COMMITTEE ON GOVERNMENT ASSURANCES

(1998-99)

FIRST REPORT ON HINDUSTAN CABLES LIMITED

Presented to Lok Sabha on 8 Dec., 1998

LOK SABHA SECRETARIAT

NEW DELHI

Price: Rs. 15.00

CORRIGENDA

TO

THE FIRST REPORT OF THE COMMITTEE ON

GOVERNMENT ASSURANCES

(Twelfth Lok Sabha)

Page	*Line*	*Para*	*For*	*Read*
4	Sl.No.5	2.5	rosion	Erosion
4	5	2.6	of	on
11	2	3.1	order	orders
12	1	3.5	Dot	DOT*
12	2	3.5	eleborated	elaborated
13	10	3.5	missing	that
13	5	3.7	has	had
16	7	4.2	economy	economic

*for Dot read DOT

CORRIGENDA No. 2

TO

THE FIRST REPORT OF THE COMMITTEE ON GOVERNMENT ASSURANCES

(Twelfth Lok Sabha)

Page	*Correction*	
Cover Page	Line 6	delete 'ON'
Cover Page	Line 4	after '(1998-99)' add next line: 'Twelfth Lok Sabha'
18	Para 4.6; line 8 for 'eficient' read 'efficient'	
18	for 'Para 4.6A' read 'Para 4.7'	
18	for 'Para 4.7' read 'Para 4.8'	

CONTENTS

COMPOSITION OF MEMBERS OF COMMITTEE ON GOVERNMENT ASSURANCES*
(1998-99)

Chairman

Shri E. Ahamed

Members

2. Shri Amrik Singh Aliwal
3. Shri Mohd. Ali Ashraf Fatmi
4. Shri Vijay Goel
5. Shri Tarun Gogoi
6. Shri Ganga Ram Koli
7. Shri Sanat Kumar Mandal
8. Shri Rupchand Pal
9. Shri Hari Kewal Prasad
10. Shri A. Venkatarami Reddy
11. Shri Dileep Sanghani
12. Shri A. Siddaraju
13. Shri Sartaj Singh

**14. Dr. Suguna Kumari Chelia Melia

***15. Shri Uttamrao Deorao Patil

Secretariat

1.	Dr. A.K. Pandey	— *Additional Secretary*
2.	Shri P.D.T. Achary	— *Joint Secretary*
3.	Shri K. Chakraborty	— *Deputy Secretary*
4.	Km. J.C. Namchyo	— *Assistant Director*

---

* The Committee was nominated by the Speaker w.e.f. August 6, 1998 *vide* para No. 553 of Lok Sabha Bulletin—Part II, dated August 6, 1998.

** Nominated to the Committee on August 20, 1998 as published *vide* para No. 585 of Lok Sabha Bulletin—Part II, dated August 20, 1998 vice Shri Arjun Charan Sethi resigned.

*** Nominated to the Committee on December 3, 1998 as published *vide* para No. 768 of Lok Sabha Bulletin—Part II, dated December 3, 1998 vice Shri Prithviraj D. Chavan resigned.

PREFACE

On March 14, 1997, a question was asked about the financial performance of Hindustan Cables Limited (HCL). It was further asked whether any proposal for revival/restructuring of that company was pending with the Government. The statement furnished by the Government indicated the dismal financial performance of HCL during the years 1993-94, 1995-96 and 1996-97 and that the Government had yet to take a final view in regard to revival/restructuring of that company.

Eighteen months have passed since the assurance had been given and therefore the Committee decided to ascertain the facts about the implementation of this assurance. Accordingly, the Committee, decided to visit H.C.L. in Hyderabad in October, 1998.

During their tour, the Committee met the Chairman and Managing Director of H.C.L. and other senior officials along with the representative of the Ministry of Industry and had very fruitful discussions. The representatives of the Department of Telecommunication (DoT) were examined in P.H.A. on November 2, 1998, where the Chairman H.C.L, and Joint Secretary, Ministry of Industry were also invited. The Committee noted that all the units of H.C.L were profit earning bodies upto 1994-95. However, after 1995, there was gradual decline in their performance resulting in heavy losses.

The Committee find that discontinuance of special procurement arrangement with H.C.L. by DoT was the main factor which led to the dismal performance of H.C.L.

The study of the facts of this case and the conclusions based thereon are recorded in the succeeding chapters.

INTRODUCTION

I, the Chairman of the Committee on Government Assurances having been authorised by the Committee to submit the Report on their behalf, present this Report of the Committee on Government Assurances.

The Committee was constituted on August 6, 1998.

At their sitting held on December 3, 1998, the Committee considered and adopted the First Report.

The conclusions/observations of the Committee are contained in this Report.

The Committee wishes to express their thanks to the officials of the Department of Heavy Industry, Department of Telecommunications and Hindustan Cables Limited for their co-operation. The Committee also record its appreciation to the Secretariat staff/officers for the services rendered by them to the Committee in finalisation of this Report.

NEW DELHI;
December 7, 1998
Agrahayana 16, 1920 *(Saka)*

E. AHAMED
Chairman,
Committee on Government Assurances.

CHAPTER I

QUESTION AND ASSURANCE

1.1 On March 14, 1997, S/Shri Haradhan Roy and Basudeb Acharia MPs addressed the following Starred Question No. 292 for answer by the Minister of Industry:—

"(a) the financial performance of Hindustan Cables Limited during each of the last three years, unit-wise;

(b) whether any proposal for revival/restructuring of Hindustan Cables Limited is pending with the Government; and

(c) if so, the details thereof alongwith the present status."

