

**KERALA STATE ELECTRONICS DEVELOPMENT CORPORATION LTD.
TRIVANDRUM**

MD/OO- 25 /2005

23 -9-2005

OFFICE ORDER

SUB: PURCHASE PROCEDURES

1. The existing Purchase Procedures of the Corporation have been reviewed taking into account of the Government Stores Purchase Manual ,the developments in communication facilities, the need for reducing the ordering time to meet the present market requirements, the quick movements in the price and changes in cost of items etc. since the last amendment in 1987. The special characteristics of the hightech field in which the company operates and the context of the multi-unit operations have been kept in view in making necessary changes.
2. The revised Purchase Procedures are enclosed. These are applicable to all Business Centres/Units/SBUs of KSEDC Ltd and the Subsidiary Companies can adopt this according to their requirements.
3. These Procedures shall come into effect from 26th September 2005. This supersedes all earlier orders/instructions issued in the matter.

Sd/-
V. RAMKUMAR
MANAGING DIRECTOR

To

The Heads of all Business Centres/Units/SBUs/Branch Offices
The Heads of all Subsidiary Companies
The Heads of all Finance Departments
The Heads of all Purchase Departments
GM (Finance)

**KERALA STATE ELECTRONICS DEVELOPMENT
CORPORATION LTD.**

PURCHASE PROCEDURES

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PURCHASE PROCEDURE

1.0

INTRODUCTION

The following Purchase Procedures shall be followed by all Business Centres/ Units/Divisions/Strategic Business Units (SBUs) as well as Subsidiary and Associate Companies of KSEDC with immediate effect.

2.0

OBJECTIVES

The objectives of all Purchase activities are to ensure:-

- 2.1 that the required materials to prescribed specifications are purchased from reliable sources, in required quantities and at the appropriate time and at the minimum prices,
- 2.2 that fair and consistent practices are followed in making the purchases,
- 2.3 that the financial and legal interests of the organisation are safeguarded at all times, and
- 2.4 that timely supplies are guaranteed.

It shall be the responsibility of the Purchase Staff to ensure that the above objectives are met at all times and to bring any non-adherence to the notice of the Management at appropriate levels.

3.0 PURCHASE REQUISITIONS (PR)

- 3.1 **All PRs for the procurement of Raw Materials, Components and Trading items shall be prepared in the prescribed format, by the indenting department. PRs must be numbered serially.**
- 3.2 The work order/job order/project reference /customer order reference shall be quoted in the PR.
- 3.3 PR for capital items shall be initiated by the department concerned subject to the budget provisions and specific capital sanction from the appropriate authority. A copy of the capital sanction should be forwarded to the Purchase Department along with the P.R.
- 3.4 PRs for miscellaneous revenue items shall be prepared by the Departments requiring such items, in the prescribed format.
- 3.5 Items falling under different categories shall not be mixed up in the same requisition.
- 3.6 It should be ensured by the indenting authority that maximum consolidation of the requirement of each item is made as far as possible, to enable Purchase Department

to negotiate and obtain quantity discounts/lowest prices. Staggered delivery schedule shall be indicated as per the production programme.

- 3.7 In case of proprietary/specified brand goods, the indenter should indicate that such items are selected/preferred for technical reasons or due to customer specifications and certify on the indents accordingly. It is the responsibility of the indenting department, after consulting the purchase department, to be assured that there is no alternate source of supplier for such materials, before sending the PR to purchase department for procurement.
- 3.8 The specification/technical parameters of the items should be comprehensive. Estimated costs and delivery dates are to be mentioned in the PR as realistically as possible based on past experience. The PR normally should be within the production plan for the period and within the overall revenue budget provision. In case of PRs outside budget provision, approval shall be obtained from M.D. The date by which the materials are required for production should also be indicated in the PR.

4.0

TENDERING PROCEDURE

4.1 **Open Tender:**

Except in case of purchases from accredited/approved suppliers and collaborators, open tender must be resorted to if the total estimated value exceeds Rs.50 lakhs for both capital and revenue items. The public tender shall be published in at least two news papers, one in English and the other in the vernacular where the office is situated. In cases where Public Tender is dispensed with, the reasons shall be clearly recorded in writing by the Head of Indenting Department and Head of Purchase Department and prior approval of MD shall be taken. In the case of purchases from collaborators, there should be regular correspondence with collaborators to ensure that the prices quoted are the minimum offered at any point of time.

4.2 **Limited Tender:**

Limited tender enquiries shall be issued to all sources indicated in the PR and other evaluated and enlisted suppliers. The Purchase Department should however ensure that all known sources are adequately covered.

