

112
**COMMITTEE ON PUBLIC
UNDERTAKINGS**

(THIRD LOK SABHA)

THIRTY-FOURTH REPORT

**Action taken by Government on the recommendations
contained in the Hundred and Twenty-Fourth Report
of the Estimates Committee (Second Lok Sabha)**

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(MINISTRY OF DEFENCE)



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(THIRD LOK SABHA)

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@Elected w.e.f. 18-5-66 in the vacancy caused on the resignation of Shri M. Govinda Reddy on 6-5-66.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings, having been authorised by the Committee to submit the Report on their behalf, present this Thirty-Fourth Report on the action taken by Government on the recommendations contained in the Hundred and Twenty-Fourth Report of the Estimates Committee (Second Lok Sabha) on Hindustan Aircraft Ltd.

2. The Hundred and Twenty-Fourth Report of the Estimates Committee was presented to the Lok Sabha on the 6th April 1961. Government furnished their replies indicating the action taken on the recommendations contained in that Report between 13th July, 1962 and 12th September, 1966. As the Public Undertakings are now to be examined by this Committee, the replies of Government to the recommendations made by the Estimates Committee in the aforesaid Report have been considered by this Committee. The Draft Report was adopted by this Committee on the 21st November, 1966.

3. The Report has been divided into the following two chapters:—

I. Recommendations that have been accepted by Government.

II. Recommendations which the Committee do not desire to pursue in view of Government's reply.

4. An analysis of the action taken by Government on the recommendations contained in this Report of the Estimates Committee is given in Appendix. It would be observed therefrom that out of the 20 recommendations made in the Report 30 per cent have been accepted by Government and the Committee do not desire to pursue 70 per cent of the recommendations in view of the Government's reply.

NEW DELHI;
November 21, 1966.

Kartika 30, 1888 (S.).

D. N. TIWARY,
Chairman,
Committee on Public Undertakings.

CHAPTER I

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation (Serial No. 4)

It would be obviously desirable to prescribe a tenure for Directors and make it uniform to all Public Undertakings. (Paragraph 11).

REPLY OF THE GOVERNMENT

The recommendation of the Estimates Committee is already being followed in respect of the Undertakings, viz. BEL, GRW, MDL and Praga Tools. This *recommendation will be taken into account while drawing up the constitution of the single Corporation, comprising HAL, AIL and AMD, which will be responsible for the activities connected with aircraft production and repairs.

[Ministry of Defence U.O. No. 5 (3) /61/HAL/D (HAL) PC-XIV, dated the 1st May, 1964].

Recommendation (Serial No. 6)

It is obvious that adequate attention has not been paid towards development of ancillary industries by the HAL. In view of the importance of the aircraft industry to the country and its speedy expansion in the foreseeable future the requirements of components are bound to go up very much. Increasingly more and more components will also have to be produced indigenously. The Committee, therefore, recommend that steps should be taken by HAL, without delay for the development of ancillary industries. (Paragraph 15).

REPLY OF THE GOVERNMENT

HAL is already sub-contracting a number of its requirements mostly plastic and rubber products which have been developed indigenously to meet aircraft specifications. Some raw materials like aluminium specification L59, dopes, thinners and paints are also obtained through indigenous sources. The requirements of air-

*At the time of factual verification, the Ministry of Defence has stated thus:—

“.....This recommendation has been accepted and suitable provision made in the construction of a Single Corporation Comprising Hindustan Aeronautics (India) Ltd., and Aircraft Manufacturing Depot.....”

[Ministry of Defence letter No. 26(15)/66/D(HAL-I), dated the 16th November, 1966].

craft parts and components of HAL being small, and the specification for the aircraft parts being necessarily high, it is difficult to develop sub-contract sources for most of the aircraft parts at present. The value of the items of accessories etc. produced in India is naturally rather small at this stage.

This Ministry has set up a Directorate of Technical Development and Production (Air) for the indigenous manufacture of raw materials, instruments parts and other accessories required for the Aircraft Industry. HAL is maintaining close liaison with this organisation in prescribing the requisite standards and specifications and ensuring the ultimate production in conformity with the prescribed standards required for the aircraft industry.‡

[Ministry of Defence U.O. No. 5(3)/61/HAL/PC-III/D (Air-1), dated the 10th December, 1962].

