Project Report (DPR) for the Tailing Plant to M/s MECON at a cost of ₹44.60 lakhs. Subsequently, a cost benefit analysis was done in October 2022 by OMC *i.e.*, after a delay of five years and based on this analysis, the project was kept on hold due to a rise in project cost with negative returns being projected. Thus, the total expenditure of ₹1.33 crore incurred (upto October 2022) on DPR and other works preparatory to implementation of the project, remained unproductive.

The Government stated (May 2024) that due to imposition of additional royalty by GoO under MMDR (Amendment) Act, 2021, OMC re-examined the profitability of the project and decided to keep the project on hold.

The reply was not acceptable because there was no justification for preparation of DPR in October 2017, for Tailing Beneficiation Plant to process the waste coming out of the Tailing Pond which was not yet constructed. Hence, expenditure for preparation of DPR was unproductive.

#### **2.10.4 Improper planning for site selection led to avoidable expenditure**

With the objective of facilitating a completely mechanized system at Daitari iron ore mine for (i) Crushing and Screening of iron ore and (ii) Downhill conveying and wagon loading of iron ore, a “ore handling project” was approved by OMC in 2009. The project was approved at a contract price of ₹594.32 crore besides a consultancy fee of ₹5.93 crore for its implementation. The work order for the consultancy part was issued in favour of M/s M.N. Dastur in December 2009 and the project was awarded to M/s L&T in May 2013 for execution. Further, OMC applied to MoEF&CC (April 2014) for forest clearance of 106.016 hectares of forest land for the project. Based on this, Stage I and II forest clearances were obtained in September 2017 and March 2021 respectively after incurring an expenditure of ₹14.88 crore on statutory dues like NPV *etc.* In the meantime, OMC, while reviewing (December 2019) the Mining Plan for Daitari Mines, ascertained that the ore handling plant was coming up over the Ultimate Pit Limit<sup>59</sup> (UPL) of the mines, which could result in blockage of about 6.37 MMT of ore. As a result, OMC surrendered (October 2022) 98.7 hectares of diverted forest land and terminated (July 2022) the work contract.

It was observed that the site selected for the Ore Handling plant was suggested in January 2009 *i.e.*, before engagement of the Consultant in December 2009, by a Committee of Independent Directors through the study of available geological and topological details. This study report mentioned that the Crusher House location was coming within the UPL, right on the ore body. Despite this, no further studies/analysis of the quantum of ore being

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<sup>59</sup> Area in the mining lease having sure reserve underground

blocked/affected was carried out. Thus, lack of detailed planning and analysis with regard to site selection for the proposed project, led to avoidable expenditure of ₹15.97 crore<sup>60</sup> incurred towards forest clearance, consultancy charges, preparation of design and layout and bank guarantee validity extension charges.

The Government stated (May 2024) that it took an unusual period of seven years for obtaining forest clearance due to which L&T intimated cancellation of the contract. Further, MoEF&CC has permitted the State Government to adjust ₹13.86 crore incurred on forest clearance, in future forest diversion proposals.

The reply was not acceptable because OMC initiated the project despite being aware that the plant was coming up right over the ore body.

**Recommendation:**

- 5. The Government may direct OMC to ensure better planning and coordination in the execution of interdependent projects to guarantee their timely completion.**

## 2.11 Contract Management

Since all activities in mining are carried out by the Company through engagement of contractors, contract management assumes critical importance in the performance of the Company.

### 2.11.1 Avoidable expenditure due to faulty conditions in contract

OMC awarded (December 2020) a contract for excavation of overburden (OB) and khondalite, at the Narangarh mine at the rate of ₹5,294 per CBM and transportation of processed khondalite to the designated delivery yard at Puri at a cost of ₹29 per Km/CBM with required size of more than 6''×6''×6''.

As per clause 4.3 of the contract, the recovery ratio *i.e.*, volume of processed khondalite of specified dimension to excavated khondalite, shall be a minimum 25 *per cent*. Odisha Bridge Construction Corporation (OBCC), the user company of the khondalite stone, reported (July 2022) that the contractor had dumped 16,000 CBM of unsized khondalite stone in the Samanga stock yard, Puri. The contractor stated that the desired processed quantity of specified size could not be produced as the recovery ratio was only three *per cent* against the target ratio of 25 *per cent*. Accordingly, the contractor asked (August 2022) OMC to accept sizes above 6''x6''x6''. Since only size of more than 6''x6''x6'' (and no maximum size) was stipulated in the contract, OMC had to accept the oversized boulders and pay for them.

<sup>60</sup> ₹13.86 crore towards the proportionate forest clearance expenditure (NPV, Compensatory afforestation *etc.*) for 98.7 hectares of surrendered land (₹14.88 crore/106.016 hectares x 98.7 hectares) and other charges ₹2.11 crore

It was seen that 18,464 CBM of raw/un-processed khondalite was transported from the Narangarh mines to the Samang stockyard and the contract was subsequently closed by OMC (in September 2022). Further, OMC had to undertake the additional burden for sizing and cutting of this un-processed khondalite through a separate contractor (November 2022) at a cost of ₹6.81 crore.

Audit observed that due to a faulty clause in the contract, the excavation contractor, supplied unsized, raw boulders and a payment of ₹5.74 crore was made to him. After resizing this 18,464 CBM of stone supplied by the contractor, the recovery rate increased to 36 *per cent*, which meant that 64 *per cent* of the volume of stone supplied by the original contractor was wasteful. Hence, OMC had to make an excess payment on transportation of 64 *per cent* volume (*i.e.*, waste) leading to avoidable expenditure of ₹3.67 crore<sup>61</sup> (64 *per cent* of ₹5.74 crore). Had the required size of the stone been specified in the contract and contractor supplied stones of required/smaller dimensions, this additional payment on transportation cost could have been avoided.

Thus, ambiguity in the contract regarding specific size of stone, led to avoidable expenditure of ₹3.67 crore. Besides additional expenditure of ₹6.81 crore will also be required to be incurred on resizing of stone out of which ₹0.41 crore has already been paid.

The Government stated (May 2024) that as per the contract clause ₹29 per CBM was paid for transportation of all envisaged sized materials. Hence, negotiation with the agency for transportation was not conducted.

The reply was not acceptable as it was silent about the faulty contract condition regarding the dimension of khondalite to be produced.

