

COMMITTEE ON PETITIONS

(TENTH LOK SABHA)

EIGHTH REPORT

**[Petition regarding modernisation of Burnpur Steel Works Ltd.
of Indian Iron and Steel Company]**



सत्यमेव जयते

(Presented to Lok Sabha on 24.8.1993)

**LOK SABHA SECRETARIAT
NEW DELHI**

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COMPOSITION OF THE COMMITTEE ON PETITIONS
(1992-93)

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Shri T.D. Dhingra —*Under Secretary*

**EIGHTH REPORT OF THE COMMITTEE ON PETITIONS
(TENTH LOK SABHA)**

INTRODUCTION

I, the Chairman of the Committee on Petitions, having been authorised by the Committee to present the Report on their behalf, present this Eighth Report of the Committee to the House on Petition No. 21 regarding early modernisation of the Burnpur Steel Works Ltd. of Indian Iron and Steel Company.

2. The Committee considered the draft Report at their sitting held on 18 August, 1993 and adopted it.

3. The observations/recommendations of the Committee on the above matter have been included in this Report.

NEW DELHI;
18 August, 1993

27 Shrawana, 1915 (Saka)

P. G. NARAYANAN,
Chairman,
Committee on Petitions.

PETITION REGARDING MODERNISATION OF BURNPUR STEEL WORKS LTD. OF INDIAN IRON AND STEEL COMPANY

Shri Basudeb Acharia, M.P., presented to Lok Sabha on 18 August, 1992, Petition No. 21, signed by Shri J.N. Kar Chowdhury and other workmen etc. of Indian Iron and Steel Company, Burnpur (West Bengal), praying for early modernisation of Burnpur Steel Works Ltd. of the Indian Iron and Steel Company.

1.2 In their petition (See Appendix), the petitioners raised mainly the following points:—

- (a) The management of M/s Indian Iron and Steel Company Ltd. was taken over by the Government of India on 14.7.72 by an Act of Parliament (Ord. No. 6 of 1972) on the ground of ineffective management, neglect of rehabilitation and inadequacy of replacement, repair and maintenance in modernisation.
- (b) After waiting for 18 years, the Government of India decided to modernise the Burnpur Works by the SAIL and Private equity participation as joint sector.

The petitioners prayed that directives may be issued to the Government of India/SAIL for early modernisation of the IISCO.

1.3 The petition was referred to the Ministry of Steel for ascertaining the facts. The Ministry accordingly furnished their comments *vide* their O.M. dated 17 November, 1992.

1.4 With a view to having the first hand information and to hear the views of the workers of Burnpur Steel Works Ltd. of IISCO on the subject, the Committee also made an on-the-spot study visit to Calcutta and Burnpur on 2 and 5 June, 1993 and held informal discussions with the representatives of the workers/officials of the Burnpur Steel Works Ltd.

1.5 Subsequently, the Committee took oral evidence of the representatives of the Ministry of Steel on the subject at their sitting held on 6 July, 1993.

1.6 In their factual comments, the Ministry of Steel stated that the Government of India took over the management of IISCO in 1972, through an Act of Parliament *viz* The Indian Iron and Steel Company (Taking over of Management) Act, 1972. The take over was in the background that IISCO, one of the oldest iron and steel companies in India, became sick while under private management; Government, with a view to re-orienting the management of the Company in line with its socio-economic objectives, professionalising and broad-basing the management and making programmed investments on modernising the Burnpur Steel

Works, the principle unit of the Company, decided to take over the management. The Act referred to above, however, spelt out, in broad terms, that the take over would be in public interest and would secure the proper management of the undertaking. The shares held by the private parties were acquired by the Central Government on 17 July, 1976. The shares held by the Public Financial Institutions were also purchased by the Central Government and subsequently all these shares were transferred to SAIL. Then, the IISCO became a wholly-owned subsidiary of SAIL during March-June, 1979. The modernisation of Burnpur Steel Plant was one of the major objectives.

