

COMMITTEE ON PUBLIC UNDERTAKINGS

(THIRD LOK SABHA)

Twenty Ninth Report of the Committee on Public Undertakings



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**LOK SABHA SECRETARIAT
NEW DELHI**

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COMMITTEE ON PUBLIC UNDERTAKINGS

(THIRD LOK SABHA)

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14. Shri T. S. Pattabraman**
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Shri A. L. Rai—*Deputy Secretary*

Shri H. G. Paranjpe—*Under Secretary.*

*Appointed as Chairman w.e.f. 24-1-1966 *via* 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 a 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-ninth Report on the Durgapur Steel Plant of Hindustan Steel Limited.

2. This Report is based on the examination of the working of the Durgapur Steel Plant upto the year ending 31st March, 1965. The Committee took the evidence of the representatives of the Hindustan Steel Ltd. on the 19th, 20th, 21st January, 1966 and of the Ministry of Iron and Steel on the 24th February, 1966.

3. The Report was adopted by the Committee on the 12th April, 1966.

4. The Committee wish to express their thanks to the Officers of the Ministry of Iron and Steel and the Hindustan Steel Ltd. for placing before them the material and information that they wanted in connection with their examination. They also wish to express their thanks to the non-official organisations/individuals who, on request from the Committee, furnished their views on the working of the Steel Plant.

5. The Committee also place on record their appreciation of the assistance rendered to them in connection with the examination of audit paras pertaining to the Durgapur Steel Plant by Comptroller and Auditor General of India.

NEW DELHI;
April 19, 1966.
Chaitra 29, 1888 (S).

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

HISTORICAL BACKGROUND

The Second Five Year Plan aimed at production capacity of six million tonnes of ingot steel. Accordingly, besides expansion of the existing Steel Plants in the private sector, three one-million tonne plants were set up in the public sector at Rourkela in Orissa, Bhilai in Madhya Pradesh and Durgapur in West Bengal.

2. The Durgapur Steel Plant was suggested by the technical mission invited in 1955 under the Colombo Plan, headed by Sir Eric Coates to study the economic and technical problems connected with the establishment of a steel Plant. The Mission submitted its report in August, 1955. The recommendations of the Mission were generally accepted by Government. Thereafter a consortium of 13 British firms, known as the Indian Steel Works Construction Co. Ltd., (ISCON) was invited to send a delegation to discuss ways and means of constructing the plant and to find out whether there was a satisfactory basis for entering into a contract with a single agency for the supply and erection of a Steel Plant at Durgapur. The consortium submitted its preliminary report and estimates in January, 1956. The final estimates and specifications were received in May, 1956.

3. No detailed project report was prepared for the Durgapur Steel Plant. The specifications furnished by ISCON are stated to have contained all the necessary materials normally included in a detailed project report. These specifications and estimates were examined by Government with the assistance of their Consulting Engineers (M/s. International Construction Co.) and after negotiations the contract was entered into by the Government of India with ISCON on the 31st October, 1956.

4. The contract was in the nature of a package deal (turn-key basis), the contractors being responsible for planning, designing, supply of plant and machinery, erection, etc. The work outside the perimeter of the plant such as township, water and power supply, etc. were however the responsibility of Government.

5. A contract was also entered into with M/s. International Construction Co. (I.C.C.) for the supervision of the work of M/s. ISCON and to act as Consultants for the I.C.C.

Project for a period of six years from the 1st December, 1955.

Transfer
to Hindus-
tan Steel
Ltd.

6. The project was under the direct control of the Ministry of Iron and Steel till March, 1957. At that stage Government considered that it would be advantageous if all the three Steel Plants in the public sector were brought under a unified company management. It was therefore transferred to the Hindustan Steel Limited in April, 1957.

II

ERECTION AND COMMISSIONING

7. According to the terms of the contract with M/s. ISCON the Plant was to be completed in four stages by the end of July, 1961. The scheduled date of completion of each unit, the actual date of taking over and the dates of commissioning are given in Appendix I. Delay in erection/ commissioning.

It would be seen therefrom that compared to the original schedule there had been considerable delay in commissioning of various units. These range from 2 to 13 months.

8. The following reasons were advanced for the delays:— Reasons for the delay.

- (a) Ground conditions requiring measures for stabilisation of foundation such as piling.
- (b) labour problems.
- (c) Changes in designs introduced during the progress of construction.
- (d) Delay in procurement of steel materials from indigenous sources.

9. It is noticed that even after completion of several units there had been delays in their commissioning extending even upto 13 months. To give certain instances: the commissioning of Open Hearth Furnace No. 3 was delayed by 4 months after construction because of lack of sufficient stock of magnesite and ingot moulds, the coke oven Battery No. 3 whose construction was delayed by six months because of heavy breakage of imported refractory bricks could not be commissioned for another 7 months because of insufficient stock of coal, the commissioning of Blast Furnace No. 3 was also delayed by 13 months after its construction because of shortage of iron ore.

10. The low stock of these raw materials (coal and iron ore) was attributed mainly to the fact that proper facilities for handling raw materials at the Plant were not available. The railways had been transporting raw materials in open four-wheeler wagons. In 1958 they informed the Hindustan Steel Limited that after 1961, 'BOX' wagons would mainly be utilised for the transport of coal and iron ore. For handling these wagons tippers were to be instal- Failure to provide tippers.

led by ISCON as part of their contract. But this item was deleted from the contract on the advice of the then Technical Director of the Hindustan Steel Limited. He wanted the Central Engineering & Design Bureau to design the tippers and have them indigenously manufactured. The C.E.D.B. showed its inability to do so expeditiously and suggested two tippers to be purchased while the additional ones for the 1.6 million tonnes plant will be planned by it. This recommendation was received on 7-12-1960 and the Committee of Management of H.S.L. approved the same in its meeting on 10-1-1961. Accordingly, a letter of intent was sent to ISCON on 7-4-1961 by HSL. But ISCON replied in their letter of June, 1961 that the site where they had proposed to instal tippers was unsuitable because of its gradient and alternative site would have to be found. The whole question was then examined by the Directors of HSL with the Chief of the Consulting Engineers and it was decided in July, 1961 that the box wagon tippers would be installed under the 1.6 million tonnes expansion programme.

11. The result was that when the Railways abandoned the use of old open four-wheelers and started sending the raw materials in 'Box' type wagons, the manual handling which it entailed for want of tippers made it impossible for the Plant authorities to stock enough iron ore for the Blast Furnaces. In January, 1962 the stock of iron ore became so low that it was hardly sufficient for running two Blast Furnaces—not to speak of three. The trouble was got over by putting up a conveyer belt and Blast Furnace No. 3 was commissioned in May, 1962 i.e. 13 months after construction.

12. The Committee were informed that the iron ore tippers were provided in 1964 and that the coal tippler would be commissioned shortly.

Delays in construction/commissioning regretted.

13. *The Committee regret to note the inordinate delays in the construction/commissioning of certain units of the Durgapur Steel Plant, which in some cases extended upto 13 months beyond the original schedule. Some of these units could not be commissioned for a long time after construction, because of inadequate stock of raw materials. Raw materials could not be stocked as H.S.L. had failed to provide tippers at the Plant to handle the raw materials. The explanation which has been furnished by HSL for the delay in the procurement of the tippers is not satisfactory. Considering that the Railways had informed HSL in 1958 that they intended to use Box type wagons after 1961 the failure of HSL to provide tippers till 1964/66 shows lack of planning and foresight.*

Delays in awarding contracts.

14. In the case of expansion of the plant to 1.6 million Tonnes also there is expected to be delay of 2 to 11 months in the completion of some units as compared to the original Schedule. It is noticed that one of the reasons for the delay

was the long time taken in awarding contracts after inviting tenders. From a statement furnished to the committee it is observed that in the case of certain units the contracts were awarded after more than a year of opening the tenders. In certain cases such delays not only affected the construction and commissioning of these units but also of other connected units. Thus in the case of IVth Coke Oven Battery and IVth Blast Furnace although the tenders were invited at the same time, the time taken in awarding contract for the former was eight months from the date of opening of tenders as against 5 months in the case of the latter. The result has been that although the coke oven Plant should be ready before the Blast Furnace, which requires Coke for producing iron, it was expected to be completed later than the Blast Furnace. *The Committee desire that the procedure for awarding contracts should be examined in detail and steps taken to avoid such long delays in awarding them.*

15. Another reason for the delay was the non-receipt in time of Civil Engineering drawings. Thus, in case of skelp mill due to delay in the delivery of such drawings, the starting of the work was delayed by 3½ months. In the case of Dolomite Burning Plant also there was delay in commencing construction for similar reasons. *The Committee were informed that there was no penalty clause in the contracts for levying penalty on the suppliers of the Plant and Machinery for their failure to furnish the Civil Engineering drawings or the loading data according to the time schedule. This, the Committee feel is unsatisfactory. The desirability of including such a provision in the contracts should be examined to avoid delays in construction due to non-receipt of Civil Engineering drawings.*

Non-
receipt
in time
of Civil
Engineer-
ing Draw-
ing.

III

PRODUCTION

16. Like the Plants at Rourkela and Bhilai, the Plant at Durgapur is also designed to produce about one million tonnes of ingots (8,00,000 tonnes of finished steel) annually, besides 3,50,000 tonnes of pig iron for the foundry industry.

17. The product-mix of the Plant at the one million tonne stage was as follows:—

| | Tonnes |
|-----------------------------------|----------|
| Billets for sale | 150,00 |
| Forge Blooms & Billets | 1,00,000 |
| Sleeper Bars | 60,000 |
| Merchant Sections | 2,40,000 |
| Light & Medium Sections | 2,00,000 |
| Wheels & Axles | 50,000 |
| | 8,00,000 |

A. Achievement of rated capacity

18. With the completion of the first stage of construction, the production in some of the units at Durgapur commenced in December, 1959. However, even five years after the commencement of production and more than two years after the commissioning of all the units the Plant had not reached the rated capacity in most of the units. The actual production in various units during the years 1962-63 to 1964-65 as compared to the rated capacity was as follows:—

| | %age achievement of rated capacity | | |
|--------------------------------|------------------------------------|---------|---------|
| | 1962-63 | 1963-64 | 1964-65 |
| <i>Coke Oven</i> | | | |
| Total Coke (Wet) | 104 | 109 | 106 |
| <i>Blast Furnaces</i> | | | |
| Pig Iron (Hot Metal) | 90 | 101 | 102.3 |

% age achievement of rated
capacity

1962-63 1963-64 1964-65

Steel Melting Shop

| | | | |
|--------------|----|----|----|
| Steel Ingots | 72 | 96 | 99 |
|--------------|----|----|----|

Rolling Mills

| | | | |
|----------------------|------|------|------|
| Blooming Mill | 67 | 95 | 95 |
| Billet Mill | 69 | 98 | 96 |
| Section Mill | 62 | 101 | 103 |
| Merchant Mill | 45 | 82 | 99 |
| Sleeper Plant | 52 | 67 | 111 |
| Wheel & Axle Plant | 36 | 45 | 57 |
| Total Saleable Steel | 61.3 | 88.6 | 88.6 |

19. It would be seen from the above table that even in 1964-65 the production was 99 per cent and 88.6 per cent of the rated capacity of steel ingots and saleable steel respectively.

20. The Committee were informed that the main reason for low production of Steel ingots was the inadequate capacity of the slag disposal unit. The most important factor in a Steel Melting Shop is the quick removal of the slag out of the Shop. If the slag production is more than anticipated its removal lags behind and the Shop gets choked. The slag volume was more than anticipated due to the fact that silicon content in the limestone was much higher than presumed in the original estimates. This also resulted in higher silicon content in the hot metal. To remedy the situation, the system of slag disposal has now been modified involving an additional investment of Rs. 10.65 lakhs. No recovery could be made from the contractor, as the inadequate capacity of slag disposal unit was realised only after the defect liability period was over.

Reason for shortfall in production of steel ingots.

21. As regards rolling mills, the following reasons were advanced for the delay in reaching the rated capacity:--

Rolling Mills.

- (1) It takes some time for the various mechanical processing units to settle down.
- (2) The plant was started with 95 per cent to 97 per cent of fresh officers and staff and it took some time to train them.
- (3) Developing and stabilising various new sections in a new mill takes some time and this impedes output.
- (4) Shortage of soaking pit capacity.

Reasons for shortage of soaking pits.

22. Explaining the reasons for shortage of soaking pits and how it affected production, it was stated by the General Manager of the Plant that these pits are a kind of furnace to reheat hot ingots from the steel melting shop before these are sent to the Blooming Mill. Because of shortage of Soaking pits, there was accumulation of ingots (1,19,300 tonnes on 12-3-1966) on the one hand and on the other, the Blooming Mill, which is the mother plant for feeding all other rolling Mills, remained idle for long hours due to inadequate supply of reheated ingots. This resulted in loss of production.

23. The Committee were informed by the Chairman H.S.L. that there had been difference of opinion about the number of soaking pits required. In the original contract signed with ISCON ten soaking pits were provided for production of 1 million tonnes of ingots per year. A provision for 4 additional soaking pits was made in the layout for production of 1.25 million tonnes. One of the Consultants for the Durgapur Steel Plant also advised that the plant could manage with 10 soaking pits. However, the General Manager of the Plant felt that the existing soaking pit capacity was not adequate and was on the lower side as compared to the other steel plants in the country and abroad. The matter was again considered at the time of the expansion of the Plant to 1.6 million tonnes. The Central Engineering & Design Bureau of Hindustan Steel Limited, who prepared the Project Report for the expansion, provided 16 soaking pits for the production of 1.6 million tonnes. This number was later increased to 18, as the General Manager felt that 16 soaking pits were inadequate. The Consultants and the CEDB felt that if the plant had worked efficiently and the movements of ingots had been quick enough, the Plant could have got full production with the existing soaking pits. But the General Manager insisted that there should be 20 soaking pits for 1.6 million tonnes production and their shortage was affecting production. As the cost of two soaking pits is Rs. 50 lakhs, the matter was referred to another expert, who was previously the General Manager of Bhilai Steel Plant, for opinion. His Report had been received recently.