### **2.11.2 Defective clause in contract for reimbursement of electricity charges resulted in undue benefit to contractor**

The raising contract price for production of iron ore in Daitari mine included a component related to electricity charges at five *per cent* payable to the contractor (clause 7.3.1). Further, the contract (clause 7.12.1) stipulated that OMC would provide electricity to the contractor for production of iron ore and the cost of electricity would be recovered from them.

It was noted that an amount of ₹10.69 crore was paid by OMC to the electricity supplier against consumption of electricity by the contractor during April 2018 to March 2023. The same amount was then also recovered from the contractor. However, OMC also paid ₹36.48 crore towards electricity charges to the contractor *i.e.*, five *per cent* of payable price as per contract condition (clause 7.3.1).

Since the actual electricity being consumed and charges therein were known to both the parties, provision of such a separate base of five *per cent* in the contract was counterproductive and led to payment of ₹36.48 crore to the

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<sup>61</sup> Being recovery rate of 36 *per cent* of required sized khondalite ore

contractor against an actual expenditure of ₹10.69 crore only on electricity charges. Consequentially, the differential payment of ₹25.79 made by OMC to the contractor was an undue benefit extended to the latter.

The Government, while accepting the observation, stated (July 2024) that the aspect will be looked at in future contracts.

### **2.11.3 Inclusion of unwarranted clause for payment of cost of explosives in the contract for transportation of ore**

Explosives are used for blasting during production of ore. For production and transportation of iron ore at the Gandhamardan Block-B iron mine, separate price bids were invited by OMC and separate prices<sup>62</sup> were finalized for production of ore and transportation of the same to the stockyard. The Contract agreement was signed (October 2017) with M/s KCCL for production as well as transportation of ore by OMC. Here, Audit observed that the contract price for transportation of ore included charges for explosives at the rate of five *per cent* of basic rate payable to the contractor.

OMC paid ₹1.59 crore to the contractor towards explosive charges for transportation of 239.34 lakh MT of ore during April 2018 to March 2023. As explosives did not form part of transportation activity, payment towards explosives in transportation of produced ore to the stockyard resulted in extension of undue benefit of ₹1.59 crore to the contractor.

The Government accepted the observation (July 2024) and stated that the aspect will be looked at in future contracts.

### **2.11.4 Application of Wholesale Price Index in price escalation formula for high-speed diesel component**

As per the raising contract of Daitari mine executed in 2010, OMC calculated escalation on High Speed Diesel (HSD) payable to the contractor on the basis of the market price. However, scrutiny of records of raising contracts in respect of 13 other mines<sup>63</sup> revealed that in the raising contract price for production of different types of ore during 2018-23, escalation of HSD was linked with Wholesale Price Index (WPI) instead of market price.

In these 13 mines, OMC paid ₹383.59 crore as escalation of HSD during the period 2018-23. Audit observed that the escalation on HSD based on market price would have been ₹272.13 crore.

Therefore, OMC needs to review the application of price escalation rates and ensure that HSD rates which are of least financial cost to the Company are applied.

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<sup>62</sup> For production of iron ore lump at ₹394 per MT, iron ore fines at ₹315 per MT and transportation cost at ₹89 per MT

<sup>63</sup> Gandhamardan A and B, Guali, Jilling, Tiring pahar, Khandbandh, Banspani, Roida C, Mahaparbat, Sukrangi, South Kaliapani, Kurmitar, Kodingamali *etc.*

The Government accepted the observation and stated (July 2024) that the matter will be revisited comprehensively for all other mines in future.

### **2.11.5 Payment of transportation charges for overburden without transportation**

The contract signed by OMC to produce ore at Kodingamali bauxite mine (applicable for the period from December 2017 to December 2025), included cost of transfer of overburden (OB)<sup>64</sup> to the OB dump site, located at a distance of 1.8 km. The contract also included cost of backfilling of OB from the dump site to the mined-out area at 61 *per cent* of the awarded rate per CBM. Hence, the contractor was to be paid for both the services *i.e.*, for transfer of OB and for backfilling.

In this regard it was seen that the contractor transported the OB from the mine to the dump site only during the first year (December 2017 to December 2018) and from second year (December 2018 to December 2019) onwards, the OB was dumped in the unmined area itself, without taking it to the OB dump site. Despite this, OMC made payment to the contractor without deducting the cost of transportation of OB, which was actually not transported to the dump site. Owing to this, excess payment of ₹6.18 crore was made to the contractor for the period (December 2017 to March 2023), without actual transportation of OB.

The Government stated (May 2024) that due to concurrent back filling of the excavated OB instead of transporting from OB dump, the Company avoided the additional payment to the agency.

The reply was not acceptable because the contractor's price and payment made included both backfilling and transportation cost but despite the fact that no such transportation was undertaken, payment for the same was made to the contractor, leading to an excess of ₹6.18 crore.

### **2.11.6 Non-revocation of the contract/tender led to avoidable expenditure**

OMC in its notice inviting tender (NIT) (June 2015) stipulated that the Company shall be entitled to terminate the contract at any time, should in its opinion the cessation of work become necessary. Further, it was also stipulated that by any reason such as civil disturbances, statutory constraints like non-receipt of forest clearance and environment clearance, non-receipt of government permission *etc.*, the contractual obligation of the parties herewith will stand terminated forthwith, if those reasons do exist for a period of two months.

OMC issued a NIT in June 2015 for raising work in Mahaparbat mine where environment clearance was not available at the time of inviting tenders. The work order for the Mahaparbat mine was issued in September 2015 by OMC. However, the environment clearance was received only in November 2020, 62 months from the date of issue of work order. In the meantime, OMC

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<sup>64</sup> It is the rock or soil layer that needs to be removed in order to access the ore being mined

introduced (March 2019) the e-reverse<sup>65</sup> auction for finalization of raising contract price by getting discounts in the e-reverse auction process. After the introduction of e-reverse auction, OMC obtained 17 to 31 *per cent* discount on account of raising cost prices (during 2019-21) with respect to various contracts.

