OVERVIEW

1. Overview of Government companies and Statutory corporations

As on 31 March 2002, the State of Karnataka had 76 Public Sector Undertakings (PSUs) comprising 70 Government companies and 6 Statutory corporations as against the same number of PSUs during the last year. The number of non-working Government companies, as on 31 March 2002 were 13, which were the same during last year also. In addition, there were three companies under the purview of section 619-B of the Companies Act, 1956 as on 31 March 2002.

The total investment in working PSUs increased from Rs.19,216.77 crore as on 31 March 2001 to Rs.22,613.97 crore as on 31 March 2002. The total investment in non-working PSUs decreased from Rs.77.90 crore to Rs.64.06 crore during the same period.

The budgetary support in the form of capital, loans, grants and subsidy disbursed to the working PSUs increased from Rs.3,974.18 crore in 2000-01 to Rs.4,429.76 crore in 2001-02. The State Government also contributed Rs.37.33 lakh in the form of loans to three non-working companies during 2001-02. The State Government guaranteed loans aggregating Rs.1,178.69 crore during 2001-02. The total amount of outstanding loans guaranteed by the State Government increased from Rs.7,993.95 crore as on 31 March 2001 to Rs.10,114.38 crore as on 31 March 2002.

37 working Government companies have finalised their accounts for the year 2001-02. The accounts of remaining Government companies and six working Statutory corporations were in arrears for periods ranging from one to three years as on 30 September 2002. The accounts of eight non-working Government companies were in arrears for periods ranging from one to four years as on 30 September 2002.

According to latest finalised accounts, 31 working PSUs (28 Government companies and 3 Statutory corporations) earned aggregate profit of Rs.434.31 crore. Out of 37 working Government companies, which finalised their accounts for 2001-02 by September 2002, only 4 companies declared dividend aggregating Rs.13.65 crore. 26 working PSUs (23 Government companies and 3 Statutory corporations) incurred aggregate loss of Rs.315.42 crore as per their latest finalised accounts. Of the loss incurring working Government companies, 13 companies had accumulated losses aggregating Rs.776.86 crore which exceeded their aggregate paid up capital of Rs.342.06 crore by more than two times. Loss incurring Statutory corporations had accumulated loss of Rs.762.34 crore, which exceeded their paid up capital of Rs.426.13 crore.

In Karnataka State Financial Corporation, percentage of overdue loans to the total loans increased from 47.88 in 2000-01 to 62.29 in 2001-02.

Even after completion of five years of their existence, the turnover of 5 working Government companies has been less than Rs.5 crore during the last five years as per latest finalised accounts. Similarly, three working Government companies had been incurring losses for five consecutive years as per their latest finalised accounts leading to negative net worth. In view of poor performance and continuous losses, the Government may either improve performance of these companies or consider their closure.

(Paragraph No.1.1, 1.2,1.3,1.7 and 1.10)

2 Reviews relating to Government companies

2.1 Working of The Hutti Gold Mines Company Limited

The Company was formed (1947) as Hyderabad Gold Mines Company Limited. Later on, the Company was transferred to Karnataka State and was renamed as The Hutti Gold Mines Company Limited in December 1956 with the objective to explore gold in Karnataka State. At present the extraction of gold ore is done at Hutti, Ajjanahalli, Uti and Hirabuddani mines and converted ore into gold at Hutti and Chitradurga. Fast depletion of broken ore at Hutti points out to the fact that the mine development was not commensurate to the quantity of ore hoisted every year. The mismatch between hoisting and milling capacity needs to be corrected to reap the full benefits of modernisation. The Chitradurga unit, which processes ore from Ajjanahalli, has become unviable due to high cost of transportation and low grade of ore. Further, the Company is dependent on a single buyer for sale of bullion/gold. Efforts should be made to bring down the cost of production by increasing productivity by reducing cost of inputs and cutting down unproductive expenditure. Some of the important points included in the review are given below:

- Low utilisation of Large Diameter Blast Holes (LDBH) machinery led to heavy backlog in stope development necessitating engagement of outside contractor for drilling. Extra expenditure on not awarding the LDBH drilling contract to the lowest offerer amounted to Rs.0.63 crore.

(Paragraphs 2A.7.2.1.2 and 2A.7.2.1.3)

- Due to uneconomic loco-transportation of ore from Central Shaft and Village Shaft the Company incurred an extra expenditure of Rs.1.66 crore.