24. The Committee were also informed by the Secretary of the Ministry that considering the fact that the plant had now achieved 100 per cent production with the same number of soaking pits, there was no purpose in adding to the capital cost of the Plant to support "inefficiency in operation".

Reasons for delay in reaching rated capacity should be analysed.

25. *The Committee are not satisfied with the reasons adduced for the delay in reaching the rated capacity in steel ingots and in saleable steel. Considering that Hindustan Steel Limited was aware that it does not generally take more than 18 to 24 months to attain the rated capacity after installation of plant and that the Bhilai Steel*

Plant had in fact achieved the rated capacity in less than two years, the time taken by the Durgapur Steel Plant in reaching the rated capacity, which was more than three years, has been too long. As pointed out in paras 20-21 above, the two main reasons furnished to the Committee for the delay were inadequacy of slag disposal unit and the shortage of soaking pits. But viewed against the fact that the slag disposal unit had been modified in 1962 and the number of soaking pits was considered to be adequate by the Consultants and the Central Engineering & Design Bureau of the Hindustan Steel Limited, it is difficult for the Committee to accept these reasons as justification for the inordinate delay in reaching the rated capacity. The Committee suggest that the reasons for delay in reaching the rated capacity by Durgapur Steel Plant should be analysed in detail. Such an analysis should serve as a useful guide while setting up future plants.

26. The Committee also regret to note that there had been protracted discussion about the number of soaking pits actually required by the Plant and no final decision has yet been taken in this regard. The Committee trust that since the Report of the Expert to whom the matter was referred by the Chairman, Hindustan Steel Limited, has been received an early decision will be taken to ensure proper working of the Plant.

Early decision about requirements of soaking pits desired.

B. Wheel and Axle Plant

27. To meet the requirements of the Railways for wheels & Axles, the Rolling Mills of the Durgapur Steel Plant included a Wheel & Axle Plant, having a rated capacity of 57,000 tonnes per annum. According to the original schedule, the plant was to be commissioned by July, 1961. Its construction was, however, delayed because during construction, considerable modifications in the product mix of the plant had to be made as the Railway Board revised their requirements of Wheels & Axles twice. The Plant was ultimately commissioned in two stages, the Axle Plant in November, 1961 and the Wheel Plant in January, 1962.

Delay in commissioning.

28. As would be seen from table given in para 18 of the Report, the production in this plant has been much lower than the rated capacity. Even after three years of commissioning, the production in 1964-65 was only 57 per cent of the rated capacity.

Low production.

29. The Committee were informed that there were various reasons for the low production. Firstly, the Steel required for wheels and axles was of high quality conforming to rigid specifications. There was considerable production of off-grade steel in the open hearth furnace which was not suitable for the wheels and axles. Further, because of the use of indigenous runner bricks, there

Reasons.

were high non-metallic inclusions in the steel. This necessitated treating of wheels for removal of these inclusions and these had to be machined in a rectification-lathe for balancing the diameters of the wheel. The rectification lathes provided were not able to cope with the actual needs. Further, in the case of axles, the machining allowance had to be increased from 12 mm to 20 mm as it was found that because of inexperienced machinists, the percentage of rejections was high in case only 12 mm machining was done on the axle diameter. But this resulted in lower production as the axle could only be finished in two operations as compared to one when the allowance was 12 mm.

**Import
of wheel
sets.**

30. In a note furnished by the Ministry of Railways, the Committee find that because of low production at this Plant, the Railways had to meet part of their requirements of Wheels through imports. The following table shows the figures of the orders placed by the Railways on Durgapur Steel Plant the supplies actually made by them and the wheel sets imported by the Railways during the years 1963-64 to 1965-66

| Year | Durgapur | Supplied | Imports | |
|---------|-----------------|----------|---------|----------------|
| | Qty. Ordered | | Qty. | Value |
| | | (Tonnes) | | (Rs. in lakhs) |
| 1963-64 | 35,544 | 18329 | Nil | Nil |
| 1964-65 | 34,189 | 22532 | 12956 | 151.89 |
| 1965-66 | 13,055 | 17523 | 30183 | 276.96 |

(Upto Dec. 65)

**Losses
suffered.**

31. The Committee also learnt that the plant had suffered a loss in the manufacture of wheels as follows:—

| | (Rs. in lakhs) |
|---------|----------------|
| 1962-63 | 90.84 |
| 1963-64 | 87.60 |
| 1964-65 | 103.13 |

One of the reasons advanced for the loss was that the price allowed by the Railways for sixteen-ton plain-bearing-wheel sets was about Rs.250 per tonne less than that paid for twenty ton Roller-bearing-wheel sets, although, the cost of production of both the types of wheel sets was about the same. The issue had been under negotiations and correspondence between the Railways and the Hindustan Steel Limited, for a longtime. It was only in January, 1966 that the Railway had agreed to an increase of Rs. 226 per tonne

in the price of these wheel sets, with retrospective effect from 1.10.65. This increase will be reviewed jointly in the first Quarter of 1967.

32. The estimated loss suffered by the Plant because of difference in price of the two types of wheel sets is as follows:—

| | (Rs. in lakhs) |
|---------|----------------|
| 1962-63 | 2.59 |
| 1963-64 | 23.65 |
| 1964-65 | 19.19 |

33. It will be noticed from these figures that even if the price obtained for plain bearing wheel sets had been equal to that for the roller bearing wheel sets, the losses would have been reduced only to some extent. Thus, even if the higher prices were obtained, the net loss in 1964-65 would have amounted to Rs. 83.94 lakhs. This loss can be explained as due only to low production which was 57% of the rated capacity. Further, not only has the plant suffered heavy losses due to low production, but the Railways had to spend much needed foreign exchange (Rs. 428.85 lakhs) on the import of wheel sets in 1964-65 and 1965-66. Low production resulted in heavy losses.

34. The Committee are concerned over the low production in the wheel and Axle Plant. They understand that certain measures have been taken to improve the working of the Plant, e.g. installation of Electric Furnace in the 3.5 million tonnes expansion for better control over the quality of steel, provision of extra rough machining capacity and rectification lathe, etc. However, considering that it is more than three years since the plant was commissioned, the time taken in realising the deficiencies and rectifying them has been too long. The performance of the plant has not been satisfactory. This was also admitted by the Secretary of the Ministry. The Committee urge that immediate steps should be taken to improve the working of the Plant and to achieve the rated capacity. Immediate steps for reaching rated capacity urged.

35. In this connection, it is noticed that no regular performance tests were carried out to see that the various units of the Plant were capable of achieving the output specified in the contract. The Consultants are stated to have certified the rated capacity of the Plant based on designs and their experience of constructing similar Plants elsewhere. This can hardly be considered satisfactory. The Committee feel that the Consultants should have given such a certificate after the plant had achieved the rated capacity over a certain period. In the absence of such tests it was difficult to say as to how far the failure of the Wheel and Axle Plant to achieve the rated capacity Failure to carry out performance tests.

was due to defects in design or in equipment. The Committee would like to emphasise that in order to safeguard against any defects in the plant and machinery, these should be accepted only after tests have been carried out within the guarantee period.

Guarantee provision in contract with ISCON defective.

36. The Committee also find that under the contract with ISCON, the contractors liability for defects was only for a period of one year after taking over a 'portion of work. Each main unit of the Plant, such as Coke ovens, Blast Furnaces, etc. was subdivided into a number of portions of work. These portions were completed and taken over on different dates. For demonstration of rated capacity it was necessary to have an integrated operation of all the main units for a certain length of time. But ISCON's responsibility ceased after completion of construction of a unit and its handing over and they were not liable for anything beyond rectification of defects noticed within one year of taking over. In the opinion of the Committee the guarantee provision in the contract with ISCON was a defective one in as much as it provided for taking over of the plant unit by unit or part of it after demonstration of its performance. The guarantee about the rated capacity could be said to have been satisfied only when each individual item of plant, machinery and equipment as well as the integrated unit has given the guaranteed output for a minimum specified period. The Committee desire that this aspect should be borne in mind while entering into such agreements in future. Necessary instructions should also be issued to all the Public Undertakings in this regard.

C. Quality of Products

Com-plaints.

37. There had been complaints from the customers about the quality of products manufactured at Durgapur. It had been represented to the Committee that the customers often rejected the material as the quality of the products was poor.

Reasons.

The Committee were informed that the complaints received were generally in case of angles wherein it was found that the two leg lengths of the angles were coming out differently. These defects could not be detected during production. With the use of new design tackles obtained from Australia, the defects have come down considerably and the production was also expected to go up. Inspectors had also been appointed for each shift to check the quality of the materials rolled.

It was however admitted by the General Manager that possibly the ambition of the plant to produce upto the rated capacity was also to some extent the reason for these defects.

38. It was not proper for the Plant to step up production with a view to achieve the rated capacity without caring for the quality of the products manufactured. It needs no emphasis that the products manufactured should be of standard quality. The Committee would suggest that there should be rigid quality control at every stage of production to obviate complaints from customers.

Rigid
quality
control
suggested.

D. By-products

(i) Coke Oven Gas.

39. During conversion of coal into coke in the Coke Ovens, large quantities of gas are released. The three batteries of Coke Ovens at Durgapur in full operation produce about 3 million c.ft. of gas per hour. Various by-products such as Ammonium Sulphate, Crude tar, Benzene, Toluene, Xylene, Solvent Naptha etc. are recovered from this gas at the by-products plant.

40. It was planned that Durgapur Thermal Power Station of Damodar Valley Corporation would consume the surplus coke oven gas. This subject was initially discussed at a meeting in the office of the Central Water & Power Commission in November, 1955 which was attended by the representatives of the Ministry of Steel and the Consultants of the Durgapur Steel Plant. It was then estimated that Durgapur Steel Plant would be able to supply 1.3 million c.ft. per hour of Coke Oven Gas to D.V.C. It was however made clear that since the gas would be progressively utilised for chemical purposes, the supply of the same for power generation would be gradually reduced to nil. It was accordingly decided that the power station should be designed to utilise the Coke Oven Gas as and when available from the Steel Plant.

Non-uti-
lisation.

41. The Gas was to be delivered by the Steel Plant at the power station of the Corporation. The erection of Coke Oven Gas main was completed after much delay in the 3rd week of April, 1963. After pressure testing of the gas main on the 23rd and the 24th April, 1963, gas was offered to Durgapur Thermal Power Station. But they declined to take the gas offered, on the grounds that some modifications of their boilers were required for firing coke oven gas and also that the price of coke oven gas was to be settled. Ultimately, the supply of gas was started in July, 1964 pending finalisation of the price. It however continued only for a month, whereafter the D.V.C. refused to take further supplies.

42. As a result of the delay in laying the gas mains and the refusal of the D.V.C. to take the gas, the surplus coke oven gas had to be blown into the air. The value of surplus

Losses
suffered.

coke oven gas which was burnt during last four years was as follows:—

| | (Rs. in lakhs) |
|---------|----------------|
| 1961-62 | 11.82 |
| 1962-63 | 33.17 |
| 1963-64 | 28.81 |
| 1964-65 | 12.08 |
| TOTAL | 85.88 |

The Committee were informed that there was no wastage of gas now as it was being supplied to the Alloy Steel Plant.

Reasons
for non-
utilisation.

43. As regards the reasons for the gas not being taken by the D.V.C., it was stated that each of the boilers of the Durgapur Thermal Power Station had been designed to use 1.27 million c.ft. per hour of Coke Oven Gas based on the original commitment given in November, 1955. However, the estimate given by the Consultants of surplus gas did not prove correct and the Plant could supply only 5 million cft. of coke oven gas per day as against the original commitment of 1.3 million cft. per hour (31.20 million cft. per day. According to D.V.C., the release of only a limited quantity of gas necessitated blocking of seven out of nine burners provided to burn the designed quantity of gas and also created some slagging problem. Although some experiments were carried out to remove this slag formation, these were not successful and the D.V.C. therefore stopped taking further supply of gas.

Detailed
investigation
into
loss of gas
suggested.

44. The Committee are concerned to note that not only was there a loss of gas worth Rs. 85.88 lakhs, but the capital expenditure amounting in all to Rs. 35.17 lakhs incurred by the D.V.C. (Rs. 5.98 lakhs) and the Durgapur Steel plant (Rs. 29.24 lakhs) on making arrangements for the use of gas had become infructuous. It is unfortunate that the estimates prepared by the Consultants about the extent of surplus gas proved wrong. However, since H.S.L. had made it clear to the D.V.C. that the supply of gas for power generation would be gradually reduced to nil, and the power station should be designed to utilise coke oven gas as and when available from the Steel Plant, it is not understood as to how the D.V.C. could stop taking gas from the Durgapur Steel Plant on the plea that the supply of gas had not been according to the original commitments. The Committee understand that one of the main

consideration for locating the D.V.C.'s thermal station at Durgapur was that both gas and coal middlings produced by the Steel Plant could be used as fuel, thus securing full utilisation of the available resources. Further, in June 1958 the Secretary of the Ministry of Steel had informed the Secretary of the Ministry of Irrigation and Power that the adaptability of the furnaces at the thermal Station to burn gases as well as coal was a part of the National Plan. In the circumstances, the furnaces of the thermal power station should have been designed to burn gas as well as coal. The Committee feel that full facts of the case have not come to light and in view of huge loss and infructuous capital expenditure, the matter requires detailed investigation.

45. During the course of evidence of the officials of the Ministry of Iron and Steel the Committee were informed by the Secretary of the Ministry that they were not aware of the non-utilisation of gas by the D.V.C. and had it been brought to their notice by the Hindustan Steel Limited, they would have taken up the matter with the Damodar Valley Corporation. The Committee would, however, like to point out that this matter came up even before the Public Accounts Committee (1963-64) who expressed concern over the non-utilisation of gas by the power station of the D.V.C.