Recommendation (Serial No. 8)

The practice of debiting expenditure incurred on new projects to old projects already under production does not appear to be quite correct as such a practice will not give a clear picture of the cost of production. The Committee feel that it would be desirable to make at least a proforma allocation between the projects already established and those under development so that a more realistic cost of production is available. (Paragraph 19).

REPLY OF THE GOVERNMENT

It is clarified that in respect of new projects the development expenditure is invariably segregated. It is mainly in respect of the Planning Department that the total expenditure is debited to the current

‡At the time of factual verification, the Ministry of Defence have amplified their reply as under:—

“In addition, a Standing Committee has been set up with effect from 8th September, 1965 for coordinating the development of the manufacture of aircraft spares and stores comprising Secretary (Defence Production) as the Chairman and representatives of Air Headquarters, Hindustan Aeronautics Limited, Directorate General of Civil Aviation, Air India and the Indian Airlines Corporation. The Director of Technical Development and Production (Air) is the Member Secretary of this Committee. This Committee is primarily concerned with the coordination and of the steps necessary for achieving as early as possible a greater and more intensive utilisation of the capacity available in the country for the manufacture of aircraft, general spares (AGS). The intention is that this Committee's jurisdiction would be extended to other aircraft equipment in due course.”

[Ministry of Defence letter No. 26(15)/66/D(HAL-I), dated the 16th November, 1966].

project although a large percentage of the staff is generally employed on future projects. The question how expenditure on the planning staff should be allocated between new and old projects is proposed to be examined in consultation with the Director of Commercial Audit.

[Ministry of Defence U.O. No. 5(3)/61/HAL/PC.V/D (Air-1) dated the 13th July, 1962].

Recommendation (Serial No. 10)

The Committee expect that raising the wages of workers should be accompanied by a corresponding rise in productivity. They suggest that it is time that an expert productivity study is made to assess whether the large increase of ratio in the expenditure over the production was fully justified and whether the production could not be stepped up reasonably. (Paragraph 23).

REPLY OF THE GOVERNMENT

HAL has already set up its own productivity study department in collaboration with M/s. Ibcon, a firm of Industrial and Business Consultants in Bombay, who were appointed by HAL in 1952 to investigate and advise the Management with the object of reorganising the factory and improving the operating efficiency. The functions of this department are to advise the Management on works simplification, methods improvement and rationalisation of procedures. Based on works study, the department fixes standards for each manufacturing operation. A number of HAL engineers have been trained both by Messrs. Ibcon and HAL's Industrial Engineering Deptt. as standard Engineers in works study and other Industrial Engineering techniques. The implementation of recommendations made by M/s. Ibcon after extensive investigation in a number of Deptts. of HAL has helped the company to achieve economy in expenditure. A continuous watch will be maintained by HAL to study whether production is proportional to the increase on account of the expenditure relating to wages and salaries.

[Ministry of Defence U.O. No. 5(3)/61/HAL/PC. VI/D(A-1) dated the 2nd August, 1962].

Recommendation (Serial No. 11)

The plea that in aircraft industry it took several years to stabilise the production of new items may be true for developing a new aircraft but not necessarily for items which are already proved and are being developed under licence. However, taking only the investment on old projects into account, the ratio of total capital employed on old projects to production during 1958-59 works out to 1:0.5. Normally, the minimum ratio of capital to turnover should be 1:1. Thus it would appear that the turnover of the company is low. (Paragraph 25).

REPLY OF THE GOVERNMENT

The observations of the Committee have been noted.

The Company has been so informed and requested to improve the capital-turnover ratio with a view to reach a ratio of at least 1:1 within the shortest possible time.

[Ministry of Defence U.O. No. 5 (3)/61/HAL/D (HAL)/PC. XI, dated the 30th April, 1964].