1.2 The then Minister of Industry (Shri Murasoli Maran) gave the following reply:—

"(a) Unit-wise performance of Hindustan Cables Ltd. (HCL) during the last three years is given below:—

(Rs. in crores)

	1993-94	1994-95	1995-96	1996-97 (Prov. upto Jan, 1997)
Rupnarainpur Unit				
Sales	197.50	244.72	96.36	52.27
Profit/(Loss)	(2.63)	1.54	(49.33)	(66.89)
Hyderabad Unit				
Sales	203.37	245.14	138.61	194.04
Profit/(Loss)	(2.98)	7.94	(18.72)	(17.58)
Naini Unit				
Sales	82.56	56.03	40.88	10.98
Profit/(Loss)	(8.39)	1.45	(19.42)	(23.45)

(b) & (c) The Company has submitted a proposal for financial restructuring involving conversion of outstanding Government Loan into equity, waiver of outstanding interest, and moratorium on repayment of future Government Loan and interest thereon. A final view of the Government on this proposal is yet to be taken."

1.3 The reply to parts (b) and (c) of the question was treated as an assurance and was required to be implemented within three months *i.e.* by June 13, 1997.

1.4 As the assurance remained unfulfilled, the Committee on Government Assurances (1998-99) examined Hiundustan Cables Limited (HCL) during their tour to Hyderabad on October 12, 1998 when the representative of the Ministry of Industry (Department of Heavy Industry) and HCL were present. The Committee were informed that HCL was facing hardships ever since economy was liberalised in 1991 and private telecommunication industries entered the market. Prior to that, HCL was the only company which was meeting the total requirement of telecom cables of Department of Telecommunications (DoT). In fact, HCL was conceived as a captive manufacturer of DoT and was functioning as a deemed unit of DoT since inception.

1.5 In view of the above facts, the Committee were convinced that DoT, could play a crucial role in restructuring/revival of HCL. The Committee, therefore, decided to hear the views of the representatives of DoT in this regard. The representatives of DoT were called to give evidence before the Committee on November 2, 1998 when the representatives of Department of Heavy Industry and HCL were also present.

CHAPTER II

FACTS RECEIVED FROM HINDUSTAN CABLES LIMITED (HCL)

2.1 Hindustan Cables Limited (HCL), a Government of India Undertaking, is the pioneer in the field of Telecom Cables in India. The Company was set up at Rupnarainpur, West Bengal in 1952 to make the country self-reliant in the manufacture and supply of various types of telecom cables. Over the years the Company with an investment of above Rs. 537 crores, has grown from a single unit, single product organisation to multi-product entity with units located at Hyderabad in Andhra Pradesh and Naini in Uttar Pradesh besides Rupnarainpur in West Bengal.

2.2 The Company has a manpower of 5134 as on September 1, 1998. (Annexure I). The Company's main products are jelly filled and fibre optic cables. It has a capacity of 107 LCKM of jelly filled cables (Annexure II) Manufacturing capacity for fibre optic cables is 40,000 FKM per annum (Annexure III).

2.3 The company enjoyed the status as a monopoly supplier and has all along been functioning as a deemed unit of Department of Telecommunications (DoT) till 1988, after which DoT adopted the policy of procuring telecom cables through open tenders. HCL now has to compete with 27 and 16 telecom cable manufacturers in the country in respect of jelly filled and fibre optic cables respectively (*Annexure* II & III).

2.4 **SWOT Analysis**

Following are strength, weakness, opportunity and threats perception of HCL.

Strength

1. Ability to continuously absorb technology
2. Vast infrastructure
3. Largest production capacity of jelly filled cables in the country
4. Highly skilled manpower
5. Well established products
6. Strong R&D

Weakness

1. Shortage of working capital
2. Adverse debt equity rates with cash credit 3.13:1 (1.68:1 without cash credit)
3. Surplus manpower
4. High Employee cost (14% as compared to 2% in the private sector)
5. High Social Overheads (hospitals, schools, transport, townships etc.)

6. Limited customer base—DoT/MTNL

Opportunity

1. Growing demand of telecom cables.
2. Growing market for telecom turnkey services.

Threats

1. Fierce competition from private sector having much less overheads.
2. Fast technological changes needing more investments for upgrading the technology.

2.5 Major Areas of Concern

According to HCL, major areas of concern for them are as follows:—

1. Stoppage of production due to non-availability of working capital.
2. Non-availability of adequate and continued orders leading to under-utilisation of capacity.
3. Higher-incidence of finance charges.
4. Non-availability of normal banking facility.
5. rosion of net worth.
6. Threat from lenders for payment of overdues principal and interest.
7. Inability of all units to pay salary and wages except with non-plan assistance.
8. Accumulation of employees related statutory dues of Rs. 45 crores.
9. Inability to implement planned VRS due to inadequate NRF assistance.

2.6 Cabinet decisions of December 1996 to arrest sickness of HCL and present status of implementation of the decisions of the cabinet on the interim measures

Government of India approved certain measures in December 1996 to arrest sickness in HCL. Status report of their implementation is as under:—

1. Government Guarantee for Commercial Loan

Cabinet had approved for Government Guarantee for commercial loan from financial institutions/public sector units upto Rs. 60 crores for a period of one year.

Status Report

Initially it had not been possible for HCL to raise the loan in view of the then stringent credit policy. However, on subsequent liberalisation of credit policy, HCL was able to raise the commerical loan of Rs. 60 crores. HCL has requested the Department of Heavy Industry for issue of comfort letter to enable the company to raise the loan.