46. The Committee also find that the question of the price payable for the supply of gas by Durgapur Steel Plant to D.V.C. was initially taken up by the Secretary of the Ministry of Irrigation & Power as early as June, 1958. However the matter is still under correspondence between the D.V.C. and Hindustan Steel Ltd. It is regrettable that even after a lapse of more than 7 years it has not been possible for the two public sector undertakings to settle this matter even after a Parliamentary Committee had expressed concern over it. Non-settlement of price.

(ii) Rated capacity and actual production of by-products.

47. A statement showing the rated capacity and actual production of the various By-products during the years 1962-63 to 1964-65 is given below:— Production.

| By-product unit | Yearly rated capacity | Produc- tion in 1962-63 | Produc- tion in 1963-64 | Produc- tion 1964-65 |
|----------------------|-----------------------------|-------------------------------|-------------------------------|----------------------------|
| 1 | 2 | 3 | 4 | 5 |
| Tar Plant | 57024 t | 52739 t | 56451 t | 50811 t |
| Ammonium Sulphate | 21276 t | 15139 t | 15085 t | 18091 t |
| Sulphuric Acid Plant | 21600 t | 13395 t | 13291 t | 15841 t |
| Napthalene Plant | 2400 t | 1423 t | 1486 t | 1689 t |

| I | 2 | 3 | 4 | 5 |
|-------------------------|--------------|-------------|-------------|-------------|
| Benzol plant | 14724 K/L | 3931 K/L | 6184 K/L | 4751 K/L |
| Benzene Plant | 9712 K/L | 2317 K/L | 4203 K/L | 3072 K/L |
| Toluene Plant | 1452 K/L | 305 K/L | 483 K/L | 337 K/L |
| Xylenc Plant | 228 K/L | 17 K/L | 15 K/L | 9 K/L |
| Naptha Plant | 228 K/L | 107 K/L | 268 K/L | 243 K/L |

It would be seen from the table that the actual production of the By-products had been much lower than the rated capacity of the By-products plants.

Losses.

48. Because of low utilisation of the By-product plants, the selling prices of some of these products could not cover even the cost of production and the Steel Plant suffered a loss of Rs. 36 lakhs during 1964-65.

The Committee were informed that the blend of coal on which the rated capacity of various by-product units had been worked out was not available now and so these output figures were not applicable.

Reasons.

49. In the case of the Benzol Plant (putup at a cost of Rs. 71.50 lakhs) the output was however even lower than that expected with altered blend of coal. This was ascribed to various operational troubles at the initial stages which had been slowly overcome. It was also said that the production had to be regulated according to the demand. There was also difficulty in obtaining tank wagons for carrying Benzol. It was however admitted that there was scope for improvement in the working of this Plant.

Investigation into reasons for low utilization suggested.

50. *The Committee view with concern that there should have been a loss of Rs. 36 lakhs in 1964-65 on the sale of by-products even though some of the plants (e.g. Napthalene Plant and the Benzol Rectification Plant) have extra built in capacity. They desire that the causes of low utilization of these plants should be investigated and steps taken to see that these plants at least pay their way rather than remain a liability on the Steel Plant.*

IV

RAW MATERIALS

51. The main raw materials required for the manufacture of Iron and Steel are iron ore, coking coal, limestone, manganese ore and dolomite.

A. Iron Ore

52. Durgapur has no captive iron ore mines of its own. A major part (70-72 per cent) of its requirements of Iron Ore are met from Bolani Mines managed by a private sector company, but in which Government has 50.5 per cent shares. The balance of requirements are supplied by Minerals & Metals Trading Corporation Ltd. from the mines in Orissa/Bihar.

53. The Committee were informed that the Bolani Iron ore had deteriorated to a great extent in quality. The contract with the firm was for the supply of lump ores in which the fines would not exceed 10 per cent, but actually the ore supplied, generally contained 11 to 12 per cent fines. In view of the high incidence of fines, which is detrimental to the Blast Furnace, the monthly off-take of iron ore from Bolani Ores Ltd. was reduced from 1,30,000 tonnes to an average of 1 lakh tonnes per month from November, 1963 to June, 1964. There was a penalty clause in the current contract with the Company to safeguard against supply of off-grade or sub-standard material. During 1964-65, Rs. 6.24 lakhs were recovered from the Company on account of inferior quality of ore.

54. The Committee were informed that it was not possible to make any assessment of the loss suffered as a result of poor quality of iron ore, but it did lead to extra consumption of other materials and higher cost of production. In order to improve the quality of iron ore it was decided to instal a beneficiation plant at Bolani mines. Agreement was reached in November, 1962 regarding the specification of Beneficiated iron ore to be supplied from Bolani Mines. However, this Plant had not yet been set up. This was stated to be due to difficulty in getting loan from USAID for the Plant.

55. The Committee view with concern the delay of more than three years in obtaining the beneficiation Plant because of difficulty in getting loan from USAID. Considering that the non-availability of beneficiated iron ore

Deterioration in quality.

Beneficiation plant.

Early setting up of beneficia-

tion plant suggested. resulted in increased consumption of raw materials and higher cost of production, Government should have made available the required foreign exchange from some other source rather than indefinitely depend on USAID for such a loan. It was admitted by the Secretary of the Ministry of Iron & Steel that looking in retrospect it would have been easier to get the required loan from U.K. The matter had recently been taken up with the Ministry of Finance for sanctioning the required loan from some other source. The Committee trust that this will now be expedited so that the beneficiation Plant could be set up early.

B. Coal

Inferior quality.

56. The Coal required by the Durgapur Steel Plant is obtained from Jharia, Barakar and Disergarh coal-fields. The Plant has its own washery to wash the Jharia Coal. The Committee were informed that the Coal supplied by the private collieries was inferior than the grade for which payments were being made. The payment for the coal supplied was made on the basis of the gradation of the Coal mine seam made by the Coal Controller. But the coal actually received was inferior to the grades fixed by the Coal Controller. The matter had been brought to the notice of the Coal Controller. Government also had issued a notification in March, 1964, whereby higher rates were authorised to be paid to the coal suppliers if the suppliers agreed to joint sampling at destination and to accept payment as per the analysis at the Steel Plants. However, in spite of the best efforts the joint sampling procedure had not been agreed to except by 3 suppliers. The argument advanced was that the arrangements made in the Steel Plants did not conform to the procedure laid down by the I.S.I. for sampling of Coal. In fact, the colliery owners did not like testing the coal at the destination. There were also difficulties in making such inspection at destination compulsory by law. It was, therefore, considered that the best course was to have mutual agreements between H.S.L. and the Colliery Owners for inspection at destination.

Suitable solution to ensure supply of required quality of coal desired.

57. The high ash content in the Coal results in lower blast furnace output and consequently higher cost of production. The Committee desire that some suitable solution should be found in order to ensure supply of required quality of Coal to the Steel Plants. They would also urge that the complaints from the Steel Plants regarding quality of Coal supplied by the Collieries should be dealt with quickly by the Coal Board and in case it is found that the Coal supplied is inferior, immediate regradation should be done to avoid extra payments by the Steel Plants. The time taken at present in this regard, which was stated to be about 6 months, can hardly be considered satisfactory.

C. Consumption of raw materials

58. The following table shows the consumption of various raw materials per tonne of hot metal and ingot steel as indicated in ISCON contract, the actual consumption in 1964-65 in Durgapur and Bhilai Steel Plants.

Comparison with ISCON estimates and Bhilai.

| Usage per tonne of hot metal | ISCON Durgapur estimates (1964-65) | Bhilai (1964-65) |
|---------------------------------------|------------------------------------|------------------|
| | | (in Kgs.) |
| Coke | 900 | 878 873 |
| Sinter | .. | .. 725 |
| Iron Ore | 1740 | 1597 1091 |
| Lime Stone | } 467 | 371 297 |
| Dolomite | | |
| Manganese | | |
| <i>Usage per tonne of ingot steel</i> | | |
| Hot Metal | 763 | 846 790 |
| Cold Pig | .. | .. 1 |
| Scrap | 236 | 218 255 |
| Iron Ore | 88 | 158 184 |
| Lime Stone | 124 | 39 70 |
| Dolomite | 20 | 41 .. |

59. It will be seen that although in 1964-65 the consumption of coke and iron ore per tonne of hot metal in Durgapur has been lower than envisaged by the contractors, it has been higher than at the Bhilai Steel Plant, which has the same process of steel making. One of the reasons is that Bhilai utilises substantial quantities of sinter which results in lesser consumption of iron ore and coke.

Higher consumption.

60. As regards the reasons for not utilising sinter in Durgapur, the Chairman, Hindustan Steel Limited stated that Bhilai Steel Plant has its own captive iron ore mines and there was the problem of utilization of Iron ore fines and, therefore, a Sintering Plant was provided. In the case of Durgapur Steel Plant, although the Project Report provided for a sintering plant, it was not set up as the contract with Bolani Ores Ltd., who were the main suppliers, was for the purchase of lump iron ore only. Further, the price demanded by Bolani Ores Ltd., for iron ore fines was very high almost the same as for lump ore (Rs. 16.80 and Rs. 16.26 per tonne for beneficiated lump ore and fines respectively). This was considered to

Non-utilisation of sinter.

be very high and the setting up of the sintering plant was not considered economical. Eventually, as a result of further discussions, the company agreed to substantial reduction in the price of fines (from Rs. 16.26 per tonne to Rs. 6 per tonne). After the price was settled, the order for the sintering plant was placed. The plant was expected to be ready by the end of 1966.

Delay in setting up sintering plant.

61. It is well known that the use of sinter not only results in lesser consumption of iron ore and coke but also increases production with resultant reduction in the cost of production. The delay in the setting up of this plant because of high price demanded by Bolani Ores Ltd. for the iron ore fines is rather surprising. Considering that out of five members of the Board of Directors of the Bolani Ores Ltd., two Directors and the Chairman* are nominees of Government (the General Manager of Durgapur Steel Plant himself being one of the members of the Board of Directors), they should have realised the urgency of the matter. Further delay in setting up the sintering plant has been caused because H.S.L. took 13 months to award the contract after opening of tenders for which there is not adequate justification. The Committee trust that the target date for the completion of this plant now fixed as 31st December, 1966 would be adhered to.

Shortage of scrap.

62. As regards higher consumption of hot metal for production of ingot steel in Durgapur as compared to Bhilai and ISCON estimates, it was stated that the use of hot metal has been more due to shortage of scrap.

63. The following table shows the total cast iron and steel scrap arisings and total scrap recovered during the last three years:—

| | (in ton) | | |
|------------------------------|----------|---------|--------|
| | 1962-63 | 1963-64 | 1964-6 |
| (i) Cast iron scrap arisings | 40061 | 57548 | 67217 |
| (ii) Steel scrap arisings | 122893 | 219058 | 237223 |
| TOTAL. | 162954 | 276606 | 304430 |
| TOTAL scrap recovery | 21042 | 77189 | 105062 |

64. It would be seen from the above table that considerable quantities of iron and steel scrap remained unrecovered during the last three years.

65. The Committee were informed that unlike at Bhilai Steel Plant, where the scrap is recovered departmentally, the work of scrap recovery at Durgapur had been given to a private contractor. The contractor had,

*Nominated by Government in consultation with Orissa Mineral Development Company which holds 49.5% shares in Bolani Ores Ltd.

however, not been able to supply full requirements of scrap on account of various reasons, the chief being non-availability of spares for their plant and machinery and the labour trouble. For the last three months the work had been completely stopped because of strike by the workers.

66. It also transpired during discussion that it was a rate contract, and there was no condition attached about the minimum quantity to be supplied by the Contractor. The plant was now thinking of giving bonus on the basis of certain minimum quantity of scrap to be supplied per month. The matter had not, however, been settled.

67. In this connection, it was noticed that the work of scrap recovery was done departmentally in the Bhilai Steel Plant. As to the reasons for not doing so in the Durgapur Steel Plant, the General Manager stated that in his opinion the cost of recovery would be more if the work was done departmentally. It is seen from a note furnished to the Committee subsequently that during the quarter ending December, 1965, the average cost of scrap recovery in the Bhilai Steel Plant was Rs. 23 per tonne as against the average cost of Rs. 37.93 per tonne in the Durgapur Steel Plant.

68. *The maximum recovery and use of scrap lowers the cost of production of steel. As pointed out in paras 62-63 ante, because of shortage of scrap, more hot metal was being used in the production of ingot steel. The Committee find that as early as March, 1961, the F.A. & C.A.O. of the Plant had drawn attention to the short recovery of scrap and had pointed out that during the year 1960-61, scrap worth about Rs. 12 lakhs had not been recovered. The scrap, if recovered in full, could have contributed to a reduction in the cost of pig iron by nearly Rs. 4 per tonne. It is regrettable that despite the matter having been brought to the notice of the Ministry and the Hindustan Steel Limited as early as March, 1961, no steps had been taken to effect full recovery of scrap. The Committee desire that the matter should be examined in all its aspects including the economics of taking up this work departmentally and steps taken to ensure maximum recovery of scrap. If even thereafter, the scrap is inadequate the desirability of supplementing it from outside sources, as is being done by Bhilai might be examined.*

Maximum recovery of scrap suggested.

D. Refractories

69. Refractory bricks of various kinds are required by the Steel Plants for the coke ovens, blast furnaces, open hearth furnaces, etc. It was represented to the Com-

Specifications by I.S.I.

mittee that the I.S.I. had formulated standard specifications for nearly all types of refractory bricks required by steel plants. Though the public sector steel plants had been a party to the formulation of these specifications, they continued to demand refractories of other specifications.

70. The Committee were informed that out of 14 types of refractories for which ISI had adopted specifications, the plant was 8 types. For the remaining, the plant was using its own specifications, as the specifications drawn by ISI were considered to be low. It was, however, admitted that even the three steel Plants of HSL do not have common specifications for the various types of refractories.

Standard specifications suggested.

71. It needs no emphasis that the prevalence of a multiplicity of specifications is a handicap not only to the refractory makers but also to the steel plants. The Committee desire that H.S.L. should lay down in consultation with the Indian Standards Institution, standard specifications for all types of refractories which could be used in the steel Plants.