(Paragraph 2A.7.2.1.6)

- Entrusting the work of removal of overburden to a private contractor at higher rates compared to departmental cost resulted in an extra expenditure of Rs.1.31 crore.

(Paragraph 2A.7.2.2)

- Operation of uneconomic diesel compressors for compressed air instead of operating cost-effective electrical compressors resulted in an avoidable extra expenditure of Rs.2.02 crore.

  (Paragraph 2A.8.3)

- Improper implementation of modernisation and expansion at Hutti resulted in creation of higher hoisting capacity than the milling capacity, which led to mismatch.

  (Paragraph 2A.9.1)

- Absorption of Turnover Tax on sale of bullion resulted in extension of undue benefit of Rs.0.72 crore to Bangalore Refinery.

  (Paragraph 2A.11)

2.2 Working of The Mysore Sugar Company Limited

The Mysore Sugar Company Limited was incorporated in January 1933 to establish and operate a sugar factory at Mandya for utilising the sugarcane grown in that area. In addition, the Company was entrusted with the work of blending, sacheting and distribution of arrack (June 1993) by the Government of Karnataka. With a view to improve the operation of the plant and machinery to crush 5,000 tonne crushed per day (tcd) on a continuous basis the work of modernisation of sugar plant was taken up during 1998-99. A co-generation project of 28 MW for generation of power was taken up at a cost of Rs.76.35 crore.

Improper sugarcane procurement led to dependence on non-oppige cane, extension of crushing season and low recovery. Payment of sugarcane at price much higher than the Statutory Minimum Price was without justification. Non-promotion of sugar rich varieties and failure to minimise the losses also led to the sugar unit incurring huge losses. The Modernisation scheme, which was taken up for implementation without any technical evaluation resulted in many of the machines remaining unutilised. To utilise the machineries already installed as well as to derive the benefits of generation by sale of power, the implementation of co-generation project should be expedited. Non-evolvement of personnel policy and payment of unjustified incentives resulted in avoidable expenditure. There is an urgent need to identify core and non-core activities and concentrate on core activities to make them more profitable. Some of the important points included in the review are given below:

- The Company paid prices higher than the Statutory Minimum Price fixed by the Government of India. This resulted in excess payment of Rs.100.81 crore during the last five years ended 31 March 2002.

  (Paragraph 2B.6.1)

- Although the Company was incurring losses even in free sale sugar, stock of 30,484 MT sugar valued at Rs.37.58 crore was added by crushing cane purchased from non-oppigedars.

  (Paragraph 2B.10.1.1)

- The Company took up modernisation of sugar plant without technical evaluation and Government approval. Though the Company incurred an expenditure of Rs.11.30 crore for modernisation, machinery worth Rs.3.48 crore were not put to use. During the period the Company incurred Rs.20.59 crore on repairs and maintenance of plant and machinery.

(Paragraphs 2B.12.1, 2B.12.3 and 2B.12.5)

- An amount of Rs.3.5 crore spent on refurbishing old crushing mills had become infructuous as most of the sub systems would not withstand the proposed crushing level and hence are to be replaced at a cost of Rs.16 crore.

(Paragraph 2B.12.4)

- The Company has envisaged co-generation project at a cost of Rs.76.35 crore with a capacity to produce 28 MW of power to be completed by January 2002. Delay in the completion of the project has deprived the Company of potential revenue of Rs.36.25 crore per annum anticipated from sale of power.

(Paragraph 2B.13)

- The Company failed to ascertain the actual differential price payable and made excess payment of Rs.2.53 crore.

(Paragraph 2B.15.1)

- Failure to pay sale tax on captive consumption of Rectified Spirit resulted in levy of penalty of Rs.6.35 crore by the State Commercial Tax Department.

(Paragraph 2B.15.3)

- Production incentive of Rs.11.05 crore was paid by applying unscientific method for calculation and in violation of the Government guidelines.

(Paragraph 2B.16.3)

2.3 Sectoral review on the Working of Sugar Mill Unit of The Mysore Paper Mills Limited

The Mysore Paper Mills Limited became a Government Company in November 1977. A sugar Unit with a crushing capacity of 2,500 tonnes per day was established (1985) and a Bagasse pulping plant with an installed capacity of 21,450 tonnes per annum for utilising bagasse in the manufacture of paper was commissioned in 1988-89.