2. Bilateral arrangement to assist the operation of HCL

It was proposed that DoT and HCL would bilaterally work out the ways and means to sustain the operation of HCL for the time being.

Status Report

In pursuance of the direction of the Cabinet, Secretary level discussions were held between the Department of Heavy Industry and Department of Telecommunications. As a result, an order of 9 LCKM alongwith 50% advance was placed during January 1997. Further order of 14 LCKM, 13.40 LCKM and 2.87 LCKM alongwith 50% advance were released during May 1997, November 1997 and January 1998 respectively. A request at the level of Hon'ble Minister of State (Heavy Industry) has been made for placement of orders of jelly filled cables by DoT alongwith 75% advance for a period of one year. Memorandum of Understanding (MoU) between DoT and HCL is in the process of finalisation.

3. **Release of old dues by DoT**

It was proposed that DoT should examine the claims filed by HCL and pay the undisputed claim immediately.

Status Report

A sum of Rs. 34.42 crores from DoT has since been realised.

4. **Appointment of consultant to undertake study for formation of Joint venture**

It was suggested that the units of HCL individually or the company as a whole to be converted into joint venture with suitable joint venture partner on the basis of even ceding major share holdings to the joint venture partner and to appoint consultant/merchant bankers to undertake the studies.

Status Report

I-Sec has been appointed to undertake study for converting the company as a whole or one or more units of the company into joint venture in June 1997. The consultant has identified fibre optic unit for formation of joint venture at the first instance. The information memorandum has since been submitted to the Department of Heavy Industry for acceptance. The Ministry of Industry has asked I-Sec to explore the feasibility of converting all the units of HCL into joint venture.

2.7 **Strategies for restructuring**

Following strategies have been explored by HCL for restructuring the company:—

1. Reservation of orders to the extent of 30% of annual requirement of telecom cables of DoT/MTNL for 4 years as also 50% advance payment alongwith order to optimally utilise the present installed capacity of HCL in line with other telecom public sector undertakings namely Indian Telephone Industries Limited (ITI) and Hindustan Teleprinters Limited (HTL).

2. Providing Government guarantee to HCL for raising Rs. 35 crores by way of bond/commercial loan from financial institutions/banks for 6 years with exemption of guarantee fee.

3. Providing budgetary support of Rs. 75 crores for part reimbursement of accumulated cash loss in the form of equity.

4. Providing assistance in the form of grant of Rs. 40 crores in 1998-99 and Rs. 28 crores in 1999-2000 for implementation of Voluntary Retirement Scheme (VRS).

5. Capital restructuring involving conversion of outstanding Government plan/non-plan loan as on 1.5.1998 amounting to Rs. 148.00 crores ino equity, waiver of outstanding interest on Government loan amounting to Rs. 95 crores (Prov.) as on 1.5.1998 and waiver of interest of Rs. 13.66 crores accrued on DANIDA grant.

6. Extension of existing Government guarantee worth Rs. 86.59 crores without guarantee fee in favour of consortium of banks covering the overdrawal under cash credit account for a period upto 31.3.2002 on yearly basis.

Facts received from Department of Heavy Industry (DHI)

2.8 **Budgetary Support given by Ministry of Industry**

(Rs. in crores)

Budgetary Support	Plan			Non-Plan	VRS	No. of employees separated under VRS
	EQUITY	LOAN	TOTAL			
1992-93	36.50	30.00	66.50	—	—	39
1993-94	—	—	—	—	—	52
1994-95	17.07	32.63	49.70	—	—	65
1995-96	46.39*	22.46	68.85*	—	5.50	237
1996-97	15.10	7.31	22.41	—	14.00	496
1997-98	4.20	4.20	8.40	—	20.75	542
1998-99 (RE)	0.375	0.375	0.75	16.29	5.00	—
1998-99 (Actual upto 7/98)	—	—	—	30.39	5.00	—

*It includes conversion of Danida Grant into equity of Rs. 23.94 crores.

2.9 **National Renewal Fund (NRF) Assistance**

From 1995-96 onwards, HCL is being provided NRF assistance regularly for separation of excessive man power. During 1997-98 against the budget provision of Rs. 12 crore, HCL was provided total NRF assistance of Rs. 20.75 crore. As a result, 542 personnel were separated. During 1998-99 (upto June 1998), against the budget provision of Rs. 8.78 crore, HCL was provided Rs. 5 crore for VRS under NRF.

2.10 Performance of HCL during the last six years

Year	Production	Sales	Cash Profit (+)/Loss(−)	Net Profit (+)/Loss(−)
1992-93	498.75	523.63	28.23	12.11
1993-94	488.20	486.37	17.50	1.29
1994-95	561.26	565.46	29.47	12.08
1995-96	331.81	332.13	− 71.67	−84.33
1996-97	335.66	357.62	−121.71	−143.98
1997-98 (Prov.)	258.34	271.86	−106.87	−174.80
1998-99 (BE)	534.79	539.79	−100.53	−132.53
1998-99(Actual upto 9/98)	65.86	76.25	− 70.06	−80.54

Accumulated loss as on 31.1.98 —Rs. 383.87 crores

Net worth (paid up capital + Free reserve) as on 31.3.98 —Rs. (−)160.73 crores

Debt-equity ratio with cash credit—3:12:1
Debt-equity ratio without cash credit as on 31.3.98—1:68:1
as on 1.5.98—1:71:1

Government Loan + Interest

	as on 31.3.98 (Rs. in crores)	as on 1.5.98 (Rs. in crores)
Government Loan	131.71	148.00
Interest	93.20	95.00
Total	224.91	243.00

2.11 Order Book position for last six years

Year	(Rs. in crores)
1992-93	411.00
1993-94	339.00
1994-95	561.50
1995-96	600.00
1996-97	465.50
1997-98	421.00
1998-99(BE)	540.00
Actual upto 9/98	179.92

2.12 Reasons for poor performance according to Department of Heavy Industry

The main reasons for poor performance of HCL during last few years according to analysis made by Department of Heavy Industry are inadequate capacity utilisation, acute shortage of working capital, heavy borrowing to finance its assets resulting in adverse debt equity ratio, high interest burden and high employment cost.

