

# COMMITTEE ON PUBLIC UNDERTAKINGS

(THIRD LOK SABHA)

## TWENTY-FIFTH REPORT

**THE KERALA PREMO PIPE FACTORY LTD.,  
TRIVANDRUM**

(DEPARTMENT OF PUBLIC HEALTH & ENGINEERING,  
GOVERNMENT OF KERALA)



सत्यमेव जयते

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**LOK SABHA SECRETARIAT  
NEW DELHI**

*April, 1966/Chaitra, 1888 (Saka)*

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## CORRIGENDA

25th Report of the Committee on Public Undertakings on the Kerala Premo Pipe Factory Ltd., Trivandrum.

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# COMMITTEE ON PUBLIC UNDERTAKINGS

(THIRD LOK SABHA)

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15. Shri M. Govinda Reddy

## SECRETARIAT

Shri N. N. Mallya—*Joint Secretary*

Shri A. L. Rai—*Deputy Secretary*

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\*Appointed as Chairman w.e.f. 24-1-1966 *vice* Shri Panampilli Govinda Menon ceased to be a member of the Committee on his appointment as Minister.

\*\*Elected w.e.f. 23-2-1966 in the vacancies caused by appointment of Shri P. Govinda Menon as Minister and resignation of Shri Harish Chandra Mathur.

\*\*\*Ceased to be Member of the Committee on his retirement from Rajya Sabha w.e.f. 2nd April, 1966.

## INTRODUCTION

I, the Chairman, Committee on Public Undertakings, having been authorised by the Committee to submit the Report on their behalf, present this Twenty-Fifth Report on the Kerala Premo Pipe Factory Ltd., Trivandrum.

2. On a suggestion from the Governor of Kerala, the Speaker directed on the 18th December, 1965 that the Committee on Public Undertakings might examine the working of the State-owned Public Undertakings in Kerala. The Committee accordingly decided to examine the working of State Government Companies in Kerala in general and of the following seven in particular:—

- (1) Travancore Titanium Products Ltd., Trivandrum;
- (2) Travancore Cochin Chemicals Ltd., Udyogamandal;
- (3) The Plantation Corporation of Kerala Ltd., Kottayam;
- (4) The Trivandrum Rubber Works Ltd., Trivandrum;
- (5) Kerala Ceramics Ltd., Kundara;
- (6) Kerala Premo Pipe Factory Ltd., Trivandrum; and
- (7) Traco Cable Co. Ltd., Ernakulam.

3. The Report is based on the examination of the working of the Kerala Premo Pipe Factory Ltd. upto the year ending 31st March, 1965. The Committee took the evidence of the representatives of the company and the State Government Officers concerned on the 2nd February, 1966, at Trivandrum. The Report was adopted by the Committee on 11th April, 1966.

4. The Committee wish to express their thanks to the officers of the Kerala State Government and the Kerala Premo Pipe Factory Ltd. for placing before them the material and information that they wanted in connection with their examination.

D. N. TIWARY,

*Chairman,*

*Committee on Public Undertakings.*

NEW DELHI;

*April 15th, 1966.*

*Chaitra 25, 1888 (S).*

## HISTORICAL BACKGROUND

Prestressed concrete pipes are now standard for water supply mains in the range of 400 mm. to 1200 mm. diameter. Their production requires minimum capital outlay while these pipes combine hydraulic efficiency with longer working life and less maintenance cost. Besides, a considerable portion of the raw materials used in their manufacture is obtained from local sources, and the use of critical materials like steel or cast iron is reduced to the bare minimum. Factories manufacturing prestressed concrete pipes, being economical and smaller than cast iron pipe factories can with advantage be located near the centres of consumption.

2. It is estimated that the demand for prestressed concrete pipes (400 mm. to 1200 mm. diameter) in the country will be of the order of Rs. 7 crores per annum during the Fourth Five Year Plan period. The National Water Supply and Sanitation Committee (1960-61) and the Modak Committee on Plan Projects have emphasised the need for increasing the production of these pipes and establishing regional production centres.

Demand  
in the  
country.

3. The Indo-Norwegian Foundation set up in 1956 a prestressed concrete pipe manufacturing factory at Chavara to provide concrete pipes for the water supply to Quilon Town. After that work had been completed, the Foundation made a gift of it to Kerala Government on the 1st September, 1959. The factory did not function from the 1st September, 1959 to the 21st December, 1960. From 22nd December, 1960 to 1st November, 1961 the State Government worked the factory departmentally. The Kerala Premo Pipe Factory Ltd. was then formed which took over the operation of this factory on the 1st November, 1961. The Company is at present producing pre-stressed concrete pipes in 400 mm. and 700 mm. standard internal diameters, and ordinary re-inforced concrete pipes 100 mm. to 450 mm. dia for water supply and drainage, etc.

