CHAPTER IX: DEPARTMENT OF FERTILIZERS

Madras Fertilizers Limited

9.1.1 Wasteful expenditure due to not utilising the repaired diesel generator engine

Failure to assess the economics of operating the engine before getting it repaired rendered the expenditure of Rs.1.27 crore wasteful.

Madras Fertilizers Limited (Company) installed (April 1998) a diesel generator engine II supplied by M/s. Solar Turbine International Co., Singapore - the original equipment manufacturer (OEM). In the normal course, the engine was due for an overhaul after running for 30,000 hours but due to failure of servo actuator, the engine shut down (September 2003) after running for 27,000 hours.

Following the failure, the Company decided (December 2003) to get the engine overhauled and placed an order (November 2004) on M/s. Wood Group Engineering Services (Middle East) Limited, UAE at a cost of US$ 0.21 million on FOB Dubai airport basis. The cost was revised to US$ 0.24 million (equivalent to Rs.1.13 crore) based on joint inspection in March 2005. The Supplier furnished warranty for 8,000 fired hours or 12 months from installation or 18 months from dispatch, whichever was earlier. The overhauling was to be conducted at Dubai.

The engine after repair was brought to Chennai Air Port on 15 November 2005. The to and fro air freight for the engine was Rs.3.05 lakh. Audit observed that the engine was kept at the air cargo complex till March 2006 resulting in payment of demurrage of Rs.11.41 lakh. Since the Company could not settle the customs duty of Rs.42.00 lakh, the engine repaired at a cost of Rs.1.27 crore[*] was moved to the bonded warehouse and remained there at the time of audit (December 2006). Meanwhile, the warranty period for the repair lapsed on 15 May 2007.

The Management in its replies of January and March 2007 stated that in view of high recurring cost, estimated at Rupees three crore *per* month on High Speed Diesel (HSD), it had been decided in March 2006 not to operate the engine. The failure to take delivery of the engine after paying customs duty was attributed to the financial crunch being faced by the Company.

The Ministry while endorsing reply of the Management stated (July 2007) that innovations and formulations of procedures for sustaining the front end plant during Tamil Nadu Electricity Board power failure had in the meanwhile stopped the need for operation of emergency power generating units and saved high cost of HSD consumption and as such, the engine would not be put into use even if cleared from the customs.

[*] ***Rs.113 lakh plus Rs.11.41 lakh plus Rs.3.05 lakh***

The replies of the Management were not tenable since the Company should have assessed the economics of operating the engine before deciding and inviting quotations to get it repaired and again at the time of exporting the engine for repairs to Dubai in February 2005 and its subsequent joint inspection in Dubai in March 2005. The Ministry's contention that the innovations carried out during May 2006 helped in stopping the use of emergency power generating units was not correct as the repaired engine was received in November 2005 and was not cleared from Chennai airport due to the Company's financial constraints, well before the innovations were carried out. Further, the decision of the Company not to use the engine even if it was cleared from the customs demonstrates that the expenditure on repairs was avoidable and unfruitful.

Thus, the Company's failure to appropriately assess the economics of running the engine before getting it repaired and non-utilisation of the overhauled engine has rendered the expenditure of Rs.1.27 crore (excluding liability for customs duty) wasteful.

Rashtriya Chemicals and Fertilizers Limited

9.2.1 Extra expenditure due to delay in acceptance of offer

Due to delay in acceptance of term loan, the Company committed itself to an additional interest burden of Rs.81.16 lakh.

For financing the technological up-gradation of its Ammonia-V plant at Trombay, Rashtriya Chemicals and Fertilizers Limited (Company) invited (3 October 2005) bids for a term loan of Rs.150 crore from 11 banks. The terms and condition of the offer *inter alia* provided that rate of interest quoted in the bid would be valid for a period of 60 days from the last date (14 October 2005) of submission of the bids. The Company received seven bids in which offer of State Bank of Hyderabad (SBH) received through HDFC Bank for a rupee term loan of Rs.100 crore[1] at interest rate of 6.90 *per cent per annum* was the lowest. Unpriced bids were opened on 18 October 2005 and priced bids opened on 24 November 2005. The committee authorised to finalise the financing submitted its report on 29 November 2005 and recommended further negotiations with the lowest bidder. The Company attempted to negotiate (7 December 2005) reduction in the rate of interest, but SBH did not agree. The Company communicated its acceptance of SBH offer to HDFC Bank on 12 December 2005 after close of business hours. On 13 December 2005, HDFC Bank communicated the same to the SBH, who rejected it on 14 December 2005 on the ground that the validity period of 60 days had lapsed. The Company renegotiated (January 2006) the loan with SBH and accepted (25 January 2006) a term loan of Rs.100 crore at an interest rate of 7.25 *per cent*.

Audit observed (June 2006) that the Company took nearly two months to finalise the loan. Moreover, it incorrectly worked out the last date of validity of offer as 14 December 2005 instead of 12 December 2005. Consequently, delayed communication of acceptance led to taking the loan at a higher rate of interest with a resultant loss of Rs.81.16 lakh over the repayment period[2].

[1] ***Balance amount of Rs.50 crore was financed through State Bank of India as foreign currency loan***
[2] ***From February 2007 to February 2010***

In response, the Company stated (May 2007) that the letter of acceptance of offer had been conveyed on 12 December 2005 within the validity period and that even if the acceptance had been communicated on 13 December 2005 it would have constituted an enforceable contract.

The reply of the Company was not tenable as the acceptance of offer was communicated to SBH on 13 December 2005 after the expiry of validity period compelling the Company to renegotiate the loan at a higher interest rate. Thus, delay in timely acceptance of offer of SBH has caused an additional interest burden of Rs.81.16 lakh to the Company.

The matter was reported to the Ministry in May 2007; reply was awaited (November 2007).