In view of the technological advancement/urgency of requirements, enquiries can be issued by e-mail /Fax. The hard copies of such e-mails should be authenticated by the Head of the Purchase Department.

4.3 **Single Tender:**

Single Tender enquiries may be issued under the following conditions:

- a. Items are of a proprietary nature, available from a single source of supply only.
- b. Items of a specific make or brand is specified by the customer in the Letter of Indent (LOI)/Order.
- c. Items for which specifications are not available and order has to be placed on a specific supplier for make/ brand as authorised in the PR.

- d. Purchase from collaborators.
- e. Purchase from within KELTRON GROUP.
- f. Orders placed on new sources for educational and developmental purposes.

4.4 Mode of submission of tenders and period allowed:

Tenderers may be generally advised to submit the tenders in sealed cover in the prescribed tender form, wherever possible by the opening dates specified in the tender. However, in view of the technological advancements / urgency of requirements, quotations through Fax, e-mail, price list available in the websites and on-line quotations can also be accepted. Hard copies of such quotations to be authenticated by Head of Purchase Department. E-bids can be accepted by appropriate Purchase Committee.

In case of indigenous materials, the tenderer will be allowed a period of maximum one month for quoting, from the date of invitation to tender. (In case of urgency this period may be reduced up to 3 days).

4.5 Rate/Running Contracts:

Rate/Running Contracts may be entered into for a specified period but not exceeding 12 months at a time.

4.6 Low value/cash purchases:

As far as possible, cash purchases should be avoided. Even in case of urgent necessity, cash purchases should be limited to Rs.2000/- per item, limited to Rs.10,000/- in a day and should be made only through the Purchase Department against indents which provides all the relevant details/specifications. Cash purchases should again be as far as possible on "approval or return" basis so that, if not approved for quality reasons, they could be returned to the supplier within 7 days and refund/replacement obtained.

All materials purchased on cash basis must be physically brought to the stores, along with the cash memos/vouchers duly certified by the Indenting Department Head. Stores shall verify such materials and ensure that the items mentioned in the cash memos/vouchers tally both in terms of description and quantity. After the above verification the details will be recorded in a Register maintained in the Stores. The Stores will, then, put a rubber stamp on the face of the cash memo/voucher and enter the serial number which will be called the "Control No.", the date and the storekeeper will sign on the cash memo/voucher. This stamp with the details/signature as above will be the proof for the receipt of materials. Thereafter the Stores will handover the materials and the duly stamped cash memos/vouchers to the person concerned (indentor) after obtaining the signature of such person in the register.

Before giving cash purchase requisitions it must be ensured by the indentor that the material is not available in the Stores and is required urgently. In cases of cash purchase requisitions also the Purchase Department at its option may call for quotations before arranging the purchase.

4.7 **Emergent purchases:**

Emergent purchases may be made against quotations collected by hand/phone. Such purchases, for a value not exceeding Rs. 15,000/- on each occasion subject to a ceiling of Rs.50,000/- for a calendar month, shall have the prior approval of the Head of the Purchase Department.

5.0 **SOURCING OF MATERIALS**

As far as possible purchase shall be made directly from the manufacturers. However in cases where a manufacturer, as a policy, does not sell directly, purchases may be made through an approved dealer of the manufacturer. In cases where the required materials are manufactured by any of the Keltron Units, the same shall be procured only from them.

5.1 **Price preference to Small Scale Industries in Kerala:**

The following price preference shall be allowed for products of Small Scale Industries within the State of Kerala as a measure of encouragement to local Small Scale Industries:

- a. 15 per cent over the products of industries outside the State.
- b. 5 per cent over the products of medium and large scale industries in the Private Sector within the State.
- c. “2 per cent additional preference shall be given to the products of SSI Units having ISI certification marks over the products of SSI Units without ISI certification marks”.

Wherever the price quoted by local Small Scale Industries is considered exorbitant (after allowing for the prescribed price preference allowed to them) when compared to products of industries outside the State or the quality of the article is considered decidedly unsatisfactory, purchase from outside the State can be resorted to. When such outside the State purchases are considered necessary, the Purchasing Department should refer the matter for decision of the Purchase Committee

While it is necessary to ensure that the goods purchased are of requisite quality, too high specifications should not be resorted to.

The local Small Scale Industries will not be eligible for any price preference over products of Government units and the State Government's Public Sector Undertakings.