Setting  
up of the  
Factory at  
Chavara.

## II

### PRODUCTION

#### A. Rated capacity vis-a-vis actual production

4. The present rated capacity of the factory is stated to be 4500 prestressed concrete pipes of two sizes (400 mm. and 700 mm.) per annum in two shifts. The actual production during each of the last three years was as follows:—

Production Item	1962-63	1963-64	1964-65
(1) 700 mm. dia. 'B' Class pipes . . . . .	187	401	
(2) 700 mm. dia. 'A' Class pipes . . . . .	913	1079	1469
(3) 400 mm. dia. 'B' Class pipes . . . . .	270	115	495
(4) 400 mm. dia. 'A' Class pipes . . . . .	518	150	5
	<u>1888</u>	<u>1745</u>	<u>1969</u>

Reasons  
for low  
production.

5. It would thus be seen that the productivity of the factory has been below 50% of the rated capacity during each of the last 3 years. This was attributed mainly to restriction of production to anticipated sales and want of a vigorous sales and production policy. Restriction of manufacture to two sizes was stated to be another reason, with the result that the factory was working only one shift. It was further stated that no specific targets of production were set as the factory was only trying to meet the needs of the State Government and Semi-Government bodies. There was a sales resistance to the use of Premo Pipes as cast iron pipes were the traditional material. Thus, due to the difficulty on the sales side, a secondary line of production of RCC pipes was started to keep the factory going. The



details of RCC pipes manufactured during each of the last 3 years are given below:—

	1962-63		1963-64		1964-65	
	No.	Value Rs.	No.	Value Rs.	No.	Value Rs.
RCC Pipes 100, 150, & 200 mm. dia- meter . . . . .	..	..	1200	72,000	1185	78,210
RCC Pipes 250, 300, 375 & 450 mm. diameter non- pressure type . . . . .	5	110 13,947	3,48,675	8,594	2,40,632	
RCC Collars of sizes . . . . .	..	..	632	1,896	1,080	3,780
	5	110 15,779	4,22,571	10,859	31,22,622	

6. The production and marketing of RCC pipes have yet to be stabilised.

7. The Managing Director did not consider the above position as satisfactory and informed the Committee, during evidence, that the following steps were being taken to improve the position:—

Measures being taken to improve the position.

- (i) designing a large range of pipes with the help of the Trivandrum Engineering College. Action was stated to have been initiated to fabricate additional moulds and equipment for manufacturing pipes of sizes other than 400 mm. and 700 mm.; and
- (ii) Contacting different departments and submitting tenders for the works, suggesting prestressed concrete pipes as alternative.

8. From the foregoing, it would be seen that even five years after the setting up of the Kerala Premo Pipe Factory Ltd., the factory is not being run to its full rated capacity. The factory was no doubt given by the Indo-Norwegian Foundation as a gift but the productive resources should have been fully utilised. It was expected of the Management of the company to study the pattern of demand for prestressed concrete pipes at the very beginning and to arrange production accordingly. It is surprising that despite the many advantages which the use of prestressed con-

Committee's Observations.

crete pipes offers, over cast iron pipes, the company has not been able to promote their sales. It is also surprising that the State Government did not insist on its full productive capacity being utilised. What is worse, the policy of restricting production of prestressed pipes to the orders received has been followed all these years and, in order to utilise the available capacity, the production of RCC pipes had to be taken up.

9. The steps now being taken should result in greater production and optimum utilisation of the plant and equipment on a two-shift basis.

### B. Marketing

No Commercial Officer appointed.

10. As regards the absence of sales promotion efforts referred to earlier, the Committee learnt that the company had not appointed any commercial officer for marketing of goods. The Managing Director himself contacted the customers, for promoting sales. The company had also not developed a Designing and Tendering Branch.

11. During evidence the Managing Director stated that for setting up a Designing and Tendering Branch they would require a capital of Rs. 1.25 lakhs and a recurring expenditure of Rs. 40,000 per annum as follows:—

	Rs.
<i>Capital Cost:</i>	
(1) Capital cost of setting up of testing and design laboratory . . . . .	75,000
(2) Building . . . . .	50,000
	<u>1,25,000</u>
<i>Recurring Cost:</i>	
(1) Designing Engineer	9,000
(2) Commercial Manager . . . . .	6,000
(3) Two Draftsmen . . . . .	4,800
Laboratory Assistants.	3,600
(5) Other Staff & Labour assistance	8,400
(6) Cost of testing materials etc. . . . .	8,200
	<u>40,000</u>

12. Fifty per cent of this cost would be debitable to quality control. The matter had not been taken up with the State Government as it might be considered too expensive at the present production level.