Recommendation (Serial No. 19)

Since both the HAL and the IAF Maintenance Command, Kanpur, would be under the administrative control of the same Ministry and would be manufacturing different types of planes the necessary element of competition is not prima facie very apparent. On the other hand, as already recommended by the Committee in para 3 of their 80th Report (Second Lok Sabha), the normal pattern should be to utilise the existing organisations to take up new activities in the line instead of creating new units. The Committee hope that Government will examine at an appropriate time the feasibility of having one organisation for the two undertakings engaged in aircraft industry. In this connection, the Committee note the pattern followed in the case of Fertilisers and Steel where for very good reasons the Government set up one organisation to look after allied producing units. (Paragraphs 38-39).

*REPLY OF THE GOVERNMENT

The recommendation has been accepted. Government have since decided to set up a single Corporation to look after the activities connected with aircraft production and repairs. The single aircraft Corporation will have within its ambit the aircraft production units of Hindustan Aircraft Ltd., the production units dealing with the manufacture of MIG aircraft and the production unit dealing with the manufacture of Transport aircraft at Kanpur.

[Ministry of Defence U. O. No. 11(3)/61/D (HAL) dated the 22nd April, 1964].

*At the time of factual verification the Ministry of Defence, have amended their reply as under:—

"The recommendation has been accepted. Government have set up a single corporation with effect from 1st October, 1964 to look after the activities connected with aircraft production and repairs. This single aircraft corporation has within its ambit the aircraft production units of Hindustan Aeronautics Limited, the production units dealing with the manufacture of MIG. 21 aircraft and the production unit dealing with the transport aircraft at Kanpur."

[Ministry of Defence letter No. 26(15)/66/D(HAL-I), dated the 16th November, 1966].

CHAPTER II

RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE GOVERN- MENT'S REPLY

Recommendation (Serial No. 1)

During the three years ending 1958-59, on an average manufacture of aircrafts and overhaul/servicing have accounted for 64 per cent of the undertaking's activities. The Committee are glad to note that the HAL has given up the manufacture of bus body kits. It has long been engaged in the production of rail coaches which in the circumstances seem to be a good standby. They would, however, point out the desirability of planning the future developments of HAL so as not to allow the standby units of production to get the better of the main line. (Paragraph 5).

*REPLY OF THE GOVERNMENT

This Ministry is generally in agreement with the recommendations of the Estimates Committee that the standby units of production should not get the better of the main line. But the rail coach Division of HAL is a separate Division with its own manufacturing programme to meet the country's vital needs in the Third Five Year Plan for rail coaches, wagons and rail cars.

[Ministry of Defence U. O. No. 5(3)/61/HAL/PC.1/877/D (Air-1), dated the 2nd August, 1962].

Recommendation (Serial No. 2)

Though Government had recognised the need for reconstitution of the Board of Directors of the Company in the light of the recom-

*At the time of factual verification, the Ministry of Defence have amended their reply as under:—

"This Ministry is generally in agreement with the recommendations of the Estimates Committee that the standby units of production should not get the better of the main line. The Rail coach Division of Hindustan Aeronautics Limited was a separate Division with its own manufacturing programme to meet the country's vital needs in the 3rd Five Year Plan for rail coaches, wagons and rail cars. Also with effect from 1st November, 1965, the Rail coach Division was separated from the Hindustan Aeronautics Limited and its control transferred to Bharat Earth Movers Limited."

[Ministry of Defence letter No. 26(15)/66/D(HAL-1), dated the 16th November, 1966].

recommendations made in paras 14 and 15 of 67th Report of the Estimates Committee (First Lok Sabha), the same have not yet been given effect to. The Committee trust that Government will implement the recommendations without any further delay. (Paragraph 7).

REPLY OF THE GOVERNMENT

The recommendations of the Estimates Committee have been duly considered. No non-official has been included at present in the Board of Directors of Hindustan Aircraft Limited largely because of Security reasons.

[Ministry of Defence U.O. No. 5 (3)/61/HAL/PC. XII (HAL-1), dated the 15th October, 1963].

