C. P. U. No. III

COMMITTEE ON PUBLIC UNDERTAKINGS 1968-69

(FOURTH LOK SABHA)

TWENTY-SEVENTH REPORT

HINDUSTAN CABLES LIMITED

[Paras in Section II of Audit Report (Commercial), 1968]

MINISTRY OF INDUSTRIAL DEVELOPMENT,
INTERNAL TRADE AND COMPANY AFFAIRS

LOK SABHA SECRETARIAT
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C O R R I G E N D A

Twenty-Seventh Report of the Committee on Public Undertakings on Hindustan Cables Ltd. (Paras in Section II of Audit Report (Commercial), 1968).

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CONTENTS

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(1968-69)

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SECRETARIAT

Shri A. L. Rai—*Deputy Secretary.*

Shri M. M. Mathur—*Under Secretary.*

INTRODUCTION

I, the Chairman, Committee on Public Undertakings, having been authorised by the Committee to submit the Report on their behalf, present this Twenty-seventh Report on Hindustan Cables Ltd. which is based on the examination of audit paras relating to thir undertaking contained in the Audit Report (Commercial) 1968.

2. The Committee took evidence of the representatives of the Ministry of Industrial Development and Company Affairs and Hindustan Cables Ltd. on the 23rd September, 1968.

3. The Report was considered and adopted by the Committee on 16th January, 1969.

4. The Committee wish to express their thanks to the officers of the Ministry of Industrial Development and Company Affairs and the Hindustan Cables Ltd., for placing before them the material and information that they wanted in connection with their examination.

5. The Committee also place on record their appreciation of the assistance rendered to them in this connection by the Comptroller and Auditor General of India.

G. S. DHILLON,
Chairman,
Committee on Public Undertakings.

NEW DELHI;
January 29, 1969.
Magha 9, 1890 (*S*).

I

INTRODUCTORY

The Hindustan Cables Limited (HCL) was incorporated on the 4th August, 1952 and took over the project for the manufacture of telecommunication cables in India which was being run at that time by Government as a departmental undertaking. As countrywide communication is a monopoly of the Indian Posts and Telegraphs Department, that Department is practically the sole customer of the products manufactured by the Company.

1.2. The authorised capital of the Company is Rs. 3 crores divided into 30,000 shares of Rs. 1,000 each. The issued and subscribed capital of the Company as on the 31st March, 1967 was Rs. 279.47 lakhs (including advance of Rs. 65 lakhs for shares). Government have also from time to time advanced to the Company unsecured long term loans which stood at Rs. 162.60 lakhs on the 31st March, 1967.

1.3. Besides, the Company has cash credit arrangements with the State Bank of India to the extent of Rs. 500 lakhs. The amount outstanding in the cash credit account of the company as on the 31st March, 1967 was Rs. 402.67 lakhs.

II

EXPANSION PROGRAMME

A. Increase over Estimates

Para 3, *Pages* 79—81

2.1. The Company has taken up the following five expansion projects to supplement the existing capacity or to introduce new lines of production:—

1. Extension of dry core cables to 3,200 Km. per annum.
2. Plastic insulated telecommunication cables.
3. Installation of wire drawing plant.
4. Manufacturing unit for aluminium sheathed cables.
5. Expansion of the existing capacity of the dry core plant up to 8,000 Km. per annum.

2.2. Besides, it proposes to take up the following three projects:—

1. Establishment of a second cable factory at Hyderabad.
2. Copper coated steel wire project.
3. Type 174 coaxial cable project.

2.3. The table below indicates the estimated and actual costs as also the scheduled and the actual dates of completion of the five expansion projects which have been taken up:—

Sl. No.	Name of project	Cost (Rs. in lakhs) Original estimate	Revised estimate	Actual	Complete date Scheduled Original	Revised	Actual
1	Extension of dry core cables to 3,200 Km. per annum.	112.00	143.03	133.50	May, 1963	May, 1965	Oct. 1965
2	Plastic insulated telecommunication cables.	45.50	54.32	49.41	Do.	Do.	Do.
3	Installation of wire drawing plant.	21.11	32.84	32.44	Do.	Do.	Do.
4	Manufacturing unit for aluminium sheathed cables.	212.00 (including township)	..	7.20 (upto May, 1967)	December 1968	..	In progress.
5	Expansion of the existing capacity of the dry core plant up to 8,000 Km. per annum.	509.00 (including township).	..	32.96 (upto May, 1967)	March, 1968	..	Do.

2.4. For the increase in the revised estimates over the original estimates of the projects at S. Nos. 1 to 3, the management stated (May, 1967) that the original estimates drawn up in June, 1960 on the basis of the information supplied by the consultants in 1959 were tentative and had to be revised in May, 1963 after detailed study.

2.5. The Managing Director of Hindustan Cables Limited stated during evidence that after obtaining sanction of the project, which was originally based on the general order of figures that were given by the collaborators Messrs Standard Telephones and Cables of England, global tenders were invited for importing machinery and from indigenous sources with respect to the Indian machinery. The variations in prices over the original estimated figures came to light after the tenders had been received in respect of various items at different times. It was only when sufficient information had been collected with respect to the various items of machinery and buildings that the project estimates were revised in 1963.

2.6. Explaining the reasons for increase in the revised estimates over the original estimates of the three projects, the Secretary, Ministry of Industrial Development and Company Affairs stated during evidence that a number of items had to undergo changes because the original estimates were based on rough estimates given by the collaborators. When tenders were invited, costs were found to be different. In the case of Plant and Machinery, the price estimates on the basis of the indications given by the collaborators and the price as exactly put in the tender differed by as much as Rs. 20 lakhs. Besides this, certain items of services which had not been fully provided for led to a difference in cost by Rs. 5 lakhs. In respect of factory building, the final costs were Rs. 22 lakhs higher than the costs as initially estimated and the variation in various items including installation charges was Rs. 4 lakhs. The increase over original estimates was also due to the revision in lay-out of plants for better production. In one case, there was a provision far over-head entry of drums which led to extra expenditure of Rs. 6 lakhs. A new site was provided for switch board wire and wire drawing project, keeping in view space for expansion. In the original estimates it was assumed that some space for co-axial shaft would be available while space was allotted for the switch board project. Later, however, it was found that P & T Department would require further production of the coaxial shaft, so that this particular space, which had been earmarked for the switch board wire and wire drawing project was no longer available. The original provision for the switch board project was Rs. 3.90 lakhs, but later due to non-availability of covered area, Rs. 8.46 lakhs had to be spent for this space. The result was that in the new space they had to incur an extra expenditure of about Rs. 6 lakhs. Similarly, there was some increase in the cost of service lines in water drainage, sewage lines and tanks etc. which were not originally provided for. The total increase in cost amounted to Rs. 51 lakhs on account of all these reasons.

2.7. The Comptroller and Auditor General pointed out that according to the figures given, it looked as though the original estimates of figures had been taken out of the detailed project report and the revised estimates were possibly on the basis of the revision as a result of further increase in price and so on. The Secretary, Ministry of Industrial Development and Company Affairs clarified that the revised estimates were framed on the basis of quotations received whereas at the time of original estimates no quotations had been invited. The quotations were very different from the figures which had been put in the estimates, and therefore, the revised estimates were on the basis of actual quotations received.

2.8. The Comptroller and Auditor General further stated that in this particular case the Company did not have the normal type of consultants. M/s. Standard Telephones and Cables were acting more as over-all advisers. They did not prepare a project report. They gave certain data and on the basis of that the Hindustan Cables Ltd. prepared its own project report and the project estimates. It was somewhat unusual from the normal type of cases in which the consultants could be bound down in certain things. In fact, the idea was to avoid using the foreigner to the maximum extent possible. The Managing Director of Hindustan Cables Limited stated that it was the first time that the Company had undertaken this detailed work of engineering, planning and installation. As a result of this effort, it saved nearly Rs. 8 lakhs on commission alone which would otherwise have had to be paid to the Standard Telephones and Cables in case they had to do all the detailed work.

2.9. The Committee while appreciating this effort at self reliance cannot help but observe that the project report and estimates prepared by the Company were unrealistic. In an effort to save Rs. 8 lakhs on commission, the Company framed unrealistic estimates which resulted in an increase of Rs. 51 lakhs in cost for the reason enumerated above.

2.10. The very fact that in respect of the projects at 1 to 3, the revised estimates were Rs. 51.58 lakhs higher than the original estimates, and the actual expenditure was Rs. 14.84 lakhs less than the revised estimates shows that the estimates—original and as well as revised—had been prepared unsatisfactorily.

