C. P. U. No. 224

COMMITTEE ON PUBLIC UNDERTAKINGS (1972-73)

(FIFTH LOK SABHA)

THIRTY-SECOND REPORT

[Action taken by Government on the recommendations contained in the Nineteenth Report of the Committee on Public Undertakings (Fifth Lok Sabha)]

HEAVY ELECTRICALS (INDIA) LIMITED

(MINISTRY OF HAVY INDUSTRY)

LOK SABHA SECRETARIAT
NEW DELHI

April, 1973/Chaitra 1895 (S)
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C O R R I G E N D A

(82nd Report of Committee on Public Undertakings-1972-73)

Page	Para	Line	For	Read
(iii)(S.No.6)			Dr. Mahipartray Mehta	Dr. Mahipatray Mehta
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COMMITTEE ON PUBLIC UNDERTAKINGS

(1972-73)

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Shrimati Subhadra Joshi

MEMBERS

2. Shri Dinen Bhattacharya
3. Shri G. Bhuvarahan
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11. Shri Lal K. Advani
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15. Shri D. P. Singh

SECRETARIAT

Shri M A. Soundararajan—*Deputy Secretary*
Shri M. N. Kaul—*Under Secretary*

*Died on 7th February, 1973.

COMPOSITION OF THE STUDY GROUP ON ACTION TAKEN REPORTS AND MISCELLANEOUS MATTERS

1. Shrimati Subhadra Joshi—*Chairman*
2. Shri Amrit Nahata—*Alternate Convenor*
3. Dr. Kailas
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6. Shri G. Bhuvarahan
7. Shri D. P. Singh
8. Shri Lal K. Advani
9. Shri U. N. Mahida
10. Shri Ranen Sen

INTRODUCTION

I, the Chairman of the Committee on Public Undertakings having been authorised by the Committee to submit the Report on their behalf, present this Thirty-second Report on the Action Taken by Government on the recommendations contained in Nineteenth Report of the Committee on Public Undertakings (Fifth Lok Sabha) on Heavy Electricals (India) Ltd.

2. The Nineteenth Report of the Committee on Public Undertakings (Fifth Lok Sabha) on Heavy Electricals (India) Ltd., was presented to Lok Sabha on the 26th April, 1972. The replies of Government to all the 49 recommendations contained in the Report and further information called by the Committee in respect of some recommendations were received in batches and the last batch was received on the 1st March, 1973.

3. The replies of Government to the recommendations were considered by the Committee on Public Undertakings (1972-73) on the 3rd April, 1973 and the Chairman was authorised to finalise the Report on the basis of the decisions of the Committee. The Report was adopted by the Committee at the same sitting held on the 3rd April, 1973.

4. The Report has been divided into the following five Chapters:

(i) Report.

(ii) Recommendations that have been accepted by Government.

(iii) Recommendations which the Committee do not desire to pursue in view of the Government' replies.

(iv) Recommendations in respect of which final replies of Government have not been accepted by the Committee.

(v) Recommendations in respect of which replies of Government are still awaited.

5. An analysis of the action taken by Government on the recommendations contained in the Nineteenth Report of the Committee is given in Appendix VIII. It would be observed there from that out

of the total number of recommendations made in the Report 40 per cent have been accepted by Government. The Committee do not desire to pursue 48 per cent of the recommendations in view of Government's replies. Replies of Government in respect of 12 per cent recommendations have not been accepted by the Committee.

NEW DELHI;

SUBHADRA JOSHI,
Chairman,
Committee on Public Undertakings.

April 18, 1973
Chaitra 28, 1895 (*Saka*).

CHAPTER I

REPORT

A. Agreement with Foreign Collaborators

Recommendation No. 1 (Para 2.9)

In their recommendation in para 2.9 of the Nineteenth Report (Fifth Lok Sabha), the Committee noted that the agreement with the consultants which expired on the 16th November, 1970 imposed restrictions on Heavy Electricals (India) Limited, to export their products. The Committee also observed that in the new agreement the stipulation that the approval of the Collaborators for export of the products of the Company shall not be unreasonably withheld" also did not offer a free hand to the Company. The Commitee, therefore, recommended that in future, terms of the agreements with foreign collaborators should be so negotiated and drafted that they do not impose any unreasonable restrictions on the undertakings in the matter of export of their products to other countries.

In reply, the Ministry stated that the recommendations of the Committee had been noted both by Heavy Electricals (India) Ltd., and the Government for compliance. It was further stated that no specific instructions had been issued separately in this regard but it was proposed to communicate the normal guidelines which were followed for such agreements which prohibited such a restrictive clause.

The Committee are not satisfied with the reply furnished by the Government as no specific instructions have been issued in this regard. The Committee expect that suitable guidelines would be issued immediately and attention invited to these guidlines to ensure that the terms of agreements with foreign collaborators are so negotiated and drafted that they do not impose any unreasonable restrictions in the matter of exports of their products to other countries.

B. Effect of delay in production on Power Generating and Distribution Programme

Recommendation No. 14 (Para 4.60)

The Committee were of the opinion that since Heavy Electricals (I) Limited was engaged in manufacturing heavy equipment for the power generating projects under the administrative control of the

Ministry of Irrigation and Power, Government might consider the advisability of transferring the administrative control of the undertaking from the Ministry of Industrial Development to the Ministry of Irrigation and power which was responsible for generation, transmission and development of power in the country.

The Ministry of Industrial Development stated in reply that it had not been found possible to transfer the administrative control of HEIL to the Ministry of Irrigation and Power. It was further stated that they had received a detailed note from the Ministry of Irrigation and Power suggesting that control of BHEL/HEIL may be transferred to them. This was considered by the Ministry and a reply sent not accepting their suggestion. The Ministry of Industrial Development also enclosed a copy of their reply (Appendix I).

The Committee are of the view that since the Government is already seized of the matter they would like to be informed about the final decision when taken in this regard.

C. Maintenance of Records in respect of inventory

Recommendation No. 31 (Para 9.27)

The Committee observed that maintenance of records of inventory in the Company was defective as value of raw materials and components not processed or consumed at the end of the year but issued to workshops was shown as work in progress. The Committee was of the opinion that this procedure gone misleading picture about the work in progress and raw materials. The Committee desired that the present system should be revised and such raw materials etc. which were not processed at all should be included in the value of the raw materials and components for purposes of accounts.

The Ministry in their reply stated that in the case of power plants heavy electrical equipments were manufactured against specific orders of the customers for which specific materials or components were required. It was further stated that in these cases as and when such materials or components or sub-assemblies were received, they were directly charged to the orders in work-in-progress. This, according to the Ministry, had a distinct advantage of avoiding unnecessary and wasteful clerical effort in first taking them in stock and then issuing. At the end of every financial year, the Company took an inventory of such materials not actually drawn to the shop floor, the value of which was mentioned separately in the accounts.

The Committee note that where materials and components are received against specific orders, they are directly charged to the orders in work-in-progress to avoid clerical efforts by first taking them in

stock and then issuing them. The Committee feel that in such cases the company should ensure that the materials and components not used at the end of the year and at the close of the job for which they were directly charged, should be valued and included in the inventory of materials so that the accounts of the Company reflect the correct picture of the stores at the end of the year.

D. Irregularities in purchases made

Recommendation No. 34 (Para 9.45)

The Committee noted that two purchase orders placed by the Company on M|s. Associated Electrical Industries, U.K., on 31st October, 1964 and 10th December, 1964 did not provide for any specific date of delivery of the material. In case of the order placed on 10th December 1964 the departmental purchase requisition and the offer dated 18th August 1964 valid for 60 days received direct from M|s. AEI were forwarded by the indenting department to purchase department after the expiry of the validity of the offer with the result that purchase department had to approach M|s. AEI for extension of validity to which they agreed subject to price variation clause. Though the two orders were placed abroad for meeting the production programme of the company for 1965-66, it was proposed to cancel the orders as the supply was sufficiently delayed. When M|s. AEI demanded £29,900 as cancellation charges, the company was prepared to accept the supply against those orders in February, 1966 and May, 1967. The Committee observed that the very purpose of placing orders which involved payment of £50,789 in foreign exchange was defeated because of the inordinate delay in supply. The Committee were surprised at the careless way in which such an important time-bound case affecting the progress programme was handled. The Committee recommended that a thorough probe in the case should be initiated, the responsibility fixed and suitable action taken against the defaulters. The Committee also recommended that purchase orders with foreign firms should be placed only after satisfying fully about the suitability of the delivery period, keeping in view their past performance in the manufacture and supply of the components.

In reply, the Ministry stated in their communication dated 19th December 1972 that the Government had accepted the Committee's suggestion regarding holding a probe into this matter. The Chairman and Managing Director of BHEL and HE(I)L had been directed to conduct an enquiry into the matter, fix responsibility, suggest action against defaulters and submit his report in a month. In their subsequent reply dated 28th February 1973, the Ministry stated that the Report had not been received as yet.

The Committee regret to note the delay in conducting the probe into the matter and the submission of the *report to Government by the Chairman and Managing Director of BHEL|HE(I)L. The Committee, therefore, stress that the report in question should be finalised and necessary action taken thereon without further loss of time.

E. Irregularities in Sales made

Recommendation No. 35 (Para 9.52)

The Committee noted that while the supply of 1500 MT CRGO Steel Grade 46 ordered with the foreign firms was under execution, the Production Planning Department (Transformer Division) of the Company found that the stocks already with the Company were in excess of their immediate requirements. The Committee also noted that the 300 M.T. of this steel was sold on 1st May, 1969 to M/s. Guest Keen Williams of Bombay who were experiencing difficulty in procurement of that steel. The Committee found that the steel was sold at issue rate plus commercial and Administrative charges at a reduced percentage which resulted in short realisation amounting to Rs. 3,64,350. Subsequently the Company procured 650 tonnes of the same grade CRGO steel at approximately £ 20 per MT more than the previous price order for which was placed on 14-12-70. The Committee observed that Heavy Electricals (India) Ltd. had not only to pay £ 13,000 (Rs. 2,34,000/-) extra for the same grade of steel which they had sold earlier but had also to forego the benefit of import licence to that extent. The Committee were somewhat intrigued by the unusual concern shown by the Heavy Electricals in reducing their inventory in this particular scarce material i. e. CRGO Steel grade 46 and that too in favour of a private party. The Committee were not sure whether inventory in respect of other imported items also had been|was restricted to the same period of requirement or it was particularly considered necessary in the case of imported steel and that too in a particular grade.

The Committee were not convinced about the justification for charging lesser rate of departmental charges in this case when in the case of sale of surplus items, departmental charges at the rate of 50 per cent of the issue rate was normally charged and when import control regulations did not stipulate a particular rate of recovery. While calculating the so called saving, management appeared to have

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*After the Repeort was adopted by the Committee, the Government informed that the report of the committee appointed for the purpose had been received and that the Government agreed with its findings. (Ministry of Heavy industry O.M. dated 6-4-73 and copy of the report inquestion are at Appendix V).

taken into account interest charges at 12 per cent against which the interest paid by the Company on cash credit to the State Bank of India was only 8 per cent. If there was an anxiety to reduce the inventory in steel for this particular grade it would have been better for the undertaking to exchange it with steel of the requisite quality from another sister public undertaking. The Committee were not convinced by the explanation given by the Management. The Committee recommended that Government should consider undertaking a probe in the matter.

The Committee felt that Government should also issue suitable instructions to ensure that transactions of this nature, particularly in scarce and imported raw materials, did not recur.

The Ministry in their reply stated that the material was not sold at a lower rate. Being an imported item it had been sold after due approval from the Government and strictly in accordance with the Import Control Regulations. It was further stated that charging a price which was higher than what the Government stipulated would attract the penal provisions of Import Trade Control Regulations.

The Management decided to sell this steel to another concern engaged in the manufacture of related materials, by way of a business gesture and the same party had come to HEIL's rescue recently when they were in dire need of certain size of core lamination, because of break-down of their cropping machine.

The Government added that the Company had not lost monetarily in the sale; in addition they had gained goodwill in the business world.

The Committee are of the view that the Government's reply does not appear to be satisfactory. While the rate of overhead and incidental charges at 21.5 per cent may have been justified, there does not appear to be a plausable explanation why this Company was in such a hurry to dispose off the stocks of the imported CRGO Steel Grade 46 and import it later at a much higher price which could have been anticipated by any knowledgeable and prudent buyer. The Committee would like Public Undertakings to show greater caution and circumspection in such matters.

F. Recruitment and Promotion Policy

Recommendation No. 45 (Para 11.35)

The Committee noted that a Memorandum laying down the appointment and promotion policy to be followed in regard to officers of HE(I)L was put up to the Board of Directors in the 107th meeting held on 21st January, 1969 but that item was referred by the Board of Directors to the sub-Committee in the 121st meeting held on 16-3-1971 i.e. after a period of more than two years and that the matter was still pending finalisations. The Committee observed in their 19th Report (1971-72) that an important matter affecting appointment and promotion policies should have been handled with promptitude. In the reply, Government simply stated that the recommendation had been noted. In a subsequent reply, the Government stated (January, 1973) that the Memorandum regarding promotion policy was still under consideration of the Board.

The Committee are perturbed to note the inordinate delay on the part of the Management in finalisation of an important matter concerning the appointment and promotion policies of HE(I)L, inspite of the earlier recommendation of the Committee. The Memorandum which was put up to the Board of Directors of the Company as early as January, 1969 is still under the consideration of the Board of Directors. The Committee, are, therefore, constrained to reiterate their earlier recommendation that prompt action should be taken to finalise the long pending policy matter which is of vital importance to the officers of HEIL.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation (Serial No. 1)

In the Twelfth Report of the Committee on Public Undertakings (4th Lok Sabha) which was presented to Parliament on 3rd April, 1968, the Committee had pointed out that some provisions of the agreements overlapped and some clauses of the subsidiary Agreements were repugnant to the provisions of the Main Agreements. The Committee regret to note that Govt. took more than a year to appoint a Departmental Committee to examine the matter. The Committee are also surprised that though the Departmental Committee submitted its Report to Government in January, 1971, the Government took one more year to take a decision on the report of the Departmental Committee. The Committee feel that an important matter like this could have been handled by Government with greater expedition. The Committee expect that such delays will not occur in future.

(Paragraph 2.16)

Reply of Government

The observations have been noted for future guidance.

[Ministry of Ind. Dev. U.O.No. 16-3/72-HEM dated 13-10-72].

Recommendation (Serial No. 3)

Time is the essence of success of any Commercial Undertaking. The Committee regret to note that delay of about two years occurred in sanctioning the Revised Project Estimates of the undertaking. The Management of Heavy Electricals (India) Ltd., took more than a year to approach Government for sanction of the revised project estimates of Rs. 6,110.61 lakhs after they were approved by the Board of Directors of the Company and the Government took another ten months to accord their sanction to the above-mentioned revised estimates. During evidence it was conceded that Government should have taken much less time. The Committee are convinced that both the Management and Government had taken more time than what was warranted. The Committee are surprised that the Project Estimates were revised five times. The Committee recommend that Government should lay down clear guidelines in the matter and that the procedure for processing the revised estimate should be streamlined with a view to finalising them and communicating the orders without loss of time. The Committee need hardly point out that while examining such upward revision of estimates, Government should go into its impact on the economics of production; in fact the estimates should be so realistically framed that there should be no need for their revision.

(Paragraph 3.8)

Reply of Government

In this connection BPE have recently issued instructions vide their O.M. No. BPE/1(185)-Adv.(F)|72, dated 24-11-1972. A copy of this O.M. is enclosed (Appendix I). These instructions have been brought to the notice of HE(I)L who have been directed to comply with them. It is expected that compliance with them will by and large help HE(I)L to avoid delays as also need for frequent reminders.