Since it took more than 62 months for the EC to be obtained in case of Mahaparbat mine, OMC had the option to terminate the contract and go for fresh tendering under the e-reverse auction introduced in March 2019. Audit observed that OMC did not go for fresh tendering by cancelling the aforesaid work order and in the process, lost the opportunity to avail at least a minimum discount of 17 *per cent* against the raising cost. This resulted in loss of ₹10.66 crore in the form of unavailed discount to produce 1.71 MMT ore (from April 2022 to March 2023). Further, for the remaining contract period, (from April 2023 to September 2025) OMC would bear an additional expenditure of ₹18.96 crore.

The Government stated (May 2024) that cancellation of contract and floating of fresh tender after issue of work order without any fault of the agencies may lead to legal complicity. There was no certainty that fresh tender may end with a lower rate.

The reply was not acceptable as OMC was legally free to determine and terminate the contract as per the conditions of the contract. Hence, OMC lost the opportunity to avail themselves of a lower/discounted bid which was evidenced from subsequent tenders finalised under the e-reverse auction system.

#### **2.11.7 Loss due to payment of raising cost for sub-grade ore as saleable ore**

Raising contract agreements for production of iron ore in Gandhamardan B, Kurmitar and Guali mines and bauxite ore in Kodingamali mine stated that if any sub-grade materials<sup>66</sup> were generated during the course of the mining operation, the same shall be excavated and transported to the stock yard specified for sub-grade. The quantity of such sub-grade ore would be considered as overburden for computation of overburden volume and payment would be made accordingly at overburden rate.

Audit noticed that 3.98 MMT of sub-grade ore was produced in the aforesaid four mines during the period April 2018 to March 2023. However, this was not taken as Overburden, as it was blended<sup>67</sup> with high grade ore and payment was made to the contractor as part of ore production. As a result, excess amount of ₹32.64 crore (the difference between payable raising cost of Overburden and raising cost paid at the rate applicable to sub-grade quantity

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<sup>65</sup> Reverse auction are e-auction where supplier submit online bids to compete against each other's

<sup>66</sup> For iron ore Fe between 45 to 55 *per cent* and for bauxite ore Al<sub>2</sub>O<sub>3</sub> content between 30 to 40 *per cent* are treated as sub-grade ore

<sup>67</sup> Mixing of low-grade ore with high-grade ore to get desired grade of ore

blended with ore) was paid to the contractors which was tantamount to extension of undue favour.

The Government stated (May 2024) that no sub-grade ore was produced from the mines of Gandhamardan-B, Guali and Kodingamali. The sub-grade ores generated from Kurmitar mine were kept separately at mines.

The reply was not based on facts because it was evident from records produced before audit that sub-grade ores were produced and blended with other ores in the above mines. For this blended quantity of sub-grade ores, raising cost applicable to the ore was paid instead of the cost applicable to overburden.

### **2.11.8 Avoidable expenditure towards payment of interest to the raising contractor**

OMC awarded (February 2011) the work of processing of low-grade iron ore lumps to produce Calibrated Lump Ore (CLO) and fines at Gandhamardan B mine initially for a period of one year<sup>68</sup>. The contractor started the work in March 2011 on the basis of the work order, but the required contract agreement was signed by OMC only in June 2011. The contractor produced 24,213 MT CLOs during the period 04 March 2011 to 31 July 2011. However, out of total production, the contractor produced 22,868.180 MT CLO during the period from 04 March 2011 to 26 May 2011 by installing a screening plant at the dump site itself instead of at the designated crushing and screening area, as required under the terms of the contract. The remaining 1,344.820 MT CLO was produced during 27 May 2011 to 31 July 2011 at the designated crushing and screening site. OMC agreed to pay (24 January 2012) the raising cost for only this 1,344.820 MT of stock and did not make any payment for the remaining 22,868.180 MT, as it was not produced at the designated crushing and screening area. However, OMC took possession of the entire production of 24,313 MT raised by the contractor and disposed it off via sale. Thus, due to non-payment for the production of 22,868.180 MT CLO, the agency filed a case in the High Court of Odisha. The matter went to arbitration where finally the Arbitrator allowed (July 2016) the claims of the contractor along with interest at 15 *per cent*.

Due to injudicious decision of non-payment, despite taking possession of the entire quantity produced, OMC had to bear an additional expenditure of ₹1.17 crore as interest, which was avoidable.

Accepting the audit observation the Government stated (May 2024) that the payment was made after availing all legal remedies and there was delay in payment due to legal proceedings. Nevertheless, withholding the payment to the contractor after accepting the contractual consideration was *prima facie* injudicious.

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<sup>68</sup> To M/s. Dillip Kumar Nayak at allotted work value of ₹3.13 crore

### 2.11.9 Loss due to duplication in award of stacking contract

Odisha Minerals (Prevention of Thefts, Smuggling and illegal Mining and Regulation of Possession, Storage, Trading and Transportations) Amendment Rules were promulgated in 2021 wherein detailed provisions relating to stacking and sampling of the mining products have been made. The raising contracts of two mines<sup>69</sup> had provisions for stacking and storing of minerals by the raising contractors themselves. However, it was noticed that despite this, OMC awarded separate contracts<sup>70</sup> for stacking of ore to contractors for these two mines. Instead of getting the stacking work completed by the raising contractors, award of separate contracts for stacking of 4.46 lakh MT of minerals, led to avoidable expenditure of ₹1.07 crore (as of 30 June 2023) by OMC in case of both the mines. Further, the Company would also incur ₹8.51 crore more in course of the remaining tenure<sup>71</sup> of the contracts.

The Government stated (July 2024) that as per the contract agreement, the mine operator had to transport finished products from the mine head to the designated stock yard. Further, as per the OMPTS Rules, 2021 OMC engaged an agency for stacking of ore.

The reply was not acceptable because as per clauses 14 and clause 3.3 of the raising contracts for Unchabali and Tiringpahar IOMs respectively, the mine operators were responsible for stockpiling of finished products according to the directions of the mine managers.

#### Recommendation:

- 6. Due diligence may be carried out by OMC in thoroughly reviewing contract terms to understand their scope, conditions, potential implications and thus avoid any loss or risk to its financial interests.**

### 2.12 Sales Performance

OMC does not have its own sales policy but follows policies/directions of the Government of Odisha in this regard. OMC has been selling ores from its mines using three different modes of sale *i.e.*, e-auction, Long Term Linkage<sup>72</sup> (LTL) and premium buyers. In case of e-auction of ores, this is carried out by the Metal Scrap Trade Corporation Limited (MSTC) a Government of India PSU, based on grade-wise floor price of ores determined by the Sales Committee of OMC.