2.11. Whereas the increase of Rs. 20 lakhs over the original estimates in respect of Plant and Machinery can be attributed, to a certain extent, to variations in prices after the tenders had been received, the difference of

Rs. 22 lakhs in respect of final cost of factory buildings, Rs. 5 lakhs for items not fully provided for and Rs. 4 lakhs for installation charges cannot be viewed with equanimity. Fairly accurate estimates in respect of these items could have been prepared. The Committee regret that sufficient care was not exercised in drawing up the original estimates. The net result of these faulty estimates was that the capital cost went up considerably and the entire economics of the project was adversely affected.

2.12. It is a common phenomenon in respect of public undertakings that there are invariably extensive differences between original estimates and the revised estimates. This is bound to create an impression in the public mind that original project estimates are kept deliberately on the low side in order to obtain the approval of the Government. Once the project is a *fait accompli* **the Government is left with no alternative but to accept the subsequent increases in the estimates.**

2.13. The Government should lay down adequate guidelines to ensure that fairly accurate project reports and estimates are prepared by undertakings in future. If the estimates have to be increased subsequently due to factors which could or should have been taken into account at the time of preparation of original estimates, the persons responsible for such omissions should be suitably dealt with.

B. Delay in completion

Para 3, *Pages* 80-81

2.14. The management assigned (May, 1967) the following reasons for the delay in completion of the projects at S. Nos. 1 to 3:—

(a) Delay in receipt of controller materials *e.g.* cement, steel, GI. pipes, etc.

(b) Delay in receipt of funds from Government. The Management further stated (October, 1967) as follows:—

(i) "Since the sanction to the projects was received from the Government in April, 1961, it gave 25 month's time for completion of the projects. This date, however, proved to be unrealistic. Apart from normal delays involved in obtaining foreign exchange release, placing of indents on Director General of Supplies and Disposals, London, difficulty in procuring controlled materials like cement, steel pipes, G.I. pipes, etc. it was noticed that the deliveries of machines offered by the suppliers were such which would not have enabled Hindustan Cables

Limited to complete the projects within the completion date originally envisaged".

(ii) "Immediately after firm indications of supply of machinery, etc. were available, a revised project report was prepared and submitted to Government during May, 1963 giving May, 1965 as the probable completion date".

2.15. On the question of delay in completion of expansion projects due to non-availability of items such as steel, cement, GI pipes etc., the Secretary Ministry of Industrial Development & Company Affairs stated during evidence that from 1961 onwards, the position regarding supply of cement and steel in particular was difficult and there were a number of priority projects of the Government as well as in the private sector which were simultaneously competing for the scare raw materials which had to be allocated to meet reasonable demands. Hindustan Cables Limited were unable to meet the entire demand from the indigenous production in time.

2.16. The Secretary of the Ministry further stated during evidence that so far as the first three projects were concerned, the Government were approached for sanction of the projects in June, 1960. The Planning Commission and the P & T Department gave their approval to the projects in September, 1960. The projects were then examined in consultation with the Ministry of Finance with a view to see that foreign exchange would be made available. The project was finally sanctioned in April, 1961 and the indents for machinery were placed in May, 1961.

2.17. He further stated that the date for completion of the expansion of the existing dry core plant was originally scheduled as March, 1968. It was now expected to be completed by the end of 1970. The main reasons for delay in this project was the anxiety of the Government to obtain most of the equipment from indigenous sources. Most of the equipment was being manufactured in India for the first time and there had been lot of difficulties in getting it manufactured. It was being manufactured both in the public as well as private sector. There were various items of machinery which had different delivery dates but the longest delivery item was a Lead Press. The indent for this item was placed on the DGSD London in May, 1961, and the machine was received in January, 1965. He added that Lead Presses and armouring machines were being manufactured by HEC and three other items by private sector firms. None of the orders, whether on public sector or on private sector, had fructified yet and most of the machines still remained to be delivered. The total amount of machinery included in the estimate of Rs. 509 lakhs, was worth Rs. 310 lakhs. Out of this, machinery worth Rs. 150 lakhs was to be obtained indigenously. Due to failure of the Indian suppliers they had, however, increased the import content by Rs. 100 lakhs. The witness further stated that the import of machinery had been deliberately delayed because the Indian machinery had been delayed.

2.18. The Managing Director of Hindustan Cables Ltd., stated during evidence that due to the delay in the receipt of the indigenous machinery, plant had gone two years off the schedule. About Rs. 15 lakhs worth of indigenous machinery had been received. The order on the Heavy Engineering Corporation for Rs. 22 lakhs worth of machinery was placed in August, 1965. There was a small order on the Mining and Allied Machinery Corporation, Durgapur for about Rs. 5 lakhs. The Secretary of the Ministry stated that although there was a penalty clause it was not always possible to enforce it because damage had to be proved first. Besides this, as these were developmental items, the Ministry had themselves been a little lenient.

2.19. When asked during evidence whether there had been delay in the import of any machinery the price of which must have gone up because of devaluation and whether that would count as a factor for claiming damages or not, the Secretary, Ministry of Industrial Development & Company Affairs stated that it could be argued that as these firms did not give delivery in time so they could not order the machinery abroad earlier. These were legal matters and it became very difficult to establish the actual damage.

2.20. Replying to the objection that when HEC were complaining that they were short of orders how was it that they could not comply with the orders in time, the Secretary, Ministry of Industrial Development & Company Affairs stated that both the facts were correct. They were short of orders, but some of the orders which had been placed on them were developmental in nature. All the private sector cable industries had been suffering from lack of orders only for the last year after the recession. Before that, they had sufficient orders. In the Industrial Policy Resolution the item, "telephone cables" was reserved for public sector. The question was whether further expansion of Hindustan Cables Ltd. should be affected or the private sector cable manufacturers should be allowed to diversify production. It would require a change in the Industrial Policy Resolution. The private sector cable manufacturers with their existing machinery would not be in a position to manufacture telephone cables straightaway. They would also have to import certain machines, before they would be in a position to manufacture. These questions had to be studied in the context of a new project for expansion of cables. The Company had supplied practically the entire requirements of the P & T Department in the last two years. There was, however, some amount of shortfall in the demand and production.

2.21. To the criticism that on the one hand they had not been able to meet the demand of the telephone industry and on the other hand, they were not pressing for the delivery of machines for the manufacture of cables, the Secretary Ministry of Industrial Development & Company Affairs replied that it was a very difficult decision to take whether to expand production of a particular item more rapidly by import or whether a certain amount of delay which was involved in producing indigenous machinery might be accepted. Regarding the delay caused by the Heavy Engineering Corporation the witness stated that there had been considerable discussion with the Heavy Engineering Corporation and they had revised their time schedule of supplies more than once.

2.22. The management have further intimated that when the project for the expansion of the cable factory was being considered in 1964, the position about foreign exchange was becoming very tight. Efforts were made therefore to reduce the foreign exchange component of the project by attempting to get the required cable making machinery designed and developed in India. Discussions were held with HEC, and they were given design assignments in 1964 for some of the heavier types of equipment like Lead Sheathing Press and Cable Armouring Machines.

2.23. Subsequently, orders were placed in 1965 on HEC for supply of one Lead Press and three Armouring machines. Orders were placed later on for some other machines also. Details of the orders with values, delivery dates etc. are given in the statement at the following page:

Sl. No.	Detail of Machinery	Date of Order	Nos.	Total value	Delivery date	Revised delivery date & present position
1	Lead Extrusion Press	26-8-65	1	Rs. 4,50,000 (Excluding hydraulic pumps & controls, die block).	1st Quarter 1967	1st Revision June., '68 2nd „ Dec., '68 3rd „ Dec., '69
2	Armouring machine . .	21-9-65	3	Rs. 6,67,800 (Excluding fluid couplings).	March, 1966	1st Revision Dec., '66 2nd „ May, '67 3rd „ Dec., '67 4th „ Aug., '68 *1st machine to be delivered by end of Oct., '68.
3	Armouring machine . .	14-10-66	3	Rs. 8,20,000 (Excluding fluid coupling).	Dec., 1967	April, '69
4	Heavy Rewinding machine .	7-3-67	1	Rs. 1,80,600	1st Quarter 1968	Dec., '68.
5	Cable Drum Take-up Stand .	11-7-68	1	Rs. 20,000	January, '69	
6	Universal Die Block . . .	18-11-67	1	Rs. 43,780	December, '68	..
7	Components for conversion of Hessian Protection machine to Steel Tape Arm.m/c.	(1)14-12-66 (2)17-3-67	Lot Lot	Rs. 33,420 Rs. 9,600	Dec., '67	Revised delivery to be established.
		Total Value		Rs. 22,25,200		

*The Ministry have not indicated whether the machine has actually been delivered.

The delivery schedule in respect of the other two armouring machines has not been indicated.