13. *With the present rate of production which is below 50% of the rated capacity, the sales of the company are in the neighbourhood of Rs. 14 lakhs. These are expected to go up as the production increases. It is necessary that a proper Commercial Department should be organised to—*

- (1) *Advise clients on the pipes best suited to their needs;*
- (2) *Preparing tenders;*
- (3) *Negotiating prices and agreements with purchasers;*
- (4) *Negotiating delivery and completion dates for pipes ordered from the factory; and*
- (5) *Initiating orders in the factory for pipes to be manufactured.*

14. *The Committee feel that a Commercial Department has a very important contribution to make towards the successful working of the company and a beginning might immediately be made in this direction, the Department being strengthened gradually as the production increases. This would also enable the Managing Director to attend to other important matters.*

### C. Cost of Production

15. The production cost and the value of sales of the factory during each of the last 3 years are given below:—

	1962-63	1963-64	1964-65
	Rs.	Rs.	Rs.
Production cost	4,19,556	7,05,150	8,89,053
<i>Sales</i>			
Finished Products	3,41,053	13,02,911	12,89,414
Other items	6,257	61,358	1,24,634
	<u>3,47,310</u>	<u>13,64,269</u>	<u>14,14,048</u>

Thus while the production cost of the company increased by 26% (from Rs. 7,05,150 in 1963-64 to Rs. 8,89,053 in 1964-65), it did not result in a corresponding increase in the sales which increased by 3% only (from Rs. 13,64,269

in 1963-64 to Rs. 14,14,048 in 1964-65). This has been attributed to the higher cost of labour and raw materials, particularly of cement and steel, while the sale price could not be correspondingly increased on account of the poor market.

16. In this connection the Managing Director stated during evidence that labour which was already surplus had been rendered more surplus after the power cut and he had recommended retrenchment to the extent of 30% for approval of Government. The sale price of pipes had not been increased because the Chief Engineer of Public Health Department, who were the main consumers, "would have objected". It transpired that standard costs of various pipes had also not been determined.

17. *It is obvious that the practice of selling the Premo Pipes produced by the factory to the State Government Departments/Statutory Bodies at the old rates, after its production costs had gone up due to increase in the cost of material and wages, cannot be continued. Sales price has to be determined in relation to the cost of production. The present policy is, therefore, neither sound nor economical in-as-much as it has resulted in fall in profits and needs to be changed immediately.*

18. *The company should also determine standard cost for various types of pipes and periodically compare it with their actual cost of production. The reasons for wide variations, if any, should be investigated and timely measures taken to bring them down so that the selling price leaves an adequate margin of profit to the company.*

#### **D. Stock of finished goods**

19. The Committee noted that finished goods of the value of Rs. 7.10 lakhs, Rs. 4.61 lakhs and Rs. 3.76 lakhs remained unsold at the end of 1962-63, 1963-64 and 1964-65 respectively. They were informed that this was due to the fact that the factory was originally set up to manufacture pipes for only one water supply scheme. The Indo-Norwegian Foundation did not think of any publicity for future sales of these pipes. The technical advantages of these pipes and their usefulness had to be advertised after the company was formed and new market created. Sales were not commensurate with the production schedule. Further, for pipes of big sizes, major orders for one complete pipe line were placed at a time. Therefore, there were bound to be large quantities of finished goods in stock.

20. *With the setting up of the Commercial Department recommended in paragraph 14, the situation should improve so as to avoid funds being locked up in Finished goods.*

### E. Maintenance

21. The expenditure on the maintenance of plant and machinery etc. increased from Rs. 26,074 during 1962-63 to Rs. 61,598 during 1964-65 because the machines had become old. The system of preventive maintenance has not been introduced in the factory. It has been stated that the working life of the present plant would end in about five years if substantial replacement of machinery is not taken in hand soon. The approximate cost to be incurred in the next 3 years for an effective rehabilitation of the present plant, without resiting it, is stated to be:—

	Rs. lakhs
(i) Replacement of machinery & spares . . . . .	5.00
(ii) Erection charges etc. . . . .	2.00
	7.00

22. In this connection, the Committee were informed that proposals for the purchase of one set of imported items and equipment already available in India had been submitted to Government, but no final decision had been taken regarding machinery to rehabilitate the plant or to resite it.