6.0 **ACCEPTANCE OF TENDER**

All tenders received before the closing time of the tenders shall be considered. Delayed tenders received before opening the tenders may be accepted by the Head of Purchase Department at his discretion. However full justification for accepting the same should be recorded in writing. A representative from Finance Department shall be present at the time of opening of Public Tenders. All tenders received and

opened should be entered in a tender register which should be preserved for five years. The tenders shall be attested by the representatives of Purchase and Finance Departments.

7.0 PURCHASE POWERS

The following officers will have the purchase powers, in each case, subject to provisions under paragraph 8 and 9 of this document.

Asst.Purchase Officer/ Dy. Purchase Officer	not exceeding	Rs. 2,000/-
Purchase Officer	” ”	Rs. 3,000/-
Sr. Purchase Officer	” ”	Rs. 5,000/-
Asst. Manager (Purchase)	” ”	Rs. 8,000/-
Dy. Manager (Purchase)	” ”	Rs. 12,000/-
Manager (Purchase)	” ”	Rs. 30,000/-
Head of Purchase Department / Head of SBU [above the rank of Manager]	” ”	Rs. 50,000/-

8.0 PURCHASE COMMITTEE

- 8.1 All purchase proposals for order values between Rs.50,001 to Rs.2 lakhs shall be approved by a Committee comprising of the nominees of Purchase Department, Finance Department and departments concerned of the originating SBU/Unit and Head of the SBU/Unit concerned as Chairman. The Chief Executive of the Complex/Business Centre shall issue orders for setting up the committee of different SBUs/Units concerned.
- 8.2 All purchase proposals for order values above Rs. 2 lakhs up to Rs. 25 lakhs in each case shall be approved by a Committee comprising of Heads of Purchase, Finance departments concerned of the originating SBU/ Unit,head of the SBU concerned and the Chief Executive of the Business Centre as the Chairman . The Managing Director shall issue necessary orders setting up the Purchase Committee of the Business Centre concerned.
- 8.3 All purchase proposals for order values exceeding Rs. 25 lakhs shall have the approval from Managing Director. However, in the case of Business Centres directly under Executive Directors, only those orders which are above Rs. 50 lakhs in value shall be referred to MD for approval.
- 8.4 Whenever reference is made to Corporate Office, all correspondence along with the original tender made by the Corporation to the ultimate supplier should be forwarded.
- 8.5 Amendments to Purchase Orders not involving financial implications, whether directly or indirectly, shall not be referred to the Purchase Committee and may be

finalised in consultation with the indenting Department.

- 8.6 Amendments may be issued by the Purchase Department in the case of variation in the supply of raw materials like sheets, rods etc. to the extent of 5% of the value of the Order.
- 8.7 All capital purchase above Rs. 50 lakhs shall be reported to the Board.

9.0 FINANCIAL CONCURRENCE

- 9.1 All Purchase Orders of value exceeding Rs.10000/- shall be released after obtaining financial concurrence of the Finance Department of the Business Centre/Unit contemplating pre-audit as well as funds availability. Stocks on hand and under order must also be reconsidered before granting concurrence. The Finance Section/Department should dispose of all such cases most expeditiously and in any case within three working days.
- 9.2 All observations of the Finance Department shall be resolved by the Heads of Purchase, Finance and Indenting Departments / SBUs before final issue of the Purchase Orders.
- 9.3 Where there is a difference of opinion between the heads of Purchase, Finance and Indenting Departments/ SBUs, the same must be referred to the Unit/Business Centre head. The Unit / Business Centre Head shall give his decision in writing and the decision shall be final. If any observation of the Head of Finance Department gets over-ruled by the Unit / Business Centre Head; the former may send a factual report to the Head of Corporate Finance through the Unit / Business Centre Head

10.0 SIGNING OF PURCHASE ORDERS

- 10.1 Purchase Orders may be signed by the officers who have the delegated authority to approve the same.
- 10.2 Amendment to the purchase orders shall be signed by an officer one step above the Officer who originally approved the Purchase Order or by the Head of the Purchase Department
- 10.3 All Purchase Orders exceeding Rs. 50,000/- in value shall invariably be signed by the Head of Purchase Department or by the Head of SBU/Unit/Business Centre.

11.0 REPEAT ORDERS

- 11.1 Repeat Orders may be placed where the original order was finalized on the lowest quotation within 6 months from the date of issue of the original order and not exceeding 100% of the original ordered quantity each time. Before the issue of the repeat order, Purchase Department should be satisfied that there has been no downward trend in the market price of the material involved.

- 11.2 The original order shall not be an emergency order or an order placed on preferred delivery basis.
- 11.3 Efforts should invariably be made to obtain quantity discounts from the supplier wherever possible.