2.24. It has been stated that Hindustan Cables Ltd. have continuously been in touch with HEC both by correspondence and by personal visits of officers to review the progress made on the orders placed on HEC and to chase the supplies.

2.25. In August, 1966 HEC informed HCL that the delivery of Lead Press would be shifted from early 1967 to June, 1968 and of the Armouring Machines from March, 1966 to December, 1966. The Ministry of Industry was informed by HCL in April, 1967 that it was felt that some more effort on the part of HEC was required as they had the impression that HEC did not appear to be quite sure about the deliveries.

2.26. On the 24th April, 1967 the Chairman, HEC, explaining the position about manufacture and the difficulties HEC were experiencing, wrote to the Managing Director of HCL as follows:—

> "You are aware that we took up the manufacture of this Lead Extrusion Press at a time when our Foundry Forge Plant was absolutely not in a position to manufacture the heavy castings and forgings required for a press of this size. It was clearly anticipated both by yourselves and ourselves at that time that these heavy castings and forgings should be imported. The drawings for this press were developed by the end of 1964. The import lists for forgings, castings and hydraulic packings were prepared and sent to USSR in March, 1965 to get quotations from M|s. Prommashexport with a request to supply them by January, 1967. There was no reply at all from M|s. Prommashexport and when our General Manager and Chief Design Engineer, H.M.B.P. visited the Soviet Union in November, 1965, they personally requested the Soviet authorities to assure us about the supply of castings and forgings. Unfortunately only in March|April, 1966, the Soviet authorities categorically refused to supply these castings and forgings and they did not change their decision in spite of the best persuasion and request of General Manager, HMBP. The result was that we were compelled to place orders on our Foundry Forge Plant for these heavy castings and forgings in June, 1966. Now our Foundry Forge has given delivery schedules of some of the heavier castings and forgings only in May, 1968. We are trying our best to accelerate these delivery schedules and as soon as those castings and forgings are ready, we will be in a position to do the necessary machining and supply the Lead Extrusion Press as soon as possible.
>
> 2. Regarding the Cable Armouring machine also, we faced similar difficulties in respect of procurement of castings. Even to

this date, there are nearly 68 items of small grey iron and steel castings which have not yet been procured. This difficulty has arisen because we placed orders for these castings and forgings on outside firms at a time when Foundary Forge Plant was not completely ready to supply these and subsequently on the delivery schedules being broken, we had to transfer this order to Foundary Forge. Since this order consists of a large number of small items and wide variety of purchased items, which take time to procure, we are now taking all possible steps to arrange procurement of all these small castings and purchased items including tools, that do not fall directly under our own items of manufacture. We shall try our best to complete the machines as soon as possible since several items are already in the shops undergoing machining. Once the first machine or two go out of our shops we shall be able to manufacture all the balance machines which you require and supply them to you at short intervals."

2.27. The position of deliveries of the various machines was reviewed at Ranchi on the 16th June, 1967 by the Managing Director, HCL with the Chairman, HEC. The delivery of the lead press was pushed back to end of 1968 and that for the 1st Armouring Machine to end of 1967. It was also agreed at this meeting that HEC were to get a bonus for early deliveries of lead press than that promised and that there was to be a penalty in case of delayed deliveries.

2.28. In February, 1968, it was observed by the HCL officer visiting Ranchi that the progress on the manufacture was not satisfactory.

2.29. A meeting was again held at Ranchi between Managing Director, HCL, and General Manager, H.M.B.P. (HEC) on 2-5-1968 to discuss the expected delivery of the lead press and it was found that it would be delayed further from December, 1968 to December, 1969.

2.30. The Committee are surprised to note that while taking the decision to import heavy castings and forgings required for these machines, no effort was made either by Hindustan Cables Ltd. or Heavy Engineering Corporation to ascertain from the foreign suppliers whether they would be prepared to supply these castings and foregings. Had this been done, the one year lost in obtaining a reply from the Russian sources could have been more purposefully utilised in the manufacture of these items in the Foundry Forge Plant of H.E.C.

2.31. The Foundry Forge Plant on whom order was placed in June, 1966, was able to inform the Heavy Machine Building Plant (H.E.C.) only

in April, 1967, almost after one year, that it would be able to supply some of the heavier castings and forgings in May, 1968. This shows a lack of promptness in Foundry Forge Plant and an unfortunate absence of awareness in H.E.C. to the need for quick and prompt execution of orders.

2.32. Similarly the procurement of castings for various items of armouring machines has been delayed by H.E.C. Had prompt action been taken initially, the present difficulty would not have arisen.

2.33. The Ministry who had been informed of the position by H.C.L. should also have taken the initiative to ensure that the delivery schedules were adhered to. The Committee feel that since H.E.C. and H.C.L. are under the same administrative Ministry, it should have been possible for them to fix proper priorities and to coordinate in such a manner that at least the avoidable delay could have been obviated.

III

CONSUMPTION OF RAW MATERIALS

Para 4—Pages 81-82

3.1. The following table indicates the percentage and value of excess consumption over the standard consumption of some of the principal raw materials used in the manufacture of the cables during the last three years:—

(Rs. in lakhs)

Material	1964-65		1965-66		1966-67	
	Percentage	value	Percentage	Value	Percentage	Value
		Rs.		Rs.		Rs.
Lead antimony .	3.30	0.97	2.75	3.15	5.78	7.58
Paper (ITS)	43.44	4.60	31.70	3.71	36.66	7.78
Paper (CX) . .	17.81	0.33	34.71	0.72	19.23	0.47
		5.90		7.58		15.83

3.2. It will be seen from the above that the percentage of excess consumtion in respect of paper (ITS) and paper (CX) was quite heavy in all the three years. In respect of lead antimony the percentage increased considerably in 1966-67 as compared with the figures for 1964-65 and 1965-66.

A. Lead Antimony

3.3. Regarding lead antimony the management stated (November 1967) as follows:—

> "A very high level of operational skill and perfection in machines and equipments will be required to work within the limits of standard consumption prescribed. Although the foreign consultants have considered over-consumption of 1 percent, as normal, in actual practice, taking into account the working and climatic conditions and operational skill available in this undertaking, it has not been possible to work within this limit at any time in the past. The over-consumption during 1966-67 was somewhat high, as two of our old lead presses with which the operators were familiar had broken down. Two new lead presses had to be operated extensively during this

period in which some teething troubles were initially experienced".

3.4. During evidence the Secretary, Ministry of Industrial Development & Company Affairs stated that they had recently been in touch with the collaborators and asked them as to what was the reasonable limit for variation against the standard. In their opinion a variation in lead antimony upto 3% need not be considered excessive.

3.5. M|s. Standard Telephones & Cables Ltd. had indicated that according to their Brouchure No. 2|31752 of July 1952, scrap allowance for lead and lead alloys was 1% but according to the current figures used at their factory at North Woolwich the scrap allowance for this item was 3%. Out of this 1½% was recovered at scrap value. They also strongly emphasised that the data given by them applied particularly to the plant layout and labour conditions pertaining to their North Woolwich factory and it should only be used as a rough guide to assist in the assessment of HCL's performance.

3.6. The Managing Director of Hindustan Cables Ltd. stated during evidence that the extra lead that was used was of two types. One was that what came out in the process, which they found was good enough and which was ploughed back into the process. There was some quantity of lead that fell down and got a little contaminated. They did not try to use that themselves because even a pin hold in a length of cable made the whole cable useless and could result in its rejection. They, therefore, sold the contaminated lead in the market at practically their cost price or even more than that.

3.7. He further stated that so far as the lead presses were concerned, one of the main reasons for overconsumption of material was the thickness of the lead sheath that they put on the core. Over the specified thickness of the lead sheath an engineering tolerance, which was only upward, was allowed. Therefore, theoretically the ideal cable might have only the specified thickness all through but in no manufacturing process would it be possible to get uniform thickness plus half the tolerance. If the minimum thickness was 50 mils and tolerance 15 mils, the best advice would be that they should try to manufacture cable of 57½ mils thickness. But even with the most precision machinery, tolerance would keep going up and down, plus or minus over this figure. In case during the manufacturing process the thickness varied from 57 mils to 65 mils the consumption might be as high as 15% over the standard allowed due to tolerance alone.

3.8. The management have further stated that if cables are made to maximum tolerance the thickness in terms of quantity would work out to approx. 18% to 30% over the quantity required for the minimum thickness, depending upon the type of cable manufactured. The Managing Director of HCL further stated during evidence that it was the skill of the operator and his knowledge of the machine which came into play there. Due to the breakdown of old presses they had to use the new presses and new dies. The workers took sometime to get acquainted with the machinery.