72. It is also noticed that certain types of refractory bricks are still being imported. The value of refractory bricks imported during the last three years by the Durgapur Steel Plant was Rs. 31.81 lakhs. Approximately about 8 per cent of the requirements are being imported at present. The types of bricks imported are, however, stated to be those which are either not manufactured indigenously or the indigenous products are not up to the mark.

Indigenous manufacture of imported refractories should be encouraged.

73. Considering that the Indian Refractory industry has been established for a long time and there is considerable idle capacity at present, the Committee desire that Government should encourage the indigenous manufacturers to diversify their production to replace the imported refractories. This would not only utilise the idle capacity, but also help in saving the much needed foreign exchange.

E. Losses of raw materials

High losses.

74. The H.S.L. has fixed certain limits of normal handling losses for raw materials. These are 8 per cent of total receipts in respect of coal, 4 per cent in respect of iron ore and 2 per cent in respect of other materials. Such losses are automatically written off. In terms of value these norms permit losses of major raw materials up to Rs. 8-10 million

In each plant, the coal and iron ore accounting for more than 90 per cent of the total loss. In actual practice, at Durgapur the stock verification of raw materials revealed shortages in excess of the permissible losses of raw materials as follows:—

| | (Rs. in lakhs) |
|-----------|----------------|
| 1960-61 . | 30·40 |
| 1961-62 . | 14·30 |
| 1962-63 . | 7·10 |
| 1963-64 . | 2·60 |

75. It was stated that the losses of raw materials occurred at two stages. There were no satisfactory weighing arrangements at the point of despatch of raw materials. The weight of raw materials was assessed on the basis of marks on the wagons. The Hindustan Steel Ltd. did not have inspectors at all the despatch points to see that proper quantities were loaded. These raw materials were also not weighed at the time of receipt as there were no weighing facilities at the Plant. The losses of raw materials came to notice only at the time of physical verification of stock. In the absence of weighment facilities these losses were not being segregated and as a result it was not possible to assess as to how much of this loss was due to deliberate under-loading of wagons at the despatch points or during transit or within the Works. Reasons.

76. The Committee note that the Board of Directors of HSL considered this matter in September, 1964 and expressed its deep concern at the recurring nature of these losses. In a note sent by the Head Office to the Plants in May, 1965 it was pointed out that as losses within and outside the plant were of different kinds, the latter involving outside agencies and thus not entirely controllable by the Plants, a suitable mechanism to check deliberate under-loading of wagons and short receipt of raw materials particularly coal has to be devised. Unless this element was isolated, it seemed difficult to assess the extent of losses within the Plants. For fixing of responsibility, as well as for effective control of losses, the two kinds of losses should be segregated and dealt with separately. Consideration by Board of Directors.

77. During evidence it was admitted by the Chairman, HSL that the annual raw material losses at Durgapur were quite high (Rs. 80—100 lakhs in respect of major raw materials). It was fairly certain that there was deli- Committee's observations.

berate under-loading sometimes and the position was admitted to be unsatisfactory. In spite of this no responsibility has been fixed for the losses and no disciplinary action taken. The Committee urge that immediate steps should be taken to prevent under-loading of wagons at the despatch points and to ensure safe custody of raw materials in the Plant.

▼ PLANT AND MACHINERY

A. Extent of Utilisation

78. The following table shows the extent of utilisation of the Rolling Mills during 1964-65. Low utilization.

| | No. of hours available for operation | No. of hours for which the mill remained idle. | % of work time to total time available for operation |
|---------------|--------------------------------------|--|--|
| Blooming Mill | 8384 | 3895 | 53.5 |
| Billet Mill | 8384 | 5389 | 35.7 |
| Section Mill | 8472 | 2805 | 66.2 |
| Merchant Mill | 8000 | 3134 | 60.8 |
| Sleeper Plant | 7384 | 1518 | 79.4 |
| Wheel Plant. | 3008 | 396 | 86.8 |
| Axle Plant | 6536 | 951 | 85.4 |

79. The break up of the idle time due to various types of delays e.g. mechanical, electrical and operational is given in appendix II.

80. It would be seen from the above table that the Rolling Mills remained idle for considerable period ranging from 15 per cent to 64 per cent of the time available for operation.

81. The Committee were informed that there were various reasons for the Mills remaining idle. In the case of Blooming Mills, this was due to inadequacy of soaking pits. In other mills, the shutdowns were due to long time taken in changing the rolls after breakage of old ones and for rolling new sections. Although the practice followed is to build up rolls required for next sections in spare stands and to replace the stands in the Mills, but in cases where there was rolls breakage before the spare stand ready, the changing of roll had to be done in the Mill itself and this took some time. Reasons.

82. The Committee were also informed that the Plant did not have experienced and seasoned technicians for

maintenance. Because of lack of sufficient experience the maintenance staff took longer than normal to set right the mechanical and electrical breakdowns.

Committee's observations.

83. The maintenance function is as important if not more than production of steel. It often requires higher skill than in operation. The key maintenance personnel should be in position while the plant is being erected so that they have an opportunity to become familiar with the equipment. HSL might consider whether it would not be advantageous to occasionally have seminars of such staff in rotation in the Plants where they could exchange their experiences.

84. It was admitted by the Chairman, Hindustan Steel Limited that the number of working hours for which various Mill operated in Indian Steel Plants is much less than that in foreign countries. In order to bring down the high cost of production of steel it is essential to have maximum production from the installed capacity. Every effort should therefore be made to reduce the downtime of equipment through proper scheduled maintenance and by careful planning and co-ordination of operations in different mills.

B. High top pressure equipment

Non-utilization.

85. Out of the three Blast Furnaces at Durgapur two contain High top pressure equipment. These were installed at the time of erection of the Furnaces at a cost of Rs. 5 lakhs each. However, the equipment has been commissioned only in one Furnace so far. The Committee were informed that there was difference of opinion about the advantage in using high top pressure equipment. Therefore, the equipment was being used only in one Blast Furnace as an experimental measure. Unless the Plant was satisfied with the result of experiment it did not want to use it in the other Furnace.

Advantages of use of high top pressure.

The Committee find that in the U.S.S.R. about 75 blast furnaces are operating on high top pressure. It is reported to have increased production of iron by 6-8 per cent and there was also reduction in coke consumption. Even in the Bhilai Steel Plant, the high top pressure has been used since 1961 and its use is stated to have resulted inter alia in increased production of iron from 2777 tonnes to 3540 tonnes. In the circumstances the Committee see no reason as to why the plant should still find the need for experimenting with the utility of the High top pressure equipment and not using it to advantage as has been done elsewhere. At any rate the question of utility should have been examined before the equipment was purchased.

Firm decision

86. The Committee understand that because of coke scarcity, the furnaces could not be blown to high wind

volume for long periods and as such full benefit of high top pressure could not be achieved. That there should be coke scarcity when the production in the coke oven batteries at Durgapur is above the rated capacity, suggests that provision has not been made in the Coke Ovens for use of high top pressure equipment. HSL should take a firm decision about the utility of the high top pressure equipment. It cannot maintain that its use is advantageous at Bhilai while at Durgapur it is in an experimental stage. If it is beneficial to use it provision should be made for its use in the expansion programme.

about utility of high top pressure suggested.

C. Inventory Control

87. The total value of inventories raw materials, stores and spares and stock in trade during the years 1962-63 to 1965-66 has been as follows:—

(Rs. in crores)

| | Stores & Spares | | Raw Materials | | Stock in Trade | |
|---------|-----------------------|----------------------------|-----------------------|----------------------------|-----------------------|----------------------------|
| | Value (closing stock) | %age on annual consumption | Value (closing stock) | %age on annual consumption | Value (closing stock) | %age on annual consumption |
| 1963-64 | 9.87 | 163.0% | 2.25 | 18.2% | 5.50 | 9.5% |
| 1964-65 | 11.47 | 244.7% | 1.95 | 9.5% | 4.88 | 7.0% |
| 1965-66 | 18.13 | 257% | 1.95 | 9.9% | 4.43 | 6.7% |

88. It will be seen from the above table that although in the case of raw materials and stock in trade i.e. finished products the percentage of closing stock to total consumption during the year had come down in 1965-66 as compared to that in 1963-64, in the case of stores and spares it had increased from 163 per cent to 257 per cent and represented about 31 months consumption.

High inventory of stores and spares.

89. It was noticed that the high stock of stores and spares was mainly due to large stock of spares which amounted to Rs. 576 lakhs during 1964-65 and was 409 per cent of the total consumption during the year. It was stated that considerable stock of spares was of insurance items which though rarely used have to be kept in stock in order to ensure that production does not suffer on account of lack of such items in the event of unforeseen breakdowns. Excluding these, the stock of other items of spares represent about 19 months consumption.

Reasons.

Inventory control.

90. The Committee were informed that a proper system of inventory control for spares has been introduced since May, 1964 and was completed in November, 1965. The system would be further improved with the introduction of electronic data processing machines by the end of current year (1966).

Immediate steps to reduce excessive inventories suggested.

91. Heavy inventories not only result in blocking of capital but also result in unnecessary expenditure on their care and maintenance. The Committee are concerned to note that the percentage of stock of stores and spares to the total consumption during the year instead of decreasing, increased from 163 per cent in 1963-64 to 257 per cent in 1965-66. The stocking of stores and spares which would be sufficient for 31 months based on current consumption is far excessive. It was admitted by the Secretary of the Ministry that the inventories in the Steel Plants of HSL were very high and this was seriously affecting the profitability of the Plants. The Committee suggest that immediate steps should be taken to reduce the excessive inventories particularly the stock of stores and spares at the Durgapur Steel Plant.

VI

PERSONNEL

A. Employment of staff

92. The first assessment of manpower requirements of Durgapur Steel Plant for the million tonne plant was made in the Coates Mission's Report which estimated it at 9800. This estimate was considered by the Coates Mission as generous and they had observed as follows:—

Coates
Mission
estimates.

"The manpower estimates (9800 men overall) may seem generous but they are realistically based on Indian conditions. They assume that the works will be manned and staffed almost entirely by Indian personnel since this is the objective policy".

93. Thereafter, during 1956, H.S.L. in consultation with the Russian, German and British experts prepared an estimate of requirements of technical personnel for three steel plants. This exercise, known as the 'Black Book', indicated that approximately 739 officers and 5321 skilled workers would be required by each Plant. The 'Black Book' estimates were fully discussed with the appropriate officers of TISCO and also with Mr. J. Hillard, a Manpower expert of the Executive Office of the President of U.S.A., whose services were secured for the company by the Ford Foundation. These estimates were considered to be dependable working basis for the recruitment and training programme.

Estimates
by H.S.L.

94. On the basis of experience gained during the next two years, these estimates Secretary of the Company and these revised estimates were incorporated in what is known as the 'Red Book'. These estimates provided for 668 technical officers (including 10 per cent leave reserves) and 6300 skilled workers including 20 per cent for leave sickness and weekly-off (excluding requirements for Wheel and Axle plant).

95. Subsequently, from 1961 onwards H.S.L. undertook a more detailed examination of the standard force. The intention was that the Committee of Management would lay down the limits of standard force and organisation pattern and the General Managers would issue sanctions at plant level as and when requirements were within the limits of COM's approved strengths. This work was initiated by the Head Office in consultation with the Plant

management. But the work was half way through in case of Durgapur when the powers were delegated to the General Managers to create posts carrying scales with the maximum of Rs. 2250 and therefore the manning schedules for the remaining departments was prepared by the Plant itself.

96. The following tables shows the Black Book estimates, the Red Book estimates and the standard force worked out by the Committee of Management is the Head Office and the actual staff strength as on 31-8-1965 in Works Departments only:

| | Black Book — (1956) | Red Book — (1958) | Standard force | No. in po- sition as on 31-8-65 |
|---------------------|---------------------------|-------------------------|-------------------|---------------------------------------|
| Technical Officers. | 739 | 697 | 833 | 781 |
| Worker | 5321 | 6900 | 14770 | 14104 |
| | 6060 | 7597 | 15603 | 14885 |

Besides the 14885 persons employed in Works Departments, another 8112 persons were employed in other departments like Commercial, Personnel, Finance and Accounts, Town Administration and Construction, which is more than 50 per cent of the staff in the works departments. The requirements for these departments were not assessed in the earlier estimates of 1956 and 1958. As in the case of the Works departments the number of posts sanctioned for non-works department (8744) was more than the number of persons actually employed (8112).

**Excessive
employ-
ment.**

97. *It has been admitted in Parliament that the Steel Plants are overstaffed. The Committee feel that the Committee of Management which prescribed the standard force are mainly responsible for the existence of surplus staff in the steel plants. The strength laid down by them is double of the estimates prepared earlier in 1956 with the help of experts and even those in 1958 prepared by the then Secretary of the Company. The Committee are not aware of the data on which the Committee of Management or the plant authorities, who had taken over the residual work from the C.O.M. based their estimates of the staff requirements. But considering that the actual number of persons employed is less than the sanctioned strength, the Committee cannot help observing that the standard force was not realistically determined by the*

Committee of Management or the plant authorities. The determination of the staff strength at a high pitch has led to the filling up of the vacancies with redundant staff.

98. The Committee are also surprised to find that although it has been admitted that the Plant is overstaffed, the actual requirements of staff and the extent of surplus staff have not yet been determined on the basis of proper scientific studies. Unless the extent of surplus staff is determined, it would be difficult to solve the problem of over staffing. The Committee would, reiterate their recommendation in para 90* of their 11th Report on Rourkela Steel Plant and desire that immediate steps should be taken to carry out such a study.

Proper scientific studies to determine requirements of staff suggested.

B. Recruitment and promotions

99. In pursuance of the statement, made by the Minister of Steel & Heavy Industries in Parliament on the 20th September, 1963, the General Managers of the three steel Plants were delegated powers to make direct recruitment, to all the executive posts except the following:—

Delegation of powers.

- (1) Direct recruitment to initial cadre of executive posts in the scale of Rs. 400-950 appointments to which were to be made by the Chairman.
- (2) Appointment to posts the maximum of which was Rs. 2500 or more a month which requires the approval of the Government.