2.13 Action Taken by Department of Heavy Industry

The Department of Heavy Industry had prepared a Note for the cabinet on restructuring of HCL. The Note contained proposals for policy decision regarding reservation of orders alongwith 50% advance by DoT. Non-budgetary support of Rs. 75 crore, extension of Government guarantee worth Rs. 86.59 crore in favour of consortium banks covering the overdrawal of cash credit amount, capital restructuring involving conversion of outstanding Government loans and waiver of outstanding interest on Government loan etc. This note was sent to the Cabinet Secretariat on 11.2.1998. However, the same was received back with the advice to submit the same after formation of the new government.

The Cabinet Note was updated with respect to various financial figures. One of the main proposals was reservation of order of 30% of annual requirement of telecom cables of DoT/MTNL alongwith 50% advance for HCL. In the updated draft Cabinet Note another proposal was added to transfer HCL to DoT to facilitate easy operation of purchase preference. The Note has been circulated on 5.8.1998 to obtain the comments of various Departments/Ministries. The comments of only DoT are awaited. As soon as the same are received, the Note will be placed before the Cabinet for a decision.

Facts received from Department of Telecommunication (DoT)

2.14 The views of DoT in regard to performance of HCL is based on the interaction with that company as a purchaser of PIJF cables. According to DoT, the performance of the company has deteriorated very sharply in the last few years particularly after opening up the telecommunication manufacturing sector to the private sector. The private sector has set up a capacity of more then 900 LCKM. There are more than 2 dozen manufacturers, who are competing intensely to bag orders from DoT. The requirement of PIJF cables of DoT is only for about 350 LCKM at present. Due to intense competition, DoT is able to get most competitive prices and reasonable rates as well as timely deliveries. HCL has not been able to compete with the private sector in the open tendering process during the last 2-3 years.

2.15 As a special measure and considering the fact that HCL was the only company supplying PIJF cables to DoT in 70s and 80s, ad-hoc orders outside the tender have also been placed on HCL as indicated in the details below:—

Year	Total order	Supply
	(LCKM)	(LCKM)
1993-94	44.11	41.81
1994-95	64.67	61.94
1995-96	39.18	25.08
1996-97	19.98*(9.4)	35.40 (includes earlier backlog)
1997-98	32.958*(30.26)	18.88

*Indicate ad-hoc orders and for these ad-hoc orders, advance money of 50% of the order was given.

2.16. It may be seen from the above supply statement that there has been short-fall in supplies during the years 1993-94, 1994-95, 1995-96 and 1997-98. Although in 1996-97 the supplies have surpassed the ordered quantity by way of supplies against some backlog quantity as well but timely supplies are essential to achieve targets and PIJF Cable is a critical item for the achievement of targets. Therefore the performance overall cannot be said to be satisfactory.

2.17 The latest position of outstanding orders is indicated below:—

(i)	Carried over orders from 1996-97	0.060 LCKM
(ii)	Orders placed during 1997-98	32.958 LCKM
(iii)	Total orders	33.018 LCKM
(iv)	Qty. supplied over to 31.3.98	18.884 LCKM
(v)	Balance carried over to 1998-99	14.134 LCKM
(vi)	Orders cancelled out of (v) above	1.154 LCKM
(vii)	Pending orders as on 1.4.98	12.980 LCKM
(viii)	Qty. supplied from 1.4.98 to 31.8.98	0.527 LCKM
(ix)	Balance orders as on 1.9.98	12.453 LCKM

2.18 The current outstanding dues payable by the Company to DoT as advance money against pending orders are approx. Rs. 38 Crores as stated by HCL. The exact amount has to be worked out after getting information from the concerned Telecom Circles who have paid advance money to HCL. The Company has to pay the interest on the outstanding amount. The total outstanding dues of the DoT are expected to be more than Rs. 38 crores.'

2.19 HCL are yet to execute the balance orders as indicated above. In addition to above, the current outstanding dues payable by the company to DoT as advance money against the pending orders are approx.

Rs. 38 crores (plus interest accruable on it). Non-realisation of advance from the company by DoT is likely to attract serious Audit objections.

2.20 During the year 1998-99, ad-hoc orders for 10 LCKM have also been approved for HCL outside the tendered quantity. DoT's approval has been conveyed to the company as well as the Department of Heavy Industry, Ministry of Industry asking for the willingness of the company to execute these orders along with the pending orders in hand. It has also been conveyed that the company will be given 50% of the advance money subject to the condition that they will clear all the outstanding dues along with the supplies of the cables. The company has, however, indicated that they will execute only the fresh orders on payment of 75% advance money and further they will not be in a position to clear the outstanding dues as well as the pending orders.

2.21 HCL had participated in DoT tender for the year 1998-99 opened on 31.7.98. Accordingly, as per their Vendor Rating, Advance Purchase Orders have also been placed on the company during the year 1998-99 for the supply of 2.523 LCKM of cables. On request from the company as well as Department of Heavy Industry (DHI) for exemption of Performance Bank Guarantee against these orders, the detailed firm purchase orders shall be placed on the company by the field units on receipt of Letter of Comfort from the Department of Heavy Industry. It may be relevant to mention that HCL have not participated in the tender floated by MTNL Corporate Office, New Delhi. In case they had participated that could have helped them to obtain orders in their tender also. This appears to be a failure on their part.