23. *The question of resiting the factory at Cochin has been discussed in para 58. The Committee recommend that the management of the company and the State Government should give top priority to the rehabilitation of this plant and in the meantime ensure that old machinery is replaced and proper maintenance arrangements are introduced in the factory. The regular system of preventive maintenance should also be introduced.*

### III

## FINANCE AND ACCOUNTS

24. The authorised capital of the company is Rs. 50 lakhs. The issued capital on 31st March, 1965 was Rs. 12.50 lakhs. Of the issued capital, 500 equity shares of Rs. 1,000 (Rs. 5 lakhs) were allotted as value of the assets of the factory and ancillaries. 750 equity shares of Rs. 1,000 each (Rs. 7.50 lakhs) were allotted to the Kerala Government for cash.

### A. Assets taken over from Government

Final settlement not made.

25. From the Auditors' Report, it was noted that final settlement regarding the assets taken over by the company from the Government in 1961 had not been made till September, 1965. The Committee were informed during evidence that there was no particular reason for delay in the settlement of assets but there was no feeling of urgency to settle this question. On a subsequent valuation the assets transferred to the company were found to be Rs. 7.48 lakhs in excess of what was paid to Government in the form of shares (Rs. 5 lakhs). The excess was shown as a surplus of assets over liabilities in the Balance Sheet. The Secretary, Public, Health and Engineering Department stated that a final decision regarding extra assets would soon be taken.

26. The Managing Director stated that the matter could have been settled within three months of valuation, if the principles had been settled.

*27. The working of a company can be judged by comparing profits with its total issued capital. To the extent the issued capital is not correctly shown the working results would not give a correct picture. The final decision regarding settlement of surplus assets should be taken without further delay so that the annual reports give a true picture of the working of the company*

*28. The Committee further recommend that in settling the matter, the desirability of advancing fifty per cent of the funds required by the company, in the form of loans might also be considered.*

### B. Working Capital

Difficulties experienced.

29. It has been stated that increased working capital is required to comply with the orders for pipes which usually are for considerable quantities. Further the factory should

at least undertake to manufacture one, or more sizes of pipes to meet probable demands. This would entail an additional capital investment of about Rs. 7 lakhs. The company had not been able to raise loans from the Banks or the State Government so far. It also did not declare dividend in view of the shortage of working capital and the difficulties of obtaining credit for working funds.

30. During evidence, the position of working capital and available liquid source of the company was stated to be as follows:—

	Working capital	Cash and store (Rs.)	Stores, cash re-quired for 6 months.
31-3-1963 . . . . .	13,31,748	5,86,332	} 9,00,000
31-3-1964 . . . . .	12,69,585	6,43,129	
31-3-1965 . . . . .	13,64,645	4,65,854	

31. It was represented that about Rs. 1.66 lakhs were due from P.H.E. Departments for goods supplied over 6 months back. The bills for supplies of RCC pipes had not been fully accepted and the matter was under dispute. Government Departments were not good paymasters and a delay upto 6 months was stated to be usual. Further the company had to make heavy advance payments for raw materials. The Secretary to Government informed the Committee that a Bank had agreed and sanction for borrowing to the extent of Rs. 3 lakhs was expected to be accorded shortly.

32. *While the genuine difficulties of the company for working capital should be looked into and solved, the Committee feel that, at the present rate of production (Rs. 8.89 lakhs during 1964-65), the company should not have experienced any difficulty for want of working capital which, in their view, should not exceed 3 months' production. Judged from this standard, the company would appear to have surplus funds. The State Government should look into the matter.*

33. *As regards the outstandings which are comparatively large, the Committee suggest that the reasons therefor should be enquired into and steps taken to ensure prompt payment by the Government Departments concerned. To avoid unnecessary delays, the feasibility of charging interest on payments made after a reasonable period might be examined.*

### C. Profits

34. The financial results of the working of the company during each of the last 3 years are given below:

Year	Profit before tax (Rs. lakhs)	%age of profits to net worth	Profit after tax (Rs. lakhs)
1962-63	0.08	0.41	N.A.
1963-64	2.26	11.47	1.06
1964-65	1.54	7.29	0.65

35. It would be seen that the gross as well as net profits of the company declined during the year 1964-65. This has been ascribed to the higher cost of production and the sale price not having been increased in proportion to the increased cost. Further although the company has been making profits, it has not declared any dividend so far.

36. As to the normal return in a factory like this, the Managing Director considered 10 to 15 per cent profit as reasonable.