OMC has a mechanism to fix the grade-wise floor price for ores by the Sales Committee of the Board using the backward price method *i.e.*, deducting the

<sup>69</sup> Unchaballi mine agreement signed on 11.07.2022 and Tiringpahar mine on 20.08.2020

<sup>70</sup> Unchabali IOM: in December 2022 and Tiringpahar IOM: January 2023

<sup>71</sup> Tenure of the raising contract for Unchaballi mine was 27.12.2022 to 30.06.2023 and remaining period was 01.07.2023 to 27.12.2023. For Tiringpahar mines it was from 27.12.2022 to 30.06.2023 with remaining period from 01.07.2023 to 27.12.2023.

<sup>72</sup> Long Term Linkage is the policy introduced by GoO for sustained supply of raw materials to steel/metal companies over a period of five years which may be further extended

cost of required inputs from the prevailing price of the end product, by applying the formula approved by the Board from time to time. Allotment orders are issued to buyers based on the highest price obtained in an e-auction through MSTC.

The LTL buyers and their respective yearly allotted quota are decided by GoO from time to time. The price for LTL buyers is fixed on weighted average price of respective ores e-auctioned through MSTC.

Premium buyers are supplied ores on surplus availability of ores at five *per cent* premium rates over the highest e-auctioned price as decided by the Sales Committee.

The deficiencies noticed in the present sales system are as follows.

### **2.12.1 Analysis of targets and achievements of sales**

The annual sales targets for a particular year are fixed at the beginning of the year (BEs) based on information/proposals collected from Regional Offices under OMC. Revisions if any, are undertaken around the month of March (REs) based on the same procedure *i.e.*, by collecting information/proposals from Regional Offices. Sales targets for the five year period ending 31 March 2023 vis-a-vis achievements thereof in respect of OMC are tabulated in *Appendix 24*.

The summary of actual sales in comparison to BE and RE ore wise for the period 2018-23 is given in the following table:

**Table 2.14: Sales in comparison to BE and RE ore wise for the period 2018-23**

*(In MMT)*

Sl. No.	Particulars	Iron	Chrome	Bauxite
1	Budget Estimates	104.08	7.66	15.70
2	Revised Estimates	83.44	5.27	15.20
3	Actual sales	82.95	4.92	14.56
4	% of sales (BEs)	79.70	64.23	92.74
5	% of sales (REs)	99.41	93.36	95.79

*(Source: Information provided by OMC)*

From the table, it can be seen that:

- The actual sales of iron ore during the years 2018-23, were 82.95 MMT against the sales targets of 104.08 MMT set in the Budget Estimates. The achievement was *79.70 per cent*. However, the sales targets were revised in the month of March of each year (Revised Estimates) to 83.44 MMT. Due to the reduction of sales targets in REs, the sales achievement of iron ore with reference to the REs became *99.41 per cent*.
- Similarly, in respect of chrome ore, it was observed that the actual sales of chrome ore during the years 2018-23, was 4.92 MMT against the sales targets of 7.66 MMT set in the Budget Estimates. This

achievement was 64.23 *per cent*. However, the sales targets were revised in the month of March of each year (Revised Estimates) to 5.27 MMT. Due to the reduction of sales targets in REs, the sales achievement of chrome ore with reference to the Revised Estimates became 93.36 *per cent*.

- Further, in respect of Bauxite ore, it was observed that the actual sales of chrome ore during the years 2018-23, was 14.56 MMT against the sales targets of 15.70 MMT set in the Budget Estimates. The achievement was 92.74 *per cent*. However, the sales targets achievement with reference to the Revised Estimates was 95.79 *per cent*.

From the above analysis it can be seen that the targets were revised in the Revised Estimates (Sales), in the last month of the each financial year, on the lower side or near to actual sales to show higher sales achievements, which defeated the purpose of sales planning as well as the budgeting exercise carried out at the beginning of the financial year.

The main reasons for the shortfall in sales were attributable to delays in obtaining statutory clearances, inadequate infrastructure for evacuation of produced ore and space constraints in stockyards which contributed to shortfall in sales.

#### **2.12.2 Non-Compliance with National Environmental Engineering Research Institute (NEERI) recommendation**

NEERI was established (1958) by GoI to research and innovate in the field of environmental science and engineering and to solve a range of problems posed by industries, government *etc.* In November 2010, MoEF&CC appointed NEERI to conduct a carrying capacity study to develop a sustainable mining development plan and an environmental management plan impacting a mining area of about 1,000 sq. km. in the State of Odisha. Accordingly, NEERI submitted its recommendations in February 2018 to MoEF&CC.

As a move towards sustainable mining, NEERI had set a deadline for dispatch of ores from mines by railway instead of road transportation by March 2023. As per the recommendation, 100 *per cent* dispatch of ore through railways in case of mines with EC capacity of more than 5 MTPA and 70 *per cent* in case of other mines was to be achieved by this date. This would not only help limit the environmental impact but also ease evacuation problems of mines since larger quantities can be transported via railways. However, OMC is yet to comply (May 2024) with the above recommendation of NEERI in case of any of its mines. This arrangement would have also potentially increased the sales of OMC since evacuation through rail would make higher quantity of ores available for sale than what is possible through road transport.

Accepting the audit observation, the Government stated (May 2024) that OMC is in the process of creating infrastructures as per NEERI's guidelines.

### 2.12.3 Under-realisation of revenue due to wrong fixation of floor price on sale of sub-grade chrome ore

During the period January 2021 to March 2023, in case of Sukrangi and South Kaliapani chormite mines, it was noticed that due to non-operation of the COBP, OMC was selling sub-grade ore (without beneficiation) from these mines through e-auction.

Before each e-auction, the floor price of sub-grade chrome ore was fixed by OMC on the basis of an approved formula consisting of recovery rate and existing market price of ferro chrome. The price offered by bidders was dependent on the recovery rate of chrome from such sub-grade ore. During the period 2014-17, this recovery rate of chrome concentrate from processing of sub-grade chrome ore in COBP remained at 42.30 *per cent*. However, in fixation of the floor price of sub-grade chrome ore for each e-auction, it was observed that the recovery rate of chrome concentrate was considered as 38.76 *per cent* instead of 42.30 *per cent*, resulting in lower floor price for each e-auction.