[Ministry of Ind. Dev. U.O. No. 16-3-|72-HEM dated 19-12-72].

Recommendation (Serial No. 4)

The Committee note that Heavy Electricals (India) Ltd. have undertaken eight expansion schemes at an estimated cost of Rs. 16.05 crores to cover the manufacture of items like power transformers, traction motors, steam turbines, etc. The objects are stated to be manufacture of products in higher range, provision of balancing facilities and catering to changes in demand, etc. The Committee find that in six out of these eight schemes, no specific target dates for their completion were fixed. Not only this, some of these expansion schemes for example, Traction Equipment Expansion Project, have been undertaken even though a part of the existing capacity was stated to be lying idle. The Committee cannot too strongly stress that before any expansion scheme is allowed, Government should make sure of the requirements on short term and long term basis, the economics of manufacturing them in the Project by expansion and laying down a time bound programme for production. The progress of work should be carefully watched both at the level of the undertaking and Government to ensure that the target dates for installation and manufacture are adhered to so that the objectives underlying expansion are achieved.

(Paragraph 3.26).

Reply of Government

A comprehensive appraisal of the various Expansion Schemes will be undertaken by the company with reference to the scope, cost and the dates of completion and the same will be considered by the Management and then put up to Board for their information.

Government have also noted the recommendation for guidance.

[Ministry of Ind. Dev. U.O. No. 16-3/72-HEM dated 13-10-72].

(Reply not vetted by Audit)

Recommendation (Serial No. 9)

The Committee note that the original Detailed Project Report as submitted by the Consultants in the year 1956 had envisaged an annual output of Rs. 12.5 crores on single shift basis. In April, 1966, the Management estimated that on attainment of the full rated capacity the value of production would be Rs. 33.65 crores. Subsequent assessment of the final capacity which would be reached by 1973-74 was expected to be Rs. 69.35 crores. Projections made for profitability study put the value of output in 1973-74 at Rs. 52.19 crores. The Committee find that when the annual output was estimated in 1966 at Rs. 33.65 crores, no time bound programme for gradually achieving the capacity from year to year was drawn up nor was any indication as to the number of years required for achieving full planned output made. The Committee are surprised that it was only in 1967-68 that the Company indicated the installed capacity for the first time. It is unfortunate that the Management of Heavy Electricals (India) Limited had been fixing targets of production much below the installed capacity. The performance of actual production has left wide gaps because the actual production fell short of even the targets fixed by the Maangement itself. It is indeed deplorable that in 49 cases the production shown to have been completed by 31st March, 1969 was not despatched till February, 1970. The Committee recommend that reasons for fixing targets belod the installed capacity and the actual production being less than even those targets should be proved into by Government to ensure better performance in future.

(Paragraph 4.28)

Reply of Government

The problem of capacity utilisation has since been carefully gone into by the Company and the Government; and for the current year 1972-73 and the next two years, the Company have targets of production which are substantially higher than the trends revealed in the earlier years. Indeed there is an aggressive drive now to achieve the maixmum capacity utilisation in the shortest possible period, subject to inevitable problems like the time required for technology build-up and raw material availability.

[Ministry of Ind. Dev. U.O. No. 16-3/72-HEM dated 13-10-72].

(Reply not vetted by Audit)

Recommendation: (Serial No. 10)

The Committee find that in their report for the period ending November, 1969 the Consultants had referred to deterioration which had set in, in the Fabrication Department of the Company and observed that the oft repeated criticism that there is insufficient fabrication area is not valid. The Consultants have disclosed that what is happening is that "jobs are standing on the shop floor, occupying manufacturing space, for far too long time." The Committee recommend that as the Fabrication Department occupies a key position and acts as a feeder department to other departments of the Company, the Company should ensure that there is no hold up of fabrication jobs in the fabrication department.

(Paragraph 4.29)

Reply of Government

The recommendations have been noted. The progress of jobs in the Fabrication Department is under constant review, so as to remove the bottleneck effectively.

[Ministry of Ind. Dev. U.O. No. 16-3/72-HEM dated 13-10-72].

Recommendation : (Serial No. 11)

During evidence the Managing Director of Heavy Electricals (India) Ltd. stated that the statement that "even for foreign heavy electrical manufacturers of World standing it was not possible to realise full capacity of all the products and that 75 per cent realisation should be considered reasonable" was based on his knowledge and experience of what was happening in other countries. The Committee were not supplied with any other details in support of this statement. Whatever be the actual position in other countries, the Committee recommend that the Management of the Heavy Electricals (India) Ltd., should regard it as their supreme duty to raise the level of production to an extent that the gap between the installed capacity and the actual production is narrowed down if not altogether eliminated.

(Paragraph 4.30)

Reply of Government

The recommendation of COPU is noted.

As stated in our reply to recommendation 4.28, all out efforts are being made to narrow down the gap between actual production and installed capacity.

[Ministry of Ind. Dev. U.O. No. 16-3|72-HEM, dated 13-10-72].

Recommendation : (Serial No. 13)

The information furnished by the C.W.&P.C. reveal that the completion of 6 Hydro Projects and 3 Thermal Projects in the country has either been delayed or would be delayed due to non-adherence of delivery schedules by the Heavy Electrical (India) Ltd. This analysis indicates that generation of nearly 1425 MW of power has been shifted back. The delay caused in the completion of various projects ranges from one year to three years and five months. The Committee note that for commissioning of 9.2 million KW of additional generating capacity HEIL and BHEL are to supply 30 Hydro Units of 1.57 M.W. and 9 thermal units of 0.72 MKW. According to the schedule of delivery HEIL is yet to supply 20 units of 1.29 MKW Hydro sets and 5 units of 0.57 MKW to Thermal sets. Due to delay in delivery of the sets ranging from 12 to 41 months, completion of 6 hydro electric projects and 3 thermal projects have been|will be delayed and consequently generation of 1425 MW of power has been put back. The Committee regret to note that the latest revised delivery schedule indicated in June, 1971 is likely to slip back further in some cases. It need hardly be pointed out that such delays have affected the growth of industrial production and investments both in public and private sectors besides having other implications. In the first instance the Company will be put to a financial loss due to payments of penalties to the customers under the penalty clause. Secondly, the confidence of the customer is shaken by not getting timely supply of the equipment which ultimately affects order position and the reputation of the Company. The Committee, therefore, emphasise among other things, the need for advance planning and closer coordination between the manufacturing units and Electricity authorities. The Committee strongly recommend that Government and the Board of Directors of Heavy Electricals (India) Ltd. should keep a special watch on the progress made by the Company from month to month, identify the causes of delay and take remedial measures without delay.

(Paragraph 4.59)

Reply of Government

The delays in deliveries have been largely due to the longer gestation cycle for the import of items which are of a highly sophisticated nature, longer lead time for absorption of skills and the difficulties and delays in getting the necessary components and even certain critical raw material. All the same, having due regard to the soundness of the recommendation made by the committee, HEL have been asked to send a monthly report to the Government in regard to the supply of equipment to various power projects bringing out the reasons for delay as well as the remedial action taken or proposed to be taken. Such reports are being carefully monitored and it is expected that the position will improve as a result of this system of vigil that has been introduced.

[Ministry of Ind. Dev. U.O. No. 16-3|72-HEM, dated 19-12-72].

(Reply not vetted by Audit)

Recommendation (Serial No. 17)

The Committee noted that percentage of 'idle time' in Heavy Electricals (India) Limited to total direct wages as booked had been ranging between 16.0 to 19.8. Absence of work and material accounted for roughly 73 per cent of the total idle time. The Committee find that idle time is occasioned in specific areas due to imbalance in the work-flow. The Committee recommend that work scheduling should be planned on a realistic basis and planning and product control machinery in the Heavy Electricals (India) Ltd. should be geared up so as to minimise idle time. It is hard to understand much less justify that an undertaking like Heavy Electricals (India) Ltd., which is unable to conform to its delivery schedules should have idle time as high as 20 per cent.

(Paragraph 4.84)

Reply of Government

Noted.

The Company has a work scheduling plan, and the management have taken steps to improve the production planning technique so as to minimise the idle time.

[Ministry of Ind. Dev. U.O. No. 16-3|72-HEM, dated 13-10-72].

Recommendation (Serial No. 18)

The Committee regret to note that despite the observations of the Bureau of Public Enterprises about the utility of introduction of the composite machine hour rate, the Management of Heavy Electricals (I) Ltd., have been content with "Job Card System" which recorded the work put in by a workman but not the machine hour rate. During evidence the representative of the Ministry of Industrial Development admitted "But there is a lacuna in this system (i.e. job card system) that is, we do not have readily available system in which ultilisation of each machine as such is also indicated..........I think this system (*i.e.*, machine-hour system) has to be introduced". The Managing Director of the Company said "we do agree that machine utilisation is necessary." It is surprising that though Heavy Electricals (I) Ltd., have been in existence for more than 15 years, they have not thought of introducing machine hour utilisation system. This system should be introduced without further loss of time because it will enable the management to gauge the extent of under utilisation of machines and explore the possibility of undertaking jobs for others. Government should take an early decision on whether or not Heavy Electricals (I) Ltd., should go in for a computer.

(Paragraph 4.94).

Reply of Government

The Committee's recommendations regarding the introduction of machine-hour rate have been noted and the system introduced after due preparation.

The Government has since taken a decision for installing a third generation computer in the Company and accordingly the Company has issued a letter of intent to ICL for installing a third generation Model of third computer.

[Ministry of Ind. Dev. U.O. No. 16-3|72-HEM, dated 13-10-72].

(Reply not vetted by Audit)

Recommendation (Serial No. 19)

The Committee note that in their report for the period ending November, 1969, the consultants had pointed out that there were 1887 junior supervisors at the Bhopal factory overseeing the work of 10,649 lower grade workers in both works and offices, the ratio being 5.6 workers per supervisor. During evidence, the representative of the Heavy Electricals pointed out that consultants had arrived at that ratio by including even the supervisory staff working their Design Office. At the shop, the ratio was about 12.7 workers per junior supervisor. The present ratio (as on August, 1970) per junior supervisor taking into account junior officers as part of junior supervisory staff to workers. The Committee also note that the ratio of workers to "First line supervisors" was 14.4.1.

The Committee recommend that Government|Management may consider fixing suitable and realistic norms for Supervisors Workers ratio on the shop floor at different levels, if necessary with the assistance of Management experts and issue instructions for adhering to such norms.

(Paragraph 4.102)

Reply of Government

The management of HEIL has since reviewed the ratio of first line supervisors to workers and fixed it at 1:12.

[Ministry of Ind. Dev. U.O. No. 16-3|72-HEM, dated 19-12-72].

(Reply not vetted by Audit)

Recommendation (Serial No. 25)

The Committee find that there was no specific provision in the Project Report for activising self-reliance by developing indigenous substitution for imported raw materials and components. The Committee note that though a separate cell was set up for import substitution by the Company with effect from the 27th November, 1965, the performance of the Company during the last five years i.e. from 1966-67 to 1970-71 towards import substitution had been rather disappointing. In fact, there has been an appreciable increase in the percentage of import content in switchgear, traction motor and capacitors. While the Company has been fixing increasing targets for import substitution the percentage of achievement has actually shown downward trend.

The Committee were informed that the following difficulties stood in the way of achieving self-sufficiency:—

(i) The indigenous manufacturers could not develop as envisaged in their programme.

(ii) The customers were reluctant to accept unproven indigenous materials.

(iii) Achievement of cent per cent indigenous contents is not a practical proposition.

The Committee recommend that Goevrnment should take immediate steps to help the indigenous manufacturers so that they do not lag behind in their production programme. Urgent steps should also be taken to standardise and improve the quality of the products of Indian Manufacturers so that these are readily accepted by the customers. The Committee suggest that assistance of Research Institutions in the country should be taken in developing indigenous substitution for items of raw materials and components in order to achieve self-reliance.

The Committee also recommend that Government should chalk out a time-bound programme for achieving indigenous production of items which are being imported at present.

(Paragraph 7.18).

Reply of Government

The recommendation is noted. Steps are being taken to have a close link between the undertaking and National Research Institutions in the relevant fields to achieve greater degree of self-reliance.

[Ministry of Ind. Dev. U.O. No. 16-3|72-HEM, dated 13-10-72].

(Reply not vetted by Audit)

Recommendation (Serial No. 27)

The Committee are unhappy to find that specific instructions issued by the Bureau of Public Enterprises about regulating the purchase orders in 1969 did not receive prompt attention. The Committee are aslo surprised that the instructions issued by the Bureau of Public Enterprises as early as January, 1969 were received by Heavy Electricals only in August, 1969 i.e., after a gap of about 7 months and another year was spent by HEIL in obtaining clarifications and seven to eight months more were taken in placing the matter before the Board of Directors for obtaining a decision. The Committee desire that the Public Undertakings should act with greater promptness and earnestness in bringing the general directives issued by the Bureau of Public Enterprises, and|or the administrative Ministry concerned to the notice of the Board of Directors and implementing them. In fact, the Bureau of Public Enterprises, the Administrative Ministry concerned should have a procedure for following up the action taken by the Undertakings on their directives to see that no avoidable delay takes place in implementation of the orders. The Committee note that 75 per cent of the total purchase being made by the Corporation are handled by Purchase Committees in which a representative of the Finance is present. The Committee desire that a systematic analysis should be made of the remaining 25 per cent purchases also to see which cases could be brought further within the purview of the Purchase Committee. The Committee recommended that the procedure governing these purchases should be such as to ensure competitiveness in rates of suppliers and recording concurrently the reasons where a lower offer is not accepted or where the difference between the purchase price proposed to be paid and the previous price paid for it is more than the prescribed percentage.

(Paragraph 9.11)

Reply of Government

In this connection BPE have recently issued instructions vide their O.M. No. 21|2|72-BPE|MM dated 7-8-1972. A copy of this O.M. is enclosed. (Appendix II). These instructions have been brought to the notice of HEIL who have been directed to comply with them.

[Ministry of Ind. Dev. U.O. No. 16-3|72-HEM, dated 19-12-72]

(Reply not vetted by Audit)

Recommendation (Serial No. 33)

The Committee note that the Company imported in 1962-63, 70,750 numbers of wired glasses from Poland against sterling payment (Rs. 8,69,494) for use in the proposed construction of four factory blocks in anticipation of Governments' approval which was ultimately withheld. On 5th April, 1967 about 5,100 numbers of glasses were damaged as a result of fire. 11,816 wired glasses were found short on physical verification conducted on 13th October, 1967 due to breakage. The Company thus suffered a loss of Rs. 1.22 lakhs. The Committee find that undue haste has been shown for importing the glasses (without waiting for formal approval) against much needed foreign exchange. Secondly, sufficient care was not taken to make proper arrangements for storage of the glasses with the result that, the Company sustained a financial loss not only because of the damage caused to the glasses but also by keeping their capital blocked for a number of years. The Committee recommend that construction stores should not in future, be imported| procured unless the Management had obtained the approval of Government for the proposed construction for which the material is required. Proper arrangements should always be made for the storage of material particularly delicate and breakable till it is consumed.

The Committee understand that by the time the Bureau of Public Enterprises took up the question of disposal of surplus material available in various projects *vide* their circular of 4th October, 1967, the Company had no glasses to dispose of. This shows that the glasses must have been salvaged and sold by the Company in September, 1967. The Committee also understand that the amount payable by the Insurance Company became known in May, 1969 and the matter was reported to the Board of Directors thereafter. The Committee deprecate the delay of about two years in reporting the case to the Board of Directors and recommend that such delay should be avoided in future.