37. *The performance of the company has not been satisfactory. The solution apparently lies in increasing production and utilising the idle capacity without adding to the fixed costs. The Committee recommend that vigorous steps should be taken to improve the profitability of the company.*





*the Board, cannot be examined impartially and independently in the Government Department. Moreover, it is not possible for such an official to devote sufficient attention to the affairs of the undertaking in addition to performing his own duties. In view of this, the Government of India decided in November, 1961 that "no Secretary of a Ministry/Department shall be a member of any Board". This is a healthy principle and should be followed by the Kerala Government while proposing to appoint Secretaries as Chairmen of State Government Companies.*

(ii) Appoint-  
ment  
of non-  
officials  
suggested.

42. From paragraph 39, it would be seen that the Board of Directors of the Company is wholly composed of officials, and no non-official is represented on it. It was stated during evidence that all the shares of the company were held by the State Government and a high percentage of its pipes was consumed by the Government Departments. The question of including non-officials had not, therefore, been considered.

43. In this connection the Committee appointed by the Kerala State Industrial Development Corporation (1961) on Government-owned Industrial Units in Kerala State had observed that "care should be taken to see that a few non-officials who have experience of industrial management are necessarily included in the Board". It had further observed that "in case the number (of Directors) is five, there may be two officials and two non-officials".

44. In this connection, the Third Five Year Plan stated as follows:—

"Membership of the Board should be on the basis of ability, experience and administrative competence, and should be open to . . . . . persons from outside."

45. In November, 1961, the Government of India decided as follows:—

"Government should have freedom to appoint persons of general experience drawn from outside the undertaking both from officials and non-officials. As regards appointment of non-officials to Board of Directors the policy should be that no full time Director drawn from non-officials should have any connection with business. Part-time non-official Directors may be appointed provided no question of conflict of interest, whether direct or indirect will arise between the operations of the public sector undertaking to which they are appointed and their own business interests".

46. The Committee feel that keeping in view the tasks to be performed by the Boards of Directors of State Government Companies, members thereof might be drawn from a wider sphere than at present so that experienced men from various non-official sources are included therein, care being taken that no one with a direct interest in the same industry in the private sector is appointed.

### B. Staff

47. The details of staff employed by the company during each of the last 3 years are given below:—

	31-3-1963	31-3-1964	31-3-1965
<i>Office:</i>			
Accounts and Stores . . . . .	5	9	9
Purchase & Sales . . . . .	2	2	2
Bills . . . . .	2	2	2
Peons . . . . .	3	3	3
Driver . . . . .	1	1	1
	<hr/>	<hr/>	<hr/>
	13	17	17
	<hr/>	<hr/>	<hr/>
<i>Monthly:</i>			
General Foreman . . . . .	1	1	1
Production Supervisors . . . . .	2	2	2
Drivers . . . . .	1	3	3
Time office staff and watch and ward . . . . .	9	12	12
Supervisors . . . . .	6	5	5
	<hr/>	<hr/>	<hr/>
	19	23	23
	<hr/>	<hr/>	<hr/>
<i>Daily rated:</i>			
Workers . . . . .	85	83	81
Casual . . . . .		79	152
	<hr/>	<hr/>	<hr/>
<b>GRAND TOTAL</b>	<b>117</b>	<b>202</b>	<b>273</b>
	<hr/>	<hr/>	<hr/>

48. The Committee were informed that the strength of staff was determined by the Managing Director from time to time. No norms had been laid down.

49. In the proposed scheme for the new factory at Cochin, referred to in para 58, the requirements of staff are stated to be only 100 persons as follows:—

Engineers	2
Supervisory & Clerical	18
Skilled	30
Semi-skilled	20
Unskilled	30
	100

50. It would thus be seen that the factory is overstaffed. As stated earlier, a proposal to retrench 30 per cent of the employees, without loss in production, has been made to the State Government. This was expected to result in a saving of Rs. 90,000 per annum.

51. *To enable the company to achieve economic production as also secure adequate return on the capital employed, it is necessary that estimates of staff requirements are prepared realistically on the basis of a systematic work-study. Norms should also be laid down for all categories of staff. As the establishment expenses account for a major portion of the cost of production these should be kept to the minimum.*

52. *As regards the existing overstaffing a detailed study of the position might be made with a view to assessing the extent of surplus personnel and steps taken to utilise them for the contemplated increased production or other establishments.*

## GENERAL

## A. Administration of the Company

53. The Kerala Premo Pipe Factory Ltd., although an industrial concern, is under the administrative control of the State Department of Health and Labour. The Secretary of the Health and Labour Department stated during evidence that he saw no harm in the present arrangement when the pipes produced by the factory were all consumed by his Department. Asked whether the Industries Department would not be in a more advantageous position to look after this factory, the Secretary observed that personally he did not have any objection to the former taking it over and the position would have to be reviewed after the factory was expanded to cater to consumers other than Public Health and Engineering Department.