1.7 The Ministry have further stated that though the Government has been committed to the modernisation of the Burnpur Steel Works, the principal unit of the Company, as it is crucial to the well-being of the Company as a whole, as established by several studies conducted between 1977 and 1991, no scheme could be taken up for implementation, basically due to resource crunch.

1.8 During the course of evidence, explaining the steps taken by the Government and difficulties faced by them during the last 21 years for the modernisation of the plant, the representatives of the Ministry of Steel informed that:

“So far, there were seven proposals put forward for modernisation. In 1977, there was one proposal put forward at a cost of Rs. 947 crores to raise the capacity to 2 million tonnes per annum. But this was not pursued apparently because of financial constraints. Then, again in 1983, there was another report to raise the capacity to one million tonnes per annum and the estimated cost was Rs. 931.5 crores. This was returned by the PIB. In 1987, based on the Japanese report another project was drawn up costing Rs. 2928 crores for a capacity of 2.15 million tonnes per annum. This was given the first-stage clearance, that is, to undertake the preliminary work of preparation of a detailed project report, site preparation and so on. The DPR capacity of 2.15 million tonnes per annum. But the internal rate of return was only 1.6 per cent. It was a very uneconomic project at that time. It was not taken to the Public Investment Board. Thereafter, another project report was drawn up for Rs. 5,383 crores in 1991 for the same capacity of 2.15 million tonnes. There also the internal rate of return was very low, it was 6.12 per cent. It was rejected by SAIL itself. One more project was drawn up with the capacity of 1.28 million tonnes per annum for Rs. 5388 crores. This again was rejected by SAIL on techno-economic grounds. But the last and the most important proposal was of August, 1990 updated to September 1991. This project was drawn up for Rs. 6,520 crores for a capacity of 1.75 million tonnes per annum. This was having an IRR level acceptable to the Board. The Public Investment Board cleared it in

principle but it made certain observations that environment clearance should be obtained, exploration of private participation in the modernisation of IISCO should be explored etc. As a result of these exercises, we could take it to the Cabinet Committee on Economic Affairs. At that stage, in 1991, SBI Capital Market was asked to make study about the possibility of private participation. They gave a report which they suggested that the Committee of Experts can be appointed to invite offers and make an evaluation and recommend to the Government. They had short-listed ten parties who were capable of bidding for the modernisation and private participation. Hence, last year, a Committee was set up in August, 1992. This Committee invited bids by global publicity. They had advertised in foreign Journals also and they got three bids finally in January. One was only about financial assistance from a Japanese company. Two offers were from Indian companies—Mukund and Usha Rectifiers—who had offered to take majority participation in IISCO and modernise it according to the conditions laid down. The conditions stipulated by the Government include that no retrenchment of labour should be considered and no disposal of assets would be permitted without modernisation. With these conditions, they have made bids. Now one of the bids is still valid because we have been seeking extension from time to time. Usha Rectifier has now withdrawn from the race. Therefore, we have one bid without equity participation and one bid with majority participation. The matter is about to be considered by the Government whether to consider private participation or to see the possibility of SAIL modernising it. The main problem of SAIL undertaking the work is that it calls for an investment even in two stages of about Rs. 3,100 crores in the first phase and Rs. 3,700 crores in the second stage out of which they will have to find Rs. 1,500 crores in the remaining period of Eighth Five Year Plan projections, only Rs. 300 crores is provided for IISCO. Therefore, they have told the Government that they should be given some budgetary support to make investment of this order in IISCO. The Government has to consider whether this is possible or private participation is better. This matter is fairly close to a decision which we will come to know shortly.”

1.9 In their written comments, the Ministry of Steel stated that capital amounting to over Rs. 561 crores was injected into the Company since its take over and upto 31.3.1992, basically for keeping up the health of plant and equipment. The capital injected, however, was inadequate vis-a-vis the needs of the Company and it could not enable the Company to overcome its sickness. In the meantime, the Burnpur Steel Works continues to be plagued by all symptoms of sickness viz technological obsolescence, ageing of plant equipment, out dated work practices, surplus manpower, deteriorating techno-economic parameters and profitability.