(Paragraph 9.38)

Reply of Government

The remarks of the Committee are noted for guidance in future.

[Ministry of Ind. Dev. U.O. No. 16-3/72-HEM dated 13-10-1972]

Recommendations (Serial Nos. 36 and 37)

The Committee also note that in 1968-69 there was a manufacturing profit of Rs. 138.11 lakhs for the first time. The bulk of this profit (Rs. 118 lakhs) was, however, earned on purchases resold. The corresponding profit on such purchases resold during 1966-67 was Rs. 23 lakhs and during 1967-68 it was Rs. 24 lakhs. The resale of goods purchased was based on the selling price fixed by the Company which had not even now been finally accepted by the customers. The Committee are of the view that the real operating results of the Company are far from satisfactory. For a manufacturing concern of the size of Heavy Electricals (India) Ltd., reselling of purchases made at a large margin of profit can hardly be considered as an important achievement.

The Committee recommend that selling prices for resale of machinery and equipment purchased should be settled in advance to obviate misunderstanding and long drawn out correspondence. The Committee also recommend that every endeavour should be made to improve the real output of the Company.

(Paragraphs 10.6 and 10.7)

Reply of Government

Noted for guidance.

[Ministry of Ind. Dev. U.O. No. 16-3|72-HEM, dated 13-10-72].

Recommendation (Serial No. 39)

The Committee note that the balance on account of overdraft has increased from Rs. 0.05 lakhs in 1968-69 to Rs. 100.04 lakhs in 1970-71. The Committee view with concern that there has been no significant improvement in the financial position of the Company and that Company is resorting to heavy borrowings as a result of heavy cash losses sustained by them. The Committee suggest that ways and means may be explored by the Company to have an effective cash management system and to ensure that the financing charges are kept to the minimum.

The Committee also note that though the position of outstanding debts on 31-3-1971 has shown an improvement over that on 31-3-1970, still large amounts are due to be realised from various Electricity Boards and Railways. The Committee are surprised to find that Government departments themselves are responsible to the tune of 1.3 crores of rupees remaining outstanding for periods exceeding one year. The Committee, therefore, strongly recommend that the procedure of billing and collection of dues should be streamlined with a view to ensure realising of dues without any delay. The Committee also urge that a careful review of the outstandings should be undertaken to see that there is no overlaping of outstanding items with corresponding items of advances from the customers.

(Paragraphs 10.36 & 10.37).

Reply of Government

Recommendation has been noted.

[Ministry of Ind. Dev. U.O. No. 16-3|72-HEM dated 13-10-72].

(Reply not vetted by Audit)

Further information called for by the Committee.

Please indicate the steps taken to implement the Committee's recommendation.

[Lok Sabha Sectt. O.M. No. 22-PU/72 dated 19-12-1972]

Reply of Government

Systematic and satisfactory procedures exist in the Company for the past few years in regard to billing to the customers and chasing for realisation of dues and these have been progressively streamlined

The increasing trend in the outstandings is due to the increasing spurt in the activities in the year 1971-72 compared to the year 1970-71; and also due to progressive increase in the sale values themselves.

[Ministry of Ind. Dev. O.M. No. 16-3/72-HEM dated 15-1-1973]

(Further information not vetted by Audit)

Recommendation (Serial No. 42)

The Committee note that though the Bureau of Public Enterprises issued broad guidelines defining the main functions, responsibilities and powers of the Financial Adviser in May, 1969 in pursuance of the recommendation of the Committee on Public Undertakings contained in their 15th Report (Fourth Lok Sabha) the Board of Directors had not considered those guidelines till February, 1970. The Committee take a serious view of the casual way in which such important items concerning financial matters of the Company are treated. The Committee also note that the Financial Adviser was not being consulted in the following important matters:—

(i) The Quotation of rates for sale contracts;

(ii) Fixation of sale price for part despatches.

The Committee are unable to appreciate how the management of the company could exercise financial control on these important matters without consulting the Financial Adviser in matters affecting the Finances of the Company. The Committee recommend that in future all important orders issued by Government should be brought to the notice of Board of Directors who, in turn, should consider them promptly and take follow-up action without delay. The Committee strongly recommend that in future, the prescribed principles of financial control should be adhered to by all Undertakings including the Heavy Electricals (India) Ltd., Bhopal.

(Paragraph 10.40)

Reply of Government

In this connection BPE have recently issued instructions *vide* their O.M. No. BPE|1(7)|Adv(P)|72, dated 24-11-72. A copy of this

O.M. is enclosed (Appendix III). These instructions have been brought to the notice of HE(I)L who have been directed to comply with them.

[Ministry of Ind. Dev. U.O. No. 16-3/72-HEM dated 19-12-1972]

(Reply not vetted by Audit)

Recommendation (Serial No. 44)

The Committee note with satisfaction that the set-up of Heavy Electricals (India) Limited, as reorganised on divisional basis meets the needs of the present conditions and gives the Divisional Managers a feeling of belonging and responsibility for all the activities in their Divisions and hope that this system would prove to be more conducive than the functional pattern of organisation for achieving greater output. The Committee recommend that working of the revised organisational set-up should be kept under constant review with a view to effecting improvements as may be necessary.

(Paragraph 11.17)

Reply of Government

Noted for compliance.

Further information called for by the Committee.

Please state whether the working of revised organisational set up of HEIL is being kept under constant review and if so, with what results.

[Lok Sabha Sectt. O.M. No. 22-PU/72 dated 21-2-1973]

Reply of Government

A High Powered Committee under the Chairmanship of Shri M. S. Pathak went into the working of Heavy Electricals (India) Limited, Bhopal. The Committee suggested top-level Organisational changes. As per the recommendations of the said Committee, Shri V. Krishnamurthy has been appointed as Chairman of Heavy Electricals India Limited. The Committee also suggested some organisational changes in the lower and middle management level. These changes are to be made by the Board of Directors. Chairman has been asked to carry out these changes and inform the Government. These changes are in the process of being made. It is the intention of this Ministry to keep the Heavy Electricals India Limited under constant review.

[Ministry of Heavy Ind. O.M. No. 16-3/72-HEM dated 28-2-1973]

(Further information not vetted by Audit)

Recommendation (Serial No. 46)

The Committee have made horizontal studies on Personnel Policies and Labour Management Relation in Public Undertakings. In this connection, the Committee had occasion to have the evidence of Chairman|Managing Director of Heavy Electricals Limited, Bhopal. Based on the evidence and other relevant information available to them, the Committee have made concrete suggestions in the matter of recruitment, promotion, confirmation, training, redressal of grievances of workmen, etc. The Committee have no doubt that if these recommendations are implemented in letter and spirit, the relations between the management and the employees are bound to improve.

(Paragraph 11.37)

Reply of Government

The Committee's recommendation has been noted.

[Ministry of Ind. Dev. U.O. No. 16-3|72-HEM, dated 13-10-72].

Recommendation (Serial No. 47)

The Committee note that the grievances procedure based on the lines of Model Grievance Procedure laid down under the Code of Discipline is being followed by the HEL for the redressal of grievances of the employees.

The Committee would suggest that supervisors|Managers should also be given training to handle the grievances and to dispose them off effectively and sufficient delegation of authority should be given to them to deal with the grievances promptly.

(Paragraph 11.53)

Reply of Government

Under the existing procedure the supervisors/Managers are empowered to redress the grievances at stages I & II and only at stage III the matter is referred to the Grievance Committee. The supervisors have already been provided with the copies of Grievance Procedure. Besides, in the Supervisory Development Programme, the supervisors are imparted training to handle grievances.

[Ministry of Ind. Dev. U.O. No. 16-3|72-HEM, dated 13-10-72].

CHAPTER III

RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF GOVERNMENT'S REPLIES

Recommendation (Serial No. 2)

The Committee need hardly point out that if there are no standardised equipments and designs for hydro-electric turbines then the Main Agreement with Collaborators (Associated Electrical Industries) should have been worded suitably to bring out the intention precisely and in unambiguous terms.

The Committee note that out of 30 sets of designs|drawings obtained under the Main Agreement from the Associated Electrical Industries, the Undertaking have been able to adapt 15 of them for manufacture of turbines indigenously.

The Committee suggest that Heavy Electricals (India) Ltd. should make full use of design drawings already available under the Main agreement from the Associated Electrical Industries in order to adapt and improve upon them to suit the requirements of new hydraulic turbines equipment to be manufactured by the undertaking. The Committee consider that wherever it is not found feasible after careful consideration to make use of the drawing designs available with the Associated Electrical Industries under the Main Agreement then a considered proposal to purchase the drawing design from the English Electric Company may be brought forward before the Board of Directors and their prior approval taken before incurring additional expenditure. The Committee need hardly point out that this course of action would ensure that proper record of the decision taken to incur additional expenditure would be available for future reference and use.

(Paragraph 2.35)

Reply of Government

It is agreed that whenever additional designs are to be purchased from the Collaborators, which is not provided in the Main Agreement the same will be brought to the notice of the Board, specifically.

[Ministry of Ind. Dev. U.O. No. 16-3|72-HEM, dated 13-10-72].

Recommendation (Serial No. 5)

The Committee note that in 1963-64, Government of India and Planning Commission gave an indication of the likely demand for ten 120 MW sets of steam turbines in the country during the period of 5 years *i.e.* from 1966-67 to 1970-71. Taking this into account the Government of India sanctioned the Steam Turbine Expansion Project in 1963 at an estimated cost of Rs. 997.87 lakhs (revised to Rs. 1,465 lakhs in March, 1968) with an output of a maximum of seven sets at the rates agreegating 600 MW per annum. The Committee also note that the first set of 120 MW turbine was imported and delivered straightway to the customer by 31st March, 1969. The order for other 4 sets were received between March, 1968 and August, 1969. The Committee are surprised that the orders for the manufacture and supply of the Steam Turbines were not received by the Heavy Electricals (India) Ltd. in accordance with the indications given by the Planning Commission and the Government of India in 1963. The Committee, therefore, recommend that a realistic demand analysis should always be worked out by Government before embarking on production or an expansion programme.

(Paragraph 3.51)

Reply of Government

It will be appreciated that what was given in 1963-64 was in the nature of an indication of the demand that was estimated as likely to rise during the said five years. The years that actually followed saw an aggression on our northern borders followed by a recession that called for a re-adjustment of the sites about timing and magnitude of development in the power Sector as in the rest of the economy. The Committee's recommendation is greatly appreciated for being adopted so long as abnormal conditions do not interfere with the process of working to a demand forecast that would have been made on a realistic basis.

[Ministry of Ind. Dev. U.O. No. 16-3|72-HEM, dated 19-12-1972]

Recommendation (Serial No. 6)

The Committee are a little puzzled by the phenomena of shortage of power in most parts of the country and lack of firm orders on the Undertaking for manufacture of generators and turbines. The Committee, are, therefore, of the opinion that there is urgent need for integrated planning and coordinated execution.

(Paragraph 3.52)

Reply of Government

This situation would be less puzzling when it is realised that the orders have really to flow from not one central body but several State Electricity Boards which are autonomous in character. All the same, the merit of recommendation made by the Committee being unquestionable and inevitable action has been taken to bring it to the notice of Ministry of Irrigation and Power and through them to the representatives of the State Electricity Boards. Steps are being taken to coordinate the demand and supply position to the extent practicable. Letters have been addressed to all State Governments, State Electricity Boards, C.W.P.C. & Ministry of Irrigation and Power that firm orders should be placed on BHEL|HEIL for their requirements of Thermal & Hydro Sets giving sufficient lead time for completing manufacture. They have been warned that if the firm orders are not placed well in time, the mere plea that the requirement of the power is of an immediate nature would not entitle them to press for clearance for the import of Generating Units.

[Ministry of Ind. Dev. U.O. No. 16-3|72-HEM, dated 19-12-1972]

(Reply not vetted by Audit)

The Committee find that the "Supplementary Project Report" prepared by the Consultants did not contain any profitability study. This profitability study was made only in March, 1968, *i.e.* after a lapse of a period of about 5 years. The Committee are distressed to note that completion of the project has lagged behind and delivery schedule drawn up by the Management even for those sets for which firm orders were received, had not been kept up. On the basis of projections made in February, 1967, for example, 8 sets were to be delivered by August, 1970 but against this only one set had been delivered even though the delivery schedule as planned by the Management was rather long as compared with the normal cycle of 3 years for manufacture of a steam turbine. The Committee recommend that the management of Heavy Electricals (India) Limited, should take advantage of modern management, techniques like Programme Evaluation Review Technique (PERT) to guard against the usual inadequacies and pit-falls in the matter of ensuring adherence to delivery schedules.

(Paragraph 3.53)

Reply of Government

Modern Management techniques, like PERT, are in use in selected areas and their use in other areas is being extended by the Company.

[Ministry of Ind. Dev. U.O. No. 16-3|72-HEM dated 13-10-72].

Recommendation (Serial Nos. 7 & 8)

The Committee also note that according to the indications given by the Management to the Government of India in August, 1969 the value of materials and components ordered till then for manufacture of steam turbines was about Rs. 17 crores out of which total expenditure incurred upto August, 1969 amounted to Rs. 14 crores. The Company had thus to keep its resources locked up for long. The Committee are, therefore, of the view that Management of Heavy Electricals (India) Ltd. should not have ordered for major components so much in advance of firm orders and allowed its scarce resources to be so blocked leading to avoidable burden on account of payment of interest. The Committee recommend that in future, the Management of Heavy Electricals (India) Ltd. should so plan its development of pre-production that the facilities created for the purpose do not remain unutilised and their capital does not remain stuck up for long periods.

The Committee find that the very purpose of acquiring components, etc. in advance was defeated by the delay in placing orders by the customers like the State Electricity Boards and also by slow development of expertise by Heavy Electricals (India) Ltd., to execute the orders. The Committee are of the view that advance planning for acquiring components and parts would have served larger interests of the country had there been integrated planning in related spheres.

(Paragraphs 3.54 and 3.55)

Reply of Government

Recommendations noted. The Company has a practical programme of Production Planning in existence which attempts to strike a balance between utilisation and inventries. They are improving this technique with experience. The need to place orders in time keeping in view the manufacturing cycle of the products has been impressed and the State Electricity Boards and the Ministry of Irrigation and Power. The latter are taking up the matter with the State Electricity Boards.

[Ministry of Ind. Dev. U.O. No. 16-3|72-HEM dated 13-10-72].

(Reply not vetted by Audit)

Recommendation (Serial No. 12)

The Committee find that according to the reports submitted to the Management Committee on 18th September, 1969, 49 important orders relating to industrial Machines, Switchgear and control gear, heavy plant, industrial application transformers, flame proof motors, hydro plants were running behind schedule. These cases fall under three Broad categories *viz.* (i) where customer cancelled the order placed by him; (ii) where the despatch of the goods was deferred at the instance of the cutomer and (iii) where the despatch could not be arranged because the associate equipment was not ready. The Committee were informed that the main bottleneck in ensuring timely manufacture of turbines was delay on the part of foreign and indigenous suppliers in supplying castings and forgings and special types of bearings required for the manufacture of turbines or supply of defective castings and forgings which had to be got rectified. The Committee fail to understand why there was lack of foresight and coordination between the various departments and Government sectors which were responsible for such delayed deliveries. The Committee, therefore, recommend that Government should provide all assistance to indigenous suppliers to develop their capacity to manufacture such important parts like forgings, castings and even bearings which are essential products in the manufacture of power equipments so vital for the achievement of the Power Plan. The Committee also recommend that Government may consider the feasibility for obtaining castings and forgings of required specifications from other public undertakings like the H.E.C.