Similarly the the General Managers were vested with the powers of promoting to the posts, the maximum salary of which was below Rs. 2500 as against the powers to promote upto the grade of Rs. 1100-1400 which they enjoyed before the enhancement of powers.

100. A review of promotions made by the three Steel Plants to the posts for which they were delegated powers under the decentralisation scheme (posts carrying scales of pay of Rs. 1300—1600 and upto Rs. 2000—2250)

Review of promotions.

*The Committee note that in their 33rd Report, which was presented to Lok Sabha in March, 1959, the Estimates Committee suggested that a job analysis might be carried out and staff strength determined on a scientific basis. They regret to observe that no systematic study has been made so far. Rough assessment for certain categories of staff which is stated to have been made by the management can hardly serve the purpose. The Committee consider that to solve the problems of over-staffing, a scientific assessment of staff is essential. They, therefore, recommend that immediate steps should be taken to carry out such a study to determine the extent of surplus staff. Such staff could then be absorbed in the expansion programme of the plant or employed in the other Steel Plants.

showed that of the 56 promotions made in these categories, in all the three Steel Plants, 30 were made in Durgapur alone as against 20 in Bhilai and 6 in Rourkela Steel Plants. Of the 30 promotions made, one promotion was made before the employee concerned had put in one year's service in the lower grade, 12 persons were promoted before completion of two years and 10 persons were promoted before completion of three years services in the lower grade.

101. From the information furnished by the Head Office it is observed that according to rules, promotion to these grades is made on merit and no minimum qualifying service in the lower grade is prescribed for promotion to the higher grade. It is however, implied that promotion of an officer especially to the first level of managerial position (Rs. 1300-1600), should be made after his work has been watched for an adequate period to enable the competent authority to judge his merit. If an employee is promoted to a higher post before he has put in less than one or two years' service in the lower grade, his performance in the lower grade should be 'outstanding' or 'very good'. An analysis of the records of officers, who had been promoted before completion of two years' service in Durgapur Steel Plant showed that in many cases, records were not necessarily 'outstanding' or 'very good'. Some of these cases are given below:—

- (i) In one case an officer who had been promoted to the scale of Rs. 1100-1400 on the 1st October, 1963, was promoted to the scale of Rs. 1300-1600 in December, 1963 i.e. within 3 months. The report on his work for the year 1963 did not show him as "outstanding" or even "very good". In fact the overall assessment of his work was only 'good'.
- (ii) In another case also an officer in the scale, Rs. 1100—1400/-, who had been considered 'unsuitable' for further promotion by a Joint Committee consisting of Director (Personnel) and the three General Managers in December, 1962, was promoted to the scale of Rs. 1400-1800 in April, 1964.
- (iii) In a third case an officer who had been promoted to the grade of Rs. 1100-1400 in November, 1962 was promoted to the scale of Rs. 1300-1600 in August, 1964 although his record for the year 1963 was neither 'outstanding' nor 'very good' and although the Reviewing Officer had reported in that year that "he is a good officer but requires more experience before he can be considered for promotion".
- (iv) A fourth officer who was promoted to the grade of Rs. 1100—1400 in September, 1962 was promot-

ed to the scale of Rs. 1300-1600 in December, 1963 although his record did not show him as 'out-standing' or even as 'very good'. In fact in 1962, the reporting Officer had remarked that "he does not appear to enjoy the confidence and support of those working under his control." The reviewing officer had, however, mentioned that "he is a capable officer and had graded him "very good" in 1963.

102. It was also noticed that in January, 1965, a major reorganisation of the Personnel Department of the Durgapur Steel Plant was made including creation of 3 additional posts in the scale of Rs. 1100-1400 and promotion of 5 officers from the scale of Rs. 700-1150 to Rs. 1100-1400 with effect from one date viz., 1st January, 1965. The matter was examined by the Head Office of H. S. L. and it was felt that on the basis of staffing pattern in Bhilai and Rourkela Steel Plant, the Durgapur Steel Plant should normally require only two Senior Personnel Officers. In the revised organisational set up, it had provided Senior Personnel Officers in place where only Personnel Officers were generally provided by the Bhilai and Rourkela Steel Plants.

Re-orga-
nisation of
Personnel
Depart-
ment.

103. As creation of a number of senior posts with effect from one date and simultaneous promotion of five officers especially in the Personnel Department was likely to have repercussions in other departments, in the same Plant as well as in other Steel Plants and could lead to pressure for upgrading of posts in other departments, the Board of Directors did not view this matter with favour. It pointed out that even if sufficient justification existed for creation of these senior posts, the promotions could have been staggered considering that the expansion to 1.6 million tonnes, which had been given as one of the grounds was still to be reached.

Review
by Board
of Direc-
tors.

104. The Committee were also informed that there had been directives from the Board regarding the necessity to carefully observe the rules in regard to pay fixation and creation of posts. A comprehensive note on the exercise of powers in personnel matters by the General Managers of the Steel Plants had been prepared and was to be placed before the Board of Directors.

105. *The Committee do not object to the policy of delegation of powers to the General Managers in the interest of efficient working of the Plant, but wish to emphasise that these powers should be exercised judiciously and with restraint, keeping in view the possible repercussions which creation of posts and the promotions might have on the staff working in the Plant itself or in other sister plants of H.S.L. The Committee are particularly unhappy about*

Commit-
tee's
observa-
tions.

some of the accelerated promotions referred to in para 101.

C. Industrial Relations

Labour disturbances and stoppages of work.

106. Like other projects in the Public Sector, the Durgapur Steel Plant had its share of occasional labour disturbances and stoppage of work. There was a prolonged go-slow movement in the Sleeper Plant during the last quarter of 1963. In June, 1964 there were wide spread disturbances and several stoppage of work in different units. The number of man days lost during 1964 was 4299 and the value of the loss of production amounted to Rs. 19.70 lakhs.

Reasons.

107. The deterioration in the industrial relations was stated to be due mainly to rivalry between two main unions-including the recognised union and attempts by each of them to outbid the other in its demands to get the support of the workers. Both the unions are said to have committed breaches of the code of discipline.

108. The Committee were informed that there had been marked improvement in industrial relations after the high level meeting in August, 1964. As a result of these discussions many of the misunderstandings had been removed and a better atmosphere created for good relations between the Management and the Union.

Works Committee.

109. It is however, noticed that even after these discussions there had been slow down and stoppages of work in the various units e.g. slow down in Billet Mill Despatch Section from the 6th September to the 11th September, 1964 and slow down by shunting staff followed by stoppage of work from the 30th April till the 4th May, 1965. In this connection it was observed that although the Plant had set up a Works Committee, no meeting of it had been held. It was stated that soon after the election of the Works Committee, one of the elected members was involved in a criminal case and he was suspended. Afterwards, the services of another elected member had to be terminated for security reasons. Although, according to the standard rules of H.S.L. a bye-election is allowed, in the West Bengal Industrial Disputes rules there is on provision for holding a by-election in case an elected representative is suspended. The matter was referred to the Labour Department of the State Government in June, 1963 for advice about the holding of a fresh election, but there was no satisfactory response from them. Only recently had the State Government agreed to the holding of an election but had not confirmed it in writing. It was however, admitted by the Chairman, H.S.L. that they had been somewhat inactive in this direction.

110. It needs no emphasis that in the interest of efficient and economic working of a project, it is necessary that there should be complete understanding and co-operation between labour and management. The public enterprises have a special role to play in this regard. As pointed out in the Third Plan: "The large expansion of the public sector which is occurring and is being envisaged will make a qualitative difference in the tasks set for the labour movement and will facilitate the transformation of the social structure on the lines of the socialist pattern of society".

Committee's observations.

The Committee were assured that there had been a marked improvement in industrial relations at Durgapur since high level meeting in August, 1964. But as even after that there had been certain incidents there is need for a constant endeavour both on the part of the management and the labour unions to resolve differences through mutual discussions and voluntary arbitration rather than by resorting to strikes, lockouts or courts of law.

111. The Committee feel that if the works Committee had functioned, it would have in a large measure helped in developing harmonious relations between the employers and the workers. They therefore, desire that immediate steps should be taken to revive the Works Committee.

VII

FINANCIAL MATTERS

A. Capital Estimate

**Increase
in esti-
mates.**

112. The original estimates of capital expenditure for the one million tonne Plant, on the basis of which provision was made in the Second Five Year Plan were Rs. 115 crores. These were based on the preliminary estimates of the contractors M/s. ISCON. However, these increased to Rs. 138 crores on the basis of contract actually concluded with M/s. ISCON. The estimates for this amount had been approved by the Cabinet in October, 1956. But even these estimates proved to be low and the latest revised estimates (1963) were for Rs. 205.24 crores, an increase of Rs. 90.25 crores (78%) over the estimates approved in 1956.

**Approval
of esti-
mates.**

113. The Committee were informed that the estimates approved by the Cabinet in 1956 pertained to the Plant proper. These estimates did not cover the cost of township, development of sources of water supply, power supply facilities within the plant, expenditure on Project staff, customs duty and other ancillary expenditure which were estimated to cost Rs. 29 crores.

114. The complete estimates including all ancillaries etc. were prepared and sanctioned by Government much later. It was pointed out by the Chairman, H.S.L. that normally estimates should be prepared and approved by Government in advance so that the individual contracts could be sanctioned by the plant authorities or Board of Directors under their delegated powers. But in actual practice, the process of preparing estimates and getting the approval from Government spread over such a long period that in the absence of sanctioned estimates each individual job or contract had to be referred to Government for sanction and approval. The sanctioning of the total estimates has thus been only a *post facto* affair and a formality of adding up all the individual items sanctioned earlier.

**Estimates
for expan-
sion.**

115. In spite of the experience of the one million tonne plant, in the case of expansion of the Plant to 1.6 million tonnes also, the Project estimates instead of being sanctioned in advance were approved by Government in June, 1965—after about three years of the awarding of contracts. It was stated that although the original estimates were sent in March, 1962 they were defective in certain respects. These were returned for recasting. In the mean-

time in the interest of speedy execution of the work, tenders were invited in 1962 and contracts awarded with the approval of the Finance Ministry. The final estimates with the modifications effected by H.S.L. on the basis of actual contracts awarded were received and approved by Government in June, 1965.

116. It is regrettable that the complete estimates for Durgapur Steel Plant were prepared and sanctioned for the one million tonne plant as well as for its expansion to 1.6 million tonnes, years after the taking up of the Project. The reason advanced that the execution of work was taken up pending sanctioning of the estimates, to expedite construction is hardly satisfactory. The Committee have come across other* cases of delay on the part of the Ministries in sanctioning capital estimates of the Public Undertakings. They deprecate the tendency on the part of the Ministries to hold up sanctioning of the estimates until the whole process becomes a post facto affair. The Committee see no reason as to why with proper planning it should not be possible for Government to call for complete estimates well in advance and to sanction them before taking up the work.

Delay in sanctioning of estimates regretted.

117. The Committee would also point out that the absence of such estimates vitiates financial control of Parliament as it does not enable them to look into the economic aspect of the investment on projects which they are called upon to approve. They, therefore, desire that in the interest of proper financial control and economy as well as speedy execution of projects, detailed estimates should be prepared and sanctioned before any work is taken up for execution.

Financial control of Parliament vitiated.

B. Cost of Production

118. The cost of production of steel at Durgapur is substantially higher than that originally estimated in the Coates Mission's Report. Thus in 1964-65 the cost of production for ingot steel was 218 per cent higher than those estimates.

High costs.

119. The Committee were informed that whereas the rate of consumption of raw materials was comparable with the original estimates, the cost of raw materials was much higher than that assumed in the Coates Mission Report. However, the Plant had been determining from time to time the reasonable costs which they should try to achieve. These target costs were based on the attainable norms of consumption of various productive materials and

Target costs.

* (1) Paras 23-24 of 22nd Report on Indian Drugs and Pharmaceuticals Ltd.

(2) Para 11 of 24th Report on Neyveli Lignite Corporation Ltd.

services. These targets were fixed initially in April, 1963 and revised in April, 1965 keeping in view the increases in the rates of raw materials, freight, wages, power etc., as well as the quality of raw materials.

Cost of production higher than target cost.

120. From a statement furnished to the Committee it is observed that the cost of production in 1964-65 was even higher than the target cost as revised in April, 1965. In the case of steel ingots it was higher by Rs. 17/- per tonne and in the case of finished products, the increase ranged from Rs. 19 to Rs. 40 per tonne. It was admitted that there was room for improvement in the cost of production.

Reasons.

121. The following reasons were advanced for the higher cost of production:—

- (i) higher consumption of fuel and services;
- (ii) higher consumption of bottom plates and ingot moulds;
- (iii) lower yield at ingot stage;
- (iv) higher incidence of overheads in rolling mills due to lower production;
- (v) higher consumption of services and stores.

122. It was stated that another review of the target costs had been made in December, 1965 taking into account the further increases in wages, prices of raw materials, quality of raw materials etc. Efforts were being made to bring down the current costs to the revised target cost through economies in raw materials usages, maximisation of yields, increase in production and economies in fuel consumption. A Committee has also been appointed by Government to go into the cost structure of the steel industry.

Committee's observations.

123. *The high cost of steel not only affects the financial working of the Plant but also has adverse repercussions on the manufacturing cost of the products based on steel industry. The Committee therefore desire that concerted efforts should be made to reduce the production cost of steel. The Committee would invite attention in this connection to paragraph 75 of their 28th Report on the Head Office of Hindustan Steel Limited.*

C. Financial Results

124. The following table shows the year-wise break up of the net profit/loss at the Durgapur Steel Plant: **Heavy losses.**

| | | (Rs. in crores) | |
|---|-------------------|-----------------|---|
| Upto | 1959-60 | Loss | .33 |
| | 1960-61 | Loss | .71 |
| | 1961-62 | Loss | 4.66 |
| | 1962-63 | Loss | 8.45 |
| | 1963-64 | Loss | .19 |
| | | | <hr style="width: 100%; border: 0.5px solid black;"/> |
| | | | 14.34 |
| Add prior period adjustments and transfers etc. | | | 5.70 |
| | | | <hr style="width: 100%; border: 0.5px solid black;"/> |
| | 1964-65 | Profit | 20.04 |
| | | | .53 |
| | | | <hr style="width: 100%; border: 0.5px solid black;"/> |
| | | TOTAL Loss : | 19.51 |
| | | | <hr style="width: 100%; border: 0.5px solid black;"/> |

125. It will be seen from the above table that the Plant continued to incur losses upto 1963-64 and the total loss incurred upto that year was Rs. 20.04 crores. It was only in 1964-65 that the Plant was able to make a profit of Rs. 53.34 lakhs. The Committee were informed that during the year 1965-66, the Plant was again expected to incur some loss because of additional investment on expansion of the Plant to 1.6 million tonnes. Further, there would be an additional expenditure of about Rs. 1 crore in payment of statutory bonus and award of the Wage Board.