Recommendation (Serial No. 3)

The aircraft industry is a highly technical and specialised one in which major technical changes are taking place at a fast pace. The Committee are doubtful whether there are any special advantages, as have been claimed, in having as Directors persons who have no special interest in the Undertaking. As regards the reasons advanced by the Defence Secretary that the appointment of full time Directors would involve high expenditure, the Committee would invite a reference to para 1 of their 65th Report (Second Lok Sabha). It is quite likely that the appointment of full time functional Directors would enable the posts of General Manager (Technical) and Deputy General Managers to be done away with, which could offset to some extent the additional expenditure involved. The Committee recommend that the Government may examine the desirability of increasing the strength of full-time Directors for the HAL. (Paragraph 10).

REPLY OF THE GOVERNMENT

In pursuance of the recommendations contained in para 10 of the 124th Report of the Estimates Committee, a full time Chairman has been appointed in HAL. It would not, therefore, be necessary to have at present more full-time Directors on the Board of Directors of HAL.

[Ministry of Defence U.O. No. 5(3)/61/HAL/PC. XIII D (HAL), dated the 15th October, 1963].

Recommendation (Serial No. 5)

The Committee trust that the HAL has turned the corner in regard to realisation of its production targets and the future will show increasing improvement. (Paragraph 13).

REPLY OF THE GOVERNMENT

HAL is constantly endeavouring to increase production and achieve the prescribed targets.

[Ministry of Defence U. O. No. 5(3)/61/HAL/PC. II/915/D(Air-1), dated the 13th July, 1962].

Recommendation (Serial No. 7)

The ratio of 35 per cent between labour and overheads appears prima facie on the high side. The committee hope that efforts will be made to fix a lower ratio as the target. Unless the ratio of overheads is brought down, it is unlikely that the cost of production can be appreciably reduced. (Paragraph 18).

REPLY OF THE GOVERNMENT

The ratio of 350% between labour and overheads at HAL is not on the high side and is rather a very tight target in an aircraft industry. Even in industries like Telephones, the ratio of labour to overheads is more than 400%. It may be pointed out that on the basis of 350% overheads, its man-hour rate would be even less than 1/3rd of the man-hour rate in the U.K. In fact, HAL overhead cost per hour is approximately Rs. 3/- as against Rs. 9/- per hour in the U.K. Even the HAL's overhead percentage is not really high in comparison to that in the U.K., if in comparing in two rates, due consideration is given to the fact that higher wages tend to bring down overhead rates. According to the information collected by HAL, the overhead rate in aircraft factories in the U.K. varies from 200% to 400% although their wages are about five times of those paid by HAL. In this context, the ratio of 350% prevailing in HAL appears reasonable.

[Ministry of Defence U.O. No. 5(3)/61/HAL/PC. IV/D (Air-1) dated the 13th July, 1962].

Recommendation (Serial No. 9)

The higher cost of HAL's coach is due to higher overheads. In this connection it would be relevant to invite a reference to the statement made by the representative of the HAL before the Public Accounts Committee in 1957-58 that their coach was expected to be cheaper than that of the Integral Coach Factory. The Committee feel that though the HAL's coach might be somewhat different, that cannot justify such large differences in cost. The Committee hope that on stabilisation, the HAL would be able to produce a rail coach at lower cost than in the Integral Coach Factory, as previously promised. (Paragraph 21).

REPLY OF THE GOVERNMENT

The recommendations of the Committee have been examined. Efforts have been made to bring down the cost of the integral coaches (Model 411) being built at HAL. However, due to steep rise in the cost of materials and wage rates since 1-4-58 when the original estimates of cost were prepared, it has not been possible to bring down the cost. Moreover, due to diversion of production from Model 411 to Model 413 (sleeper coaches), the stage of stabilization of production which was expected to be attained beyond 650th coach, has not yet reached. In this connection it may be mentioned that a realistic comparison of cost of in-

tegral coaches produced at HAL and the ICF Perambur was not feasible at any time as the costing systems in the two factories were different.

The 3rd class integral coaches are not being manufactured at I.C.F. Perambur now.