3.9. The percentage and value of lead antimony over-consumed and scrap recovered by HCL during the period 1964-65 to 1967-68 as compared with the collaborators' figures was as follows:—

Sl. No.	Item	Year	Raw materials over consumption percentages llowed by HCL's collaborators M/s. STC/London			Raw materials over consumption obtained in HCL						Value of raw material over consumed above M/S STC's permissible percentages		
						Percentage			Value					
			Gross	Scrap	Nett	Gross	Re-covery	Nett	Gross (Rs. in lacs)	Re-covery (Rs. in lacs)	Nett (Rs. in lacs)	Gross (Rs. in lacs)	Scrap recovery (Rs. in lacs)	Nett (Rs. in lacs.)
1.	Lead Antimony	1964-65	3.00	1.50	1.50	3.30	1.24	2.06	0.97	1.35	(—)0.38	0.15*	(—).28	.43**
		1965-66	3.00	1.50	1.50	2.75	1.29	1.46	3.15	1.45	1.70	(—)0.29	(—).24	(—).05
		1966-67	3.00	1.50	1.50	5.78	1.14	4.64	7.58	0.74	6.84	3.63	(—).24	3.87
		1967-68	3.00	1.50	1.50	3.01	1.59	1.42	4·52	1.24	3.28	0.02	.07	(—).05

*Audit have pointed out that as per local verification the figure should be Rs. 0.09.

**According to local verification, as intimated by audit this figure should read as Rs. 0.37.

3.10. The Company had commenced manufacture of cables as far back as September 1954. It is, therefore, surprising to note that the Undertaking is putting forward the plea of lack of operational skill to explain the gross excess consumption of 3.30% of raw material over standard consumption in 1964-65 i.e. after ten years of production experience. During these years the management does not seem to have taken adequate steps to impart suitable training to the workers for acquiring sufficient skill in handling the lead presses so as to reduce over-consumption and wastage of lead antimony.

3.11. The Committee suggest that suitable training programme for workers should be introduced now if not so already done. They also suggest that the management should compile monthly reports of consumption of raw materials so that remedial steps could be taken immediately on discovering any discrepancy.

B. Disposal of lead scrap

3.12. On the 1st April, 1964 the Company had in stock 15.153 MT of scrap lead valued at Rs. 37,000|-. During the period 1964-65 to 1967-68, the following quantities of lead scrap were recovered, reprocessed and sold:—

	Year	Lead scrap recovered during the year		Scrap Lead sent for reprocessing		Scrap Lead sold		Remarks
		Qty. (MT)	Value Rs. in lacs	Qty. (MT)	Value Rs. in lacs	Qty. (MT)	Value Rs. in lacs	
Post § EV. Material Q. 5 Annex B.	1964-65	55.299	1.35	..	..	63.414	1.27	
	1965-66	65.980	1.45	..	..	34.320	1.18	Scarce material control order received.
	1966-67	53.507	.74	28.775	.44	..		
	1967-68	88.719	1.24	76.229	1.03	..	..	
	TOTAL	263.505	4.78	105.004	1.47	97.734	2.45	

3.13 The closing balance of scrap lead on 1-4-1968 was 75.920 MT valued at Rs. 1.08 lakhs.

3.14. The management has stated that the practice followed by the Company was to dispose of lead scrap through public auctions which fetched attractive prices. For instance, in the auctions undertaken during 1964-65, lead dross fetched Rs. 1,775|- to Rs. 1,870|- per ton as against the rate of Rs. 1,105|- per ton for lead antimony paid by HCL. However, the sale of lead scrap through auctions had to be discontinued on account of the Scarce Industrial Material Control Order, 1965, whereafter the Company had been making necessary arrangements for reprocessing lead scrap for re-use in the manufacture of cables, to the extent possible.

3.15. The statement reproduced above shows that during 1964-65 and 1965-66 no effect was made by HCL to reprocess the lead scrap. In fact they resorted to the simple process of selling of lead scrap by public auction at profit. The Committee regret to note that the Undertaking did not realise that lead was in short supply and there was a blackmarket for this metal. Efforts to reprocess the lead scrap were made for the first time only in 1966-67 after the issue of the Scarce Industrial Material Control Order 1965.

3.16. It is curious that during 1966-67 against recovery of 53,507 MT only 28.775 MT of lead scrap were reprocessed whereas during 1967-68, against a recovery of 88.719 MT, 76.229 MT were reprocessed. The reasons for reprocessing lesser quantity during 1966-67 are not clear.

317. The Committee recommend that Hindustan Cables Ltd., should look into it and make every effort to minimise the generation of lead scrap. The scrap that is left over should be reprocessed and ploughed back as far as technically possible.

C. Paper

3.18. In connection with the over-consumption of paper, the management stated (November 1967) as follows:—

"The paper used for insulation is a special quality paper requiring special tensile strength and insulating properties. We have so far been using in our works paper made by Messrs. Tullis-Russel and the quality of paper supplied by them had given us satisfactory performance in the past. With the increase in our capacity, Messrs. Tullis-Russel could not meet our total demand of insulating paper. We had, therefore, to tap other sources of supply. One such source was Messrs. Watson Ltd. of U.K. However, the quality of their paper could not come up to the standard of the quality manufactured and supplied by Messrs Tullis-Russel".

3.19. Regarding the excess consumption of paper in the manufacture of cables and the steps taken by the Company to bring down the consumption of this material within the standards, the Secretary, Ministry of Industrial Development & Company Affairs state during evidence that they had ascertained the reasonable limit for variation against the standards, from the collaborators who had prescribed certain standards of consumption. In the case of paper (ITS), a variation of 18 per cent and for Paper (CX) a variation of 21 per cent was permissible. The figures of Hindustan Cables Ltd. were even higher than that. In the case of paper CX, except for 1965-66, they had been within the permissible figure of 21 per cent. As the suppliers M|s Tullis-Russel could not satisfy their entire demand of paper ITS due to production difficulty, another firm M|s Watson Ltd. England, were asked to make good the shortage. This paper was not as superior as that of M|s Tullis-Russel, with the result that there was deterioration in this item from 32 per cent in 1965-66 to 36.66 per cent in 1966-67. These variations had been taken note of and stringent instructions had been issued to have the prescribed checks to see that these variations were kept to the minimum.

3.20. The management have further stated that apart from the above, they had undertaken for the first time, to manufacture cables from thinner gauge conductors. The cutting of paper to smaller width of 3/16" required for thinner gauge conductors, resulted in higher wastage for cutting and insulations.

3.21. The Company has stated that it has since been able to persuade M|s Tullis-Russel to increase the supply of paper. The over consumption of paper (ITS) which was 37 per cent during 1966-67, had come down to 29 per cent during the year 1967-68, and over consumption of paper (CX) had come down from 19 per cent to 11 per cent during 1967-68. Further, efforts were being explored to bring down the over consumption of paper (ITS) within the permissible percentage of 18 per cent allowed by the collaborators, Messrs Standard Telephones & Cables Ltd. As regards paper (CX) their over consumption figures compared favourably with 21 per cent wastage allowed by the collaborators.

3.22. The management have intimated that during 1964-65 to 1967-68 the over consumption of paper (ITS) and paper (CX) was as follows over the percentage as allowed by the collaborators:—

Sl. No.	Item	Year	Raw materials over consumption percentages allowed by HCL's collaborators M/s. STC/London			Raw materials over consumption obtained in HCL					Net Rs. in lacs	Value of raw materials over consumed above M/s. STC's permissible percentage		
						Percentage			Value					
			Gross	Scrap	Nett	Gross	Recovery	Nett	Gross Rs. in lacs	Recovery Rs. in lacs		Gross Rs. in lacs	Scrap recovery Rs. in lacs	Nett Rs. in lacs
2.	Paper (TTS) . .	1964-65	18.00	..	18.00	45.44	..	45.44	4.60	..	4.60	2.77		2.77
		1965-66	18.00	..	18.00	31.70	..	31.70	3.71	..	3.71	1.60	..	1.60
		1966-67	18.00	..	18.00	36.66	..	36.66	7.78	..	7.78	3.96	..	3.96
		1967-68	18.00	..	18.00	29.08	..	29.08	8.85		8.85	3.37	..	3.37
3.	Paper (CX) . .	1964-65	21.00	..	21.00	17.81	..	17.81	0.33	..	0.33	(—)0.06	..(—)	0.66
		1965-66	21.00	..	21.00	34.71	..	34.71	0.72	..	0.72	0.28	..	0.28
		1966-67	21.00	..	21.00	19.23	..	19.23	0.47	..	0.47	(—)0.04	..(—)	0.04
		1967-68	21.00	..	21.00	11.18	..	11.18	0.50	..	0.50	(—)0.44	..(—)	0.44

3.23. .The above statement reveals a numbe rof disquieting features, in respect of paper (ITS). Against the permissible over-consumption of 18%, the over consumption of this paper during 1964-65 was 45.44 %, during 1965-66, 31.70%, during 1966-67, 36.66% and during 1967-68 29.08% The Committee regret to note that no serious effort has been made by the company to reduce the over-consumption of paper (ITS) to the permissible limit. Even in 1967-68, the over consumption is much higher than 18% prescribed by the collaborators. When the company has been able to reduce the over consumption of paper (CX) to 11.18% against the collaborators' norm of 21% there appears to be no reason why the over consumption of paper (ITS) cannot be suitably reduced. The Committee feel that the over consumption of raw materials is a serious matter and deserves a sustained and intensive effort to effect reduction, as over consumption and wastage of raw materials are adversely affecting its economies.