The IISCO, owns and operates an integrated Steel plant at Burnpur, captive iron ore mines at Gua and Manoharpur, captive collieries at Chasnalla, Jitpur and Ramnagore, a coal washery at Chasnalla and a large foundry complex at Kulti.

As a part of the physical restructuring of IISCO the management of Kulti works and also the collieries and ore mines of the Company were taken over by SAIL in January, 1990 in terms of the Power of Attorney executed by IISCO.

1.10 During evidence, the Committee were informed that as per the books of IISCO, the loss at the end of 1993 should be of the order of Rs. 784 crore which could have been avoided but the order of investment required was considerably higher. It was also stated that actually, up to 31.3.1993, they had spent an annual maintenance and repairs to the extent of about Rs. 285 crores during the 7th Plan and onwards. Since the take over they had spent about Rs. 600 crores. It was not fully on modernisation as such. Mostly it was more on maintenance expenditure and on the project report of Japan.

1.11 The Committee of Experts have furnished their Report to the Government. About the final recommendations of the Committee of Experts, the representative of the Ministry of Steel stated during evidence that the Committee of Experts went into the credentials of the different parties who offered bids; and they considered that either Mukund or Usha would be in a position to undertake this Project. They Found that the bid offer of Usha was more attractive, but the financial plan was, in their opinion, not feasible. Therefore, they preferred Mukund which had a realistic financial plan and an acceptable technical plan. The matter was under consideration and they had not yet finalised it.

1.12 During their tour, the Committee were informed by the workers of IISCO, that the SAIL was in a better position to mobilise funds than Mukund would and that SAIL would be able to manage the unit if the terms of Mukund were offered to them. To this suggestion, the representative of the Ministry stated during evidence that they had some limitations. SAIL had got heavy commitments to raise money during the 8th plan to the tune of Rs. 12317 crores. SAIL would not be able to do it without the budgetary support.

1.13 During tour, the petitioners pointed out that other plants like Rourkela Plant, Durgapur Plant, Bokaro and Bhilai Plants have been modernised by the Government but they did not know the justification for not modernising the Burnpur Steel Works.

During the course of evidence, the representative of the Ministry replied:—

“really say how the choice fell on other plants than IISCO. Generally, there was no provision in the Five Year Plans; these projects came up and probably rejected on fund constraint. But I may mention that the rate of return of some of these modernisation projects is relatively more attractive except for Durgapur.”

1.14 About the reasons for accepting the modernisation of Durgapur with four per cent internal return and not accepting the IISCO with 9 per cent, the Secretary of the Ministry, during evidence, stated:

“I could not say except that they were not schemes included in the plans. I cannot categorically say why it was not included. IISCO could have been taken up but Durgapur was taken up; the cost of the project was higher also;

.....It was a lower investment which was required in Durgapur. One cannot very objectively say that there were sound reasons for not doing IISCO.”

1.15 During tour, the officials of IISCO were also of the view that the plant should be modernised but it was for the Government to mobilise the funds.

OBSERVATIONS/RECOMMENDATIONS OF THE COMMITTEE

1.16 The Committee note from the factual comments furnished by the Ministry of Steel and the submissions made to the Committee during evidence that the Government took over the management of Indian Iron & Steel Company Limited (IISCO) on 14 July, 1972. The IISCO, owns and operates an integrated steel plant at Burnpur, captivison ore mines at Gua and Manoharpur, captive collieries at Chasnalla, Jitpur and Ramnagore, a Coal washery at Chasnalla and a large foundary complex at Kulti. The take over was in the background that IISCO, one of the oldest iron and steel units in India, became sick while under private management; Government, with a view to reorienting the management of the Company in line with its socio-economic objectives, professionalising and broad-basing the management and making programmed investments on modernising the Burnpur Steel Works.

1.17 Shares held by the private parties were acquired by the Central Government on 17 July, 1976, the shares held by the public financial institutions etc. were also purchased by Central Government and subsequently all these shares were transferred to SAIL, IISCO became a wholly owned subsidiary of SAIL on 30 March, 1979.