2.22 The Ministry of Industry has proposed the transfer of administrative control of HCL from Ministry of Industry to Department of Telecom. DoT is not in favour of such a transfer. The health of the company (HCL) has deteriorated very sharply in the last few years. The company is suffering from certain basic problems like excessive workforce, management problems, liquidity crunch, etc. and certain radical measures like financial restructuring, reduction of staff strength to optimal level, maintenance of fiscal discipline as well as diversification into other areas of production are required. The mere transfer of this unit to the Department of Telecom is not going to solve these basic problems. The remedy does not lie in the transfer of the undertaking from one Ministry to another.

CHAPTER III

PRESENT POSITION OF CASE

3.1 The Committee pointed out that one of the reasons for DoT for not placing orders with HCL was that the latter was not executing order in full. To this, the representative of HCL (Shri N.K. Agrawal, CMD) stated that earlier HCL used to get advance in the begining of the year and it used to be adjusted over the year when supplies were made. With each supply made, the bills were raised and against the Bill, advance was deducted and balance money of 50 per cent was paid to the company. This arrangement was there till 1992 when for the purpose of liberalisation this facility was withdrawn. Although HCL is working under the Ministry of Industry since 1952 it was always treated like a dedicated unit of P & T Department, almost at par with its own undertakings namely the Indian Telephone Industries Limited (ITI) and Hindustan Teleprinters Limited. The total capacity utilisation was made use by DoT right from the inception of HCL. Budget of HCL used to be indicated in the budget of P&T Department in the Annual Budget. Expansion of company at different stages in terms of new technologies and capacity utilisation took place at different times with the explicit approval of P&T Department. Without giving HCL enough time to change their work culture based on advances, it was asked to participate in tenders and make its won efforts. As a result, HCL faced difficulties and incurred heavy losses. Alongwith HCL, ITI and HTL which were also deprived of the facilities by DoT also suffered losses. Some of the facilities, however, were restored to ITI and HTI like reservation of order in the range of 30 to 35 per cent of DoT's annual requirement alongwith advance of 50% restored to 75 per cent. HCL was however not given support in this regard as it is under the Ministry of Industry. Due to this unequal treatment. HCL is having very low capacity utilisation and as a result surplus manpower. In regard to performance, CMD, HCL stated that in 1994-95, they managed intercorporate loan from MTNL and could produce 63.5 LCKM, which was the highest production. However, availability of working capital became very low as also further intercorporate loan was not available. As a result, only 25 LCKM could be produced in 1995-96. The Ministry of Industry thereafter approached the cabinet for getting temporary relief for the company. In December 1996, the cabinet gave certain decisions and in the first week of January 1997, some orders were given an ad-hoc basis by DoT with advance. As in March 1997, HCL had wiped out all orders including the backlog and there was no pending orders and no pending advance. Thereafter DoT took long time in placing order and in releasing the advance. First order of 14 LCKM was placed in the last week of May

1997 and advance was released in the third week of June 1997. Consequently, HCL was almost without any production for almost two and a half months. Next order for 13.396 LCKM was received in the second week of December 1997. The working capital available with the company had eroded in March 1997. Advance received for production was diverted for paying salary and wages. Thus in 1997-98, HCL could not complete small order of 12 LCKM for which they were paid Rs. 38 crore as advance. CMD, HCL further stated that had they been given timely order and advance in 1997-98, the situation would not have arisen.

3.2 The representative of Ministry of Industry (Shri Ajoy Acharya, Joint Secretary, DHI) reiterated that HCL was created by investing a sum of Rs. 600 crore and HCL required timely release of orders with advances. The Committee were informed that a Working Group was set up and it was suggested that an order of 68 LCKM with certain advances may be given to HCL which would enable HCL to wipe out the backlog. The Committee were informed that Dot was hesitating to place the order as Rs. 38 crore advance paid to HCL is pending. To enable Dot to overcome this difficulty, the Department of Heavy Industry suggested that Dot should place an order of 68 LCKM with certain advances which would enable HCL to wipe out the backlog over a period of 1 year. The other suggestion was to make centralised payment to some of the major suppliers of raw materials to HCL. The Department also suggested that Dot might post certain people in HCL to oversee the operation. As an alternate, the Department of Heavy Industry suggested Dot to take over HCL, if for some reasons, they find it difficult to give timely orders and advances.

3.3 When the Committee desired to know the views with regard to HCL, a representative of Dot (Shri R.R.N. Prasad, Member (Production) stated that they have done their best to help HCL. However, performance of HCL during the last five years had not at all been right especially in 1997-98. The Committee were informed that out of an order of 32.9 LCKM placed, LCKM was an ad-hoc order. But HCL was able to supply only 18.88 LCKM. According to the representative, Rs. 90 crore worth of order of 12.45 LCKM is pending against which Rs. 38 crore as advance was given. In view of this pending order and advance, Dot is not in favour of placing additional order.

3.4 The Committee were further informed that the Working Group constituted had recommended an additional order for 10 LCKM despite the outstanding order based on reservation and Dot is prepared to give 50 per cent advance, whereas HCL had asked for 75% advance.