IV

Utilisation of machines

Para 5 pages 82—84

4.1. It will be seen from the table given below that in the I.T.S. (old and new) shop, OLP Shop, Armouring shop and Coaxial shop the percentage of idle time to the total scheduled hours ranged from 20.85 to 25.62, 21.63 to 30.02, 6.96 to 19.43 and 34.45 to 54.44 respectively during the years 1964-65 to 1966-67. Idle hours in all the shops mainly resulted from the breakdown of machines and lack of availability of work. In the case of I.T.S. shop, idle time was also due to absenteeism.

Year	Total number of machines	Total number of scheduled hours excluding spare capacity and re-work	Total production hours	Total idle hours	Idle time percentage to total scheduled hours on account of: Lack of work	Lack of raw materials	Repairs breakdown etc.	Absenteeism	Other causes	Total idle hours percentage to total scheduled hours	Re-work hours	Spare capacity
I.T.S. Shop (Old and new)												
1964-65	45	768711	592213	176498	5.76	2.70	3.61	7.17	3.73	22.97	Not recorded.	Not recorded.
1965-66	45	860020	680743	179277	3.54	1.17	5.00	8.87	2.27	20.85	31.125	17,384
1966-67	45	871275	648057	223218	2.66	0.16	9.43	10.70	2.67	25.62	39.253	1,10,992
Old shop (Lead press)												
1964-65	3	21393	16766	4627	5.22	0.30	9.39	0.80	5.92	21.63	Not recorded	Not recorded
1965-66	3	25619	18489	7130	3.52	3.65	16.30	0.35	4.00	27.82	..	2,400
1966-67	3	25297	17701	7596	3.59	1.95	18.91	0.20	5.37	30.02	8	[2,193
Armouring Shop												
1964-65	6	33491	26983	6508	4.52	0.94	5.79	0.67	7.51	19.43	Not recorded	Not recorded
1965-66	9	34008	29618	4390	3.65	0.07	3.44	0.97	4.80	12.93	817	26,444
1966-67	9	34822	32398	2424	0.14	0.46	1.04	0.84	4.48	6.96	198	24,274
Coaxial Shop												
1964-65	13	49691	28058	21633	29.35	1.45	4.30	1.98	6.46	43.54	Not recorded	Not recorded
1965-66	13	54055	35435	18620	18.16	1.38	7.13	3.55	4.23	34.45	622	50
1966-67	12	57320	26116	31204	42.86	0.01	6.96	1.63	2.98	54.44	550	..

4.2. In this connection the Management stated (October, 1967) as follows:—

(i) "As regards absenteeism, a very large percentage of our labour force is rural based and absenteeism is particularly high during some parts of the year. We have attendance Bonus and other direct and indirect schemes meant for checking absenteeism. The scheme for encashment of leave has also been so devised as to improve the attendance of the workers. Despite these measures, it is not possible to reduce the absenteeism below certain level".

(ii) "As regards idle hours due to lack of work,........the cable industry is a process industry where production in the subsequent stage primarily depends on the output of the previous stage. The main load centres in the factory are the I.T.S. (Insulating, Twisting and Stranding), Lead Press and Armouring. The parameters of work load for each of the load centres vary, depending upon the type of cable manufactured".

(iii) "As regards idle capacity due to machine breakdown ... most of the equipment installed are 10 to 12 years old and have served most of the useful life. Further, to meet the increasing requirements of the P & T, the Company is gradually going into 3-shift working, which places further strain on the old machines".

4.3. During evidence, the Secretary, Ministry of Industrial Development and Company Affairs stated that the idle time of the machinery was the result of two factors. There was a certain degree of absenteeism which they tried to reduce by giving various forms of incentives for attendance. But in a Cable Factory, every stage was closely linked to the previous stage and if anything went wrong in the previous stage, despite their best efforts, they could not keep the second stage machinery fully occupied. With respect to the Coaxial Cables, the percentages were uncommonly high. It was a special type cable now being laid in all the major trunk routes of the country for providing a much larger number of trunk channels. The manufacture of these cables depended upon the demands made by the P & T Department. The idle time in respect of Coaxial Cables represented the limited orders that they had received from P & T. When there was more demand from P & T, the undertaking stretched themselves to the maximum. For certain types of cables, there was a great demand and they had been working on Sundays also so that the P & T was not faced with the situation of having to import cables in large quantities.

4.4. The management have further stated that with regard to the placement of orders on HCL, the practice hitherto followed was that orders covering the requirements of the P & T Department, based on their annual plan, were placed on HCL. These orders were placed in stages for the supply to P & T Department during the course of the year and the subsequent period. The actual manufacture of types and quantities of cables was mutually decided between the P & T Department and the HCL through quarterly production programmes.

4.5. During the period 1964-65 to 1967-68, as against orders for 14028 Kms of Dry Core cables placed during these years the Company supplied 12182 Kms of cables. During the same period against orders for 3704 Kms of Coaxial Cables, 3567 Kms were supplied to P & T Department. The management have now decided to accept annual orders only to the extent of their annual production capacity to ensure that there is no significant shortfall in the supplies to the P & T Department.

4.6. Regarding absenteeism the Managing Director stated during evidence that it was due to the labour being agriculture based and their entitlement to certain types of leave. During agricultural seasons and harvesting there was maximum absenteeism. Absenteeism applied equally to temporary and permanent staff during this period. He added that there was no surplus labour in the plant and the payment of overtime to staff was negligible. They had been able to avoid slowing down of work in their plant through incentive schemes. Periodically, there was a little labour unrest which they had been able to get over in a short period. They had fixed minimum norms of production and introduced attendance bonus also. A further incentive was given to labour for not utilising the whole of their leave. Under this half of the unused leave could be converted into payment in cash.

4.7. The Committee recommend that the management should devise ways and means to limit absenteeism during the agricultural and harvesting seasons. They may consider the practicability of introducing a special bonus for attendance during these seasons so that idle time for the machinery is minimised.

V

ACCOUNTS AND AUDIT

A. Costing System

Para 6, *Page* 84

5.1. The Company is following the system of job/process costing in order to ascertain the cost per cable Km. length.

5.2. The following features of the costing system have been noticed:

(a) Standard costing system has not been introduced.

(b) There is considerable delay in the compilation of cost of major products.

(c) The system followed by the Company is not fully effective inasmuch as actual cost of production of a particular job order cannot be determined as the cost shown in a job cost sheet is not the actual cost but an estimated cost based on the standard consumption of materials fixed by the Planning Department.

5.3. The Secretary, Ministry of Industrial Development & Company Affairs stated during evidence that they had not introduced standard costing in the factory on account of large fluctuations in the cost of non-ferrous metals which constituted approximately 55% of the cost of production of cables. He gave the following figures of variations in prices of copper and lead to illustrate his point:—

(Price per ton)

	1965-66	1966-67	1967-68
	Rs.	Rs.	Rs.
Copper	6,865	14,140	11,783
Lead	2,300	2,800	2,300

5.4. He stated that the object of standard costing was to compare the actual expenditure with standards fixed and scrutinise the variations in terms of value. In view of the wide fluctuations in prices, standard costing in its normal sense could not be applied to their production and they scrutinized the actual usage as a method of controlling cost. He added that although there was some delay in compilation of cost of major products, the procedure had since been streamlined and the work was current.

5.5. The Secretary further stated that the variations between the actuals and the estimates were being treated as overheads etc. and adjusted against the work orders during the year. Since 1966-67, these variations were being adjusted as variation in direct material cost instead of as an item of overhead. The Managing Director stated that the factory was manufacturing a very large number of different cables. At the end of the month they worked out the total over-consumption or under consumption in respect of materials and the variations in prices. The percentage of variation thus worked out was applied to all the cables manufactured in that month.

5.6. The Committee feel that the costing system developed by the Company is defective inasmuch as it imposes the burden of over consumption and wastage in one particular type of cable on all the types of cables manufactured by it. The impact of inefficiency and wastage in manufacture of one type of cable is thus sought to be transferred to other items which might be produced with little or no wastage.