Due to fixation of lower floor price of un-beneficiated sub-grade chrome ore in case of these two mines, OMC could not realise additional revenue of ₹13.27 crore from the sale of 3.01 lakh MT of sub-grade chrome during 2020-23. OMC also lost the opportunity to earn additional revenue of ₹3.24 crore from the sale of 0.82 lakh MT of sub-grade chrome ore to premium buyers<sup>73</sup> during this period. Thus, incorrect fixation of floor price of sub-grade chrome ore resulted in under realisation of revenue to the extent of ₹16.51 crore.

In its reply, the Government stated (May 2024) that OMC only determined the floor price while the market determined the actual price of the material through competitive bidding.

The reply was not acceptable because sub-grade chrome ore was not a regularly marketed product and fixation of lower floor price implied, offering the product at a lower sale price. As such the fixation of floor price should have been done with reference to the recovery rate of 42.30 *per cent* as decided by OMC instead of 38.76 *per cent*.

### 2.12.4 Loss in sale of Ex-lessee stock

GoO approved (December 2020) revised guidelines for sale by OMC, of unsold ore produced by ex-lessees<sup>74</sup>, in case of auctioned mines in Odisha. The modalities stipulated that revenue collected from e-auction of these ores shall be deposited with the Government after deducting all expenses including MSTC portal charges/statutory levies and other ancillary charges like expenses on watch and ward. In case Royalty, DMF and NMET were higher than the total revenue generated from the sale of minerals at any mine, the

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<sup>73</sup> The floor price for premium buyers was fixed at 5 *per cent* over the last e-auction price accepted by the sales committee for e auction buyers

<sup>74</sup> Ex-lessee means the previous lessee who had obtained the mine through auction

same shall be adjusted against total revenue generated from all other ex-lessee stocks.

It was seen during audit that OMC received 13.18 lakh MT of such stock, out of which it sold 5.81 lakh MT during 2020-23 with total amount of ₹96.03 crore. Out of the total amount received, OMC deducted ₹10.87 crore towards security expenditure and deposited the balance amount of sale proceeds of ₹85.16 crore with the Government.

The quantity of stock lying unsold in the ex-lessees' stockyards ranged between 7.63 MT to 0.84 lakh MT for a period ranging from 06 to 28 months. OMC spent ₹17.88 crore on the security of unsold stocks during the period 2020-23 and other expenses<sup>75</sup>.

Thus, the residual security expenditure amounting to ₹7.01 crore (₹17.88 crore - ₹10.87 crore) could not be recovered as unlike royalty/DMF/NMET such expenditure on security cannot be adjusted against revenue from other mines. Further, in this connection, Audit also noticed that the ex-lessee's stocks were lying dispersed across 14 locations, each of which was being secured separately. Despite this, the Management had not consolidated this stock to a common premise to reduce the security expenditure.

The Government accepted and stated (July 2024) that OMC has been advised to take steps for concentrated stockpiling of such stocks for better management.

**Recommendation:**

- 7. The Government may consider directing OMC to develop a mechanism to bridge the gaps in fixation of floor price for auction of ore and economic disposal of ex-lessee stocks.**

## **2.13 Financial Management**

Financial management involves forecasting, planning, organising, directing, coordinating and controlling a company's financial resources in order to maximise the shareholder's wealth through effective fund flow for all activities. OMC, being a profit-making company, always had a surplus cash balance which needed to be effectively invested/utilised. In this context, Audit observed the following deficiencies.

### **2.13.1 Delay in adjustments of royalty resulted in blockage of funds and loss of interest**

As per section 9 of MMDR Act, 1957 the lease holder has to pay royalty for lifting of minerals from the mining lease area at the latest notified price of IBM. Such royalty was required to be paid in advance to the respective Deputy Director of Mines for getting permission for lifting. The advance royalty was adjusted after publication of sale prices (usually 45 to 90 days after completion of a month) of minerals by IBM. Further, if any amount of advance royalty

<sup>75</sup> MSTC charges for e-Auction, shifting and weighment charges *etc.*

remained unutilised due to non lifting/short lifting, the same could be adjusted at the time of applying for subsequent lifting.

It was observed during audit that buyers lifted 71.45 MMT ore from OMC against an allotment of 122 MMT in case of 11 mines<sup>76</sup> during 2018-23. The short lifting of ore against the allotment ranged from 50.58 to 71.91 *per cent* and OMC accordingly had unadjusted royalty ranging from ₹0.08 crore to ₹389 crore during 2018-23. It was noted that these amounts were adjusted by DDM after two to four quarters. The quarter-wise unadjusted royalty deposited by OMC with the DDM ranged between ₹1.46 crore and ₹1,197.68 crore for this period. As per applicable rules, OMC should have adjusted these amounts in the subsequent stack removal permission. However, rather than adjusting the balance already deposited before DDM as advance royalty, OMC applied for fresh stack removal permission by paying royalty afresh. As a result, the company lost revenue of ₹41.22 crore as interest<sup>77</sup> on the amount remaining blocked with the DDM without any adjustment.

The Government accepted (July 2024) the observation.

### 2.13.2 Payment of interest due to delay in payment of statutory dues

Section 9 of MMDR Act, 1957 stipulated payment of royalty for any mineral removed or consumed or the dead rent in respect of that area whichever is greater. Section 64(a) of the MC Rules, 1960 empowers the State Government to charge simple interest at the rate of 24 *per cent* per annum on any rent due from the sixtieth day of the expiry of the date fixed by that Government for payment of such rent.

OMC delayed in making payment of dead rent and surface rent in respect of three mines<sup>78</sup> and royalty in respect of other three mines<sup>79</sup>, owing to which interest amounting to ₹0.63 crore (₹0.23 crore for dead rent and surface rent and ₹0.40 crore for royalty) was to be paid. Due to monitoring lapses about timely deposit of statutory dues OMC had to bear avoidable expenditure of ₹0.63 crore.

The Government stated (May 2024) that surrender of mining leases goes through a tedious procedure which consumes time. Accordingly, OMC paid interest levied by the Government. The reply of the Government is not tenable as irrespective of mine lease under surrender process, the demand of interest could have been avoided had the dues been monitored and payment made in time.