3.5 Another representative of Dot (Shri S.P. Punwar, Member (Finance) eleborated in regard to point of advnace and adjustment and the take over. The Committee were informed that Dot continued giving advances for three more years after liberalisation in 1992. However, HCL could manage to supply only 0.5 LCKM of cables worth Rs. 3 to 3.50

crores. Unless HCL clears the outstanding dues, Dot is not prepared to give advance. The Committee were informed that this arrangements are being followed in their own units. According to him, HCL was prepared to execute only fresh orders on payment of 75 per cent advance and with which Dot does not agree. It was further stated by him the Working Group consisting of representatives of Dot, HCL and DHI also recommended against further advance without the fulfilment of the obligations.

3.6 In regard to takeover, the representative stated that Dot is a department meant for providing telephone service to the people and not an industry. They do not have any infrastructure in Dot to takeover a sick unit like HCL and revive the same by investing resources. He further stated that HCL has no net worth since it has been over eroded by accumulating losses to the tune of Rs. 100 crore during the last four years.

3.7 The Joint Secretary (Shri Ajoy Acharya) in the Ministry of Industry, however, refuted the points made by the representatives of Dot. In regard to recommendation of the Working Group, he stated that no such recommendation regarding advance was made by the Working Group. In fact, Dot has never shown the final recommendation to the Ministry of Industry. In regard to execution of order, he stated that it was not factually correct that HCL had no desire to execute any old order and that they want to execute only new orders. He further reiterated that the old order for 12.4 LCKM would be liquidated completely in a year's time. In regard to point about the net-worth of HCL, he stated that it is not a commercial transaction but it is purely an administrative decision, which has to be taken and calls for slight amendment in the Transaction of Business Rules as to how HCL would be dealt with and by whom.

3.8 When the Committee desired to know why Dot has restored paying of 30 per cent advance to ITI and HTL and the same facility was not restored to HCL when all three companies incurred losses after liberalisation of telecom industries, the representative of Dot (Member Production) stated that they supported ITI because Dot wanted it to have some working capital without liability of interest. Moreover, ITI and HTL are under the administrative control of Dot whereas HCL is not. The Committee were further informed that ITI and HTL cannot claim 30 per cent as a matter of right and if they default in supplying, this facility would not be given. The Committee were also informed that HTL and ITI together account for 35 per cent ot reservation and Dot are actively considering 15 per cent reservation even for HCL.

3.9 When the Committee pointed out that HCL is asking for reservation of 30 per cent only for a period of four years and by that time, they are confident to be in a position to revive the entire structure, the representative of Dot stated that 30 per cent reservation cannot be acceded to as 30 per cent reservation equalled to production of almost about 100 LCKM. He also was apprehensive about the capability of HCL to produce 100 LCKM when according to him they are not able to produce 30 LCKM. The representative of Dot further informed the Committee that due to non-execution of order by HCL, developmental programmes have been adversely affected.

3.10 When the Committee desired to know the requirment of jelly filled cables presently, the reply given by the representative was 350 LCKM for Dot/MTNL and it might grow to 450 LCKM. The Committee were also informed that HCL has a capacity of producing 107 LCKM and that permission to expand the capacity was given by Dot in 1992 when the telecom industry was also liberalised. The Committee were also informed that they have lost more than six months and they do not want to compromise at any cost with their target. The representative wanted to have an assurance from HCL that they would deliver.

3.11 The CMD, HCL explained that production of cables is capital intensive. 80% of the cost of price goes into purchase of copper, other raw materials and excise duty. If reservation and advance are given in one shot, CMD, HCL was sure to complete the orders. But HCL was receiving orders in small bits and fifty per cent of advance also did not come in one shot. Thus running expenditure was eroding the working capital.

3.12 When the Committee asked whether the HCL had any plan to reduce the overhead expenses, CMD, HCL stated that they would decrease two-third of total work force within a period of two years. The Committee were also informed that there is a plan for diversification and it has been shown in the revival package and in the attached cash flow statement circulated to Dot but comments from them were awaited.

3.13 When the Committee asked what was the final decision that Dot has taken, Member (Production) Dot stated that they have decided to give 10 LCKM more orders based on 50 per cent advance. It was also informed that Dot is considering to give 15 per cent reservation.

3.14 The Committee pointed out that earlier there was no control on prices as it used to be on the cost plus basis. It was the monopoly of HCL and now that company was competing with private people they are finding it difficult to adjust. To this, Joint Secretary (DHI) clarified that prices were artificially high and only about two years back there was a crash in the prices of PIJF, where in some case it went down by 40 per cent and in certain other cases there was a reduction of 15 per cent. The Committee were further informed that for the first time this year, HCL has quoted an exceedingly competitive price. Out of 35 sizes, in 19 sizes, they were L1 in the matter of costs. Although L1 is a big number yet they will get a very negligible orders because Dot always look at the past delivery schedule and they will bring it down. If orders are given at HCL prices, then it will bring huge savings to Dot running into several crores of rupees.

3.15 When the Committee desired to know whether HCL could be revived if working capital is not provided by banks, the representative of Dot stated that raw material and ED was 80 per cent of the total cost, it was not possible that HCL can make it viable.

CHAPTER IV

RECOMMENDATIONS

4.1 The Committee have carefully gone through the facts placed before it and studied the views expressed before it by the representatives of HCL, DHI and Dot. It is a distressing fact that the Government has not shown enough seriousness in finding a solution to the problem the Hindustan Cables Limited is facing. This unit with a work force of over 5000 and an investment of above Rs. 537 crores, and with a large infrastructure was allowed to move towards sickness merely because the Government did not have a rational policy with regard to public sector undertakings in the post liberalisation phase. The Hindustan Cables Limited was set up as a dedicated unit to manufacture cables for the Department of Telecommunications and it continued to be the sole supplier of cables to the department until the policy of liberalisation opened this sector to the private sector in early nineties.