5.7. The Committee therefore recommend that the Company should introduce a scientific system of costing which should work out the cost of each individual item on the basis of actual consumption of raw material on that particular item only.

B. Accounting Manual

Para 7, *Pages* 84-85

5.8. An Accounting Manual laying down the detailed procedure for the maintenance and compilation of accounts has not been prepared. The instructions issued on the subject and included in the Financial Hand Book prepared by the Company do not deal with many important aspects *e.g.* handling of cash, stores procedure, issue of raw materials and fixation of prices, etc.

5.9. The Management stated (November, 1967) that "the Accounting Manual is under revision, and certain new chapters on subjects suggested by the Audit are being incorporated. It is expected that the Manual will be ready before the end of the current year.

5.10. The Secretary, Ministry of Industrial Development & Company Affairs stated during evidence that they had recently prepared a manual called the Financial Hand Book. The Managing Director informed the Committee that they had an accounting manual as far back as 1964. The manual was brought up-to-date and additional chapters had been added to it.

5.11. The Committee hope that the provisions of the Financial Hand Book will be strictly followed by all concerned. The Management should ensure that any deviations from the prescribed rules and procedures are promptly reported to them and suitably dealt with.

C. Internal Audit

Para 8, *Page* 85

5.12. The system of internal audit is inadequate inasmuch as it does not extend to audit of projects and construction works, cost audit, audit of works' records and stock verification.

5.13. The Secretary, Ministry of Industrial Development & Company Affairs informed the Committee during evidence that with effect from April, 1967 the internal audit had been reorganised to bring within its purview all important aspects of the undertaking including audit of products, construction work, cost audit, stock verification etc.

5.14. The Committee feel that an adequate system of internal audit is a very important tool of financial management in an undertaking. They would, therefore, urge that internal audit should be strengthened and regular reports should be submitted to the management so that constant watch can be kept over adverse trends and remedial action taken.

VI

FINANCIAL RESULTS

Para 9, pages 85-86:

6.1. (a) The table below summarises the financial position of the Company under broad headings for three years:—

	1964-65	1965-66	1966-67
		(Rupees in lakhs)	
Liabilities—			
(*a*) Paid-up capital (including advance for shares) .	179.47	179.47	279.47
(*b*) Reserve and surplus	69.94	73.07	87.97
(*c*) Borrowings (including cash credit) . . .	370.72	543.69	565.27
(*d*) Trade dues and other current liabilities (including provisions)	146.82	145.60	174.43
TOTAL . .	766.95	941.83	1,107.14
Assets—			
(*e*) Gross block	410.26	470.83	512.06
(*f*) Less : Depreciation	104.27	138.14	170.38
(*g*) Net fixed assets	305.99	332.69	341.68
(*h*) Capital work-in-progress (including expenditure during construction not allocated) .	49.07	59.18	31.34
(*i*) Current assets, loans and advances (including investments)	400.49	544.09	734.12
(*j*) Development and commissioning Expenditure .	11.40	5.87	..
TOTAL . .	766.95	941.83	1,107.14
Capital employed	559.66	731.18	901.37
Net worth	238.01	246.67	367.44

(b) The working results of the Company for three years are tabulated below :—

	1964-65	1965-66	1966-67
		(Rupees in lakhs)	
(*i*) Profit before tax/loss	55.26	(—)16.57	36.22
(*ii*) Tax provision	15.00	..	18.00
(*iii*) Profit after tax	40.26	..	18.22

	1964-65	1965-66	1966-67
1. Percentage of profit before tax			
(*a*) To sales	15.17	..	5.71
(*b*) To gross fixed assets	13.47	..	7.07
(*c*) To capital employed	9.87	..	4.02
2. Percentage of profit after tax			
(*a*) To net worth	16.92	..	4.96
(*b*) To equity capital	22.43	..	6.52
(*c*) To capital employed	7.19	..	2.02

NOTE :— 1. Capital employed represents net fixed assets plus working capital.
2. Net worth represents paid-up capital plus reserves less intangible assets.

6.2. The Secretary, Ministry of Industrial Development and Company Affairs informed the Committee during evidence that the above figures given in the Audit Report required some adjustment. These figures were balance sheet figures. The prices which were provisional had to be shown in the balance sheet because the accounts had to be closed by a particular date. The figures in the balance sheet therefore give one picture but the revised figures after adjustment from year to year gave a clear picture.

6.3. Further clarifying the position the Managing Director stated during evidence that the P. & T. Department used to order cables through the Director General, Supplies and Disposals and in order to decide the cost, the system that was in vogue was that the actual cost of cables plus 12 per cent of their capital was the formula on which the cables were to be priced. In order to decide the cost of production, they had to wait a whole year of operation before the cost of individual cables could be decided and during the year the company were paid only the provisional prices. The Management have further stated that in computing the cost, however, certain items like interest charges on Government loans and Bank over drafts, *ex gratia* payments made to staff under Government orders, etc. were excluded. Subsequently, the Government decided that the P. & T. Department could enter into a direct rate running contract with the HCL for the supply of tele-communication cables without the intervention of DGS&D. A Pricing Committee consisting of the representatives of HCL and the P. & T. Department was set up by the P. & T. Board to evolve a suitable pricing policy. A 3-year rate contract had since been finalised which envisages supply of cables at fixed prices based on results of cost audit for the year 1965-66, with suitable escalation clauses for variations in rates of important raw materials and wages.

6.4. In terms of the pricing policy for the years 1964-65 and 1965-66 the prices of cables supplied were required to be determined by the Chief Cost Accounts Officer under the Ministry of Finance. These prices could be determined only after the close of the accounts of the concerned year. In the meanwhile, the DGS & D paid certain provisional prices to HCL subject to adjustments in terms of the pricing formula. In respect of the years 1964-65 and 1965-66, the accounts were closed on the basis of the provisional prices received by the company during those years. The financial results shown in the audit report which were based on the audited accounts of the Company did not, therefore, represent the actual results for the years but indicated results on the basis of the provisional prices received by the Company during those years.

6.5 The management have furnished the following statement showing the figures of profit, as shown in the balance sheets and as they ought to be after the payment of actual prices during the years 1964-65 to 1967-68:

(Figs. in lacs of Rs.)

	1963-64	1964-65	1965-66	1966-67	1967-68
1. (a) *Profits before tax as per Balance Sheet*					
(i) Profits for the year .	33.00	55.26	(—)16.57	20.60	59.03
(ii) Amounts received in respect of adjustments pertaining to previous years .	3.28	..	54.62	15.62	..
Total as per B/Sheet	36.28	55.26	38.05	36.22	59.03
(b) Profit befota *after* taking into account adjustments in respect of final prices received *insubsequent years*.	33.00	55.26	(—)16.57	20.60	59.03
	26.45	(—)7.65	24.54		
	59.45	47.61	7.97	20.60	59.03
2. *Sales*	352.33	364.28	474.20	633.80	957.36
3. *Percentage of profit before tax*					
(i) To sales :					
as per (a) . .	10.29	15.17	8.02	5.71	6.16
as per (b)	16.87	13.06	1.68	3.25	6.16

	1963-64	1964-65	1965-66	1966-67	1967-68
(*ii*) To gross fixed assets :					
as per (*a*) .	13.41	13.47	8.08	7.07	10.40
as per (*b*) . .	21.98	11.60	1.69	4.02	10.40
(*iii*) To capial employed :					
as per (*a*) .	9.46	9.87	5.20	4.02	6.40
as per (*b*) . .	15.25	8.50	1.09	2.28	6.40
4. *Percentage of profit after tax*					
(*i*) To net worth :					
as per (*a*) .	8.03	18.78	7.01	7.45	9.02
as per (*b*) .	14.45	16.18	1.61	4.24	9.02
(*ii*) To equity capital :					
as per (*a*) .	10.91	24.91	9.64	9.80	13.75
as per (*b*) . .	19.63	21.46	2.21	5.58	13.75
(*iii*) To capital employed :					
as per (*a*) .	4.56	7.99	2.36	3.03	4.16
as per (*b*) . . .	8.21	6.88	.54	1.73	4.16

6.6. The Comptroller and Auditor General has pointed out that in working out the figures of profit before tax for the years 1963-64 to 1967-68 in the statement above, "the amounts in respect of adjustments pertaining to previous years" have been taken into account. While doing so, uniformity has not been maintained as indicated below:—

(i) In the accounts for 1964-65 the following adjustments shown on the debit side of the Profit and Loss Appropriation Accounts have not been taken into account:—

(a) adjustment in respect of previous year (net)—Rs. 72,011.15

(b) Sale receivable adjustment—Rs. 10,00,000.00

(ii) In the accounts for 1966-67, the "excess provision of income-tax for the accounting year 1964-65 and 1965-66 written back" amounting to Rs. 2,57,152.45 has not been taken into account, whereas similar excess provisions shown in the accounts of the years 1963-64 and 1965-66 have been taken into account.