[Ministry of Defence U.O. No. 11/(1)62/D (HAL), dated the 20th July 1963]

FURTHER INFORMATION DESIRED BY THE COMMITTEE

The Committee on Public Undertakings desired to be furnished with the following further information:—

- “(i) Present difference in the cost of production of a coach produced at the ICF, Perambur and at the HAL.*
- (ii) Reasons for the difference in the cost of production, if any.....”*

[L.S.S. O.M. No. 15 PU/62, dated the 25th August, 1966]

FURTHER REPLY OF THE GOVERNMENT

The Ministry of Defence informed the Committee regarding the present difference in the cost of production of a Coach produced at the Integral Coach Factory, Perambur and at the HAL* as follows :—

“The Broadguage Integral Coaches produced during 1965-66 by the Integral Coach Factory, Perambur are understood to be of a different model and type than the Coaches produced by BEML. It is, therefore, not feasible to compare the cost of production of a Coach produced at the Integral Coach Factory, Perambur, with that produced at BEML.”

[Ministry of Defence O.M. No. 29(1)/66/BEM/D(BEL) dated the 12th September, 1966]

Recommendation (Serial No. 12)

Even if allowance is made of the investment on new projects, the percentage of net profits (before tax and interest) to total capital invested on old projects during 1958-59 comes to 3.5 per cent. It would thus appear that the profits on the established items of production would still be low. The Committee hope that the undertaking would take adequate steps to remedy the position. (Paragraph 28).

REPLY OF THE GOVERNMENT

HAL have admitted that the percentage of net profit to the total capital invested is very low and expressed the view that this situation would not improve unless the Government of India agree to a higher margin of profit. HAL have further expressed their view that in fixing the profit for HAL, the Government may take note of the recommendations of the Select Committee on Estimates in UK.

*The work of the Railcoach manufacture was transferred from the H.A.L. to the Bharat Earth Movers Ltd., Bangalore (a Public Undertaking) on the 1st January, 1965.

In all cases the margin of profit to HAL in transactions with the Government is decided after mutual discussions and is fixed at a limit considered reasonable.

[Ministry of Defence U.O. No. 5(3)61/HAL/D(HAL)/PC. XV, dated the 16th July, 1964]

Recommendation (Serial No. 13)

The Company has been unable to give any return on the invested capital. (Paragraph 29).

REPLY OF THE GOVERNMENT

During the three years ending 1958-59, HAL earned the following profits:—

| <i>Year</i> | <i>Profit earned</i> |
|-------------|----------------------|
| 1956-57 | Rs. 32,28,645 |
| 1957-58 | Rs. 34,16,293 |
| 1958-59 | Rs. 39,51,348 |

However, no dividend was declared as the profits during these years were ploughed back into the business so that its programme of expansion was partly financed from its own resources.

[Ministry of Defence U.O. No. 5(3)/61/HAL/PC. VII/D(Air-1), dated the 17th October, 1962]

Recommendation (Serial No. 14)

Considering that the Company has been in existence for 20 years and the fact that no dividends have been declared except once, the amount of reserves built up by the Company is very low, just one-fifth of what it should be normally. It has also not been able to meet any significant portion of expansion/development programme for which the paid-up capital has had to be raised by Rs. 700 lakhs during the three years. (Paragraph 30).

REPLY OF THE GOVERNMENT

HAL is mainly engaged on Defence Projects. It is entrusted with the Air Force repair /overhaul work, which it does on 'cost plus' basis. In the case of manufacturing projects, HAL is allowed profit to the extent of 5% to 6%. In a number of projects undertaken by HAL, appropriate amounts are advanced to the Company to enable them to purchase raw materials and import spare parts, bought-out items, etc. and, therefore, the profit margin allowed to HAL is considered adequate. In the circumstances HAL are not in a position to effect any substantial increase in the reserves. *

[Ministry of Defence U. O. No. 5(3)/61/HAL/PC.VIII/D(Air-1), dated the 17th October, 1962]

Recommendation (Serial No. 15)

Income-Tax rates of depreciation are fixed for tax purposes on the basis of the overall expected life of a class of assets. In an industry changing so rapidly and radically like the aircraft industry, the normal rate of depreciation allowed by Income-tax authorities is not likely to prove adequate. The Committee consider that in the case of HAL the special requirements of the aircraft industry in respect of depreciation call for examination. (Paragraph 31).