126. As regards the reasons for incurring heavy losses the Committee were informed that till 1962-63 the Plant had reached only 72 per cent and 62 per cent of the rated capacity for steel ingots and finished steel respectively. Therefore the fixed charges could not be recovered fully. Further, the question of profitability was linked with the controlled prices fixed for steel products. The controlled prices fixed by Government were on the basis of a capital block of Rs. 1175 per tonne as against a capital block of Rs. 2566 per tonne of saleable steel in Durgapur Steel Plant. Therefore, the prices fixed by Government were not remunerative. With the expansion of the Plant during the Third Five Year Plan, the gross block was expected to come down to Rs. 2219 per tonne. Further, most of the products of the Durgapur Steel Plant had been decontrolled, and so the prices of its products had increased to **Reasons.**

some extent. Based on current selling prices, the Plant was expected to make a profit of Rs. 4.82 crores, a return of 3.6 per cent on equity capital on reaching the rated capacity after the expansion of the Plant to 1.6 million tonnes. The capital output ratio was expected to be 2.46:1 as against 3.98:1 at one million tonnes stage.

Committee's observations.

127. *The Committee have examined the question of profitability of Steel Plants in general in para 62 of their 28th Report on Head Office of Hindustan Steel Limited. They would however add that considering the heavy loss suffered by the Plant (Rs. 19:51 crores upto 1964-65), the working of the Plant upto that year cannot be considered satisfactory. The Committee desire that effective steps should be taken to work the plant to its rated capacity and to effect economy in expenditure so as to improve its financial working.*

D. Audit Report (Commercial), 1964

- (i) *Engagement of an ex-Financial Adviser and Chief Accounts Officer of Durgapur Steel Plant as contract consultants in the same Project on an excessively high remuneration: para XII (11) of Audit Report (Commercial), 1964.*

128. Since the contract with the Consultants (M/s. I.C.C.) was coming to an end in January, 1962 discussions were held with them for completion of the outstanding items of work. During these discussions, the Consultants agreed that some of the functions which the I.C.C. were to perform under the contract would continue to be performed by them upto the 30th September, 1962. But from the 1st October, 1962, they would delegate these functions to a person, firm or Corporation to be mutually agreed between them and H.S.L. For this purpose, the person chosen was the then Financial Adviser & Chief Accounts Officer of the Project, who was to retire in February, 1962. It was proposed that he should be appointed as 'Contract-Consultant' with effect from the 21st February, 1962 and as a 'delegatee' from the 1st October, 1962. The Financial Adviser & Chief Accounts Officer himself negotiated the terms for functioning as a contract consultant. But later on, H.S.L. considered this arrangement unacceptable as it would have involved the payment of about Rs. 2 lakhs to the F.A. & C.A.O. The I.C.C. were also reluctant to delegate certain of these functions as agreed to earlier. Therefore, no formal agreement was entered into with the ex-F.A. & C.A.O. by H.S.L. But as observed by the Chairman, H.S.L. during evidence that since about 11 cases had been referred to him for advice from the 21st February to the 31st May, 1962 and as an assurance had been given to appoint him as contract

consultant "something had to be done to make the best of a bad job". Accordingly a contract was entered into with him for the preparation of a "Purchase & Stores Manual" on a remuneration of Rs. 40,000 of which Rs. 20,000/- was for working as Contract Consultant and for preparatory work on the Purchase & Stores Manual. The manual prepared by him was, however, found to be a sort of general text book and in consultation with the Controllers of Stores & Purchase in the three Steel Plants it was decided that it would not be of much use to proceed with it. After discussion with the ex-F.A. & C.A.O. it was decided to settle the matter by payment in all of Rs. 35,000/- to him.

129. The Government viewed with displeasure the engagement of an ex-employee of the Project on a remuneration which in terms of monthly payment exceeded the pay drawn by him before retirement and questioned the competence of the company to make such payment without prior sanction of the Government.

130. During evidence it was admitted by the Chairman, H.S.L. that a mistake had been committed in this case. According to the legal opinion obtained, H.S.L. was not bound to make payment to the ex-F.A. & C.A.O. However, as his advice had been taken in a number of cases, it was considered equitable to compensate him. It was also admitted that all these cases related to matters arising from ISCON contract and he had dealt with most of them earlier in his capacity as F.A. & C.A.O. He did not materially change his opinion in any of these cases as contract consultant.

131. As regards the person who authorised this payment the Committee were informed that the matter had been placed before the Committee of Management consisting of Director Construction, Director Finance and the Chairman, HSL, which passed a resolution authorising the payment.

132. As to the reason for not consulting Government before his appointment, it was stated that the matter had been examined before his appointment and it was considered that it was not necessary to consult Government or seek their permission to his appointment. It was felt that technically there could be no objection to the appointment of a retired officer who was working as the proprietor of a firm of Consultants after his retirement.

133. This case discloses the following disquieting features:

(i) No formal agreement was entered into with the ex-F.A. & C.A.O. for acting as contract consultant and

H.S.L. was not legally bound to make any payment to him. In spite of this Rs. 20,000 were paid to him for acting as such.

(ii) He was drawing a salary of Rs. 2000/-p.m. before retirement while payment of Rs. 20,000 was made to him, for acting as contract consultant for 3½ months (from 21st February to 31st May, 1962).

(iii) He was paid a further sum of Rs. 15000/- for preparing a part of Stores Manual which was found to be unsuitable.

Since nothing tangible can be done by H.S.L. at this stage, the Committee would only express their displeasure over this matter.

(ii) *Infructuous expenditure on the installation of Ice Plant at Durgapur—para xii (12) of Audit Report (Commercial), 1964.*

134. The Government of India sent to the General Manager, Durgapur Steel Plant a proposal in February, 1957 for the installation of a 10 ton ice plant in the township to ensure proper supply of good quality ice to the foreign personnel at Durgapur. The Plant authorities were not favourably inclined to the proposal and suggested that it would be better if some private party was allowed to set up an ice plant with powers vested in them to control quality. This view was also supported by the Refrigeration Engineer of the West Bengal Government, who said that there was plenty of spare capacity in Calcutta and it was possible for some private party to set up the Plant and deliver ice at Durgapur township. These views were communicated to the Ministry of Iron & Steel. But in view of the urgency, the Ministry instructed that it would be better if the Plant is set up departmentally and it was suggested that the offer of a particular firm for a 10 ton Plant might be availed of as it was ready in stock and involved no foreign exchange commitment. Therefore a purchase order was issued on the 29th May, 1957, on the basis of a single offer at a cost of Rs. 1.39 lakhs including Rs. 20,000 for cold storage equipment.

135. Although the plant was purchased on the basis of a single offer on grounds of urgency, it took more than a year to put up the plant after it had been supplied by the firm as the construction of building to house it was delayed. Further although the plant was ready for operation in March 1960 (at a total cost of Rs. 2.27 lakhs including the cost of building etc.) and the operational staff was employed from April, 1960, the contractor for distribution of ice was appointed only in April 1961 for a period of 11 months. The contractor refused to take ice

from the 21st May, 1961, after giving a legal notice, alleging *inter alia* that the project had failed to supply the full quantity of 10 tons per day in terms of the contract and that the quality of ice was poor. From the 21st May, 1961, the Plant lay idle till it was disposed of in March, 1965 for Rs. 80,000.

136. Thus a Plant put up at a total cost of Rs. 2.27 lakhs (including cost of building etc.) worked only for a period of two months (April-May, 1961). Against the sales realisation of Rs. 7150/- during this period, the expenditure on staff amounted to Rs. 37,000 during April 1960 to June, 1962, when most of the personnel were withdrawn. Further, the annual expenditure on account of interest charges and depreciation amounted to about Rs. 25,000.

137. As regards the reason for failure to supply full quantity of 10 tons per day in terms of the contract, it was explained that the ice plant could produce ice upto its rated capacity (10 tons) but due to the necessity of using about 2 tons ice capacity for the two cold storage rooms, its working capacity was reduced to about 8 tons. As to the reasons for the Ministry insisting on the purchase of this ice plant instead of arranging for ice through some private party the Secretary of the Ministry stated that till such time as the township was well established the demand for ice was not expected to be substantial. It was therefore, felt that it would be difficult to find a private party to set up the ice plant, on reasonable terms.

138. *The Committee consider that the decision to set up the ice plant at Durgapur was ill-conceived. Since, as admitted by the Secretary of the Ministry, the demand for ice was not considered to be substantial, there was no justification for incurring large capital expenditure on the purchase of this plant especially when both the Durgapur Steel Plant authorities and the refrigeration engineer of the West Bengal Government opposed the proposal. As regards the view that it would have been difficult to find a private party to set up such a plant, the Committee find that no attempt was made to ascertain whether any private party was interested in it. Further the West Bengal Government had indicated that it might be possible for some private party to set up such a plant. In the circumstances, there appears to be no basis for the view held by the Ministry. Further, insistence of the Ministry for purchase of the ice plant from one particular firm without calling for tenders requires thorough probe.*

Thorough
prove
into
purchase
suggested.

VIII

MISCELLANEOUS

A. Settlement of outstanding issues with ISCON

Payment
to consul-
tants.

139. According to the agreement signed with the Consultants (M/S International Construction Co.) in January, 1956, the consultants were employed for a period of six years. This agreement expired on the 9th January, 1962. However, the agreement was extended from time to time till 30-9-1965. Further extension of the contract till the completion of the entire work is under negotiation with the Consultants. A sum of £88,500 had been paid to the Consultants for the extension of their contract since January, 1962.

140. It was explained that although the Consultants completed supervision of the construction work, on commissioning of the various units, certain items of work in connection with the contract had not been finalised. One such item was the issue of completion and taking over certificates for the whole plant which had not yet been issued by the Consultants. Further the Consultants had to issue the certificate for the final adjustment price taking into account all contract variations, site variations and final price fluctuation claims on account of actual cost of work. This can be issued only after the final certificate of the actual cost is given by the Appointed Accountants. This work has not yet been completed. During the course of construction a number of disputes also arose between the contractor (ISCON) and H.S.L. Both had made claims and counter claims. These disputed items have been referred to a high power Negotiation Committee. The assistance of the Consultants would be required and would be helpful in connection with the settlement of these disputed items.

Reasons
for non-
settlement
of out-
standing
issues
with
ISCON.

141. The completion of the work of the Consultants was stated to be dependent on the completion of the work by the Appointed Accountants and the settlement of disputes before the Negotiation Committee. While the Appointed Accountants were likely to complete their work soon, it was stated to be difficult to indicate when the Negotiation Committee would finalise the matter. The Negotiation Committee had held only two sittings so far and the last

meeting was in December, 1964. However, as observed by the Chairman, H.S.L. only minor disputes had been settled while the big items had only been listed.

142 The Secretary of the Ministry stated during evidence that he was not satisfied with the progress in the settlement of these issues. The Ministry had been in constant touch with H.S.L. and had asked them to finish this work quickly. As the matter was taking a long time, H.S.L. had also been asked to arrange for a lump sum payment to the Consultants till all the issues were finally settled.

143. The Committee find that as early as January, 1961 the contractors expressed their dissatisfaction over the system of disposing of these issues and observed as follows:—

System of disposal of outstanding issues.

"Between now and the completion of the Contract, it is certain that many additional matters of this type will arise, and we wish to place on record our view that the present system of disposing of such matters is slow and unsatisfactory. Indeed it is our opinion that unless some other system is adopted, some of these matters will remain unsettled long after the work on the site is finished, and this will necessitate staff remaining on site at extra cost to you and at inconvenience to us".

The necessity for finalising without delay all outstanding contractual issues with ISCON was also emphasised by FA & CAO of the Durgapur Steel Plant in his quarterly Financial Reviews for the quarters ending September & December, 1960.

144. It is regrettable that even though the contractors and the F.A. & CAO had pointed out the need for finalizing outstanding issues as early as 1961, no proper machinery was set up to deal effectively with the issues arising out of the contract with ISCON. The result has been that even after more than three years of the completion of construction some of the major issues in dispute are yet to be settled. This has also involved avoidable payment of large fees to the Consultants. The Committee desire that the issues should be settled early.

Failure to set up proper machinery.

Similar situations can also arise in other Public Undertakings which enter into contracts with various outside agencies. The Committee, therefore, suggest that

suitable instructions should be issued to all concerned to ensure that proper machinery is set up to deal effectively with the issues arising out of such contracts.

145. *The Committee disapprove of payments to Consultants for years after completion of a project because certain issues remain unsettled. They would suggest that the Ministry of Law should be consulted so that Government does not enter into such agreements which bind it to continue to pay the Consultants after the completion of works in case certain issues remain disputed.*

B. Standardisation

Production of lighter sections.

146. In a report submitted by the National Council of Applied Economic Research on "Saving in Structural Steel through Standardisation", it has been pointed out that substantial savings in structural steel could be achieved if all the Indian Standards relating to production and use of structural steel published by the Indian Standards Institution, were fully implemented. It has been estimated that such implementation would save approximately 17·90 lakh tonnes in the consumption of Steel for fabricated structures in the Fourth Five Year Plan period which would be equivalent in value to Rs. 1,253 million. It has been suggested that the integrated Steel Plants in the country should switch over to the production of Indian Standard Sections, particularly the light weight beams and channels which contribute to the maximum saving of steel.