(iii) The percentage of profit before tax to capital employed for the year 1963-64 works out to 15.50 and not 15.25 as shown in the above statement.

(iv) The basis of the calculations of percentages of "Profit after tax" to 'Net worth', 'Equity Capital' and 'capital employed' mentioned in item (4) of the above statement is not known. In case the figures of 'Net worth', 'Equity capital' and 'Capital employed' as shown and worked out in the Review of Accounts of the Director of Commercial Audit are adopted, the relevant percentages with reference to the figures of profits shown in item (1) of the above statement would be as under:—

	1963-64	1964-65	1965-66	1966-67	1967-68
Percentage of profit after tax					
(*i*) To net worth :					
as per (*a*)	8.84	16.92	15.43	4.96	8.23
as per (*b*) .	19.47	13.70	3.23	0.71	8.23
(*ii*) To equity capital :					
as per (*a*)	12.01	22.43	21.20	8.50	10·9
as per (*b*) . .	26.45	18.17	4.44	1.21	10.97
(*iii*) To capital employed :					
as per (*a*)	5.03	7.19	5.20	2.02	3·89
as per (*b*) . .	11.07	5.83	1.09	0.29	3.89

6.7. The Committee appreciate that due to payment by the Post and Telegraphs Department of the provisionally fixed prices the published accounts of the Company of a particular year do not exhibit the actual financial results of the Company for that year. It cannot, however, be overlooked that under the provisions of the Companies Act a Company has to prepare its annual accounts on the basis of the actual transactions during the year and the facts known at the time of the closing of accounts. Any subsequent changes in prices etc. cannot be incorporated in the certified and published accounts of the previous years.

6.8. The Committee, therefore, feel that the Company should make every effort to fix more realistic prices to be charged from its customers so that subsequent adjustments are minimised and the published accounts of a year represent a truer picture of its financial position.

VII

OTHER TOPICS OF INTEREST

Para 10, *Pages* 86-87.

Avoidable payment of electricity charges

7.1. According to clause 15 of the agreement entered into by the Company with the Damodar Valley Corporation on the 15th July, 1952 for the supply of electric energy, "maximum demand charges for any month and at any point of supply will be based on the maximum KVA demand for the month or 75 per cent of the contract demand, whichever is higher".

7.2. On the 12th November, 1964 the Company requested the Damodar Valley Corporation to increase its contract demand from 900 KVA per month to 1,750 KVA per month with effect from the 1st January, 1965 and to 2,500 KVA per month with effect from the 1st July, 1965. The Corporation acceded to the Company's request and on the 5th December, 1964 forwarded to the Company a revised supplementary draft agreement which is still (July, 1967) to be formally executed.

7.3. During the period from January, 1965 to May, 1967 the actual off-take of energy by the Company was far below the enhanced contract demand, with the result that it had to make an extra payment of Rs. 1.71 lakhs to the Damodar Valley Corporation over and above the amount due on the basis of recorded demand.

7.4. The Management stated (March, 1967 and October, 1967) that their estimates of consumption of electric energy were prepared after "taking into account the additional plant and machinery which were likely to be installed as a result of the expansion projects under execution and contemplated". "In actual practice, however, this maximum utilisation could not be achieved due to some major breakdowns especially in the Lead Presses" and to some extent due to unexpected delays in obtaining sanction for the Hindustan Cables Limited's new expansion projects at Rupnarainpur, as a result of which all the machines originally envisaged could not be installed in time.

7.5. The Management have stated subsequently (March, 1968) as follows:—

(i) "We had approached the D.V.C. authorities to revise our maximum demand in two phases, i.e. to 1500 KVA from the date the revision of the contract into a lower figure was intimated to them and to fix the maximum demand at 1800 KVA from January, 1968 from which date the additional machines likely to be procured against our current expansion projects are likely to be commissioned."

(ii) "The D.V.C. authorities have since confirmed revising the maximum demand to 1500 KVA from 1st April, 1967 to 31st December, 1967 and 1800 KVA from 1st January, 1968 onwards".

7.6. It has been further stated that during 1964, the D.V.C. authorities asked H.C.L. to furnish firm commitments to enable them to make required allocations to H.C.L. in view of general power shortage then prevailing. According to a clause of the Agreement H.C.L. is required to give 24 months' notice for altering the contracted demand, and consequently an advance intimation of increased requirements had to be furnished. Maximum demand is based on how much of the connected machines are switched on simultaneously and how much load is put on each machine. In case the actual maximum consumption at any time increase beyond the contracted figure, the D.V.C. can cut off the power causing serious upsetting of production to which effect they had warned H.C.L. earlier. A safe figure of expected maximum load had therefore to be given.

7.7. H.C.L.'s experience in the past had shown that its maximum demand did not reach the full value of connected machine load but was somewhat around 50 per cent of connected load.

7.8. It is further stated that during 1964 when the D.V.C. authorities asked HCL to indicate HCL's future requirement of power consumption, equipments required for the expansion projects were already on order and the completion date of those expansion projects was estimated as about May, 1965. Some of the machinery for these projects had already been received and progressive delivery of the remaining machines were expected. It was estimated that the full connected load of H.C.L. would rise to *5000 KVA. Even before the project was fully completed, a number of machines were commissioned progressively after installation. It was thus expected that increased load would gradually be required from January, 1965 onwards and full load would be reached by about July, 1965. Accordingly, it was intimated to the D.V.C. that the "maximum demand" would be 1750 KVA by January, 1965 and 2500 KVA by July, 1965.

7.9. The Management have further intimated that new expansion projects were also under consideration at that time and they would have required additional load when executed. The load figures, however, that were given were based mainly on the projects that had been sanctioned and were under execution.

7.10. In actual practice, however, the maximum demand fell below the indicated figure on account of a number of reasons. Of the five lead presses in the factory, two broke down during this period. As a result, associated equipments, ovens and armouring machines also could not be

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*Audit have pointed out that no papers in support of this statement were produced during local verifi- cation.

fully utilised, in addition to the presses themselves being out of use. This reduced the power load. Apart from the above, to increase the production H.C.L. switched over from one shift working to two shifts in general and to full three shifts working in the lead presses. Additional shift working dispersed the utilisation of power over a longer period of time thereby reducing peak loads. The "maximum demand" which depended on peak loads, therefore, did not come up to the originally anticipated figures. The Company has intimated that in the past, there was no system of cross-checking of actual maximum load against the contracted maximum demand and consequently, the difference was not brought to light and no responsibility could therefore be fixed. It has however, now introduced a system of monthly check of actual consumption against the demand and to arrange adjustments as required.

7.11. It has further stated that due to certain ceiling for total charges laid down under Clause 19 of the agreement, the actual excess payment has been reduced from Rs. 1.71 lakhs to Rs. 1.06 lakhs, by obtaining refund of Rs. 0.65 lakhs from the D.V.C. as provided under the Agreement.

7.12. H.C.L. has also stated that in the light of experience gained, the maximum demand is now being reviewed and the D.V.C. authorities are being approached to alter the maximum demand suitably. At its request, the D.V.C. authorities revised the maximum demand to 1500 KVA from April 1967, and to 1800 KVA from January, 1968. Since the estimate of 1800 KVA from January, 1968 also proved to be marginally on the high side, the maximum demand was again reduced to 1500 KVA from July, 1968 and no extra charges are being paid since.

7.13. The Committee feel that the entire question of power supply was dealt with by the undertaking without any foresight with regard to the actual requirements and anticipated dates for completion of the projects in hand. As early as May, 1963 the Company had advanced the completion date for the expansion project to May, 1965 and the project was actually completed in October, 1965, but on the 12th November, 1964 it asked the D.V.C. to increase the power supply from the 1st January, 1965. In November, 1964 it should have been clear to the management that the project would not be completed by January, 1965. There was, therefore, no justification for asking for increased power supply from January 1965 which has resulted in excessive payment of rupees 1.06 lakhs.

7.14. The Committee regret to note that in the past there was no system of cross checking of actual maximum load against the contracted demand. Such a system is stated to have been introduced only now after this has been commented upon in the Audit Report. The Committee hope that the

system of monthly checks of actual consumption against demand would have the desired effect and the company would be able to arrange adjustments in time.

7.15. The Committee are also not happy that the Company did not approach the DVC for reduction of its enhanced contract demand till July, 1967. This request for reduction of demand should have been made much earlier especially as the delay in completion of the expansion project was known to the Company since May, 1963.

G. S. DHILLON,
Chairman,
Committee on Public Undertakings.

NEW DELHI;
January 29, 1969.
Magha 9, 1890 (*S*).