(Paragraph 4.56)

Reply of Government

Noted by Government.

[Ministry of Ind. Dev. U.O. No. 16-3|72-HEM dated 13-10-72].

(Reply not vetted by Audit)

Further information called for by the Committee.

Please indicate whether it has been done and if so, what actual steps have been taken:

(i) To assist the indigenous suppliers to develop their capacity; and

(ii) to obtain casting and forgings from others.

[Lok Sabha Sectt. O.M. No. 22-PU/72, dated 19-12-1972]

Reply of Government

(i) & (ii) As an essential part of the progressive purchase function, the company is constantly trying to locate suppliers who could meet requirements, which are otherwise being imported. Even in the case where indigenous suppliers are establishd, the company is constantly watching their quality and delivery and always tries to establish more than one source for the same material. In this process of development of indigenous suppliers, the company plays an active role in understanding the problems of the suppliers and provide such guidance as is commensurate and feasible in each case.

Heavy Engineering Corporation Ranchi, is a major public Sector company which has potential to supply castings and forgings against the requirements of HE(I)L. HE(I)L regularly tender enquiries to them and obtain quotations. But in most of the cases their deliveries are very much prolonged and in some other cases the material composition does not meet the specifications. Yet persistent efforts are being made to obtain the supplies from them.

However, most of the castings and forgings required by HEIL are heavy and highly sophisticated which cannot be supplied by most Indian suppliers. Government have, therefore, decided to persue the proposal to set up a captive foundry forge at Hardwar.

[Ministry of Industrial Development O.M. No. 16-3|72-HEM dated 15-1-73].

(Further information not vetted by Audit).

Recomendation (Serial No. 15)

The Committee cannot look with equanimity the fact that in order to adhere to the delivery schedule, the Heavy Electricals (India) Ltd. had to off-load orders of the value of Rs. 53.94 lakhs during 1968 and 1969 and of the value of Rs. 2.50 crores during 1970-71 to other manufactures both in India and abroad. The Committee recommend both the Management of Heavy Electricals (I) Ltd. and Government should go into the reasons for which the Company have to go in for 'off loading' and should take remedial measures to speed up their production in order to obviate "off-loading". The Management should, of course, ensure that the cost of manufacture in their factory itself should be at least competitive if not lower than what it costs by 'off-loading'. During evidence it was revealed that at times the Company resorted to barter deals by exchanging steel sheets available with them with the sheets which they needed. These deals were entered into and even reflected as such in the accounts of the Company. The Committee cannot see why it should not be possible for the Government to see that the Company is assured of supply of material needed by it to keep its production going specially when such material is available in the open market. The Committee recommend that Government should look into such difficulties of the Company as this and help them to overcome them without delay.

(Paragraph 4.67)

Reply of Government

The Committee's recommendation on off-loading has been carefully studied. It is submitted that, it is difficult to altogether obviate off-loading of work as has already been explained in our reply in writing as well as in oral evidence. In any large engineering industry, manufacturing highly sophisticated products against specific customers orders with definite delivery times, it may be appreciated that, off-loading of at least semi-finished assemblies would be a normal production planning feature. The deliveries of heavy electrical equipments on specified dates is an essential feature in the current context. After analysing the shop-loading and fixing priorities in our own shops, HEIL may in certain cases, be obliged to off-load items. It is felt the Management should have discretion to plan production accordingly.

It is being ensured that Heavy Electricals (India) Ltd.'s shops are adequately loaded with work.

The Government have noted the Committee's recommendations regarding helping the Company in procurement of required material.

[Ministry of Ind. Dev. U.O. No. 16-3|72-HEM dated 13-10-72].

Recommendation (Serial No. 16)

The Committee find that expenditure incurred on 'rectification and replacement of defective works has increased from Rs. 3.25 lakhs in 1966-67 to Rs. 5.79 lakhs in 1970-71 a rise of about 76 per cent. During evidence, the representative of the Ministry of Industrial Development stated *inter alia.* "I submit that a certain amount of defective material may come in, inspite of our vigilance." The Committee cannot see why there should be such a high rate of increase. If the vigilance is effective, defective material should be negligible. The difficulty, however, is that castings and forgings are accepted by Heavy Electricals (India) Limited on "visual inspections" only and it is only when the top surface of it is scraped, that sometimes defects came to notice. The representative of the Ministry admitted that there were X-ray machines and Ultra-sonic Detectors which could go through the castings and show up the defects but he thought their use would not be advisable. First, these machines were stated to be expensive. Secondly, it would be difficult to take these machines to the companies from whom castings and forgings are to be purchased. The Committee recommend that the possibility of use of these modern devices for detection of defects in the castings and forgings should be explored further in consultation with other public Undertakings who use castings and forgings. The point to be considered is whether one should go in for these modern machines once rather than waste money and time year after year on rectification of defective works.

(Paragraph 4.78)

Reply of Government

It is noted that the expenditure incurred by HEL on defective works increased from Rs. 3.25 lakhs in 1966-67 to Rs. 5.79 lakhs in 1970-71. This has resulted from a combination of factors, viz., increased productivity, import substitution, establishment of more than one source of supply and non-availability of test facilities with the suppliers. The incidence of defective work is under constant vigilance of the company. HEIL is now equipped with the dates non-destructive test facilities consisting of X-ray, Gamma-radiograph Ultrasonic magnetic crack detection and dye penetient testing. More efforts will be made in future to keep down the incidence of defective work.

[Ministry of Industrial Development U.O. No. 16-3/72-HEM dated 19-12-1972]

Recommendation (Serial Nos. 20 & 21)

The Committee feel that adherence to delivery schedule is vital in attracting coustomers in any undertaking for improving the order book position. They note that according to order book position of Heavy Electricals (I) Ltd., as on 31st March, 1970 the shops will be kept busy for only 2-1|2 years in the case of transformer, about 20 months in the case of industrial motors for about 3 to 4 years in the case of Generating Plant.

The Committee also note that as on 30th September, 1971 the Heavy Electricals (I) Ltd., has orders of the value of Rs. 222.45 crores and that the delivery was due during the next five years. During evidence the representative of Ministry of Industrial Development explained "It is difficult for us to keep track of all individual orders because here alone orders worth Rs. 222 crores are pending and we have to consider something like 500 individual orders for individual items." The Committee are unable to accept the view point of the Ministry. Failure to ensure observance of time schedule and delay in the execution of orders act as inhibiting factors in getting fresh orders from the customers. The Committee, however, recommend that Government should at least review the progress of execution of important orders from time to time so that difficulties faced by Heavy Electricals (India) Ltd., are identified and Government are in a position to render help to the undertaking to remove the difficulties which retard orderly progress of execution, of orders. They also recommend that the undertaking should locate other difficulties if any which affect the order position and ensure that they do not recur in future. Most of the customers who place orders with Heavy Electricals (India) Ltd., are organisations in public sector. The Committee do not therefore, see why it should be difficult for the Management of the Company and Government to embark upon an integrated and detailed planning to ensure that Heavy Electricals (India) Ltd., have, at all times, orders for execution from 3 to 5 years which would in turn ensure efficient production in the undertaking.

The agreement entered into by HE (I) Ltd., with the Consultants which had put restrictions on export of their products, expired in November, 1970. In the revised agreement no limitations on export jurisdiction of the Company have been imposed. The Committee, therefore, strongly recommend that all out efforts should be made both by the Management and Government to attract more orders from other countris and thereby increase exports.

(Paragraph 5.12)

Reply of Government

The recommendation has been noted.

[Ministry of Ind. Dev. U.O. No. 16-3/72-HEM dated 13-10-1972]
(Reply not vetted by Audit)

Further information called for by the Committee.

Please indicate:

(i) What steps have been taken to review the progress of execution of important orders by HE (I) L.

(ii) What measures have been adopted by the Management|Government to improve company's book positions.

(iii) What efforts have been made to attract more orders from abroad.

[Lok Sabha Secretariat O.M. No. 22-PU|72. dt 19-12-1972].

Reply of Government

(1) The Company submit quarterly progress Report on the different large contracts for Hydro and Thermal Power Plants. Difficulties in achieving the targets are analysed and reported to the Minis-

try and any assistance required by the Company is provided. HE(I) L's capacity to deliver equipment in next 3 to 5 years is quite definite and clear. This is also publicised in the power surveys made by the C.W. & P.C. If the various State Electricity Boards also do the planning in the same way and commit their requirements as per such plan, this planning would be very much meaningful. Letters have been addressed to various State Electricity Boards to chalk out their programmes of Power development well in advance and place firm orders in HE(I)L/BHEL so that the indigenous capacity available is fully utilised. It is expected that the position will improve a lot due to these measures.

2. The order book position of the company is reasonably satisfactory in respect of almost all the products. Normally, the customers do not place orders for comparatively short delivery items such as Switchgear, Motors and Transformers, very much in advance. For these products the present order book will last for about 2 to 2½ years. It can be reasonably expected that further orders will be forthcoming for these products in good time.

3. (i) Until November, 1970, HEIL's export franchise was limited to three or four neighbouring countries only. Under the Technical Consultancy Agreement with Overseas manufacturers, HEIL did not wait for November 1970, but started an export promotion Cell in 1968 in anticipation of removal of restrictions on their export franchise.

(ii) Since then HEIL have been participating more actively in business abroad including participation in trade fairs and exhibitions, etc.

(iii) Personal visits have been made by the Officers of the company to developing countries, potential buyers of its equipment and contracts established with Users and Importers of Heavy Electricals equipment.

(iv) With the help of Commerical Attaches|Secretariat of Indian Missions abroad and of foreign missions in India, efforts are continuously being made to locate more and more buyers.

(v) To overcome the difficulty of not being able to offer equipment against anticipated jobs, Heavy Electricals have become a constituent member of the Indian Consortium for Power Projects which coordinates efforts of BHEL, HEIL Triveni Structurals Instrumentations Ltd., and MAMC as also of private parties for goods not manufactured by any of the constituent member to put them forth good efforts in export market.

(vi) Regular contact is maintained with important Internal Consultants in Britain and elsewhere and their representatives invited to visit Company's works whenever possible. Similarly, foreign buyers are invited to see HEIL Factory for themselves, whenever they happen to be in India. Close cooperation is also maintained with Engineering Export Promotion Council and Indian Electrical Manufactures Association.

(vii) The above steps have resulted in HEIL's order book moving upwards as follows:—

1968-69	1969-70	1970-71	1971-72	1972-73
				(R. in lakhs)
2·1	7·7	42·6	137	144·82 (Up to Sept., 1972

The above figures are cumulative and do not include the incentive either in cash or in import entitlement, etc. given by the Government. The movement of the order book clearly shows the strides made by Heavy Electricals in exporting their products. Company has already secured export orders for Switchgear, Controlgear, Industrial Motors, Capacitors and Transformers valued at Rs. 144.82 lakhs. The countries from where these orders have come are Saudi Arabia, UAR, Uganda, Ghana, Kenya, Malawi, Iraq, Kuwait, Ceylon, Australia and also Singapore and Malaysia. These include some of the several 'FIRSTS' even exported|being exported from India like the first India built 33,000 volts complete Switch Board for Malaysia, the largest Motor and Controlgear of 2,500 and 1,300 HP readings for a Cement plant in Iraq and the 75,000 KVA Power Transformer for Malaysia.

Equipment worth Rs. 35 lakhs have already been despatched overseas. The Company is also assisting other Indian manufacturers of Composite Plants like Cement Mills; Paper Mills, Railling Mills, etc. by supplying Heavy Eectrical eqquipment such as drives and controls made at Bhopal.

[Ministry of Industrial Development O.M. No. 16-3|72-HEM dt. 15-1-73]

(Further information not vetted by Audit)

Recommendation (Serial No. 22)

The Committee find that Heavy Electricals (India) Ltd., are manufacturing products in two distinct categories *viz.* "competitive range", "semi-monopoly" or "monopoly range". As far as "Monopolistic" and "Semi-monopolistic" equipments are concerned, the instructions issued by the Bureau of Public Enterprises stipulate that ordinarily the "landed cost" of comparative imported equipment should be regarded as the absolute ceiling but where there are reasons to believe that the FOB|CIF prices for imported equipment are artificially low or in other exceptional circumstances where cost of production of indigenous manufacturing is very high, prices may be fixed higher than the landed cost with the approval of the Ministry of Finance. As regards "competitive" items, Heavy Electricals (India) Ltd. have recently introduced a system under which normal estimate is made for all the elements of cost, and the price is reduced to the market level specifying reasons for such a measure. Heavy Electricals (India) Ltd. have expressed the view that 'barring certain standard products bulk of manufacture in the Monopoly region does not lend itself to comparison with the landed cost.' The Committee recommend that HE(I)L should evolve their pricing policy in such a way that prices fixed by negotiations with the customer are equitable and as far as possible are not more than the landed cost of comparable imported equipment following more or less similar design philosophy. While the Committee agree that prices of products in the competitive range have to be regulated by the principle of "what the market can bear", the Committee recommend that some guidelines should be issued to the Commercial Department to ensure that the selling prices of products in the competitive range are not unduly below the cost of production. In fixing the selling prices, the Committee would urge Government that utmost care should be taken to ensure that overheads are, as far as possible, absorbed in the prices. The Committee would stress the need for improving efficiency, increasing output and effecting economy so that the prices charged by Heavy Electricals for various products compare favourably with the internal price obtaining in exporting countries in respect of the particular product. (Paragraph 6.27)

Reply of Government

The recommendation has been noted and steps are being taken to improve efficiency, increase output and effect economics where feasible.

[Ministry of Ind. Dev. U.O. No. 16-3/72-HEM, dated 13-10-1972]

(Reply not vetted by Audit)

Recommendation (Serial No. 23)

The Committee regret to note that though the sales contracts entered into by the Company during the period from December, 1963 to August, 1966 including a Price Variation Clause the Management did not take any action to enforce this clause and to assess the claims recoverable on this account till December, 1969. The Committee observe that the very purpose of having such a clause in the sales contracts is defeated if it is not enforced properly and timely action is not initiated to lodge claims for recovery of the amounts. It transpired during evidence that in respect of contracts after August, 1966, the Company introduced a revised 'price variation clause' which is operated on the basis of indices published by the Board of Trade in U.K. The Committee recommend that a periodical assessment should be made by the Management, claims preferred on the parties concerned and concerted action taken to ensure speedy realisation of the amounts recoverable. The Committee also recommend that responsibility should always be fixed for any failure to take timely action in this regard.

(Paragraph 6.33)

Reply of Government

The Committee's recommendation is under implementation in the Company and speedy realisation of the amounts from the customers now occupies a high priority in managerial activity.

[Ministry of Ind. Dev. U.O. No. 16-3|72-HEM, dated 13-10-72]

Further information called for by the Committee

Please state whether any directive has been issued to ensure speedy realisation of the amounts recoverable and whether responsibility has been fixed for failure to take timely action in this regard. Copy of the orders issued may also be furnished to the Committee.

[Lok Sabha Sect.. O.M. No. 22-PU|72, dt. 19-12-72]

Reply of Government

In this connection the Chairman, Heavy Electricals (India) Limited, Bhopal has been asked to issue instructions to all concerned for the compliance of the recommendation. A copy of this Ministry's D.O. No. 16-3|72 HEM, dated 3-2-1973 is enclosed. (Appendix IV).

[Ministry of Heavy Industry O.M. No. 16-3|72 HEM
Dated 3-2-1973]

(Further information not vetted by Audit).