4.2 It is a fact that this unit has been making profit as long as it received orders from the Dot and started facing financial problem ever since the quantum of orders was reduced due to competition from the private manufacturers who set up manufacturing capacity apparently being encouraged by the Dot after liberalisation policy. The Committee have nothing against private participation in a manufacturing sector and feel that private participation in any economy activity generates necessary competition which helps the society get better goods and services. However, in the case of Hindustan Cables Limited which has a much higher establishment cost and capacity base compared to the private units which entered the field of cables, this policy has led to the company losing out to the private manufacturers essentially because of the price factor. The Committee note that the Hindustan Cables Limited is facing the present crisis not because of mismanagement or feather-bedding, but because of the policy of Dot encouraging private participation in the cable sector under new dispensation after liberalisation without seriously considering its effect on this company and also perhaps the total requirement of cables. Such an approach in the absence of an integrated policy with regard to the public and private sector in the wake of liberalisation has led to this unhappy situation when a profit making public sector unit all of a sudden finds itself having to compete with private sector units which have much less establishment cost and practically no social burden.

4.3 The Committee wish to comment here on one aspect of the functioning of the Government. The Committee was amazed to see different departments of the Government taking positions as if they are independent Governments. The comments made by the representatives of Dot, namely, they are not prepared to take over a company whose net worth has eroded is surprising especially when the whole question of revival of this unit is yet to be finally decided by the Cabinet. These comments of Dot and the contrary assertion made by the representative of the Department of Heavy Industry only show that the Government has no unified and clear approach on crucial issues of revival of units which are facing financial crisis due to policy shifts. Considering all facts the Committee are of the firm view that Dot has a responsibility to bail out the Hindustan Cables Limited.

4.4 The Committee view non-availability of working capital has hit HCI the hardest. The Committee note that in 1995-96 HCL produced 25.08 LCKM of jelly filled cables whereas in the previous year it had produced 61.94 LCKM. This sudden decrease in production according to CMD, HCL was due to non-availability of working capital. In 1996-97, HCL produced 35.40 LCKM when due to intervention of Cabinet decision, the company received orders and advance in time and they could manage to wipe out all pending orders and no advance was outstanding against them. However, in 1997-98, HCL produced only 18.88 LCKM out of order for 32.958 LCKM. This led to backlog of 12.453 LCKM and outstanding advance to the tune of Rs. 38 crores. The CMD, HCL attributed this performance to late receipt of order and release of advance. As regards advance of Rs. 38 crores it is stated that a substantial portion of this amount was spent on salary and wages.

4.5 The Committee have been informed that for restructuring/revival of HCL, some proposals were made to Dot, such as reservation of orders of 30 per cent of annual requirement with 50 per cent advance for a period of four years. The Committee note that Dot has some hesitation in acceding to the request of HCL as according to them, HCL has not been able to execute orders in time and that a reservation of 30 per cent of the requirement of cables would adversely affect their developmental programmes. The Committee feel that had Dot shown proper consideration in placing sufficient orders alongwith the required advance, this situation would not have arisen. Further, the Managing Director of HCL made a commitment before the Committee that if Dot provides 30 per cent order and the required advance for four years the company would be put on an even keel. The Committee therefore stongly recommend that Dot should agree to this request as 30 per cent of Dot's present requirement of 350 LCKM comes to near about the total production capacity of HCL *i.e.* 107 LCKM. With this reservation coupled with 50 per cent advance in time, the Committee are optimistic that HCL will be able to turn the corner.

4.6 As regards the proposal by Department of Heavy Industry (DHI) for transfer of HCL to Dot, it has been mooted as an alternative option. The Committee are persuaded that it is a reasonable proposal. HCL was created for the manufacture and supply of various types of telecom cables and was functioning as a deemed unit of Dot till 1988. It is also reported that till 1991, HCL used to get budgetary support from DoT and all expansion plans were undertaken with their approval. HCL already has an eficient infrastructure supported by skilled manpower and R&D and it is capable of absorbing new technology. The Committee, therefore, recommend that Dot should seriously consider this alternative proposal also as a means to nurse it back to health.

4.6A Having made these recommendations the Committee feel constrained to observe that the management of the Hindustan Cables Limited should pull up its socks so that its commitment to the buyer is fulfilled in time. They would do well to realise that they are operating in a commercial milieu where commercial considerations are paramount. The Committee want the management to seriously pursue the voluntary retirement scheme so that the excessive manpower is reduced and the company becomes viable. The Committee feel it is high time for HCL to take up scheme to diversify its product so as to enable them to stay in the market. The Committee understand that HCL is in a position to offer competitive prices if they will streamline their management. The Committee want them to take full advantage of this position by making all structural changes necessary.

4.7 The Committee have been informed that the proposals of revival of HCL will be finally decided by the Cabinet. Considering the fact that the production has come to a standstill in HCL and this profit making public sector unit is fast moving into the state of sickness the Committee strongly urge the Government of India to take an immediate decision on the proposals relating to the revival of the Hindustan Cables Limited and save this public sector unit.

E. AHAMED
Chairman.
Committee on Government Assurances.

NEW DELHI;
December 7, 1998

Agrahayana 16, 1920 *(Saka)*

APPENDIX I

MINUTES OF THE FOURTH SITTING OF THE COMMITTEE ON GOVERNMENT ASSURANCES HELD ON NOVEMBER 2, 1998 IN COMMITTEE ROOM NO. 'B' GROUND FLOOR, PARLIAMENT HOUSE ANNEXE, NEW DELHI

The Commitee met on November 2, 1998 from 1500 hours to 1645 hours.