12.0

NEGOTIATIONS

Negotiations may be carried out with the lowest tenderer by the Officers of the Purchase Department, within the delegated authorities, to bring down the prices and also for better terms of credit, delivery, etc. All negotiations must be done only along with competent financial authority.

13.0

AB-INITIO NEGOTIATIONS

Ab-initio negotiations may be undertaken jointly by Heads of Purchase, Indenting Department / SBU and Finance Department or their nominees, where the number of suppliers are limited or availability of in-house facility is inadequate or when items are of such nature, which is not readily available in the market. The proposals of the Committee shall be put up to the Head of Unit/ Business Centre for approval.

14.0

ACCEPTANCE OF STORES

All items shall be inspected by the Inspection Group concerned within three days and shall be taken into stock only after their approval.

15.0

TERMS OF PAYMENT

- 15.1 Normal terms of payment are 95% within 30 days from the date of receipt of materials at our stores and 5% after acceptance. Wherever possible additional credit must be negotiated without increase in the prices.
- 15.2 Payments ranging up to 100% against proof of despatch may be agreed, taking into consideration aspects like the proprietary nature, monopoly source of the material supplied, the standing and reputation and/or previous performance of the supplier, pre-inspection of the goods at the supplier's premises.
- 15.3 Any other terms of payment may be accepted in exceptional cases in consultation with the Head of Finance Department and the Unit/ Business Centre Head.
- 15.4 Advance payment to suppliers against purchase orders is usually prohibited. However, in exceptional circumstances up to 100% such payment may be made against bank guarantee given for the amount advanced, such guarantee being valid for the entire delivery period including extended delivery period. Advance payment shall be made only with the specific approval of the Unit/ Business Centre Head. In the case of subsidiary and associate companies within the Keltron Group, advances may be granted, as may be necessary/agreed without bank guarantee against a purchase order.

16.0

IMPORTS

- 16.1 All formalities of tendering specified for indigenous purchases shall be adhered to in the case of imports also. Offers from all possible sources shall be obtained, a comparative statement of the offers shall be prepared by the Purchase Department before forwarding the files to Finance Department for approval
- 16.2 No agency commission shall be entertained or paid wherever purchases are from collaborators.
- 16.3 In cases of purchases from suppliers other than collaborators, as far as possible purchases should be directly from manufacturers. The Indian Agents, if any, may be asked to submit details of the volume of business carried out by them before finalising the orders.

17.0

PAYMENT TO FOREIGN SUPPLIERS

- 17.1 Normally terms of payment to foreign suppliers should be against Sight Draft. However, L/C may be established wherever the foreign supplier insists on such payments. Credit should be negotiated wherever possible.
- 17.2 In exceptional circumstances, advance payment by TT/Demand Draft could be resorted to, with the prior approval of the Head of Finance and Head of Unit/ Business Centre.

18.0

IMPORT DUTIES

The rate of import duties charged by the customs shall be verified and certified by the Purchase Officer concerned before passing the bills to Finance Department. In case any discrepancy in the rate of duty imposed is noted, immediate action shall be initiated by the Purchase Department to lodge necessary refund claims or appeals. Duty must be paid in such cases under protest.

19.0

PRICE ESCALATION

Purchase should normally be made on firm price. In exceptional cases where the rates quoted depend on statutory or otherwise controlled prices etc. or in case where material costs are liable to wide fluctuations, price escalation may be accepted. However, escalation on account of wages should not be accepted. Escalation if accepted, the purchase orders should clearly specify the escalation basis/formula and supporting documents to be produced. However, price escalation occurring during extended delivery period should not be allowed or accepted.

20.0

PRICE INCREASES DUE TO STATUTORY LEVIES

- 20.1 Where the price increases demanded by the suppliers arise from any Governmental

action or are due to statutory variations in the rate of customs duty, excise duty, sales tax etc. beyond the control of the supplier, increase as applicable may be considered at actuals, if sought by supplier, provided such a stipulation had been made in the original quotation and the purchase order issued. Amendment to Purchase Orders for such price increase shall be issued. Increase on account of statutory levies during the extended delivery period beyond the originally agreed delivery date should not be considered except for reasons of force majeure.