Recommendation (Serial No. 24)

The committee note that the Heavy Electricals (India) Ltd. had no discretion in the matter of export of their products due to the restrictions imposed by the Consultants in the Consultancy Agreement till November, 1970. As the embargo on export jurisdiction has since been removed and as there is considerable scope for its products in developing countries, the Committee recommend that the Company should explore all possible means of expanding its export trade for their standard products in order to utilise full capacity of the Plant. (Paragraph 7.8)

Reply of Government

Active and constant steps are being taken to expand the export trade. The Indian Consortium of Power Projects of which HEIL is a member, is actively exploring foreign markets for turnkey projects is given every assistance in the execution of projects.

[Ministry of Industrial Development U.O. No. 16-3|72-HEM dated 13-10-72]

(Reply not vetted by Audit)

Recommendation (Serial No. 26)

The Committee note that an analysis conducted by the Cost Accounts Department of Heavy Electricals (India) Ltd., regarding cost of the manufacturing orders, indicated that in majority of cases, the selling price covered the estimated factory cost. The actual factory cost was found to be higher than both the estimated factory cost and the selling price. The variations between the estimated and actual factory costs were not analysed to find out the precise reasons for taking the necessary remedial measures. The Committee also note that the Cost Accounts Department, in its quarterly report for the quarter ending June, 1969 had *inter alia* observed, "It is very necessary that we have a regular system of cost investigation for every product and the reports of the investigation must be made available both to the Cost Department and the Management Committee for any further action". The Committee find that, though the system of Cost Investigation was formally introduced in the Heavy Electricals (India) Ltd. with effect from the 12th December, 1969, investigation of variation between the actual factory cost, and estimated factory cost is not being done in a systematic manner. Education and understanding with regard to the timely and proper use of documents corrected with the system, coordination and understanding between various departments still remains to be achieved. The Committee note that in regard to the orders completed during the year 1970-71, against the value of material worth Rs. 857.49 lakhs provided in the estimates the actual consumption of the materials was Rs. 705.93 lakhs. The Committee feel that while the cost of materials actually consumed may be higher than the value provided for in the estimates on account of rise in cost, the reasons for reverse trend need elucidation, particularly when it is claimed that there was no appreciable change in the physical quantity of the materials. The Committee also recommend that endeavours should be made to place the existing cost Investigation System on a more systematic and scientific footing not only in respect of the established products of the Company but also each item of manufacture.

The Committee emphasise the need for developing a proper Management information system by which desired information and analysis in respect of Sale Price, Estimated Factory Cost Value and Actual Factory Cost Value for all orders become available for taking timely corrective action and adjusting suitably the trend for future quotations. Cost control being one of the essential tools of Management, the Committee urge that unless a scientific cost control system projected on the basis of accumulated experience of the past and latest trends is developed, Management may not be able to effectively check cost trends of products in the interest of efficient and economic management. The Committee cannot too strongly stress the need for concerted action to bring down the cost of manufacture so that the capital machinery and equipment which are mostly used for generation of power become available to other public undertakings|statutory bodies at prices comparable to those obtaining in international market.

The Committee also recommend that the analysis of cost should effectively be utilised for comparison with the rates prevailing in the international market. (Paragraph 8.15)

Reply of Government

The Committee's views and recommendations regarding cost-control and analysis, have been carefully noted. Effective steps are being instituted to develop cost consciousness at various levels of the Management and for the purpose steps will be taken to investigate the utility of the existing systems with a view to introduce improvements. In this context the installation of a computor in the Company shortly will be an additional aid.

[Ministry of Ind. Dev. U.O. No. 16-3|72-HEM, dt. 13-10-72]

(Reply not vetted by Audit)

Recommendation (Serial Nos. 28, 29 and 30)

The Committee regret to note that there were heavy inventory in the Company. The closing balance of inventory, raw material and components, stores and spares and work in progress was Rs. 38.21 crores at the end of the year 1968-69 which was equivalent to 106 per cent of the total production during the year 1969-70. The Committee find that one of the reasons for heavy inventory was that there was not effective coordination between different indentors of the Company resulting in repeated indents for the same materials. The Stores were purchased without coordinating the actual requirements till 1965-66 which resulted in huge accumulation of stocks. The Committee are perplexed at the paradoxical position that while on the one hand the Company had heavy inventory and surplus store on the other hand there was delay in the manufacture for want of raw materials. The representative of the Ministry of Industrial Development conceded during evidence that 'the inventory must be so managed that you have got in stores whatever thing you need and we should not be forced to stop production because of lack of spare parts of raw material.'

The Committee recommend that the existing inventory system should be improved and the Inventory so controlled as to provide all the raw materials necessary for maintaining a smooth flow of production without at the same time creating an undue accumulation of materials and spare parts. The Committee suggest that the Company should explore the possibility of using computers for this purpose. The Committee also recommend that serious efforts should be made to achieve coordination between receipt of purchases from outside and items produced in the workshops.

The Committe wish to draw attention of the Management to various recommendations contained in their 40th Report (3rd Lok Sabha) on 'Material Management'. The Committee have no doubt that implementation of those recommendations would go a long way to improve inventory control in the enterprise.

(Paragraphs 9.24, 9.25 and 9.26)

Reply of Government

The Company have given in their replies, the closing inventories at the end of March, 1969, 1970 and 1971; which clearly show a marked improvement in the position of raw materials and stores. These significant improvements are the result of a conscious effort at control of the inventories through an effective system of coordinating planning, receipt and utilisation of the materials on the shop floor.

[Ministry of Ind. Dev. U.O. No. 16-3|72-HEM, dt. 13-10-72]

(Reply not vetted by Audit)

Recommendation (Serial No. 32)

The Committee find that the value of non-moving stores at the end of 1970-71 which had not moved for two years or more amounted to Rs. 115.20 lakhs and value of surplus stores as on 31-3-69 was Rs. 61.36 lakhs.

The Committee note that the surplus in the manufacturing stores arose out of the imbalance and changes in the manufacturing programme. The Committee also note that non-moving stores and surplus stores have been identified over a period of ten years and comparison made with the value of total purchases. The Committee recommend that the determination of surplus and non-moving items items should be a continuous process for which the Company should undertake periodical review and serious efforts should be made to dispose off such non-moving and surplus stores as the Company no longer requires. The Committee also recommend that now that the period of initial development of the Company is almost over it should not be difficult for the management to evolve norms for procurement of materials and make assessment of their requirements for the next two or three years on realistic basis so as to avoid unnecessary accumulation of surplus and non-moving stores which not only lock up the scarce capital but also push up the cost of production. (Paragraph 9.32)

Reply of Government

As stated by the Committee the determination of surplus and non-moving items has been a continuous process for the last few years; periodical reviews are made and serious efforts taken to dispose of surplus stores in the best possible manner.

[Ministry of Ind. Dev. U.O. No. 16-3|72-HEM dated 13-10-72]

(Reply not vetted by Audit)

Further information called for by the Committee

The reply is incomplete please state the action taken to evolve norms for procurement of materials.

[Lok Sabha Sectt. O.M. No. 22-PU|72 dt. 19-12-72]

Reply of Government

The surplus and the non-moving stores arise out of inevitable imbalances and changes in the manufacturing programme in actual working. These items are the accumulated effect of the working of the Company for over 10 years, during which about Rs. 80 crores worth of stock materials (excluding those items which are directly charged to Jobs) have been bought. Including what have been disposed of in the last 2 years the value of surplus and non-moving stores is hardly 1¼ per cent of the total value of stocks purchased. In an Engineering Industry of this magnitude and which had to undergo a period of basic development, this small percentage is very reasonable.

2. Heavy Electricals (India) Limited are making vigorous efforts regularly to dispose of the surplus stores in various ways. The position has been reviewed and action has also been taken to dispose of the non-moving stores, which has shown signs of improvement.

3. In HEIL, there is a full fledged system of material procurement, related to the manufacturing programme with delegated authority for procurement at appropriate levels. This system which is in existence right from the beginning has been suitably improved as experience demanded and today the same is functioning reasonably well. The system is expected to take adequate care of the material requirement for the next 2 or 3 years.

[Ministry of Industrial Development O.M. No. 16-3|72-HEM dt. 7-2-73]

(Further information not vetted by Audit)

Recommendation (Serial No. 38)

The Committee find that Paid-up capital of Heavy Electricals (India) Ltd. is Rs. 50 crores. Its accumulated losses as on 31st March, 1971 amount to Rs. 59.87 crores. This shows that the Company has already eaten up its entire Paid-up Capital. The Committee are perturbed over this grave financial position of the Company. The Committee stress that the Company should improve its financial position by greater utilisation of its capacity by effecting maximum economies and review of its pricing policy. The Committee also recommend that Government should review the capital structure of the Company to see if some changes are called for to improve the financial situation.

(Paragraph 10.8)

Reply of Government

The reorganisation of the Financial Structure of the Company is under the active consideration of the Government.

[Ministry of Ind. Dev. U.O. No. 16-3/72-HEM dated 13-10-1972].

Further information called for by the Committee

Please state the latest position regarding reorganisation of the financial structure of the company.

[Lok Sabha Sectt. O.M. No. 22-PU/72, dated 19-12-1972].

Reply of Government

The Cabinet have approved of the proposal of this Ministry to grant financial relief to HEIL in the following manner:—

(a) Out of the existing loans, an amount equivalent to the accumulated cash losses upto 31st March, 1972 may be treated as interest free loan for a period of three years from 1st April, 1972, and

(b) a moratorium on the repayment of loans for meeting the accumulated cash losses be granted to the Company for a period of three years from 1st April, 1972.

However, it was essential to secure Parliament's approval to this proposal as only that body can grant relief from interest on loan. A supplementary Grant was therefore placed before Lok Sabha in the winter Session. As soon as formal intimation is received from Ministry of Finance regarding the supplementary Grant, a sanction will issue.

[Ministry of Industrial Development O.M. No. 16-3/72-HEM dated 15-1-1973].

(Further information not vetted by Audit).

Further information called for by the Committee

Please state whether approval of the Ministry of Finance regarding the Supplementary Grant in this respect has since been received?

[Lok Sabha Sectt. O.M. No. 22-PU/72 dated 21-2-1973].

Reply of Government

After the receipt of the approval of Ministry of Finance regarding the Supplementary Grant, necessary sanction has been issued. A copy of the sanction is enclosed. (Appendix VI).

[Ministry of Heavy Industry O.M. No. 16-3/72-HEM dated 28-2-1973].

(Further information not vetted by Audit).

Recommendation (Serial No. 40)

The Committee also regret the lack of promptness not only in furnishing the essentiality certificates but also in the matter of execution and filing of the bonds with the customs authorities which had prevented the Company from availing itself of the exemption from the payment of the customs duty. Such unconscionable delay on the part of the company had blocked a huge sum of Rs. 7.15 lakhs with the customs authorities with consequent loss of interest to the tune of Rs. 60 thousand. The Committee hope that the Company would take more effective steps to avoid recurrence of such delays in future.

The Committee note that claims of the total value of Rs. 20.52 lakhs have been outstanding with carriers and underwriters on 31st March, 1971 and 247 claims of a value of Rs. 10.17 lakhs were pending settlement with Inspool. The claims pertained to the period from 1963 to 1965 and included both sterling and rupee claims. 55 claims of the value of Rs. 1.8 lakhs have been repudiated by the underwriters either as time barred or on the ground that they were not responsible for shortages. The Committee are surprised to find that the Management have not taken any action to investigate the reasons for the delays in filing the claims and to fix the responsibility therefor on account of which the Company had been put to financial loss. The Committee understand that all the claims which were outstanding with the Inspool had been transferred to LIC with effect from 1st January, 1966. The Committee need hardly emphasise the need for analysing each and every outstanding claim and persuing it with LIC authorities with a view to have expeditious settlement thereof.

(Paragraph 10.37).

Reply of Government

Recommendations have been noted.

[Ministry of Ind. Dev. U.O. No. 16-3/72-HEM, dated 13-10-1972].

(Reply not vetted by Audit).

Recommendation (Serial No. 41)

The Committee would also urge that a careful scrutiny of the remaining items should be done and authorities moved at the higher level to have the claims settled expeditiously so that they may not also ultimately become time-barred or otherwise become ineligible for settlement.

(Paragraph 10.38).

Reply of Government

Recommendations have been noted.

[Ministry of Ind. Dev. U.O. No. 16-3/72-HEM dated 13-10-1972].

(Reply not vetted by Audit).

Further information called by the Committee

(i) Please state the steps taken to persue the outstanding claims with LIC authorities. (S. No. 40).

(ii) Please indicate the action taken to have the claims settled expeditiously. (S. No. 41).

[Lok Sabha Sectt. O.M. No. 22-PU/72, dated 19-12-1972].

Reply of Government

It is clarified that each and every claim with the Inspool has been effectively taken up at the highest level at the organisation's Managing Director, and all outstanding claims have been settled, except for a small amount which is also being vigorously pursued. It may be mentioned that the cases under reference pertain to periods earlier to 1966, when HEIL were dealing with the Inspool. Since the take over by LIC from January, 1968, HEIL's dealings are with the LIC, and the procedure for claims and settlement thereof has been tightened up and the same is working currently satisfactorily. Recently senior executives of LIC had visited Bhopal and negotiations were carried to settle the outstanding claims. It is expected that the most of these claims will be settled soon.

[Ministry of Ind. Dev. O.M. No. 163-/72-HEM, dated 15-1-1973].

(Further information not vetted by Audit).

Recommendation (Serial No. 43)

The Committee note that from the estimates made in September, 1960, it appeared that Heavy Electricals (India) Limited expected to break-even in the year 1973-74 at an out put of the value of Rs. 52.19 crores. Only after 3 months *i.e.* in December, 1969 while preparing the revised estimates for 1969-70 and budget estimates for 1970-71 the Management felt that the profitability study made in September, 1969 would not come up. During evidence it transpired that the Management took further into consideration the factors like wage Board award, continued payments to consultants etc. and worked out that the break-even point would now be reached at an output of Rs. 61 crores which was expected to be reached in 1973-74.

The Committee are of the view that the Management should have made the profitability studies on realistic basis. The Committee desire that the Management and Government should spare no efforts to ensure that the break-even level of production of Rs. 61 crores is reached by 1973-74.

(Paragraph 10.59).

Reply of Government

Management has instituted steps to raise the level of production at the Heavy Electricals (India) Limited, Bhopal. Indeed there is an aggressive drive now to achieve the maximum capacity utilization in the shortest possible period, subject to inevitable problems like technology build up and raw material availability. The company is making an all out effort to reach the break-even level in 1973-74. It may be added that the budget estimates received from the company show a surplus of about Rs. 500 lakhs in the year 1973-74 after taking into account the interest holiday, moratorium on repayment of loans and revised prices of railway traction equipment.

[Ministry of Ind. Dev. O.M. No. 16-3/72-HEM, dated 6-1-1973].

(Reply not vetted by Audit).

Recommendation (Serial No. 44)

The Committee are surprised to note that the internal Audit Department of Heavy Electricals (India) Ltd. had not been functioning effectively and did not care to cover even some of the essential aspects of the Company's transactions. The Committee have been informed that the working of the Internal Audit of the Company has been re-organised and placed under the control of the Financial Adviser and Chief Accounts Officer with effect from 1970 to whom quarterly Internal Audit Reports are being submitted, and a system of reporting important irregularities to the Board of Directors and Government through the quarterly Financial Review has been introduced.

The Committee would like the Management to pay earnest attention to Audit paragraphs particularly those dealing with procedural lapses, so as to take remedial action without delay and obviate recurrence of such lapses.