REPLY OF THE GOVERNMENT

The question of revising the present rates of depreciation has been considered by the Board of Directors and it has been decided that the depreciation rates as provided for Income-Tax purposes should continue to be adopted. The Company have stated that in U.K. the rates of depreciation on plant and Machinery vary from 7½% to 20%, while the HAL is charging at the rate of 10% for single shift and 15% for two shifts which is considered adequate.

[Ministry of Defence U.O. No. 5(3)/61/HAL/ PC. IX/D(Air-1), dated the 13th July, 1962]

Recommendation (Serial No. 16)

The Committee feel that the present system of 'Cost-plus' basis on which HAL works is not very conducive to efficiency and reduction of costs. It will be desirable for the HAL to work out its expected costs properly and quote prices on that basis. The profit it makes can thus be a true test of its performance. The Committee suggest that the present system of 'Cost-plus' basis followed by the HAL should be replaced by a fixed price to be worked out in the manner indicated. (Paragraph 34).

REPLY OF THE GOVERNMENT

As regards repair/overhaul it is possible for HAL to give fixed quotations only for specified schedules of work and that too in respect of such projects where HAL has gained sufficient experience. But, by and large due to the diversity of the jobs and inherent difficulty in adopting fixed rates, the substitution of the 'Cost-plus profit' by a system of fixed quotations is not generally feasible; Government, however, would examine each and individual case, as and when fixed quotations are proposed by HAL, and consider such proposals on merits.

As regards manufacture of aircraft/engines HAL have proposed the prices of the first few aircraft/engines may be on 'cost-plus' profit basis and thereafter it might be possible to work out fixed quotations. In this connection it may be noted that the Government decides the basis of pricing in each case in consultation with HAL.

[Ministry of Defence U.O. No. 5(3)/61/HAL/D(HAL/PC.XV), dated the 16th July, 1964.]

Recommendation (Serial No. 17)

The Committee recommend that the existing practice in regard to the valuation of the works-in-progress may be reviewed. (Paragraph 35).

REPLY OF THE GOVERNMENT

The method adopted by the HAL is in accordance with the practice followed by the other Central Govt. Undertakings like H.M.T., B.E.L. & I.T.I. The recommendations of the Estimates Committee are being examined by HAL in consultation with Audit.

[Ministry of Defence, U.O. No. 5(3)/61|HAL|PC. X|D (Air-I), dated the 17th October, 1962]

FURTHER INFORMATION DESIRED BY THE COMMITTEE

.....*the result of examination of the recommendation at Serial No. 17 (Paragraph 35) of the above Report may be intimated to this Secretariat by 21st October, 1963.*

[L.S.S. O.M. No. 15-64|62, dated the 26th September, 1963].

FURTHER REPLY OF THE GOVERNMENT

In view of the recommendations of the Estimates Committee as contained at serial No. 17 of Appendix II of the above Report, the existing practice of HAL in regard to the valuation of work-in-progress has been examined by the Company in consultation with their statutory Auditors who are of the view that the present system does not need any change. The Dy. Director of Commercial Audit also has not suggested any change. An extract from the recommendations of the Institute of Chartered Accountants of England and Wales, as given below, also justifies the existing practice in HAL:

“Long-term contracts—In business which undertake contracts extending over a period of years the normal tendency is to include overhead expenditure in work-in-progress except where it is considered to be irrecoverable. If overheads are not included in work-in-progress on such contracts the accounts for the early years may indicate losses, followed by unduly large profits in the years when the contracts are completed. This would be a wholly unrealistic presentation in relation to a contract showing abnormal profit.”

[Ministry of Defence U.O. No. 5(3)/61/D (HAL), dated the 8th July, 1964]

Recommendation (Serial No. 18)

Though the position in regard to book debts has undoubtedly improved during the last one year, the total amount outstanding is still substantial. The total amount of loans taken by the Company from the Government and the State Bank of India as 31st March 1959, was Rs. 42 lakhs. Better realisation of its own dues would have enabled the undertaking to dispense with such borrowings. The Committee were informed that in a system in which selling price is fixed on "cost-plus" basis, a certain amount of delay in the recovery of outstanding dues is unavoidable. This is yet another ground for changing the present system of 'cost-plus' basis. (Paragraph 36).