21.0

REJECTION/SHORT RECEIPTS

- 21.1 Value of rejections/short receipts against particular Goods Receipt Cum Inspection Report (GRCIR) on which payment is still due to the supplier, should be adjusted from the relevant bill of the supplier.
- 21.2 Where the value of material rejected/short received is Rs. 50/- or below as per GRCIR, the Finance Department will not raise any debit note on the supplier and necessary adjustments will be made in the books of accounts without further reference to anyone.
- 21.3 If the rejections or short deliveries are within 3% or below in case of supplies made by Companies like BEL, ITI or any other industry, which imposes such a condition before placing the order, as a matter of their Company's policy, Purchase and Stores Departments will not insist for replacement and no debit note for the same will be issued by the Finance Department. Finance Department will make the adjustments in the books accordingly. However when such rejections or short deliveries get repeated regularly, adequate provision should be made in the purchase order and the same may be brought to the notice of the suppliers by the Purchase Department.
- 21.4 Stores department shall ensure that rejected materials are returned to the parties within the time stipulated by the suppliers and in other cases within 15 days of receipt of the material under intimation / acquittance.

22.0

LIST OF SUPPLIERS FOR VARIOUS CATEGORIES OF STORES

- 22.1 A list of approved/recognised/reputed suppliers shall be maintained by the Purchase Department and kept updated from time to time. Inclusion or deletion of supplier's name in the approved list shall be made only based on the recommendation of the head of the Indenting/QA/Purchase Department and approved by the Head of SBU//Unit/Business Centre.
- 22.2 A quarterly statement of "bad"/"blacklisted" suppliers shall be forwarded to Corporate Office for information. The Corporate Office should in turn inform other Business Centre /Units/SBUs suitably.
- 22.3 Corporate Office shall be kept informed of new sources of supply developed by the SBU/ Business Centre so that the information may be made available to other SBUs/ Units/Business Centres for the common benefit of the Corporation/Group.

23.0

COST OF TENDER DOCUMENTS IN THE

CASE OF PUBLIC TENDER

The Tender documents may be sold at Rs. 100/- per document or higher. Proper accounts for the receipt of money and issue of tender documents shall be maintained by the Purchase Department concerned.

24.0 SUPPLY OF TENDER DOCUMENTS FREE OF COST

Tender documents may be issued free of cost, on request, to Government Departments, State/Central Government Companies, consulates of Foreign Governments in India and Small Scale Industrial Units borne on the list of National/State Small Scale Industries Corporations.

25.0 RETENDERING

In cases where prices quoted in respect of tender invitation are found to be unreasonably high and the materials are urgently required, the Purchase Committee/Head of Purchase Department/Purchase officers may negotiate with the lowest tenderer to reduce the prices and finalise the order as per the procedures laid down. Alternatively, in case, adequate time is available, fresh tenders may be invited in respect of same materials; but due regard is to be paid to the relative costs.

26.0 MODE OF TRANSPORT

The delivery of materials should be arranged by the cheapest mode of transport, subject to the safety of the materials. But if the materials are required urgently or if there is difficulty or delay in getting the cheapest mode of transport, a faster mode of transport may be sanctioned by the Head of the Business Centre/Unit..

27.0 INSURANCE

27.1 Insurance cover for the materials despatched shall be arranged as per the procedures/policy of the Corporation. However wherever the supplier quotes the price on FOR destination basis, the insurance cover shall be arranged by the suppliers themselves.

27.2 The Finance Department of the Unit/Business Centre / Corporate Insurance Department/ and the Insurance Co. through which the transit insurance is arranged shall be immediately advised of the transit damages, if any, and proper insurance claim should be lodged promptly. Arrangements for survey by the insurance company should be made wherever necessary before removal of the goods.

28.0 DEMURRAGE

Demurrage charges should usually not be incurred. However in exceptional cases where this is

inevitable, the same should be kept to the minimum and paid only with the approval of the Head of the Unit/ Business Centre. Ordering should be done in a planned manner to avoid any demurrage charges. A quarterly statement of incidences where demurrage charges exceeds Rs.10,000/-explaining the reasons for incurring the same shall be forwarded to the Managing Director.

29.0

MANAGEMENT REPORTING

The Head of the Purchase Department in each Business Centre/Unit/SBU should arrange for submission of quarterly reports to the Corporate office on all important aspects of the purchasing activity as below:

- a. ABC analysis of the items purchased.
- b. Details of purchase orders placed for A Class items along with the name & address of suppliers and terms of payment.
- c. Specification of the items purchased.
- d. Value of the A Class items purchased during the quarter
- e. Name and address of all the new sources developed for any item.
- f. Details of purchase of proprietary articles.

30.0

DEVIATIONS

In case where deviations from the prescribed purchase procedure are considered necessary, prior approval of the Unit/ Business Centre Head shall be obtained by furnishing sufficient justifications for such deviations and the reasons thereof should be recorded in writing. All such proposals shall be routed to the Business Centre/Unit Head through the Head of Finance Department. Wherever there is a deviation involving financial implication, the same should be referred to Corporate Office.