54. *From the general appraisal of the working of the company, the Committee find that there has not been sufficient planning of production. Sales promotion efforts have also been lacking. These have resulted in idle capacity and consequently higher cost of production. The company also experienced various difficulties e.g. shortage of working capital, replacement of old machinery, which still remain unsolved. The Committee felt that possibly these problems of the company might have been attended to with speed if it were under the Department of Industries.*

## B. Future Plans and Programme

55. The Committee were informed that there was ample scope for expansion of the prestressed concrete pipe industry in India. Such expansion should be by multiplying units of the minimum size near the place of consumption rather than by expanding an existing factory so that the transport cost of the product is kept down as much as possible. A major portion of raw materials was easily available throughout India. Such small units could be dismantled and erected at the new site within six months. The proper location for a factory would, therefore, be near centres of consumption.

**Proposals  
of the  
Company.**

56. On this basis the company was stated to have submitted the scheme summarised below:

- (1) A new company called the Premo Corporation of India may be formed.
- (2) The Kerala Premo Pipe Factory Limited might be merged into this.
- (3) The Premo Corporation will progressively manufacture machines and specials for the industry in collaboration with M/s. Noreno of Oslo, Norway. This will eliminate the Foreign Exchange content for manufacturing plants in 3-5 years' time.
- (4) The Premo Corporation will run 2 or 3 pipe manufacturing units in Kerala to meet local needs and train workmen for the industry.
- (5) The Premo Corporation will participate in enterprises in other States for manufacture of Prestressed Concrete Pipes by offering some share capital, skilled knowledge and equipment.
- (6) The Premo Corporation will organise research, development, standardisation and training in the industry.

The cost estimates are:—

	<i>(Rs. in lakhs)</i>
(a) Workshop I Stage . . . . .	20 00
(b) Cost of one unit in Alwaye . . . . .	60 00
(c) Central Organisation, Laboratory & Office . . . . .	15 00
(d) Share Capital for participation as promoters of new companies . . . . .	30 00
(e) Working capital . . . . .	15 00
<b>TOTAL</b> . . . . .	<b>140 00</b>
Foreign exchange	20 00

*Financing:*

Equity shares (Foreign) . . . . .	10 00
Kerala Government . . . . .	50 00
Government of India . . . . .	30 00
	<hr/>
	90 00
	<hr/>

	(Rs. in lakhs)
Loans (Foreign)	10.00
Loans (Indian)	40.00
	50.00

57. This scheme had been forwarded by the Kerala Government to the Central Government for inclusion in the Fourth Five Year Plan.

58. The Committee were further informed that the PHE Department of Government of Kerala was investigating the possibility of introducing water supply schemes in the area around Cochin involving usage of pipes costing Rs. 8 to 10 crores. They had suggested that the prospects of supplying prestressed concrete pipes to meet this demand be investigated. The Kerala Premo Pipe could establish a factory with an annual production of the value of Rs. 25 lakhs to manufacture pipes of 400 mm., 700 mm. and 900 mm. dia. For this purpose the company had submitted a scheme for the establishment of one unit near Alwaye at a cost of Rs. 35.50 lakhs excluding working capital.

Proposal to put up a Factory around Cochin.

59. In a note furnished to the Committee, the Managing Director has stated that an enquiry from Saudi Arabia had also been received regarding water supply and sewerage works for four major cities. In his opinion, the country had sufficient resources in technical skill, capital and material resources to undertake such jobs.

60. *As pointed out in the Report, the examination of the working of the company has revealed the following deficiencies:—*

- (1) *insufficient production planning;*
- (2) *idle capacity;*
- (3) *want of vigorous sales promotion efforts;*
- (4) *old machinery requiring replacement;*
- (5) *higher cost of production;*
- (6) *absence of proper pricing policy;*
- (7) *surplus staff; and*
- (8) *consequently lower profits.*

61. *The company is considering various measures (e.g. diversifying the production and introducing double shift) to improve the position. To the Committee the proposal of*

*the company to put up additional factories outside Kerala, at this stage, sounds unrealistic. More so the idea of undertaking work abroad. The management must concentrate their energies on putting the existing factory on a sound basis before taking up new schemes. For this purpose the State Government should appoint a Committee of Experts to draw up a comprehensive and realistic plan for rehabilitating the factory expeditiously.*

**D. N. TIWARY,**

*Chairman,  
Committee on Public Undertakings.*

**NEW DELHI**

April 15th, 1966.

Chaitra 25, 1888 (S).