REPLY OF THE GOVERNMENT

With a view to keep the outstandings of HAL against the IAF at the lowest possible limit, the procedure of making provisional payments during the progress of projects at HAL is being simplified.

[Ministry of Defence U.O. No. 5(3) |61|HAL|D(HAL)|PC. XV, dated the 16th July, 1964]

Recommendation (Serial No. 20)

The Committee would have very much desired a coordinated planning between Defence (I.A.F.) and Civil Aviation (I.A.C.) so that the same plane could serve the dual purpose of meeting the demands of both the Departments. There is no meaning in not coming to a decision on this question at the earliest. For otherwise, the I.A.F., on the one hand, has to be content with its restricted requirements and will not be able to work the concern to its full capacity and thus bring down the unit cost of production to the minimum. On the other hand, the I.A.C. has to depend not on available indigenous production but on foreign supply losing valuable foreign exchange or plan another aircraft factory involving huge outlay. If the Maintenance Command, Kanpur cannot meet the immediate requirements of I.A.C. the latter need only obtained such of its requirements as would be needed till the Maintenance Command is able to supply them. (Paragraph 40).

REPLY OF THE GOVERNMENT

I. The question of selection of a suitable aircraft to replace the Dakota aircraft in use both in the IAC and the IAF was considered in detail by a Committee consisting of the representatives of the Ministries of Defence and Transport and Communications and Air Headquarters, DGCA and the IAC, which was appointed in June, 1959 for the purpose. As however, no agreement could be reached on the choice of the aircraft, it was decided to undertake the manufacture of AVRO 748 to meet the requirements of the IAF in regard

to the transport aircraft. It was also decided that the AVRO 748 manufactured at AMD, Kanpur, should be tried by the IAC.

*The Indian Airlines can use AVRO 748 Series II on their routes after the aircraft has secured the civil certificate of air-worthiness. DGCA has since set up an inspection organisation at Kanpur Depot for stage inspection, in connection with the grant of such certificate of air-worthiness. The IAC propose to introduce an AVRO 748 aircraft on their services, on an experimental basis, as soon as the aircraft receives the civil certification. On the basis of its actual performance characteristics and unit operating cost, in comparison with similar type of aircraft presently used by them, the Corporation will decide the question of placing orders for them with the Kanpur Depot. It is estimated that 15 aircraft of this type would be required by IAC during the next 3 years.

[Ministry of Defence O.M. No. 2(4)/65-D(HAL-II), dated the 6th February, 1965]

NEW DELHI;
November 21, 1966.
Kartika 30, 1888 (Saka).

D. N. TIWARY,
Chairman,
Committee on Public Undertakings.

*At the time of factual verification, the Ministry of Defence, have amended their reply as under:—

“The HS-748 aircraft manufactured at Kanpur received the certificate of air-worthiness from the DGCA in 1965. The Indian Airlines Corporation have given a letter of intent to the Hindustan Aeronautics Limited (Kanpur Division) for the supply of 15 HS-748 aircraft.”

[Ministry of Defence letter No. 26(15)/66/D(HAL-I), dated the 16th November, 1966]

APPENDIX

(Vide Para 4 of Introduction)

Analysis of action taken by government on the recommendations contained in the 124th Report of the Estimates Committee (Second Lok Sabha)

| | |
|--|-----|
| I. Total No. of recommendations made | 20 |
| II. Recommendations that have been accepted by Government (Vide recommendations at S. Nos. 4, 6, 8, 10, 11, 19). | |
| Number | 6 |
| Percentage of total | 32% |
| III. Recommendations which the Committee do not desire to pursue in view of Government reply (Vide recommendations at S. Nos. 1, 2, 3, 5, 7, 9, 12, 13, 15, 16, 17, 18, 20). | |
| Number | 14 |
| Percentage to total | 70% |