As a part of the physical restructuring of IISCO the management of Kulti works and also the collieries and ore mines of the Company were taken over by SAIL in January, 1990 in terms of the Power of Attorney executed by IISCO.

1.18 The Committee also note that the main demand of the petitioners is that the Burnpur Steel Works should be modernised at the earliest through SAIL.

1.19 The officials of IISCO are also in favour of modernisation of the plant. The Government has also been committed to the modernisation of the plant. Several studies were conducted between 1977 and 1991 to modernise the plant but no scheme could be taken by the Government for implementation, basically due to financial constraints.

1.20 The Committee are distressed to note that the Government has procrastinated and even after a long period of 21 years since the take over of IISCO, the scheme for modernisation of the Burnpur Steel Works has not been finalised due to one reason or the other. The plant has continued to suffer due to indifference and indecisiveness on the part of Government.

1.21 The Committee cannot appreciate how the Durgapur Steel Plant with 4% internal return was taken up for modernisation whereas the more attractive IISCO with 9% internal return with lower investment was ignored. The Committee do not find any justification in this regard.

1.22 The Committee note that SAIL had commissioned SBI-Cap in January, 1992 to explore the possibilities of private participation in IISCO and advise SAIL thereon. On the advise of the SBI-Cap a Committee of experts was appointed to invite offers and make evaluations and recommend to the Government.

1.23 The Committee also note that the Committee of Experts have submitted their report to the Government. The Committee of Experts went into the credentials of the different parties who offered bids and they preferred the offer of Ms. Mukand Ltd. which, it is stated, had a realistic financial plan and an acceptable technical plan. The matter is still under consideration of the Government.

1.24 The Committee regret to observe that the Government has taken an unduly long time of 21 years and are still to finalise a scheme for the modernisation of the plant. Further, the loss of IISCO at the end of 1993 was of the order of Rs. 784 crores which could have been largely avoided with timely modernisation of the plant. Keeping in view the public interest and the interest of the workers, the Committee strongly recommend that the Government should finalise the scheme for modernisation of the plant without any further loss of time. The Committee expect that after finalisation of the scheme, the Government will take necessary

corrective steps to speed up the process of the modernisation of the plant. The Committee would like to be informed of the steps taken in this direction within three months.

NEW DELHI;

23 August, 1993

1 Bhadra, 1915 (Saka)

P. G. NARAYANAN,
Chairman,
Committee on Petitions.

APPENDIX
(See para 1.2 of the Report)

LOK SABHA
PETITION No. 21

[Presented to Lok Sabha on 18.8.92]

To

LOK SABHA
NEW DELHI

The Humble petition of regular Workmen/Employees/Officers/Executives & Workmen engaged through Contractors of M/s. Indian Iron & Steel Company Ltd., Burnpur Works, P.O., Burnpur, District Burdwan, West Bengal.

SHEWETH

The management of M/s. Indian Iron & Steel Company Ltd. was taken over by the Government of India on 14.7.72 by an Act of Parliament (Ord. No. 6 of 1972) on the ground of ineffective management, neglect of rehabilitation and inadequacy of replacement, repair and maintenance in modernisation. After waiting for 18 years the Government of India decided to modernise the Burnpur Works by the SAIL and Private equity participation as joint sector. As per the above Act we demand early modernisation of the Company by Government of India/SAIL.

Accordingly, your petitioners pray that matter be taken as in public interest and Government of India/SAIL may be issued directives for early modernisation of Indian Iron & Steel Company Ltd. as per commitment on the floor of Lok Sabha many a time.

And your petitioners as in duty bound shall ever pray.

Name of the petitioner	Address	Signature or Thumb impression
Shri J. N. Kar Chowdhury and others	Indian Iron & Steel Co. Ltd. P.O. Burnpur Dist: Burdwan West Bengal	Sd/-

Countersigned by Shri Basudeb Acharia Division No. 353