PRESENT

Shri E. Ahamed—*Chairman*

MEMBERS

2. Shri Prithviraj D. Chavan
3. Shri Tarun Gogoi
4. Shri Ganga Ram Koli
5. Shri Dileep Sanghani
6. Shri A. Siddaraju
7. Shri Sartaj Singh
8. Dr. Suguna Kumari Chelia Melia

SECRETARIAT

1. Shri P.D.T. Achary — *Joint Secretary*
2. Shri K. Chakraborty — *Deputy Secretary*
3. Ms. J.C. Namchyo — *Assistant Director*

REPRESENTATIVE OF THE MINISTRY OF INDUSTRY (DEPARTMENT OF HEAVY INDUSTRY)

Shri Ajoy Acharya, Joint Secretary

REPRESENTATIVES OF THE DEPARTMENT OF TELECOMMUNICATIONS

1. Shri R.R.N. Prasad, Member (Production)
2. Shri G. Ramesh, Advisor
3. Shri S.P. Punwar, Advisor

REPRESENTATIVE OF THE DEPARTMENT OF HINDUSTAN CABLES LIMITED

1. Shri N.K. Agrawal, Chairman and Managing Director

2. The Committee took oral evidence of the representatives of the Ministry of Industry (Department of Heavy Industry), Department of

Telecommunications and Hindustan Cables Limited in connection with an assurance given on March 14, 1997 by the then Minister of Industry (Shri Murasoli Maran) regarding Performance of Hindustan Cables Limited.

3. A verbatim record of sitting has been kept.

4. The Chairman thanked the officials of Ministry of Industry, Department of Telecommunications and Hindustan Cables Limited for furnishing valuable information to the Committee and for the free and frank views expressed on various points raised by the Members.

The Committee then adjourned.

APPENDIX II

MINUTES OF THE FIFTH SITTING OF THE COMMITTEE ON GOVERNMENT ASSURANCES HELD ON DECEMBER 3, 1998 IN COMMITTEE ROOM NO. 'D' GROUND FLOOR, PARLIAMENT HOUSE ANNEXE, NEW DELHI

The Committee met on December 3, 1998 from 1500 hours to 1550 hours.

PRESENT

Shri E. Ahamed — *Chairman*

MEMBERS

2. Shri Vijay Goel
3. Shri Rupchand Pal
4. Shri Ganga Ram Koli
5. Shri Hari Kewal Prasad
6. Shri Sanat Kumar Mandal
7. Dr. Suguna Kumari Chelia Melia

SECRETARIAT

1. Shri P.D.T. Achary — *Joint Secretary*
2. Shri K. Chakraborty — *Deputy Secretary*
3. Ms. J.C. Namchyo — *Assistant Director*

2. The Committee considered the draft 1st and 2nd Reports and adopted the same after slight amendment in 1st Report. The Committee authorisea the Chairman to present these reports during the current Winter Session of Parliament.

3. The Commitee also decided to undertake a study tour during the month of January 1999 and to finalise the details in this regard at the earliest.

The Committee then adjourned.

ANNEXURE-I

MANPOWER TREND—LAST 10 YEARS

(AS ON 31ST MARCH)

Unit	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
RNPR	4674	4623	4503	4382	4281	4152	4059	3807	3300	2765
HYD	2139	2168	2153	2145	2123	2107	2073	2048	1994	1937
R&D, HYD	58	57	59	57	62	64	63	63	60	58
FOP	22	77	211	266	299	342	332	324	311	259
CORP.	76	101	110	110	138	144	157	177	176	214
MTW	108	108	109	107	109	109	106	91	42	31
TOTAL	7077	7134	7145	7067	7012	6918	6790	6510	5883	5264*

(*) 5134 as on September 1, 1998

ANNEXURE-II

INDUSTRY CAPACITY FOR JELLY FILLED CABLES

Name of Companies	Capacity in LCKN
Hindustan Cables	107.0
Tamilnadu Telecom	9.0
Tyaco Cables	12.5
ARM	30.0
Bhagyanagar	26.0
Birla Erricson	12.0
CMI	12.8
Continental Cables	5.0
Delton Cables	11.0
Finolex Cables	69.4
GR Cables	16.0
Gujarat Telephone	110.0
Gujarat Mobile	12.9
Gujarat Optical	12.9
Haryana Telecom	30.8
Incab	5.0
MP Telelinks	14.0
NICCO	26.0
Optel	9.2
Paramount Cables	8.8
RPG Telecom	45.0
Sterlite	94.1
Surana	2.5
Telephone Cables	23.0
Uniflex Cables	15.0
Upcom Cables	15.5
Usha Beltron	55.0
Vindhya Telelinks	41.0
Total Capacity	**831.3 LCKM**
Current Demand of DoT	**350 LCKM**

ANNEXURE-III

INDUSTRY CAPACITY FOR OPTIC FIBRE CABLES

Name of Companies	Installed Capacity in Route KM.
Hindustan Cables	4000
Aksh India	6500
ARM	2700
AT & T-Finolex	4000
Bhilai Wires	4000
Birla Ericsoon	4000
Gujarat Telephones	4000
Himachal Futuristic	4000
Optel	5000
Plasmac	4000
RPG Telelcom	4000
Sterlite	5500
Sudharshan Telecom	4000
Surana	2700
Uniflex	4000
Vikas Hybrid	4000
Total Capacity	**66400**
Current Demand of DoT	35000