147. The Committee were informed by the Secretary of the Ministry that the producers of Steel were represented in the Committee of Indian Standards Institution, which recommended these sections. These Sections were recommended having regard to the Mills already existing in the country. Therefore, by and large, these sections are produceable in the existing rolling mills. At a meeting recently held with all the steel producers, they were asked to produce some of these sections immediately in the interest of saving steel. It was, however, pointed out by them that although earlier they had thought that it would be possible to produce these sections, there were serious difficulties in producing some of these sections and relaxations in specifications were required. A Committee had been appointed by Government consisting of the representatives of the various steel plants, the Indian Standards Institution and the Indian Engineering Association with the Iron & Steel Controller as the Chairman to go into each recommendation contained in the Report submitted by the National Council of Applied Economic Research and to suggest as to how these sections could be produced in the country.

148. The Committee would like to emphasise that both Development in order to achieve economy in the consumption of Steel and to reduce the cost of structurals, it is essential to develop lighter sections. It was stated during evidence that sections in the United States and certain European countries the trend was to roll lighter sections. The Committee therefore, suggest that early steps should be taken to produce these sections, even by installing new rolling mills, if essential.

IX. CONCLUSION

149. During their examination the Committee have noticed several shortcomings in the planning, execution and working of the Durgapur Steel Plant, which have been referred to in the preceding Chapters. Some of the important ones are given below:

- (i) Inordinate delay in commissioning of several units because of failure to build up sufficient stock of raw materials (para 13);
- (ii) Delay in reaching the rated capacity by the Rolling Mills and accumulation of steel ingots (para 25);
- (iii) Low production in Wheel & Axle Plant resulting in imports of wheel sets by Railways and heavy loss to the Plant (para 33);
- (iv) Losses of major raw materials because of inadequate control at the points of despatch and on their stocking (para 77);
- (v) Idleness of Rolling Mills from 15% to 64% of the time available for operation due to mechanical, electrical and operational delays (paras 78-84);
- (vi) Heavy inventories particularly of stores and spares sufficient for 31 months based on current consumption (para 91);
- (vii) Excessive manpower (paras 97-98);
- (viii) High cost of production (paras 118-23);
- (ix) Heavy losses (Rs. 19.51 crores till 1964-65) (paras 124-27).

150. *The Committee are aware that the running of a Steel Plant is a complex affair calling for high degree of technical and managerial skill. The management had to face many difficulties in organising the human, material and financial resources required for the execution and running of this major project. The economic working of the Plant was rendered more difficult because of difficulties in obtaining raw materials of required quality, the continuous rise in their prices and heavy capital charges because*

of high capital block. The Committee have suggested certain measures to improve its performance. They trust that the management will direct all its energies to increase production and improve the financial working of the Plant.

D. N. TIWARY,

NEW DELHI;
April 19, 1966

Chaitra 29, 1888 (Saka)

Chairman,
Committee on Public
Undertakings.

APPENDIX I

(Vide para 7)

Statement showing the Scheduled date of completion, actual date of taking over, and date of commissioning of various units

| Unit | Scheduled date of completion | Actual date of taking over | Actual date of commissioning |
|----------------------------|------------------------------|----------------------------|------------------------------|
| 1 | 2 | 3 | 4 |
| <i>Stage—I :</i> | | | |
| Coke Oven Battery No. 1 | 31-10-59 | 25-12-59 | 18-12-59 |
| Coal Washery | 31-10-59 | 24-3-60 | 2-4-60 |
| Sulphuric Acid Plant | 31-10-59 | 12-2-60 | 13-2-60 |
| Blast Furnace No. 1 | 31-10-59 | 24-12-59 | 26-12-59 |
| Pig Casting Machine No. 1 | 31-10-59 | 22-12-59 | 26-12-59 |
| <i>Stage—II :</i> | | | |
| Coke Oven Battery No. 2 | 30-4-60 | 7-2-61 | 27-12-60 |
| Ammonium Sulphate Plant | 30-4-60 | 17-2-60 | 4-4-60 |
| Benzol Rectification Plant | 30-4-60 | 19-12-60 | 22-3-61 |
| Blast Furnace No. 2 | 30-4-60 | 19-9-60 | 2-2-61 |
| O. H. Furnace No. 1 | 30-4-60 | 30-3-60 | 25-5-60 |
| O. H. Furnace No. 2 | 30-4-60 | 9-5-60 | 30-6-60 |
| O. H. Furnace No. 3 | 30-4-60 | 28-6-60 | 5-11-60 |
| 42" Blooming Mill | 30-4-60 | 8-5-60 | 9-5-60 |
| 32" Intermediate Mill | 30-4-60 | 11-5-60 | 11-5-60 |
| Continuous Billet Mill | 30-4-60 | 17-6-60 | 17-6-60 |
| Sleeper Bar Plant | 30-4-60 | 24-8-60 | 4-9-60 |

| | 1 | 2 | 3 | 4 |
|--------------------------------|---------|----------|---------|---|
| <i>Stage—III :</i> | | | | |
| Coke Oven Battery No. 3 | 30-4-61 | 1-6-62 | 8-5-62 | |
| Blast Furnace No. 3 | 30-4-61 | 28-3-61 | 18-5-62 | |
| O.H. Furnace No. 4 | 30-4-61 | 26-11-60 | 3-2-61 | |
| O.H. Furnace No. 5 | 30-4-61 | 10-12-60 | 15-3-61 | |
| O.H. Furnace No. 6 | 30-4-61 | 18-2-61 | 25-8-61 | |
| O.H. Furnace No. 7 | 30-4-61 | 27-3-61 | 23-9-61 | |
| 24" Medium Section Mill | 30-4-61 | 13-2-61 | 18-2-61 | |
| Continuous Merchant Mill | 30-4-61 | 29-4-61 | 14-5-61 | |
| <i>Stage—IV:</i> | | | | |
| 100 ton O. H. Furnace No. 8 | 31-7-61 | 28-3-61 | 22-5-62 | |
| Wheels & Axle Plant | 31-7-61 | 1-11-61 | 1-11-61 | |
| | | Axle: | | |
| | | 24-1-62 | 24-1-62 | |
| | | Wheels: | | |

APPENDIX II

(Vide para 79)

Break up of hours for which Mills remained idle according to main reasons in 1964-65.

| Mills | Mechanical delay | | Electrical delay | | Operational delay | |
|---------------|------------------|------|------------------|------|-------------------|------|
| | Hrs. | Mts. | Hrs. | Mts. | Hrs. | Mts. |
| Blooming Mill | 794 | 44 | 140 | 05 | 2964 | 09 |
| Billet Mill | 133 | 03 | 49 | 57 | 5205 | 59 |
| Section Mill | 497 | 53 | 154 | 00 | 2212 | 53 |
| Merchant Mill | 476 | 54 | 117 | 52 | 2539 | 12 |
| Sleeper Plant | 1083 | 13 | 13 | 28 | 404 | 28 |
| Wheel Plant | 150 | 10 | 34 | 12 | 212 | 00 |
| Axle Plant | 169 | 06 | 27 | 19 | 754 | 48 |

APPENDIX III

Summary of Conclusions/Recommendations

| S. No. | Reference to para No. in the Report | Summary of Conclusions/Recommendations |
|--------|-------------------------------------|---|
| 1 | 2 | 3 |
| 1 | 13 | <p>The Committee regret to note the inordinate delays in the construction/commissioning of certain units of the Durgapur Steel Plant, which in some cases extended upto 13 months beyond the original schedule. Some of these units could not be commissioned for a long time after construction, because of inadequate stock of raw materials. Raw materials could not be stocked as H.S.L. had failed to provide tipplers at the Plant to handle the raw materials. The explanation which has been furnished by HSL for the delay in the procurement of the tipplers is not satisfactory. Considering that the Railways had informed HSL in 1958 that they intended to use Box type wagons after 1961 the failure of HSL to provide tipplers till 1964/66 shows lack of planning and foresight.</p> |
| 2 | 14 | <p>The Committee desire that the procedure for awarding contracts should be examined in detail and steps taken to avoid long delays in awarding them.</p> |
| 3 | 15 | <p>The Committee were informed that there was no penalty clause in the contracts for levying penalty on the suppliers of the Plant and Machinery for their failure to furnish the Civil Engineering drawings or the loading data according to the time schedule. This, the Committee feel is unsatisfactory. The desirability of including such a provision in the contracts should be examined to avoid delays in construction due to non-receipt of Civil Engineering drawings.</p> |
| 4 | 25 | <p>The Committee are not satisfied with the reasons adduced for the delay in reaching the rated capacity in steel ingots and in saleable steel. Considering that Hindustan Steel Limited</p> |

was aware that it does not generally take more than 18 to 24 months to attain the rated capacity after installation of plant and that the Bhilai Steel Plant had in fact achieved the rated capacity in less than two years, the time taken by the Durgapur Steel Plant in reaching the rated capacity, which was more than three years, has been too long. The two main reasons furnished to the Committee for the delay were inadequacy of slag disposal unit and the shortage of soaking pits. But viewed against the fact that the slag disposal unit had been modified in 1962 and the number of soaking pits was considered to be adequate by the Consultants and the Central Engineering & Design Bureau of the Hindustan Steel Limited, it is difficult for the Committee to accept these reasons as justification for the inordinate delay in reaching the rated capacity. The Committee suggest that the reasons for delay in reaching the rated capacity by Durgapur Steel Plant should be analysed in detail. Such an analysis should serve as a useful guide while setting up future plants.

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The Committee regret to note that there had been protracted discussion about the number of soaking pits actually required by the Plant and no final decision has yet been taken in this regard. The Committee trust that since the Report of the Expert to whom the matter was referred by the Chairman, Hindustan Steel Limited, has been received an early decision will be taken to ensure proper working of the Plant.

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Even if the price obtained for plain bearing wheel sets had been equal to that for the roller bearing wheel sets, the losses of Wheel & Axle Plant would have been reduced only to some extent. Thus, even if the higher prices were obtained, the net loss in 1964-65 would have amounted to Rs. 83.94 lakhs. This loss can be explained as due only to low production which was 57% of the rated capacity. Further, not only has the plant suffered heavy losses due to low production, but the Railways had to spend much needed foreign exchange (Rs. 428.85 lakhs) on the import of wheel sets in 1964-65 and 1965-66.

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The Committee are concerned over the low production in the Wheel and Axle Plant. They understand that certain measures have been taken to improve the working of the Plant, e.g. installation of Electric Furnace in the 3.5 million tonnes expansion for better control over the quality of steel, provision of extra rough machining capacity and rectification lathe, etc. However, considering that it is more than three years since the plant was commissioned, the time taken in realising the deficiencies and rectifying them has been too long. The performance of the plant has not been satisfactory. This was also admitted by the Secretary of the Ministry. The Committee urge that immediate steps should be taken to improve the working of the Plant and to achieve the rated capacity.

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It is noticed that no regular performance tests were carried out to see that the various units of the Plant were capable of achieving the output specified in the contract. The Consultants are stated to have certified the rated capacity of the Plant based on designs and their experience of constructing similar Plants elsewhere. This can hardly be considered satisfactory. The Committee feel that the Consultants should have given such a certificate after the plant had achieved the rated capacity over a certain period. In the absence of such tests it was difficult to say as to how far the failure of the Wheel and Axle Plant to achieve the rated capacity was due to defects in design or in equipment. The Committee would like to emphasise that in order to safeguard against any defects in the plant and machinery, these should be accepted only after tests have been carried out within the guarantee period.

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In the opinion of the Committee the guarantee provision in the contract with ISCON was a defective one in as much as it provided for taking over of the Plant unit by unit or part of it after demonstration of its performance. The guarantee about the rated capacity could be said to have been satisfied only when each individual item of plant, machinery and equipment as well as the integrated unit has given the guaranteed output for a minimum specified period. The Committee desire that this aspect should be

borne in mind while entering into such agreements in future. Necessary instructions should also be issued to all the Public Undertakings in this regard.

- 10 38 It was not proper for the Plant to step up production with a view to achieve the rated capacity without caring for the quality of the products manufactured. It needs no emphasis that the products manufactured should be of standard quality. The Committee would suggest that there should be rigid quality control at every stage of production to obviate complaints from customers.
- 11 44 The Committee are concerned to note that not only was there a loss of gas worth Rs. 85·88 lakhs, but the capital expenditure amounting in all to Rs. 35·17 lakhs incurred by the D.V.C. (Rs. 5·93 lakhs) and the Durgapur Steel Plant (Rs. 29·24 lakhs) on making arrangements for the use of gas had become infructuous. It is unfortunate that the estimates prepared by the Consultants about the extent of surplus gas proved wrong. However, since H.S.L. had made it clear to the D.V.C. that the supply of gas for power generation would be gradually reduced to nil, and the power station should be designed to utilise coke oven gas as and when available from the Steel Plant, it is not understood as to how the D.V.C. could stop taking gas from the Durgapur Steel Plant on the plea that the supply of gas had not been according to the original commitments. The Committee understand that one of the main considerations for locating the D.V.C.'s thermal station at Durgapur was that both gas and coal middlings produced by the Steel Plant could be used as fuel, thus securing full utilisation of the available resources. Further, in June, 1958 the Secretary of the then Ministry of Steel had informed the Secretary of the Ministry of Irrigation and Power that the adaptability of the furnaces at the Thermal Station to burn gases as well as coal was a part of the National Plan. In the circumstances, the furnaces of the thermal power station should have been designed to burn gas as well as coal. The Committee feel that full facts of the case have not come to light and in view of

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huge loss and infructuous capital expenditure, the matter requires detailed investigation.

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The Committee find that the question of the price payable for the supply of gas by Durgapur Steel Plant to D.V.C. was initially taken up by the Secretary of the Ministry of Irrigation and Power as early as June, 1958. However, the matter is still under correspondence between the D.V.C. and Hindustan Steel Ltd. It is regrettable that even after a lapse of more than 7 years it has not been possible for the two public sector undertakings to settle this matter even after a Parliamentary Committee had expressed concern over it.