APPENDIX

Summary of Conclusions/Recommendations of the Committee on Public undertakings contained in the Report

Sl. No.	Ref. to Para No. in the Report.	Summary of Conclusions/Recommendations.
1	2	3
1	2.9	The Committee while appreciating this effort at self reliance cannot help but observe that the project report and estimates prepared by the Company were unrealistic. In an effort to save Rs. 8 lakhs on commission, the Company framed unrealistic estimates which resulted in an increase of Rs. 51 lakhs in cost for the reasons enumerated above.
	2.10	The very fact that in respect of the projects at 1 to 3, the revised estimates were Rs. 51.58 lakhs higher than the original estimates, and the actual expenditure was Rs. 14.84 lakhs less than the revised estimates shows that the estimates—original and as well as revised—had been prepared unsatisfactorily.
	2.11	Whereas the increase of Rs. 20 lakhs over the original estimates in respect of Plant and Machinery can be attributed, to a certain extent to variations in prices after the tenders had been received, the difference of Rs. 22 lakhs in respect of final cost of factory buildings, Rs. 5 lakhs for items not fully provided for and Rs. 4 lakhs for installation charges, cannot be viewed with equanimity. Fairly accurate estimates in respect of these items could have been prepared. The Committee regret that sufficient care was not exercised in drawing up the original estimates. The net result of these faulty estimates was that the capital cost went up considerably and the entire economics of the project was adversely affected.
	2.12	It is a common phenomenon in respect of public undertakings that there are invariably extensive differences between original estimates and the revised estimates. This is bound to create an impression in the public mind that original project estimates are kept deliberately on the low side in order to obtain

1	2	3
		the approval of the Government. Once the project is a *fait accompli* the Government is left with no alternative but to accept the subsequent increases in the estimates.
	2.13	The Government should lay down adequate guidelines to ensure that fairly accurate project reports and estimates are prepared by undertaking in future. If the estimates have to be increased subsequently due to factors which could or should have been taken into account at the time of preparation of original estimates, the persons responsible for such omissions should be suitably dealt with.
2	2.30	The Committee are surprised to note that while taking the decision to import heavy castings and forgings required for these machines, no effort was made either by Hindustan Cables Ltd. or Heavy Engineering Corporation to ascertain from the foreign suppliers whether they would be prepared to supply these castings and forgings. Had this been done, the one year lost in obtaining a reply from the Russian sources could have been more purposefully utilised in the manufacture of these items in the Foundry Forge Plant of H.E.C.
	2.31	The Foundry Forge Plant on whom order was placed in June 1966, was able to inform the Heavy Machine Building Plant (H.E.C.) only in April, 1967, almost after one year, that it would be able to supply some of the heavier castings and forgings in May, 1968. This shows a lack of promptness in Foundry Forge Plant and an unfortunate absence of awareness in H.E.C. to the need for quick and prompt execution of orders.
	2.32	Similarly the procurement of castings for various items of armouring machines has been delayed by H.E.C. Had prompt action been taken initially, the present difficulty would not have arisen.
	2.33	The Ministry who had been informed of the position by H.C.L. should also have taken the initiative to ensure that the delivery schedules were adhered to. The Committee feel that since H.E.C. and H.C.L. are under the same administrative Ministry, it should have been possible for them to fix proper priorities and to coordinate in such a manner that at least the avoidable delay could have been obviated.

1	2	3
3	3.10	The Company had commenced manufacture of cables as far back as September 1954. It is therefore surprising to note that the Undertaking is putting forward the plea of lack of operational skill to explain the gross excess consumption of 3.30 per cent of raw material over standard consumption in 1964-65 *i.e.*, after 10 years of production experience. During those years the management does not seem to have taken adequate steps to impart suitable training to the workers for acquiring sufficient skill in handling the lead presses so as to reduce over-consumption and wastage of lead antimony.
	3.11	The Committee suggest that suitable training programme for workers should be introduced now if not so already done. They also suggest that the management should compile monthly reports of consumption of raw materials so that remedial steps could be taken immediately on discovering any discrepancy.
4	3.15	Tht statement reproduced above shows that during 1964-65 and 1965-66 no effort was made by H.C.L. to reprocess the lead scrap. In fact they resorted to the simple process of selling of lead scrap by public auction at profit. The Committee regret to note that the Undertaking did not realise that lead was in short supply and there was a black market for this metal. Efforts to reprocess the lead scrap were made for the first time only in 1966-67 after the issue of the Scarce Industrial Material Control Order, 1965.
	3.16	It is curious that during 1966-67 against the recovery of 53.507 MT, only 28.775 MT of lead scrap were reprocessed whereas during 1967-68, against a recovery of 88.719 MT, 76.229 MT were reprocessed. The reasons for reprocessing lesser quantity during 1966-67 are not clear.
	3.17	The Committee recommend that Hindustan Cables Ltd., should look into it and make every effort to minimise the generation of lead scrap. The scrap that is left over should be reprocessed and ploughed back as far as technically possible.
5	3.23	The above statement reveals a number of disquieting features, in respect of paper (ITS). Against the permissible over-consumption of 18 per cent, the over consumption of this paper during 1964-65 was 45.44 per cent, during 1965-66—31.70 per cent, during 1966-67—36.66 per cent and during 1967-68—29.08 per cent. The Committee regret to note that no serious effort

1	2	3
		has been made by the Company to reduce the over-consumption of paper (ITS) to the permissible limit. Even in 1967-68, the over consumption is much higher than 18 per cent prescribed by the collaborators. When the Company has been able to reduce the over consumption of paper (CX) to 11.18 per cent against the collaborators' norm of 21 per cent there appears to be no reason why the over consumption of paper (ITS) cannot be suitably reduced. The Committee feel that the over consuption of raw materials is a serious matter and deserves a sustained and intensive effort to effect reduction, as over consumption and wastage of raw materials are adversely affecting its economics.
6	4.7	The Committee recommend that the management should devise ways and means to limit absenteeism during the agricultural and harvesting seasons. They may consider the practicability of introducing special hours for attendance during these seasons so that idle time for the machinery is minimised.
7	5.6	The Committee feel that the costing system developed by the Company is defective in as much as it imposes the burden of over consumption and wastage in one particular type of cable on all the types of cables manufactured by it. The impact of inefficiency and wastage in manufacture of one type of cable is thus sought to be transferred to other items which might be produced with little or no wastage.
	5.7	The Committee therefore recommend that the Company should introduce a scientific system of costing which should work out the cost of each individual item on the basis of actual consumption of raw material on that particular item only.
8	5.11	The Committee hope that the provisions of the Financial Hand Book will be strictly followed by all concerned. The Management should ensure that any deviations from the prescribed rules and procedures are prompty reported to them and suitably dealt with.
9	5.14	The Committee feel that an adequate system of internal audit is a very important tool of financial management in an undertaking. They would therefore, urge that internal audit should be strengthened and regular reports should be submitted to the management so that constant watch can be kept over adverse trends and remedial action taken.

1	2	3
10	6.7	The Committee appreciate that due to payment by the Post and Telegraphs Department of the provisionally fixed prices the published accounts of the Company of a particular year do not exhibit the actual financial results of the Company for that year. It cannot, however, be overlooked that under the provisions of the Companies Act a Company has to prepare its annual accounts on the basis of the actual transactions during the year and the facts known at the time of the closing of accounts. Any subsequent changes in prices etc. cannot be incorporated in the certified and published accounts of the previous years.
	6.8	The Committee, therefore, feel that the Company should make every effort to fix more realistic prices to be charged from its customers so that subsequent adjustments are minimised and the published accounts of a year represent a truer picture of its financial position.
11	7.13	The Committee feel that the entire question of power supply was dealt with by the undertaking without any foresight with regard to the actual requirements and anticipated dates for completion of the projects in hand. As early as May, 1963 the Company had advanced the completion date for the expansion project to May, 1965 and the project was actually completed in October, 1965, but on the 12th November, 1964 it asked the D.V.C. to increase the power supply from the 1st January, 1965. In November, 1964 it should have been clear to the management that the project would not be completed by January 1965. There was, therefore, no justification for asking for increased power supply from January 1965 which has resulted in excessive payment of rupees 1.06 lakhs.
	7.14	The Committee regret to note that in the past there was no system of cross checking of actual maximum load against the contracted demand. Such a system is stated to have been introduced only now after this has been commented upon in the Audit Report. The Committee hope that the system of monthly checks of actual consumption against demand would have the desired effect and the company would be able to arrange adjustments in time.
	7.15	The Committee are also not happy that the Company did not approach the DVC for reduction of its enhanced contract demand till July, 1967. This request

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		for reduction of demand should have been made much earlier especially as the delay in completion of the expansion project was known to the Company since May, 1968.

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