(Paragraph 10.67).

Reply of Government

The Internal Audit Department has been functioning within the frame work of the duties assigned. The Committee are aware that the Company have a regular Government Audit stationed at Bhopal doing the audit of all essential aspects of the Company's transactions. In addition, Company's accounts are also audited by Statutory Auditors. In this series of audits, the role of Internal Audit has been defined in a limited way. A review will be made about enlarging the scope of Internal Audit.

[Min. of Ind. Dev. U.O. No. 16-3/72-HEM, dated 13-10-1972].

(Reply not vetted by Audit).

CHAPTER IV

RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation (Serial No. 1)

The Committee note that the old agreement with the Consultants which expired on 16th November, 1970 imposed a restriction on Heavy Electricals (India) Ltd. to export their products. In the new agreement it is stipulated that AEI's approval shall not be "unreasonably withheld". The Committee feel that even this stipulation does not offer a free hand to the company. During evidence, the Chairman of the Company termed it only as "moral understanding". The Committee recommend that in future, terms of the agreements with foreign collaborators should be so negotiated and drafted that they do not impose any unreasonable restriction on the undertakings in the matter of export of their products to other countries.

(Paragraph 2.9).

Reply of Government

Noted for compliance.

[Ministry of Ind. Dev. O.M. No. 16-3/72-HEM, dated 22-1-1973].

Further information called for by the Committee

Please state whether any instructions have been issued in this respect and if so, please furnish a copy thereof.

[Lok Sabha Sectt. O.M. No. 22-PU/72, dated 21-2-1973].

Reply of Government

The recommendation of the Committee has been noted both by Heavy Electricals (India) Limited, Bhopal, and the Government for compliance. Efforts would be made out to see that in future the terms of the Agreement are so drafted and negotiated that they do not impose any unreasonable restriction on the undertaking in the matter of export of their products to other countries. No specific instructions have been issued separately but it is proposed to communicate the normal guidelines which are followed for such agreements which prohibits such a restrictive clause.

[Ministry of Heavy Industry O.M. No. 16-3/72-HEM, dated 28-2-1973].

(Further information not vetted by Audit).

Recommendation (Serial No. 14)

The Committee also recommend that since Heavy Electricals (India) Ltd. is engaged in manufacturing heavy equipment for the power generating projects under the administrative control of Ministry of Irrigation and Power, Government may consider the advisability of transferring the administrative control of the undertaking from the Ministry of Industrial Development to the Ministry of Irrigation and Power which is responsible for generation, transmission and development of power in the country.

(Paragraph 4.60).

Reply of Government

It has not been found possible to accept this recommendation. A detailed note stating the reasons for not being able to accept this recommendation is being sent to the Lok Sabha Sectt.

[Ministry of Ind. Dev. U.O. No. 16-3/72-HEM, dated 13-10-1972].

Further information called for by the Committee

Please send the detailed note immediately.

[Lok Sabha Sectt. O.M. No. 22-PU/72, dated 19-12-1972].

Reply of Government

It has already been stated that it has not been found possible to accept this recommendation. We had promised to send a detailed note indicating the reasons for not accepting this recommendation. On this point we had received a detailed note from Ministry of Irrigation and Power suggesting that control of BHEL/HEIL may be transferred to them. This note was considered by this Ministry and a reply sent meeting the points raised in the note. A copy of this reply along with its enclosure is submitted for the Committee's perusal. (Appendix VII).

[Ministry of Ind. Dev. U.O. No. 16-3/HEM, dated 19-12-1972].

Recommendation (Serial No. 31)

The Committee also find that maintenance of records in respect of inventory in the Company was defective as value of raw materials and components not processed or consumed at the end of the year but issued to workshops were shown as work in progress. The Committee feel that this procedure gives a misleading picture about the work in progress and raw materials. The Committee, therefore, desire that the present system of showing the raw materials, etc. charged directly to works as work in progress should be revised and such raw materials etc. which have not been processed at all should be included in the value of the raw materials and components for purposes of accounts.

(Paragraph 9.27).

Reply of Government

The Company manufactures heavy electrical equipments against the specific customers' orders; and the designs are so specific for each customer that an order would require certain specific materials or components. This is a situation which is predominant in the case of Power Plants. In these cases as and when such materials or components or sub-assemblies are received they are directly charged to the orders in work-in-progress. This has a distinct advantage of avoiding unnecessary and wasteful clerical effort in first taking them in stock and then issuing. At the end of 31st March every year, the Company take an inventory of such materials not actually drawn to the shop floor, the value of which is clearly mentioned seperately in the accounts. It is, therefore, felt that the system is not defective but simplifies procedures to a large extent. There is no difficuly whatsoever in having the accounts done in proper perspective.

[Ministry of Ind. Dev. U.O. No. 16-3/72-HEM, dated 13-10-1972].

Recommendation (Serial No. 34)

The Committee note that the two purchase order placed on M/s. Associated Electrical Industries, U.K. by Heavy Electricals (India) Ltd. on 31st October, 1964 and 10th December, 1964 did not provide for any specific date of delivery of the material. The Committee also note that in regard to the order placed on 10th December, 1964 the departmental purchase requisition and the offer dated 18th August, 1964 valid for 60 days received direct from M/s. AEI were forwarded by the indenting department to Purchase Department after the expiry of the validity of the offer with the result that Purchase Department had to approach M/s. AEI for extension of validity to which they agreed subject to price variation clause. Though the two orders were placed abroad for meeting the production programme of the Company for 1965-66 as the supply was sufficiently delayed, it was proposed to cancel the orders. When M/s. AEI demanded £29,900 as cancellation charges, the company was prepared to accept the supply against those orders in February, 1966 and May, 1967. The Committee find that very purpose for placing order which involved payment of £50,789 in foreign exchange was defeated because of the inordinate delay in supply. The Committee are surprised at the careless way in which such an important time bound case affecting the progress programme was handled. The Committee feel that the case deserves a thorough probe which should be initiated, the responsibility fixed and suitable action taken against the defaulters. The Committee also recommend that purchase orders with foreign firms should be placed only after satisfying fully about the suitability of the delivery period keeping in view their past performance in the manufacture and supply of the components.

(Paragraph 9.45).

Reply of Government

The Government have accepted the Committee's suggestion of probing into this matter. The Chairman and Managing Director of BHEL and HEIL, who has recently assumed office, has been directed to conduct an inquiry into this matter, fix responsibility, suggest action against defaulters and submit his report in a month. This Report, together with comments of Government will be made available to COPU in due course.

[Ministry of Ind. Dev. U.O. No. 16-3/72-HEM, dated 19-12-1972].

Further information called for by the Committee

Copy of the Report and comments of Government thereon may please be furnished.

[Lok Sabha Secretariat O.M. No. 22-PU/72, dated 21-2-1973].

Reply of Government

The Report of the Chairman, Heavy Electricals (India), Limited has not been received so far. He has been reminded to finalise it expeditiously and submit it to the Government. The Report* will

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*After the Report was adopted by the Committee the Government informed that the report of the Committee appointed for purpose had been received and that the Government agreed with its findings.

[Ministry of Heavy Industry O.M. dated 6-4-1973 and copy of the report are at Appendix V] be made available to the Lok Sabha Secretariat alongwith the comments of Government thereon shortly.

[Ministry of Heavy Industry O.M. No. 16-3/72-HEM, dated 28-2-1973].

(Further information not vetted by Audit).

Recommendation (Serial No. 35)

The Committee note that while the supply of 1500 MT CRGO Steel Grade 46 ordered with the foreign firms was under execution, the Production Planning Department (Transformer Division) of the Company found that the stocks already with the Company were in excess of their immediate requirements. The Committee also note that the 300 M.T. of this steel was sold on 1st May, 1969 to M/s. Guest Keen Williams of Bombay who were experiencing difficulty in procurement of that steel. The Committee find that the steel was sold at issue rate plus commercial and administrative charges at a reduced percentage which resulted in short realisation amounting to Rs. 3,64,350. Subsequently the Company procured 650 tonnes of the same grade CRGO steel at approximately £20 per MT more than the previous price order for which was placed on 14th December, 1970. The Committee observe that Heavy Electricals (India) Ltd. had not only to pay £1,300 (Rs. 2,34,000) extra for the same grade of steel which they had sold earlier but had also to forego the benefit of import licence to that extent. The Committee are somewhat intrigued by the unusual concern shown by the Heavy Electricals in reducing their inventory in this particular scarce material *i.e.* CRGO Steel grade 46 and that too in favour of a private party. The Committee are not sure whether inventory in respect of other imported items also has been/was restricted to the same period of requirement or it was particularly considered necessary in the case of imported steel and that too in a particular grade.

The Committee are not convinced about the justification for charging lesser rate of departmental charges in this case when in the case of sale of surplus items, departmental charges at the rate of 50 per cent of the issue rate is normally charged and when import control regulations do not stipulate a particular rate of recovery while calculating the so called saving, management appear to have taken into account interest charges at 12 per cent against which the interest paid by the Company on cash credit to the State Bank of India is only 8 per cent. If there was an anxiety to reduce the inventory in steel for this particular grade it would have been better for the undertaking to exchange it with steel of the requisite quality from another sister public undertaking. The Committee are not convinced by the explanation given by the Management. The Committee recommend that Government should consider undertaking a probe in the matter.

The Committee feel that Government should also issue suitable instructions to ensure that transactions of this nature, particularly in scarce and imported raw materials, do not recur.

(Paragraph 9.52).

Reply of Government

Detailed replies to the questionnaire issued by the Committee have been given explaining the factual circumstances. It may be reiterated that the material was not sold at a lower rate. Being an imported item it has been sold after due approval from the Government and strictly in accordance with the Import Control Regulations. Charging a price which is higher than what the Government stipulated would attract the penal provisions of Import Trade Control Regulations.

The Management decided to sell this steel to another concern engaged in the manufacture of related materials, by way of a business gesture and the same party has come to HEIL's rescue recently when they were in dire need of certain size of core lamination, because of break-down of their cropping machine.

The Company have not lost monetarily in the sale; in addition they have gained goodwill in the business world.

[Ministry of Ind. Dev. U.O. No. 16-3/72-HEM, dated 13-10-1972].

(Reply not vetted by Audit).

Recommendation (Serial No. 45)

The Committee understand that a Memorandum laying down the appointment and promotion policy to be followed in regard to officers was put up to the Board of Directors in the 107th meeting held on 21st January, 1969 but that item was referred by the Board of Directors to the sub-Committee in the 121st meeting held on 16th March, 1971 i.e. after a period of more than two years and that the matter is still pending finalisation. The Committee feel that an important mattter affecting appointment and promotion policies should have been handled with promptitude.

(Paragraph 11.36).

Reply of Government

Recommendation has been noted.

[Ministry of Ind. Dev. U.O. No. 16-3/72-HEM, dated 13-10-1972].

Further information called for by the Committee

Please indicate the latest position.

[Lok Sabha Sectt. O.M. No. 22-PU/72, dated 19-12-1972].

Reply of Government

The memorandum regarding promotion policy is still under consideration of the Board.

[Ministry of Industrial Development O.M. No. 16-3/72-HEM, dated 15-1-1973].

(Further information not vetted by Audit).

CHAPTER V

RECOMMENDATIONS IN RESPECT OF WHICH FINAL REPLIES OF GOVERNMENT ARE STILL AWAITED

—NIL—

New Delhi;
April 18, 1973
Chaitra 28, 1895 (*S*).

SUBHADRA JOSHI,
Chairman,
Committee on Public Undertakings.

APPENDIX I

(*Vide* reply to recommendation at Serial No. 3—Chapter II)
No. BPE|1(185)-Adv(F)|72

GOVERNMENT OF INDIA

Ministry of Finance

Bureau of Public Enterprises

New Delhi, the 24th November, 1972

OFFICE MEMORANDUM

SUBJECT: *Expeditious revision of capital cost estimates and its impact on the economics of production.*

Under the powers delegated to the Board of Directors of public enterprises for sanctioning capital works vide the former Ministry of Commerce and Industry O.M. No. Pr. C7(1)/61 dated 16th May, 1962, the public enterprises can proceed with the execution of the projects once the detailed project reports and the detailed cost estimates have been approved by Government. A reference is required to be made to Government only in the case of variation of more than 10 per cent for any particular component in the approved estimates. Cabinet approval would however, be necessary in cases where the increase is over 20 per cent of the level of investment earlier envisaged.

2. The necessity of expeditious sanctioning of the revised capital cost estimates, etc., was also emphasized in BPE O.M. Nos. (1)2(67)67 Fi, dated 22-9-67 (ii) 9(1)-F(67) dated 22-9-67 and (iii) BPE 3(4)/Adv(F)/69 dated 30-8-69. It has, however, been observed that in spite of these instructions there have been considerable delay in certain cases, in the sanctioning of the revised capital cost estimates, etc. which have been adversely commented upon by the Committee on Public Undertakings in their 19th Report on Heavy Electricals (I)Ltd. and 21st Report on Bharat Heavy Electricals Ltd. The Committee have made the following recommendations:—

Recommendation No. 3 of the 19th Report of the Committee on Public Undertakings.

"Time is the essence of success of any commercial undertaking. The Committee regret to note that delay of about two years occurred in sanctioning the Revised Project Estimates of the Undertaking. The Management of Heavy Electricals (India) Ltd. took more than a year to approach Government for sanction of the revised project estimates of Rs. 6,110.61 lakhs after they were approved by the Board of Directors of the Company and the Government took another ten months to accord their sanction to the above mentioned revised estimates. During evidence it was conceded that Government should have taken much less time. The Committee are convinced that both the Management and Government had taken more time than what was warranted. The Committee are surprised that the Project Estimates were revised five times. The Committee recommend that Government should lay down clear guidelines in the matter and the procedure for processing the revised estimate should be streamlined with a view to finalising them and communicating the orders without loss of time. The Committee need hardly point out that while examining such upward revision of estimates, Government should go into its impact on the economics of production in fact the estimates should be so realistically framed that there should be no need for their revision."

Recommendation No. 2 of the 21st Report of the Committee on Public Undertakings.

"The Committee take a serious view of the fact that it took Government more than three years to sanction the estimates submitted by BHEL in December, 1966. It is regrettable that in spite of the recommendation of the Committee on Public Undertakings in their 39th Report (1967) that Government should accord its sanction to the estimates without any delay no serious efforts were made to expedite the sanction of these estimates. It has been admitted that there was considerable delay on the part of Government in sanctioning these estimates. However, no responsibility has been fixed for this delay as suggested by the Committee in their 16th Report (1967-68). According to the Ministry these revised estimates were examined in consultation with the Ministry of Finance and the Bureau of Public Enterprises which took some time. As no particular officer was responsible for the delay the question of punishing any delinquent officer in this conection does not arise.

The consultation among the various departments of the Government of India can hardly justify the delay of more than three years in sanctioning the estimates. The Committee therefore, consider that the procedure should be streamlined to avoid such delays in sanction of the estimates."

3. It is, therefore, reiterated that the question of revision of the capital cost estimates should be taken up as soon as it is felt by the public enterprises that the original estimates are going to be exceeded and every effort should be made to expedite the sanctioning of the revised cost estimates by all concerned. The revision of the capital cost estimates would also generally affect the profitability of the project. It is, therefore, imperative that while examining the upward revision of project cost estimates its impact on the economics of production is also carefully examined.

4. In this connection a reference is also invited to Department of Expenditure (Plan Finance Division) O.M. No .26(6)|PF. II|70, dated 30-9-72 constituting a public Investment Board. One of the main functions of the Board will be consideration of proposals for revision of cost estimates which exceed those approved at the time of investment decision.