<sup>76</sup> Kurmitar, Gandhamardan A, Gandhamardan B, Guali, Jilling, Tiring pahar, Mahaparbat, Khandabandh, Banspani, South Kaliapani and Sukrangi

<sup>77</sup> Interest has been calculated at 5 *per cent* considering the average rate of interest of 5.02 *per cent* earned on three months FD during the period 2018-23

<sup>78</sup> Budhapada: ₹0.08 crore, Dubuna: ₹0.03 crore and Malipada: ₹0.12 crore

<sup>79</sup> Gandhamardan: ₹0.29 crore, South Kaliapani: ₹0.09 crore and SGBK: ₹0.02 crore

### 2.13.3 Inter Corporate Loan

OMC extended inter-corporate loans out of its surplus funds to other companies, its joint ventures and associates with the approval of the State Government and BoD. Details of inter-corporate loans given by OMC during 2018 to 2023 are given in the following table:

**Table 2.15: Status of inter-corporate loan and its recovery**

SL No	Name of the Company	Date of Loan Agreement	Loan Amount (₹in crore)	Purpose of Loan	Status of recovery
1	Nilachala Ispat Nigam Limited (NINL)	27.01.2020	178.00	To prevent NINL accounts becoming NPA	Loan granted to NINL was recovered during 2022-23.
2	Industrial Development Corporation of Odisha Limited (IDCOL)	11.01.2018	105.16	Payment of compensation due to illegal mining.	Total loan amount of ₹947.80 crore could not be recovered from IDCOL. However, the net financial position (Asset less liability) was taken as purchase consideration for merger of IDCOL with OMC during 2022-23.
		20.03.2019	7.38	Payment of compensation for mining without necessary clearance in Roida-C mines	
		Not signed	635.26	Payment of compensation for violation of statute before surrender of Tailangi mines	
		Not signed	200.00	For payment of Statutory dues	
3	Orissa Mineral Exploration Corporation Limited (OMECL)	22.10.2020	85.91	To keep OMECL a going concern	OMECL was merged with OMC during FY 2022-23 and the outstanding loan amount was adjusted.
4	Orissa State Civil Supplies Corporation Limited (OSCSCL)	04.02.2023	2,000.00	For Payment of MSP to farmers	Loan was repaid during FY 2023-24.
<b>Total</b>			<b>3,211.71</b>		

(Source: Annual Reports and Annual Accounts of OMC)

OMC does not have any policy for grant of inter-corporate loans and these loans detailed above, were granted under instructions of GoO and the BoD of the Company. Audit observed that a total amount of ₹3,211.71 crore was granted as inter-corporate loans to the above four different companies during 2018-23 at the interest rate of eight to nine *per cent*, but loans amounting to ₹947.80 crore (29.51 *per cent*) were defaulted by IDCOL as discussed in detail below:

#### 2.13.3.1 Inter-corporate loans to IDCOL

Deputy Director of Mines (Joda and Jajpur) raised demand notices (September 2017/April 2018) to IDCOL for payment of compensation

(₹105.16 crore and ₹ 7.38 crore) for production of iron ore in Roida C mine in excess of approved limits under the related Mining Plan and CTO. However, IDCOL had no funds to pay the same and thus, on the advice (January 2018) of Department of Industries, GoO, OMC extended an inter-corporate loan of ₹105.16 crore and ₹7.38 crore to IDCOL on 11 October 2018 and 20 March 2019 respectively. The loans were to be repaid through an Escrow account in which all the revenue of IDCOL would be credited.

Deputy Director of Mines, Jajpur again raised (11 April 2018) a demand for ₹635.26 crore towards compensation along with interest for excess production in violation of environment clearance in case of Tailangi mines by IDCOL. On the advice (August 2022) of Steel and Mines Department, OMC again extended an inter-corporate loan of ₹635.26 crore to IDCOL. Further, the BoD of OMC approved (December 2022) an inter-corporate loan of ₹200 crore to IDCOL at the behest of GoO, to repay the Government dues and other pressing liabilities.

IDCOL however, defaulted in repayment of the aforesaid loans of ₹947.80 crore. Considering the acute financial difficulties of IDCOL and its inability to pay huge outstanding loans, GoO decided (April 2022) to merge IDCOL along with its subsidiaries with OMC. As part of this merger, the total loan amount outstanding of IDCOL, inclusive of interest as on 31 March 2023 was considered 'Nil', as the loans were considered for computation of purchase consideration.

Audit observed that the loans were extended by OMC to pay for compensation related to illegal mining under IDCOL. Secondly, the loans were extended in a situation where IDCOL was unable to repay these amounts. The decision of GoO to fund such activities through loans from OMC and subsequent merger of IDCOL with OMC, was financially imprudent as the loans were not recovered.

The Government stated (May 2024) that IDCOL along with its subsidiaries was merged with OMC and all the assets and liabilities have been adjusted in the books of accounts of OMC. Hence, inter-corporate loan extended to IDCOL has been fully recovered.

The reply was not acceptable because at the time of the merger, IDCOL had negative net worth which meant that IDCOL had more liabilities than assets.

#### 2.13.4 Investment in Joint Ventures and Associates

During the period 1997-2023, OMC invested ₹374.01 crore towards equity in twelve Joint Ventures (JVs) and associate companies as of March 2023. The investments were as follows:

Table 2.16: Status of Joint Ventures and Associates of OMC

(₹ in lakh)

Sl. No.	Equity investment in Joint Ventures	Year of Investment	% of holding	Value as on 31.03.18	Value as on 31.03.23	Objective of investment
1	RIO Tinto Orissa Mining Pvt. Ltd (RTOMPL)	1997	49.00	228.00	228.00	Development of rail, port and mines project