## APPENDIX

### Summary of Conclusions/Recommendations contained in the Report

Sl. No.	Ref. to para No. in the Report	Summary of Conclusions/Recommendations
1	2	3
1	8-9	<p>(i) Even five years after the setting up of the Kerala Premo Pipe Factory Ltd., the factory is not being run to its full rated capacity. The factory was no doubt given by the Indo-Norwegian Foundation as a gift but the productive resources should have been fully utilised. It was expected of the Management of the company to study the pattern of demand for prestressed concrete pipes at the very beginning and to arrange production accordingly. It is surprising that despite the many advantages which the use of prestressed concrete pipes offers, over cast iron pipes, the company has not been able to promote their sales. It is also surprising that the State Government did not insist on its full productive capacity being utilised. What is worse, the policy of restricting production of prestressed pipes to the orders received has been followed all these years and, in order to utilise the available capacity, the production of RCC pipes had to be taken up.</p> <p>(ii) The steps now being taken should result in greater production and optimum utilisation of the plant and equipment on a two-shift basis.</p>
2	1 4	<p>With the present rate of production which is below 50% of the rated capacity, the sales of the company are in the neighbourhood of Rs. 14 lakhs. These are expected to go up as the production increases. It is necessary that a proper Commercial Department should be organised to:—</p> <p>(1) Advise clients on the pipes best suited to their needs;</p>

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- (2) Preparing tenders;
- (3) Negotiating prices and agreements with purchasers;
- (4) Negotiating delivery and completion dates for pipes ordered from the factory; and
- (5) Initiating orders in the factory for pipes to be manufactured.

The Committee feel that a Commercial Department has a very important contribution to make towards the successful working of the company and a beginning might immediately be made in this direction, the Department being strengthened gradually as the production increases. This would also enable the Managing Director to attend to other important matters.

3 17-18

(i) It is obvious that the practice of selling the Premo Pipes produced by the factory to the State Government Departments/Statutory Bodies at the old rates, after its production costs had gone up due to increase in the cost of material and wages, cannot be continued. Sales price has to be determined in relation to the cost of production. The present policy is, therefore, neither sound nor economical in-as-much as it has resulted in fall in profits and needs to be changed immediately.

(ii) The company should also determine standard cost for various types of pipes and periodically compare it with their actual cost of production. The reasons for wide variations, if any, should be investigated and timely measures taken to bring them down so that the selling price leaves an adequate margin of profit to the company.

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Finished goods of the value of Rs. 7.10 lakhs, Rs. 4.61 lakhs and Rs. 3.76 lakhs remained unsold at the end of 1962-63, 1963-64 and 1964-65 respectively. With the setting up of the Commercial Department recommended in paragraph 14, the situation should improve so as to avoid funds being locked up in finished goods.

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1	2	3
5	23	<p>The question of resiting the factory at Cochin has been discussed in para 58. The Committee recommend that the management of the company and the State Government should give top priority to the rehabilitation of the existing plant and in the meantime ensure that old machinery is replaced and proper maintenance arrangements are introduced in the factory. The regular system of preventive maintenance should also be introduced.</p>
6	27-28	<p>(i) The working of a company can be judged by comparing profits with its total issued capital. To the extent the issued capital is not correctly shown, the working results would not give a correct picture. The final decision regarding settlement of surplus assets taken over by the company from Government in 1961 should be taken without further delay so that the annual reports give a true picture of the working of the company.</p> <p>(ii) The Committee further recommend that in settling the matter, the desirability of advancing fifty per cent of the funds required by the company, in the form of loans might also be considered.</p>
7	32-33	<p>(i) While the genuine difficulties of the company for working capital should be looked into and solved, the Committee feel that, at the present rate of production (Rs. 8.89 lakhs during 1964-65), the company should not have experienced any difficulty for want of working capital which, in their view, should not exceed 3 months' production. Judged from this standard, the company would appear to have surplus funds. The State Government should look into the matter.</p> <p>(ii) As regards the outstandings, which are comparatively large the Committee suggest that the reasons therefor should be enquired into and steps taken to ensure prompt payment by the Government Departments concerned. To avoid unnecessary delays, the feasibility of charging interest on payments made after a reasonable period might be examined.</p>

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The gross as well as net profits of the company declined during the year 1964-65. The performance of the company has not been satisfactory. The solution apparently lies in increasing production and utilising the idle capacity without adding to the fixed costs. The Committee recommend that vigorous steps should be taken to improve the profitability of the company.