5. The Ministry of Industrial Development etc., are requested to bring the contents of this O.M. to the notice of all public sector undertakings under their administrative control. The enterprises may also be requested to confirm by 31-12-72 that necessary action as indicated above is being taken.

Sd/-(A. N. Banerji)

Additional Secretary & Director General.

To

All Ministries/Departments of Government of India.
Comptroller & Auditor General of India (2 copies).
Ministry of Finance representatives on the Boards of Public Sector Enterprises.

Heads of Division in the Department of Expenditure.

All Heads of Division in BPE.

Editor, Lok Udyog, BPE.

APPENDIX II

(*Vide* reply to recommendation at Serial No. 27—Chapter II)

No. 21|2|72|BPE|MM

Government of India (Bharat Sarkar)

Ministry of Finance (Vitta Mantralaya)

BUREAU OF PUBLIC ENTERPRISES (SARKARI UDYAM KARYALAYA)

Mayur Bhavan: 7th Floor

New Delhi, the 7th August, 1972.

OFFICE MEMORANDUM

SUBJECT: *Delays in the implementation of the instructions issued by the Bureau of Public Enterprises regarding purchase procedures etc.*

The Committee on Public Undertakings recently examined one of the Public Sector unit and have observed that specific instructions issued by the Bureau of Public Enterprises vide O.M. No. 9(28)FT/67/Cir.Adv(p)36 dated 31st January, 1969 and O.M. No. 1450-ADV(c)/Cir-56/69 dated 27th October, 1969 regarding purchase procedures, did not receive prompt attention. The Committee was surprised that the instructions issued by BPE as early as January, 1969 were received by the Undertaking concerned in August, 1969, *i.e.* after a gap of about 7 months. Further the unit concerned took about a year in obtaining clarifications on Circular of 27th October, 1969 and 7 to 8 months more were taken in placing the matter before the Board of Directors.

The Committee have desired that public sector undertakings act with greater promptness and earnstness in bringing the general directives issued by the BPE and |or the administrative Ministry concerned to the notice of the Board of Directors and implementing the same.

The Committee on Public Undertakings have further observed that in the unit examined, 75 per cent of the total purchases were handled by the Purchase Committees where representative of the Finance was present. The Committee desired that a systematic analysis should be made by the unit in respect of the remaining 25 per cent purchases also to see which cases could be brought further within the purview of the Purchase Committee. The procedure governing the purchase should be such as to ensure competitiveness in the rates of suppliers and reasons should be recorded where a lower offer is not accepted or where the difference between the purchase pric proposed to be paid and the previous price paid is more than the prescribed percentage.

The Ministry of Industrial Development, etc. are requested to advise the public sector undertakings concerned to ensure that—

(a) Prompt action is taken on the directives issued by the BPE|and or Administrative Ministry concerned and they should furnish their reports on the progress of action taken. In case there is any difficulty and the units anticipate any delay, they could furnish interim replies indicating the target date by which they expected to implement the instructions issued;

(b) The delegation of powers to the different officers in the public sector units may be examined with a view to ensure that costly purchases are concurred by Finance.

In this connection instructions issued under B.P.E. circular O.M. No. 9(28)|FI|67|Cir-Adv(p)|36 dated 31st January, 1969 and O.M. No. 1450-Adv(c)/Cir-56/69 dated 27th October, 1969 (copy enclosed) should be kept in view. Reasons where a lower offer is not accepted or where the difference between purchase prices proposed to be paid and the previous price paid for is more than the prescribed percentage should invariably be recorded.

The Public sector undertakings may also be requested to confirm by 31st October 1972 that necessary action is indicated above as being taken.

To

Sd|-

All Ministries

(Adviser (Production)

APPENDIX III

(*Vide* reply to recommendation at Serial No. 42—ChapterII)

No.BPE|1(70)|Adv(F)|72

Government of India

Ministry of Finance

Bureau of Public Enterprises.

New Delhi, the 24th November, 1972.

OFFICE MEMORANDUM

SUBJECT: *Main functions and responsibilities of the Financial Advisers.*

The Committee on Public Undertakings in their 19th Report on Heavy Electrical (India) Ltd. have observed as under:—

"The Committee note that though the Bureau of Public Enterprises issued broad guidelines defining the main functions, responsibilities and the powers of the financial Adviser in May, 1969 in pursuance of the recommendation of the Committee on Public Undertakings contained in their 15th Report (Fourth Lok Sabha) the Board of Directors had not considered those guidelines till February, 1970. The Committee take serious view of the casual way in which such important items concerning financial matters of the company are treated. The Committee also note that the Financial Adviser was not being consulted in the following important matter.

(i) The Quotation of rates for sale contract.

(ii) Fixation of sale price for part despatch; and

The Committee are unable to appreciate how the management of the Company could exercise financial control on these important matters without consulting the Financial Adviser in matters affecting the Finances of the company. The Committee recommend that in future all important orders issued by Government should be brought to the notice of Board of Directors who, in turn, should consider them promptly and take follow up action without delay. The Committee strongly recommend that in future, the prescribed principles of financial control should be adhered to by all undertakings including the Heavy Electricals (India) Ltd., Bhopal."

2. The main functions and responsibilities of the Financial Adviser were laid down in BPE O.M. No. 46|Adv(F)|BPE|69|26, dated 6th May, 1969. In view of the observations made by the Committee on Public Undertakings it is imperative that, in future, all important orders issued by the Government should be brought to the notice of the Board of Directors who in turn should consider them promptly and take follow up action without delay. It is also reiterated that the prescribed principles of financial control should be strictly adhered to by the public enterprises and the Financial Adviser should be consulted on all important matters including pricing, policies, fixation of sale prices of products and other terms of commercial transactions, etc.

3. The Ministry of Industrial Development, etc., are requested to bring the contents of this O.M. to the notice of all public sector enterprises under their administrative control. The enterprises may be requested to confirm by 31st December 1972 that necessary action as indicated above is being taken.

Sd|-

(A. N. BANERJI),

Additional Secretary & Director General

To

1. All Ministries|Department concerned with public sector undertakings.
2. Heads of Divisions in the Expenditure Department.
3. All Officers of Finance Ministry on the Board of Public Enterprises.
4. Heads of the Divisions in the BPE.
5. Editor, Lok Udyog, BPE.

APPENDIX IV

(*Vide* reply to the recommendation at Serial No. 23—
Chapter III)

N. J. Kamath,
Joint Secretary.

D.O. No. 16-3|72-HEM
Government of India,
Ministry of Heavy Industry.
New Delhi, the 3rd February, 1973.

My dear,

Would you please refer to the recommendation at S. No. 23 Paragraph 6.33) of the 19th Report of the Committee of Public Undertakings on Heavy Electrical (India) Ltd., Bhopal, regarding the purpose of inclusion of price variation cause in the sales contracts? The Committee had *inter alia* observed that the very purpose of having such a clause in the sales contracts is defeated if it is not enforced properly and timely action is not initiated to lodge claims for recovery of the amounts. The Committee had accordingly made the following recommendations in this regard:—

(a) a periodical assessment should be made by the Management, claims preferred on the parties concerned and concerted action taken to ensure speedy realisation of amounts recoverable, and

(b) the responsibility should always be fixed for any failure to take timely action in this regard.

I should be grateful if you could please bring the above recommendations to the notice of all concerned for compliance and a report sent to this Ministry within a month regarding the progress made in this regard.

Yours sincerely,
Sd|-
(N. J. Kamath).

Shri V. Krishnamurthy,
Chairman,
Heavy Electricals (India) Ltd.,
5, Parliament Street,
New Delhi.

APPENDIX V

(*Vide* recommendation at Serial No. 34, Chapters I & IV)

No. 16-3|72-HEM

Government of India

MINISTRY OF HEAVY INDUSTRY

(Bhari Udyog Mantralaya)

New Delhi, dated the 6th April, 1973.

OFFICE MEMORANDUM

SUBJECT: *19th Report of the Committee on Public Undertakings on Heavy Electricals (India) Limited, Bhopal.*

The undersigned is directed to refer to the correspondence resting with this Ministry's U.O. of even number, dated 19-12-1972 regarding the recommendation at S. No. 34 (Para 9.45) of the 19th Report of Committee on Public Undertakings and to say that after being directed to conduct an inquiry in the matter, the Chairman and Managing Director, Heavy Electricals (India) Limited, Bhopal discussed the matter with senior officers of the company. A Committee was constituted consisting of the Financial Adviser, the Chief Accounts Officer, and the Chief Engineer to go into the matter in detail. That Committee have since submitted its report a copy of which is enclosed. The Government agree with the findings of the Committee that:—

(i) The two orders were not handled in a careless or casual manner but according to the circumstances prevailing at that time when expertise was just being built up and the day-to-day production problems could not be readily foreseen.

(ii) No wilful and deliberate neglect of duty was involved on the part of any person or persons. The decision to place these orders was not that of any individual but was eventually taken by a committee at the top level.

(iii) The question of penalties commensurate with the offence does not arise.

(iv) The question of introducing a procedure for avoidance of recurrence of such events does not arise.

(v) There is a well laid down procedure for placing orders on both foreign and indigenous firms in force in the factory.

Sd|-

(P. B. SAXENA),

Under Secretary to the Government of India.

To

The Lok Sabha Secretariat.

Heavy Electricals (India) Ltd., Bhopal.

Report on the points raised against item 9.45 of COPU (1971-72) Nineteenth Report (D.O. No. 16-3|72-HEM dated the 2nd January, 1973 from Shri N. J. Kamath to Chairman.

As instructed by the Chairman, the Committee consisting of the FA & CAO and the Chief Engineer, have investigated the points raised by the Committee on Public Undertakings in paragraph 945 of their 19th Report to the 5th Lok Sabha. The following observations and conclusions are made from the records available:—

1.1. Heavy Electricals (India) Limited has already given detailed replies to the various points raised by the Auditors and subsequently by the COPU on Purchase Orders No. AEIO 7440 dated the 30th September, 1964 and No. PA 1890 dated 10-12-1964 on AEI-UK for the purchase of components and completed mechanisms for our 11 KVBV switchgear. However, in para 9.45 referred to above, the following specific points have been made by the COPU:—

(i) The two purchase orders placed on AEI on 31st October, 1964 (actually 30th September, 1964) and 10th December, 1964 did not provide for any specific date of delivery of the material.

(ii) In the order PA-1890 dated 10-12-1964 the departmental purchase requisition and the offer dated 18-8-1964 valid for 60 days received direct from AEI, was forwarded by the Indenting Department to the Purchase Department after the expiry of the validity of the offer with the result that the Purchase Department had to approach AEI for extension of validity which they agreed to subject to a price variation clause instead of order at the firm price quoted originally.

(iii) Though the two orders were placed abroad for meeting the production programme of the company for 1965-66, as the supply was sufficiently delayed it was proposed to cancel the orders. When M/s. AEI demanded £ 29,900 as cancellation charges, the company was prepared to accept the supply against those orders in February, 1966 and May, 1967. This defeated the very purpose of placing orders which involved payment of £ 50,789 in foreign exchange, because of the inordinate delay in supply.

1.2. The various documents as were available, were examined.

Regarding Purchase Order PA 1890 it is observed that the Purchasing Indent No. B|PPX|339 dated 20|23rd November, 1964 from the Purchase Department to our London Office did specify the deliveries for the 250 SPC mechanisms. Further our London Office had requested AEI to deliver these assemblies as early as possible.

As regards Purchase Order No. 7440 dated the 30th September, 1964, it is found that on a request made by our Purchase Department to Shri Guzdar, Manager of our London Office, to obtain a quotation for the items in question, the London Office placed a material indent No. HE|BPE|PP|CG|BV-26, dated the 28th September, 1964 on AEI Overseas Ltd., London, authorising them to take immediate action to place an order for the supply of these items on their concerned Division. Subsequently, AEI gave a quotation for these components to our London office *vide* their letter No. LFR|SH|N.19221, dated the 8th October, 1964. After correspondence between our Purchase Department and our London Office, it was finally decided to delete 3 of the 5 items ordered and the deliveries quoted by AEI for the remaining two items, were accepted. Viewing this in the light of the conditions of the collaboration agreement, as also the conditions that existed at the time, since these components are proprietory items of AEI which were already being imported from them. HEIL had no option but to accept the deliveries given and could only urge the supplier to endeavour to effect as much improvement in these deliveries as possible. Another factor to be considered is that the availability of components from AEI would depend on the spare capacity at their works to take up manufacture of these components, as no manufacturer would upset his manufacturing programme for complete equipment at the cost of supplying a few components.

1.3. It has been verified that the quotation for Purhase Order No. PA 1890 was dated the 18th August, 1964 but was sent to HEIL by the Resident Consultant along with his letter of the 29th August, 1964. This effectively left only about 48 days for taking a decision in the matter. This matter was considered by the Switchgear Product Group (consisting of the Product Chief Engineer, Sales Manager and Superintendent) in their 183rd meeting held on 7-9-1964 and it recommended the import of 250 spring closing mechanisms from the U.K., after obtaining the necessary sanction from the Executive Group (consisting of the Technical Director and Chief Engineers, Commercial Manager and Works Manager). This import was considered necessary by the Product Group since they anticipated a likely demand of about 750 BV breakers with spring closing mechanisms during 1965-66 against a likely indigenous manufacture of only 500 mechanisms at Bhopal. It was found that the approval of the Executive Group to import these mechanisms was available on the 20th October, 1964 by which time the validity of the quotation has expired. It is possible that the matter had to be considered in greater detail before the order could be placed and the time was not sufficient to take this joint decision, since such decisions, which involve import and expenditure in foreign exchange, have generally to be taken jointly by the concerned Groups and not by any individual. It could be that at the time in question, after having quoted a firm price, it was not anticipated that AEI would ask for an increase in price keeping in view the fact that such prices to be quoted by AEI were to be in accordance with the components pricing formula mutually agreed to between the HEIL and AEI managements for purchases of all components. As a matter of fact, on subsequent correspondence with them, AEI's decision to increase the prices by 5 per cent was questioned and ultimately it was agreed that the prices would be the same as originally quoted but subject to a price variation clause.

1.4. From the records available it is observed that an attempt was made to cancel the order for the SPC mechanisms and other components ordered against Purchase orders PA 1890 and AEIO 7440 because of the delayed deliveries advised by AEI. However, in reply AEI advised that since a large number of components had already been manufactured, the cancellation charges would be approximately £ 29900 for both these orders and it was decided that these orders should not be cancelled. This was the obvious decision to be taken to avoid a substantial loss and was in the interests of HE(I)L, particularly since these mechanisms were in any case usable for production. Since the commencement of manufacture of switchgear at Bhopal such components/assemblies were being imported from AEI being proprietory and critical items and there appeared no doubt about utilising them. The main reason for this attempt at cancellation appears to be because of the delay in AEL supplies and the recession in the country at the time when probably it was considered that their immediate consumption may decrease.

2. In conclusion and with reference to the points raised in Shri N. J. Kamath's D.O. No. 16/3/72-HEM dated the 21st November, 1972 to our CMD, the Committee's views are:—

(i) The two orders were not handled in a careless or casual manner but according to the circumstances prevailing at that time when expertise was just being built up and the day-to-day production problems could not be readily foreseen.

(ii) No wilful and deliberate neglect of duty was involved on the part of any person or persons. The decision to place these orders was not that of any individual but was eventually taken by a committee at the top level.

(iii) The question does not arise.

(iv) The question does not arise.