Sl. No.	Equity investment in Joint Ventures	Year of Investment	% of holding	Value as on 31.03.18	Value as on 31.03.23	Objective of investment
2	Orissa Thermal Power Corporation Ltd (OTPCL)	2007	50.00	13,420.47	17,220.47	Setting up a Thermal Power Plant
3	Nuagaon Coal Company Limited (NCCL)	2011	50.00	100.00	100.00	Development of Coal Block
4	Kalinga Coal Mining Pvt. Ltd (Free of Cost)	2004	26.00	0.00	0.00	Development of Coal Block
5	Neelachal Ispat Nigam Ltd (NINL)	2005	20.47	12,694.71	0.00	Manufacturing of iron and steel products
6	Keonjhar Infrastructure Development Co Ltd (KIDCL)	2006	11.11	0.72	0.72	Records not available
7	Angul Sukinda Railway Limited (ASRL)	2014	10.83	6,300.00	8,652.00	To provide direct link between iron ore rich area and steel and sponge industries
8	Haridaspur Paradip Railway Company Ltd (HPRCL)	2006	8.46	9,292.00	10,999.77	Export of finished product of steel plants and import of coking coal.
<b>Total (A)</b>				<b>42,035.90</b>	<b>37,200.96</b>	
	Impairment of Investment (RTOMPL+NCCL+KIDCL)			-328.72	-328.72	
<b>Equity investment in Associates</b>						
9	Lanjigarh Schedule Area Development Fund	2009	25.00	0.00	0.00	Development of Lanjigarh area
10	South West Orissa Bauxite Mining Pvt. Ltd	2004	26.00	0.00	0.00	Development of Lanjigarh and Koraput Bauxite mines
11	East Coast Bauxite Mining Co. Pvt. Ltd	2005	26.00	0.00	0.00	Development of Kodingamali Bauxite deposit
12	Mandakini B Coal Corporation Ltd. (MCCL)	2009	25.00	200.00	200.00	Development of Coal Block
<b>Total (B)</b>				<b>200.00</b>	<b>200.00</b>	
	Impairment of Investment (MCCL)			200.00	200.00	
<b>Grand Total (A +B)</b>					<b>37,400.96</b>	

(Source: Annual Reports and Annual Accounts of OMC)

As may be observed from the above table, out of seven JV/Associates four (Sl No 4, 9, 10 and 11) have Nil investment, and Sl No 2 (OTPCL) has maximum investment of ₹172.20 crore.

#### 2.13.4.1 Non-operation of Joint Ventures and Associates

OMC invested ₹374.01 crore (as of March 2023) in twelve JVs and associates for periods ranging from 10 to 26 years. Audit observed that only one JV (Haridaspur-Paradip Railway Company Ltd) was in operation. The ASRL JV that was set up in 2014 is expected to start commercial operation only in June

2024 while NINL (that was set up in 2005), was disinvested<sup>80</sup> during 2022-23 with capital gains of ₹612.72 crore.

It was also noted that investments in three JVs<sup>81</sup> and one associate<sup>82</sup> company amounting to ₹5.28 crore had been impaired. The other five JVs and associate companies could not be made operational (as of November 2023) due to delay in finalisation of project development, failure to obtain forest clearance and inadequate monitoring by JV partners resulting in failure to achieve the intended objectives and in erosion of equity investment of ₹5.28 crore.

Accepting the audit observation the Government stated (May 2024) that unforeseen circumstances such as de-allocation of coal blocks, other legal, operational and financial issues have prevented the commencement of commercial operations, leading to the entities being non-operational and winding up of operations.

#### 2.13.4.2 Investment in OTPCL

GoO decided (June 2006) to implement a power project through a joint venture of Odisha Hydro Power Corporation (OHPC) and OMC. The project was to be completed within a period of 48 months from June 2006 which included formation of the Joint Venture (JV). Accordingly, the JV was promoted (January 2007) as Odisha Thermal Power Corporation Limited (OTPCL) with 50 *per cent* share of OMC by equity investment of ₹172.20 crore as of March 2023. The JV Company was formed to set up a thermal power plant of 3,200 MW capacity for supply of power to the State of Odisha. OTPCL was allocated (August 2013) a coal block after six years from its incorporation in 2007 but this was also cancelled (July 2019), leaving the company without any dedicated coal block for its thermal power plant. The JV could not achieve its intended objectives and in August 2021 closure of the same was proposed in a meeting chaired by the Chief Secretary, Odisha. Failure of the project was mainly due to change in site selection for coal mine, delay in acquisition of land and non-finalization of coal mines for the power plant. Thus, investment of OMC in OTPCL amounting to ₹172.20 crore turned out to be infructuous, yielding no return.

The Government stated (May 2024) that as per the decision taken in a meeting by the Chief Secretary, Odisha Industrial Infrastructure Development Corporation (IDCO) will acquire the entire paid-up share capital of OTPCL. The consideration to be derived through fair market value method can be shared between OMC and OHPC equally.

The reply was not acceptable because consideration of fair market value of a company which is going to be closed is virtually without any intrinsic value.

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<sup>80</sup> NINL was in continuous loss and OMC total capital gain for investment in NINL as on 31.03.2023 was ₹612.72 crore

<sup>81</sup> RIO Tinto Orissa Mining Private Limited (RTOMPL), Nuagaon Coal Company Limited (NCCL) and Keonjhar Infrastructure Development Company Limited (KIDCL)

<sup>82</sup> Mandakini B Coal Corporation Limited (MCCL)

**Recommendations:**

- 8. OMC may streamline its processes to avoid cases of delay in adjustment of royalty and in payment of statutory dues.**
- 9. Cost-benefit assessment and analysis of expected return from investments should be carried out by OMC and GoO before entering into joint ventures and providing inter-corporate loans.**

**2.14 Monitoring and Internal Control**

An effective internal control system is a pre-requisite for ensuring physical/financial progress of the company through an inbuilt monitoring mechanism. Internal Control helps the management to draw reasonable assurance that its objectives are being achieved in an efficient and effective manner. In this backdrop, various tools of internal control were examined during audit and the following deficiencies were observed:

**2.14.1 Internal Audit Systems**

Section 138 of the Companies Act, 2013 read with Rule 13 of the Companies (Accounts) Rules, 2014 requires the appointment of an internal auditor or a firm of internal auditors. As per section 134(3)(n) of the Companies Act, 2013, a company has to implement a Risk Management Policy consisting of identified risks. Further, Standard on Internal Audit (SIA) 130, Risk Management, issued by ICAI requires an internal auditor to conduct risk based internal audits as per the risk management processes and framework in place.

During the period of audit 2018-23, it was noted that internal audit was carried out in OMC by appointing external firms for the said period. It was however, revealed that despite the requirement of SIA 130 and Section 134(3)(n) of the Companies Act, 2013 to conduct risk based internal audits, the scope of work assigned to the Internal Auditors did not consist of important risk areas such as continuation of non-operating mines, non-timely surrender of unproductive mines, statutory clearances not being obtained in a time bound manner, assessment and management of environmental risks, compliance with legal requirements *etc.*

The Government accepted the audit observation and stated (July 2024) that the Company has been asked to enhance internal control measures. The appointment of bigger audit firms with a more elaborate scope of work shall be examined.