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As to the reasons for appointing Secretary of Health and Labour Department as Chairman of the company, it was stated that Public, Health and Engineering Department was the main consumer of its products. As Secretary to Government he could see that the interests of his Department were served and at the same time a higher rate was not charged for the pipes. The above explanation is not convincing. On the other hand, inspite of the predominance of official Directors on the Board, the company has not been able to raise the sale price of its pipes in proportion to the increased cost of production. The present arrangement has also other drawbacks. It leads to blurring of responsibilities of the Secretary of the Department, and the proposals of the Undertaking, to which he is a party as Chairman or Member of the Board, cannot be examined impartially and independently in the Government Department. Moreover, it is not possible for such an official to devote sufficient attention to the affairs of the undertaking in addition to performing his own duties. In view of this, the Government of India decided in November, 1961 that "no Secretary of a Ministry/Department shall be a member of any Board". This is a healthy principle and should be followed by the Kerala Government while proposing to appoint Secretaries as Chairmen of State Government Companies.

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The Committee feel that keeping in view the tasks to be performed by the Boards of Directors of State Government Companies, members thereof might be drawn from a wider sphere than at present so that experienced men from various non-

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official sources are included therein, care being taken that no one with a direct interest in the same industry in the private sector is appointed.

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(i) To enable the company to achieve economic production as also secure adequate return on the capital employed, it is necessary that estimates of staff requirements are prepared realistically on the basis of a systematic work-study. Norms should also be laid down for all categories of staff. As the establishment expenses account for a major portion of the cost of production these should be kept to the minimum.

(ii) As regards the existing overstaffing a detailed study of the position might be made with a view to assessing the extent of surplus personnel and steps taken to utilise them for the contemplated increased production or other establishments.

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From the general appraisal of the working of the company, the Committee find that there has not been sufficient planning of production. Sales promotion efforts have also been lacking. These have resulted in idle capacity and consequently higher cost of production. The company also experienced various difficulties *e.g.* shortage of working capital, replacement of old machinery, which still remain unsolved. The Committee felt that possibly these problems of the company might have been attended to with speed if it were under the Department of Industries.

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The examination of the working of the company has revealed the following deficiencies:—

- (1) insufficient production planning;
- (2) idle capacity;
- (3) want of vigorous sales promotion efforts;
- (4) old machinery requiring replacement;
- (5) higher cost of production;
- (6) absence of proper pricing policy;
- (7) surplus staff; and
- (8) consequently lower profits.

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**1****2****3**

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The company is considering various measures (e.g. diversifying the production and introducing double shift) to improve the position. To the Committee the proposal of the company to put up additional factories outside Kerala, at this stage, sounds unrealistic. More so the idea of undertaking work abroad. The management must concentrate their energies on putting the existing factory on a sound basis before taking up new schemes. For this purpose the State Government should appoint a Committee of Experts to draw up a comprehensive and realistic plan for rehabilitating the factory expeditiously.

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(ii)

Sl. No.	Name of Agent	Agency No.	Sl. No.	Name of Agent	Agency No.
<b>DELHI—contd.</b>			30.	People's Publishing House, Rani Jhansi Road, New Delhi . . . . .	76
21.	Sat Narain & Sons, 3141, Mohd. Ali Bazar, Mori Gate, Delhi . . . . .	3	31.	The United Book Agency 48, Amrit Kaur Market, Pahar Ganj, New Delhi . . . . .	88
22.	Atma Ram & Sons, Kashmere Gate, Delhi-6 . . . . .	9	32.	Hind Book House, 82, Janpath, New Delhi . . . . .	95
23.	J. M. Jaina & Brothers, Mori Gate, Delhi . . . . .	11	33.	Bookwell, 4 Sant Narakari Colony, Kingsway Camp, Delhi-9 . . . . .	96
24.	The Central News Agency, 23/90, Connaught Place, New Delhi . . . . .	15	<b>MANIPUR</b>		
25.	The English Book Store, 7-L, Connaught Circus, New Delhi . . . . .	20	34.	Shri N. Chaoba Singh, News Agent, Ramial Paul High School annexe, Imphal . . . . .	77
26.	Lakshmi Book Store, 42, Municipal Market, Janpath, New Delhi . . . . .	23	<b>AGENTS IN FOREIGN COUNTRIES</b>		
27.	Bahree Brothers, 188, Lajpatrai Market, Delhi-6 . . . . .	27	66	35.	The Secretary, Establishment Department, The High Commission of India, India House, Aldwych, London, W.C.-2 . . . . .
28.	Jayana Book Depot, Chapparwala Kuan, Karol Bagh, New Delhi . . . . .	66	68		
29.	Oxford Book & Stationery Company, Scindia House, Connaught Place, New Delhi . . . . .	68			