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The Committee view with concern that there should have been a loss of Rs. 36 lakhs in 1964-65 on the sale of by-products even though some of the plants (e.g., Naphthalene Plant and the Benzol Rectification Plant) have extra built-in capacity. They desire that the causes of low utilization of these plants should be investigated and steps taken to see that these plants at least pay their way rather than remain a liability on the Steel Plant.

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The Committee view with concern the delay of more than three years in obtaining the beneficiation Plant because of difficulty in getting loan from USAID. Considering that the non-availability of beneficiated iron ore resulted in increased consumption of raw materials and higher cost of production, Government should have made available the required foreign exchange from some other source rather than indefinitely depend on USAID for such a loan. It was admitted by the Secretary of the Ministry of Iron and Steel that looking in retrospect it would have been easier to get the required loan from U.K. The matter had recently been taken up with the Ministry of Finance for sanctioning the required loan from some other source. The Committee trust that this will now be expedited so that the beneficiation Plant could be set up early.

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The high ash content in the Coal results in lower blast furnace output and consequently

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higher cost of production. The Committee desire that some suitable solution should be found in order to ensure supply of required quality of coal to the Steel Plants. They would also urge that the complaints from the Steel Plants regarding quality of Coal supplied by the Collieries should be dealt with quickly by the Coal Board and in case it is found that the Coal supplied is inferior, immediate regradation should be done to avoid extra payments by the Steel Plants. The time taken at present in this regard, which was stated to be about 6 months, can hardly be considered satisfactory.

16 61 It is well known that the use of sinter not only results in lesser consumption of iron ore and coke but also increases production with resultant reduction in the cost of production. The delay in the setting up of this plant because of high price demanded by Bolani Ores Ltd. for the iron ore fines is rather surprising. Considering that out of five members of the Board of Directors of Bolani Ores Ltd., two Directors and the Chairman are nominees of Government (the General Manager of Durgapur Steel Plant himself being one of the members of the Board of Directors.) they should have realised the urgency of the matter. Further delay in setting up the sintering plant has been caused because H.S.L. took 13 months to award the contract after opening of tenders for which there is no adequate justification. The Committee trust that the target dates for the completion of this plant now fixed as 31st December, 1966, would be adhered to.

17 68 The maximum recovery and use of scrap lowers the cost of production of steel. Because of shortage of scrap, more hot metal was being used in the production of ingot steel. The Committee find that as early as March, 1961, the Financial Adviser and Chief Accounts Officer of the Plant had drawn attention to the short recovery of scrap and had pointed out that during the year 1960-61, scrap worth about Rs. 12 lakhs had not been recovered. The scrap, if recovered in full, could have contributed to a reduction in the cost of pig iron by nearly Rs. 4/- per tonne. It is regrettable that despite the matter having been brought to the notice of the Ministry and the Hindustan Steel Limited as

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| | | early as March, 1961, no steps had been taken to effect full recovery of scrap. The Committee desire that the matter should be examined in all its aspects including the economics of taking up this work departmentally and steps taken to ensure maximum recovery of scrap. If even thereafter, the scrap is inadequate the desirability of supplementing it from outside sources, as is being done by Bhilai, might be examined. |
| 18 | 71 | It needs no emphasis that the prevalence of a multiplicity of specifications for refractories is a handicap not only to the refractory makers but also to the steel plants. The Committee desire that H.S.L. should lay down in consultation with the Indian Standards Institution, standard specifications for all types of refractories which could be used in the Steel Plants. |
| 19 | 73 | Considering that the Indian Refractory industry has been established for a long time and there is considerable idle capacity at present, the Committee desire that Government should encourage the indigenous manufacturers to diversify their production to replace the imported refractories. This would not only utilise the idle capacity, but also help in saving the much needed foreign exchange. |
| 20 | 77 | During evidence it was admitted by the Chairman, HSL that the annual raw material losses at Durgapur were quite high (Rs. 80—100 lakhs in respect of major raw materials). It was fairly certain that there was deliberate under-loading sometimes and the position was admitted to be unsatisfactory. In spite of this no responsibility has been fixed for the losses and no disciplinary action taken. The Committee urge, that immediate steps should be taken to prevent under-loading of wagons at the despatch points and to ensure safe custody of raw materials in the Plant. |
| 21 | 83 | The maintenance function is as important if not more than production of steel. It often requires higher skill than in operation. The key maintenance personnel should be in position while the plant is being erected so that they have an opportunity to become familiar with the equipment. HSL might consider whe- |

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ther it would not be advantageous to occasionally have seminars of such staff in rotation in the Plants where they could exchange their experiences.

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It was admitted by the Chairman, Hindustan Steel Limited that the number of working hours for which various Mills operated in Indian Steel Plants is much less than that in foreign countries. In order to bring down the high cost of production of steel it is essential to have maximum production from the installed capacity. Every effort should therefore be made to reduce the downtime of equipment through proper scheduled maintenance and by careful planning and co-ordination of operations in different mills.

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The Committee find that in the U.S.S.R. about 75 blast furnaces are operating on high top pressure. It is reported to have increased production of iron by 6-8 per cent and there was also reduction in coke consumption. Even in the Bhilai Steel Plant, the high top pressure has been used since 1961 and its use is stated to have resulted *inter-alia* in increased production of iron from 2777 tonnes to 3540 tonnes. In the circumstances the Committee see no reason as to why the plant should still find the need for experimenting with the utility of the high top pressure equipment and not using it to advantage as has been done elsewhere. At any rate the question of utility should have been examined before the equipment was purchased.

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The Committee understand that because of coke scarcity, the furnaces could not be blown to high wind volume for long periods and as such full benefit of high top pressure could not be achieved. That there should be coke scarcity when the production in the coke oven batteries at Durgapur is above the rated capacity, suggests that provision has not been made in the Coke Ovens for use of high top pressure equipment. HSL should take a firm decision about the utility of the high top pressure equipment. It cannot maintain that its use is advantageous at Bhilai while at Durgapur it is in an experimental stage. If it is beneficial to use it, provision should be made for its use in the expansion programme.

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Heavy inventories not only result in blocking of capital but also result in unnecessary expenditure on their care and maintenance. The Committee are concerned to note that the percentage of stock of stores and spares to the total consumption during the year instead of decreasing, increased from 163 per cent in 1963-64 to 257 per cent in 1965-66. The stocking of stores and spares which would be sufficient for 31 months based on current consumption is far excessive. It was admitted by the Secretary of the Ministry that the inventories in the Steel Plants of HSL were very high and this was seriously affecting the profitability of the Plants.

The Committee suggest that immediate steps should be taken to reduce the excessive inventories particularly the stock of stores and spares at the Durgapur Steel Plant.

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It has been admitted in Parliament that the Steel Plants are overstaffed. The Committee feel that the Committee of Management which prescribed the standard force are mainly responsible for the existence of surplus staff in the steel plants. The strength laid down by them is double of the estimates prepared earlier in 1956 with the help of experts and even those in 1958 prepared by the then Secretary of the Company. The Committee are not aware of the data on which the Committee of Management or the plant authorities, who had taken over the residual work from the C.O.M. based their estimates of the staff requirements. But considering that the actual number of persons employed is less than the sanctioned strength, the Committee cannot help observing that the standard force was not realistically determined by the Committee of Management or the plant authorities. The determination of the staff strength at a high pitch has led to the filling up of the vacancies with redundant staff.

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The Committee are also surprised to find that although it has been admitted that the Plant is overstaffed, the actual requirements of staff and the extent of surplus staff have not yet been determined on the basis of proper scientific stu-

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dies. Unless the extent of surplus staff is determined, it would be difficult to solve the problem of overstaffing. The Committee would, reiterate the recommendation in para 90 of their 11th Report on Rourkela Steel Plant and desire that immediate steps should be taken to carry out such a study.

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The Committee do not object to the policy of delegation of powers to the General Managers in the interest of efficient working of the Plant, but wish to emphasise that these powers should be exercised judiciously and with restraint, keeping in view the possible repercussions which creation of posts and the promotions might have on the staff working in the Plant itself or in other sister plants of H.S.L. The Committee are unhappy about some of the accelerated promotions referred to in para 101 of the Report.

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It needs no emphasis that in the interest of efficient and economic working of a project, it is necessary that there should be complete understanding and co-operation between labour and management. The public enterprises have a special role to play in this regard. As pointed out in the Third Plan: "The large expansion of the public sector which is occurring and is being envisaged will make a qualitative difference in the tasks set for the labour movement and will facilitate the transformation of the social structure on the lines of the socialist pattern of society".

The Committee were assured that there had been a marked improvement in industrial relations at Durgapur since high level meeting in August, 1964. But as even after that there had been certain incidents there is need for a constant endeavour both on the part of the management and the labour unions to resolve differences through mutual discussions and voluntary arbitration rather than by resorting to strikes, lock-outs or courts of law.

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The Committee feel that if the Works Committee had functioned, it would have in a large measure helped in developing harmonious relations between the employers and the workers. They, therefore, desire that immediate steps should be taken to revive the Works Committee.

| 1 | 2 | 3 |
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| 30 | 116 | <p>It is regrettable that the complete estimates for Durgapur Steel Plant were prepared and sanctioned for the one million tonne plant as well as for its expansion to 1.6 million tonnes, years after the taking up of the Project. The reason advanced that the execution of work was taken up pending sanctioning of the estimates, to expedite construction is hardly satisfactory.</p> <p>The Committee have come across other cases of delay on the part of the Ministries in sanctioning capital estimates of the Public Undertakings. They deprecate the tendency on the part of the Ministries to hold up sanctioning of the estimates until the whole process becomes a <i>post facto</i> affair. The Committee see no reason as to why with proper planning it should not be possible for Government to call for complete estimates well in advance and to sanction them before taking up the work.</p> |
| 31 | 117 | <p>The Committee would also point out that the absence of such estimates vitiates financial control of Parliament as it does not enable them to look into the economic aspect of the investment on project which they are called upon to approve. They, therefore, desire that in the interest of proper financial control and economy as well as speedy execution of projects detailed estimates should be prepared and sanctioned before any work is taken up for execution.</p> |
| 32 | 123 | <p>The high cost of steel not only affects the financial working of the Plant but also has adverse repercussions on the manufacturing cost of the products based on steel industry. The Committee therefore desire that concerted efforts should be made to reduce the production cost of steel. The Committee would invite attention in this connection to para 75 of their 28th Report on the Head Office of Hindustan Steel Limited.</p> |
| 33 | 127 | <p>The Committee have examined the question of profitability of steel Plants in general in para 62 of their 28th Report on Head Office of Hindustan Steel Limited. They would however add that considering the heavy loss suffered by the Plant (Rs. 19.51 crores upto 1964-65), the working of the Plant upto that year cannot be con-</p> |

sidered satisfactory. The Committee desire that effective steps should be taken to work the plant to its rated capacity and to effect economy in expenditure so as to improve its financial working.

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The engagement of ex-Financial Adviser and Chief Accounts Officer of Durgapur Steel Plant as contract consultant discloses the following disquieting features:

(i) No formal agreement was entered into with the ex-F.A. & C.A.O. for acting as contract consultant and H.S.L. was not legally bound to make any payment to him. In spite of this Rs. 20,000 were paid to him for acting as such.

(ii) He was drawing a salary of Rs. 2000 p.m. before retirement while payment of Rs. 20,000 was made to him, for acting as contract consultant for 3½ months (from 21st February to 31st May, 1962).

(iii) He was paid a further sum of Rs. 15000 for preparing a part of Stores Manual which was found to be unsuitable.

Since nothing tangible can be done by H.S.L. at this stage, the Committee would only express their displeasure over this matter.

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The Committee consider that the decision to set up the ice plant at Durgapur was ill-conceived. Since, as admitted by the Secretary of the Ministry, the demand for ice was not considered to be substantial, there was no justification for incurring large capital expenditure on the purchase of this plant especially when both the Durgapur Steel Plant authorities and the refrigeration engineer of the West Bengal Government opposed the proposal. As regards the view that it would have been difficult to find a private party to set up such a plant, the Committee find that no attempt was made to ascertain whether any private party was interested in it. Further the West Bengal Government had indicated that it might be possible for some private party to set up such a plant. In the circumstances, there appears to be no basis for the view held by the Ministry. Further insistence of the Ministry for

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purchase of the ice plant from one particular firm without calling for tenders requires thorough probe.

36 144 It is regrettable that even though the contractors and the FA & CAO had pointed out the need for finalizing outstanding issues as early as 1961, no proper machinery was set up to deal effectively with the issues arising out of the contract with ISCON. The result has been that even after more than three years of the completion of construction some of the major issues in dispute are yet to be settled. This has also involved avoidable payment of large fees to the Consultants. The Committee desire that the issues should be settled early.

Similar situations can also arise in other Public Undertakings which enter into contracts with various outside agencies. The Committee, therefore suggest that suitable instructions should be issued to all concerned to ensure that proper machinery is set up to deal effectively with the issues arising out of such contracts.

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The Committee disapprove of payments to Consultants for years after completion of a project because certain issues remain unsettled. They would suggest that the Ministry of Law should be consulted so that Government does not enter into such agreements which bind it to continue to pay the Consultants after the completion of works in case certain issues remain disputed.

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The Committee would like to emphasise that both in order to achieve economy in the consumption of Steel and to reduce the cost of structurals, it is essential to develop lighter sections. It was stated during evidence that in the United States and certain European countries the trend was to roll lighter sections. The Committee, therefore, suggest that early steps should be taken to produce these sections, even by installing new rolling mills, if necessary.

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During their examination the Committee have noticed several shortcomings in the planning,

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execution and working of the Durgapur Steel Plant.

The Committee are aware that the running of a Steel Plant is a complex affair calling for high degree of technical and managerial skill. The management had to face many difficulties in organising the human, material and financial resources required for the execution and running of this major project. The economic working of the Plant was rendered more difficult because of difficulties in obtaining raw materials of required quality, the continuous rise in their prices and heavy capital charges because of high capital block. The Committee have suggested certain measures to improve its performance. They trust that the management will direct all its energies to increase production and improve the financial working of the Plant.