The Company has been making payment of sugar cane prices higher than those fixed by the Government of India. Though the sugar mill was started with the intention of utilising bagasse as a substitute for pulp making, the capacity of the pulp plant was not fully utilised due to problems like mismatch in washing, screening and bleaching sections. Even though the unit is a seasonal industry, permanent work force had almost doubled without any increase in the installed capacity. Some of the important points included in the review are given below:

- The Sugar unit has incurred loss of Rs.23.53 crore during the five year period ending 31 March 2001 mainly due to payment of prices higher than the Statutory Minimum Price fixed by the Government.

  (Paragraph 2C.4)

- The Company was paying higher prices for sugar cane than the Statutory Minimum Price resulting in excess payment of Rs.35.76 crore during the last five years ending 31 March 2002. The Company did not fix final sugar cane prices based on profitability or sugar price realisation in the market.

  (Paragraph 2C.6)

- Quantity of bagasse used for generation of one MT of pulp varied widely from 4.77 MT to 6.38 MT. As the bagasse pulp plant was not utilised to its full capacity, imported chemical pulp was purchased from outside resulting in extra cost of Rs.12.47 crore for the last four years.

  (Paragraphs 2C.9.1(a) and 2C.9.1 (b))

- Even though the crushing capacity remained at 2,500 tpd since commencement of commercial production in September 1985, the permanent labour, which was 194 during 1988-89 increased to 317 during 2001-02 resulting in payment of additional wages amounting to Rs.7.27 crore apart from overtime wages of Rs.45.81 lakh.

  (Paragraph 2C.11 (b))

3 Besides the reviews mentioned above, test check of the records of Government companies and Statutory corporations in general disclosed the following irregularities

Payment of fixed charges by **Karnataka Power Transmission Corporation Limited** without considering the actual dollar denominated fixed charges on the execution of the project would result in an excess payment of Rs.1,041 crore over a period of seven years.

(Paragraph 3A.1.1)

Fixation of purchase price applicable for power produced from non-conventional energy sources to power produced from co-generation plants by **Karnataka Power Transmission Corporation Limited** resulted in additional expenditure of Rs.43.92 crore.

(Paragraph 3A.1.2)

Payment of deemed generation charges to Tannir Bhavi Power Company Limited for 100 per cent of declared capacity instead of restricting the same to 85 per cent by **Karnataka Power Transmission Corporation Limited** resulted in excess payment of Rs.2.84 crore.

(Paragraph 3A.1.3)

Non-fixation of rates by **Krishna Bhagya Jala Nigam Limited** for additional quantities executed over and above 125 per cent of the tendered quantities with reference to Schedule of Rates had resulted in extra expenditure of Rs.8.06 crore

(Paragraph 3A.2.1)

Defective estimation and fixation of rates by **Krishna Bhagya Jala Nigam Limited** for additional quantities with reference to old Schedule of Rates instead of current Schedule of Rates resulted in extra expenditure of Rs.1.06 crore.

(Paragraph 3A.2.2)

Non-lifting of allotted PDS wheat forced **Karnataka State Agro Corn Products Limited** to go in for purchase from private traders by incurring additional cost of Rs.2.27 crore.

(Paragraph 3A.3.1)

Sanction of higher rates by **Karnataka Neeravari Nigam Limited** for excavation of hard rock by controlled blasting, after finalisation of the contract, increased the cost of this item of work from the tendered amount of Rs.39.73 crore to Rs.107.82 crore.

(Paragraph 3A.4.1)

Sanction of higher rates by **Karnataka Neeravari Nigam Limited** for 'excavation of soft rock' without establishing that the strata could not be removed without blasting resulted in extra expenditure of Rs.6.06 crore.

(Paragraph 3A.4.2)

The **Karnataka Scheduled Castes and Scheduled Tribes Development Corporation Limited** released funds without ensuring supply of all the materials to the beneficiaries without obtaining guarantee resulting in Rs.1.19 crore becoming irrecoverable.

(Paragraph 3A.6.1)

Construction of solid concrete parapet wall by **Karnataka Power Corporation Limited**, overlooking the safety of Kaiga Nuclear Station, which was not need based and did not facilitate generation of additional power, resulted in an infructuous expenditure of Rs.1.40 crore

(Paragraph 3A.8.1)