**2.14.2 Management Information System**

Management Information Systems (MIS) is a system that provides reports that assist the Management in monitoring the organisation, keeping track of current performance vis-à-vis targets set, implementing corrective actions *etc.*

In this context, the following was observed by Audit:

- OMC had not formulated any list of MIS reports required or the periodicity for generation of such reports, nor had it assigned responsibilities for the preparation of these reports, or their analysis by the Management and accountability for taking corrective actions. Information was compiled only for furnishing statutory returns and renewal of contracts. There was no system in place for the preparation of a detailed periodic summaries and exception reports.
- In the 8<sup>th</sup> Audit Committee meeting (November 2019) of OMC had recommended the preparation of a Quarterly variance analysis Report on budget vs actuals, price variance, volume variance *etc.* However, as of March 2023 despite the recommendation of the Audit Committee, this Report was not prepared and submitted to the Committee for monitoring.

Accepting the observation the Government stated (May 2024) that the individual functional module in the SAP ERP system of OMC, was equipped with MIS, tailored to meet business requirements. However, implementation of a centralised MIS, to consolidate data from various modules is under process.

### 2.14.3 Information Technology and Enterprise Resource Planning

Systems, Applications and Products in Data processing (SAP) was implemented in February 2005 in OMC for Enterprise Resource Planning (ERP). The Company was provided with 14 modules for the ERP out of which only six modules<sup>83</sup> were being used as of March 2023. Based on requirements, 256 user licenses for individual user access to the SAP ERP system were purchased (December 2004) by OMC. However, as of March 2023 only 223 user licenses were in use.

During the Audit the following issues were observed:

- In Material Management module of SAP, despite the availability of ‘consumption-based planning<sup>84</sup> (CBP)’ in the system, manual planning for material management was still being carried out as of March 2023.
- In the Sales and Distribution module of SAP, functionality of ‘Available to Promise (ATP)<sup>85</sup>’ was not used for ascertaining real time information about the availability of iron ore for delivery to customers during allocation, sales order and delivery order creation. Test check in eight cases revealed that due to non-usage of ATP functionality, allotment of iron ore, beyond available stock limit was made through

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<sup>83</sup> Material Management (MM), Sales and Distribution (SD), Production and Planning (PP), Finance and Controlling (FICO), Assets Management (AM), Human Resource

<sup>84</sup> In OMC, procurement mostly consists of items required for office and colony maintenance, safety equipment, weighbridges and consumables. Consumption based planning is a functionality of MM module. It is used to determine when and how much material should be procured based on the actual consumption and demand.

<sup>85</sup> ATP is a functionality of SD module of SAP ERP which generates confirmation proposals for materials requested for by the buyers

auction. This resulted in a shortage in delivery of iron ore amounting to ₹30.85 crore.

- In the Production and Planning module of SAP, functionality of 'Exception Monitoring' was not used to monitor shortages, overstocking, delay in production and mines-wise annual production against statutory limits. As a result, overstocking of ores was noticed in Gandhamardan IOM and annual production in Sukrangi and Kodingamali mines was seen to exceed their EC and CTO limits.

The Government stated (May 2024) that OMC has access to various ERP modules as per the licensing agreement. However, the utilization of modules is based on business needs.

The reply was not acceptable because despite access to various modules through licensing, use of only a few modules indicated that either the other modules were not needed, or those were not compatible with the operational requirements of OMC.

## **2.15 Other topics of interest**

### **2.15.1 Corporate Governance Framework**

The Department of Public Enterprises of Government of Odisha has developed a Corporate Governance Manual (CGM) for the State Public Sector Undertakings which was subsequently approved by the State Cabinet in November 2009. The manual is applicable to all Public Sector undertakings registered under the Companies Act in which GoO holds 51 *per cent* share or more.

In this regard, Audit observed the following deficiencies:

### **2.15.2 Formulation of Corporate Plan and monitoring**

Para 1.5 of the CGM mandates the preparation of a long-term Corporate Plan consisting of proposed corporate strategy for achieving the long-term goals and objectives of the organization. This Corporate Plan was to include an Asset Management Plan, a plan for Human Resources Management and an Information Technology Plan as its components. The Corporate Plan was to be approved by the BoD and submitted to the Secretary of the Steel and Mines (S&M) Department, GoO. Subsequently, as per the plan, annual budgets would be prepared.

In this context it was noted that no such Corporate Plan was prepared by OMC, depriving the Company of its envisaged benefits.

Accepting the audit observation, the Government stated (May 2024) that OMC is planning to put in place a Corporate Plan in the FY 2024-25.

### 2.15.3 Implementation of Risk Management Policy

Para 9 of the CGM mandates that the Board of the SPSE should ensure that a strong risk management framework is in place to enable an effective monitoring of the business processes to identify, assess, measure and manage risks on a continuous basis. OMC had thus formulated a Risk Management Policy in December 2017. The Policy required the formation of a Risk Management Committee that would implement and monitor risk management plans prepared as per Risk Management Policy and on the basis of identified risks categories. However, it was noted by Audit that neither risk management plans had been formulated, nor had a Risk Management Committee been set up by the OMC Board.

Accepting the audit observation, the Government stated (May 2024) that the risk management policy of OMC is under revision to incorporate specific role and responsibilities at each stage and shall be implemented upon approval of the Board.

### 2.15.4 Contribution to Chief Minister Relief Fund

Section 181 of the Companies Act, 2013 states that any contribution to bona fide charitable and other funds exceeding five *per cent* of average net profits for three immediately preceding financial years of a company, requires the approval from the Annual General Meeting (AGM).

Audit observed that during 2018-23, OMC contributed ₹1,850 crore to the Chief Minister Relief Fund (CMRF). The contribution to CMRF during 2018-22 (₹1,730 crore) exceeded five *per cent* of the average net profits for the three immediately preceding financial years which was against the provisions of Companies Act. However, OMC had not taken any prior approval in the general meeting, which was also in contravention of the Companies Act, 2013.

Accepting the audit observation Government stated (May 2024) that the donation/contribution to CMRF shall be made in accordance with the provisions of the Companies Act, 2013.