(v) There is a well laid down procedure for placing orders on both foreign and indigenous firms in force in this factory.

Sd|- 17-2-1973

(K. S. DHADDHA)
FA & CAO

Sd|-17-2-1973
(K. M. SINCLAIR)
Chief Engineer.

APPENDIX VI

(*Vide* reply to recommendation at Serial No. 38)

CHAPTER III

No. 5-44/71-HEM

GOVERNMENT OF INDIA

Ministry of Heavy Industry

(Bhari Udyog Mantralaya)

New Delhi, dated the 13th February, 1973.

To

The Accountant General,
Commerce Works and Miscellaneous,
New Delhi.

SUBJECT: *Grant of financial relief to HEL, Bhopal.*

Sir,

I am directed to convey the sanction of the President to the grant of financial relief to HEIL, Bhopal in the following form:—

(a) Out of the existing loans an amount equivalent to the accumulated cash losses upto 31st March, 1972 may be treated as interest free loans for a period of three years w.e.f. 1st April, 1972;

(b) a moratorium on the repayment of instalments of loans which were granted for meeting accumulated cash losses incurred upto 31st March, 1972, is granted to the company for a period of three years w.e.f. 1st April, 1972.

2. A statement showing details of loans of Rs. 3136.302 lakhs representing accumulated cash losses and as outstanding on 31st March, 1972, which are to be treated as interest free loans and on the repayment of which a moratorium has been granted is enclosed.

3. The concession in interest payment referred to in item (a) of para 1 above is being given in the form of subsidy to the company in conformity with Government of India decision No. 2(2) below Rule 156 of General Financial Rules 1963. I am directed to convey the sanction of the President to the payment of subsidy

amounting to Rs. 2,16,78,800 in lieu of interest payable by the company on the same loans during 1972-73. The amount will not be paid in cash but by adjustment as mentioned in para 4 below.

4. It is requested that in respect of the year 1972-73 the amount of interest *i.e.*, Rs. 2,16,78,800 as worked out by the company and indicated in the enclosed statement be checked with reference to your record and necessary adjustment by per Contra Credit to the head 'XVI-Interest' be carried out in your books before the close of the current financial year.

5. The expenditure involved is adjustable under the major head '35-Industries—Grants-in-aid Contributions etc.' and debitable to sub-head 'C-Grants-in-aid—Contributions etc.-C-9 Subsidy to Public Sector Undertakings for payment of interest' in Grant No. 53-Industries for 1972-73 and will be met out of the Supplementary Grant obtained under the above-mentioned sub-head in the Grant cited above in November, 1972.

6. This sanction issues with the concurrence of Ministry of Finance *vide* their U.O. No 456 W&M|73, dated 23rd January, 1973.

Yours faithfully,
Sd/-
(P. B. SAXENA),
Under Secretary to the Government of India.

Copy forwarded for information and necessary action to:—

1. Chairman, BHEL, 5, Parliament Street, New Delhi.
2. General Manager, Heavy Electricals (India) Limited, P.O. Piplani, Bhopal.
3. Shri D. K. Chakravorti; Adviser (Finance), Bureau of Public Enterprises, 7th Floor, Mayur Bhawan, New Delhi.
4. Cabinet Sectt., Rashtrapati Bhawan, New Delhi.
5. Associate Finance (IF-II Section).
6. Director Internal Finance.
7. B. & A. Section.
8. PEC Section.
9. Guard File.
10. Ministry of Finance, Department of Economic Affairs—Ways and Means Section with two spare copies.

(P. B. SAXENA),
Under Secretary to the Government of India.

APPENDIX VII

(*Vide* reply to recommendation at Serial No. 14)

CHAPTER IV

New Delhi, dated the

My dear

My attention has been drawn to letter No. 1-12(9)/72-O&M of June 23, 1972 from Shri B. P. Patel to Shri B. B. Lal enclosing a draft note for the Cabinet regarding the transfer of the administrative control of Bharat Heavy Electrical and Heavy Electricals (India) Limited, to the Ministry of Irrigation and Power from the Ministry of Industrial Development.

2. As you are aware, the allocation of business between Ministries is the prerogative of the Prime Minister. I would, therefore, suggest that if you wish to pursue this matter, you might first like to discuss it with Prime Minister. We can also have a discussion between ourselves if you think it will be useful.

3. I also enclose a note giving our comments on the substantive points made in the paper prepared by your Ministry. The views expressed in this note should also be taken into account in whatever further action you propose to take.

Yours sincerely,
Sd/-
(C. SUBRAMANIAM),

Dr. K. L. Rao,
Minister for Irrigation and Power,
New Delhi.

Encl.

Comments on Ministry of Irrigation & Power's Note on BHEL and HEIL

The paper prepared by the Ministry of Irrigation and Power for consideration of the Cabinet proposes that the administrative control of BHEL and HEIL should be transferred to that Ministry. The main reasons advanced for such a transfer are:

(i) The Ministry of Irrigation and Power is responsible for the development of power in all its aspects *viz.* generation, transmission and distribution.

(ii) Demand for power is continuously growing and may reach 52 million KW by 1980-81. The role of BHEL|HEIL in attaining these targets is very crucial.

(iii) The performance of BHEL/HEIL has been very poor and this had led to shortfalls in this sector in the past.

(iv) There is lack of coordination between the manufacturing plants and implementing agencies.

(v) The monopolistic nature of operation of BHEL|HEIL has led to difficulties in settling matters like pricing, delivery schedules, fixing interse priorities etc.

(vi) Organisations under Ministry of Irrigation and Power like CBIP are doing basic research which would be very useful to the manufacturing plants.

(vii) Many other public sector manufacturing organisations are under the administrative control of Ministries who also happen to be the customers for the output.

(viii) The COPU have in their 19th and 21st reports suggested that Government should examine ways and means for establishing close liaison between BHEL|HEIL on the one hand and the State Electricity Boards and other organisations engaged in generation transmission and utilisation of power.

Ministry of Irrigation and Power's paper quotes many instances about the lack of coordination, poor performances of the public sector undertakings in the past and suggests that all these problems would be solved by a transfer of administrative control to that Ministry.

The issues raised are very important indeed. There can be no two opinions that BHEL|HEIL have a very important role to play in the power sector. 'Industry' continues to be the main user of power and industrial growth is likely to be retraded if there is a shortage of power. As such the Ministry of Industrial Development is equally or more concerned with the slow rate of development of power in the country. To the extent that two public sector undertakings BHEL|HEIL have an important role it is taking steps to ensure that their performance is adequate to meet the needs of this sector. While there are close signs that these two undertakings are growing in stature and gaining technical competence to meet the challenge, the Ministry of Industrial Development is concerned about various constraints that have impeded the growth of these undertakings in the past and continue to do so. It may be worth analysing some of the basic issues before a view is taken on the proposal of the Ministry of Irrigation and Power.

Main role of Ministry of Irrigation and Power in Power Development

Power is a concurrent subject. While overall policy for power development is dealt with by the Ministry of Irrigation and Power—implementing the power programmes is the direct responsibility of the various State Electricity Boards—which will in due course operate as autonomous corporations. As and when their operations become commercially and technically viable they will be able to plan and execute their programmes of meeting the growing power needs. Within the overall framework of Governmental policies. The near chaotic situation in the power sector is mainly due to the State Electricity Boards being still weak organisationally and financially. Haphasard Planning, lack of over all guidance, poor implementation and faulty operation has contributed to shortfalls in the power sector. A number of reviews of the performance in this sector in the previous plans have revealed that even in periods when the equipment needs were met by imports and even when the scale of power development was comparatively small the achievement was not satisfactory. Two expert groups—one headed by Shri K. P. S. Nair, formerly Vice-Chairman, CW&PC and the other by Shri K. B. Rao, the then Adviser in the Planning Commission, had examined these aspects. Their findings were that the following causes were mainly responsible:

(i) Lack of adequate investigation of the power Projects and pre-construction planning activities;

(ii) Escalation in estimated costs;

(iii) delays in supply of equipment (imported equipments have also been delivered after prolonged delay);

(iv) lack of adequate organisation and capability for executing the schemes.

The main deficiencies in the implementation of Power Programmes have thus been in areas in which the Ministry of Irrigation and Power has the main reseponsibility even now. Only when the organisations of States level become technically competent, managerially adequate and financially viable would growth in the power sector be satisfactory. As it is the Ministry of Irrigation and Power have an enormous responsibility and a difficult programme ahead and should concentrate on this task.

Generation is only one aspect

Generation of power is only one aspect calling for about 50 per cent of the outlay in the power sector. For satisfactory power development, there should be proper coordination of transmission and distribution programmes also. While the major portion of equipment needs for generation are being met by the public sector undertakings, the equipment needs for transmission and distribution are met by a large number of industries under the overall purview of the Ministry of Industrial Development. The more important products in this category are—power and distribution transformers, high and low voltage switchgear, conductors, instrumentation and controls and protection equipment. Further a fairly large and important portion of power station equipment such as the coal handling and as handling equipment, thermal station piping, instrumentation and controls, insultation and refractories, water treatment plant, circulating water system, handling equipment including EOT cranes, protection equipment and outdoor substation equipment, also falls within the manufacturing profile of a large number of private industries. If proper coordination of manufacturing activities of all these industries with the overall power programmes is necessary, perhaps, the Ministry of Industrial Development with its technical wing *viz.* D. G. T. D. is the most suited agency. Installation of power stations does not ensure power availability automatically. Skills have to be developed to maintain these sophisticated equipment and operate the stations satisfactorily. Here the performance of the various Power Station authorities continues to be poor.

Performance of BHEL|HEIL

The Ministry of Irrigation and Power have quoted a number of instances of poor and delayed performance of BHEL|HEIL. Ministry of Industrial Development and the Cabinet are well aware of these instances. It would not be correct to attribute all the shortfalls in the power sector to delays in supply of equipment by BHEL/HEIL.

As against a few such instances, a number of other instances could be cited where power stations equipment with important equipment have been delayed. A case study of a typical instance relating to the Ramagundam Power Station in Andhra Pradesh may be cited. This was only a 60 MW unit and is designed to be pit-head power station meant for relieving acute power shortage in Andhra Region. All equipment needed for this Power Station were covered from one aid or the other. The Project was approved in 1961 and equipment ordered in 1965 from foreign sources but the Station was commissioned in May, 1972. 11 years from the date of original sanction and 7 years after the date of order of the equipment from foreign sources. Idikki, where equipment were ordered on rush basis in 1966 for completing the project in 1970-71, remains incomplete till today and is likely to be commissioned only in 1974-75 and 1975-76. Balimela Hydro Project where equipments were ordered in 1964 for completion in 1969 is still incomplete. The units may be commissioned only in 1973-74 and 1974-75. Lower-Sileru, where equipments were ordered in 1966-67 from foreign sources is still incomplete and is expected to be commissioned in 1975-76 only. For pathratu where contracts were concluded with the Soviets in 1960, some units were commissioned only in 1972. It would be useful if the Ministry of Irrigation and Power could analyse the causes for the slippage for these schemes where equipment has been ordered abroad. It is a sage guess that the reasons are the same as have been experienced in schemes where equipment has been ordered on indigenous manufacturers.

As against the above record of achievement with important sets, 60 MW unit ordered by the Tamil Nadu State Electricity Board on Hyderabad and Tiruchy units of BHEL in March, 1966 was commissioned in March, 1970 *i.e.* within a span of 4 years. The 60 MW unit ordered on Indian manufacturers for the Delhi Thermal Power Station in March, 1967 was commissioned in July, 1971—again in about 4 years. Harduaganj Thermal Power Station Extension for which two 60 MW units were ordered on BHEL in February, 1967 was commissioned in March, 1971 and the second unit is expected to be commissioned in July/August, 1972. The 110 MW Kothagudem Thermal Power Station for which orders were placed on BHEL in August, 1967 is expected to be commissioned in September|October, 1972. 110 MW Guru Nanak Thermal Power Station ordered by PSEB in February, 1969 on BHEL is expected to be commissioned in a record time of 4 years, *i.e.* by March, 1973. By all international standards and compared to the teething troubles experienced on the imported equipment notably in Pathratu, Nasik, Renukeet, Tarapur, etc., the power units supplied from Indian sources have been functioning very satisfactorily.

The Ministry of Industrial Development firmly believes that the performance of BHEL|HEIL will improve and their output capabilities are continuously growing. In a short period, the manufacturing units have done well in setting man up production facilities on per with many leading international manufacturers, over 4000 engineers and technicians have been trained in design, manufacture. This is one of the few sectors of development where indigenous integration is nearly complete, high level Action Committee under the Chairmanship of Shri M. S. Pathak, Member of Planning Commission has reviewed the performance of BHEL|HEIL and recommended various measures to improve their performance. These are being implemented. The managements of these plants are also drawing up a coordinated plan of action for attaining rated capacity at all plants which will be submitted to the Action Committee shortly. The Ministry of Industrial Development is confident that these objectives will be obtained. It must be appreciated **that inhibited their growth. The internal inhibiting factors such as acquisition of manufacturing skills and know-how managerial ability and development are being attended to. In eliminating the external factors such as inadequate advance planning and ordering of equipment, poor management at power station sites, weak design/consultancy organisations, financial constraints of State Electricity Boards, etc. the Ministry of Irrigation and Power's cooperation is very necessary.

In this context the Ministry of Industrial Development would like to draw attention to a deliberate campaign in the press decrying the performance of BHEL|HEIL. Unwittingly the Ministry of Irrigation and Powers has become a party to this campaign. Apart from weakening the report between the manufacturing units and the State Electricity Boards such pronouncements damage the very image of the public sector. Performance of these public sector units is being decried even in such forums as the Federation of Indian Chambers of Commerce and Industry by senior officials of the Ministry of Irrigation and Power. This is hardly conducive to establish 'coordination' in the power sector.

Monopolistic nature of BEHL|HEIL

The Ministry of Irrigation and Power consider that the monopolistic nature of operations of BHEL and BEIL has affected adversely settlement of matters like pricing, delivery schedule etc. Here it is necessary to understand the context in which decisions to set up these plants were taken. Power being a vital sector for overall economic growth a high rate of growth in this infra-structure has to be ensured. Dependence on imports to meet the equipment needs will retard power development. The capital intensive nature of the industry, advanced and fast developing technology involved, high obsolescence of techniques and processes have inhibited entry of the private sector in this sphere in the past.

**that there were factors internal and external to BHEL|HEL

It was in such an environment that Government have entered this field. Even so BHEL and HEIL operate in competition with industries in the private sector as far as boilers, industrial drives, switchgear and transformers are concerned. These products constitute a fair portion (nearly 50 per cent) of the output of BHEL|HEIL. What perhaps the Ministry of Irrigation and Power is referring, are the somewhat higher prices for the turbo sets for thermal plants and hydrosets. It has been explained on a number of occasions at various forms that comparing domestic prices especially in the initial stages of the industry with the so called 'landed costs' can place domestic industry at a disadvantage. There is a well-established mechanism to resolve disputes in such matters. The Ministry of Industrial Development consider that mere transfer of BHEL|HEIL is neither likely to change the monopolistic aspects of manufacture as far as hydrosets and turbosets are concerned, nor contribute to eliminate the disputes regarding prices or other terms of contract.

Ministry of Irrigation and Power have allowed to the stiff payment terms of BHEL|HEIL. To set the several straight these were finalised by the Planning Commission in 1968 in consultation with the Ministry of Irrigation and Power. Nor are progress payments for long production cycle items, a feature of our country alone. However, in view of the financial difficulties of the State Electricity Boards, BHEL|HEIL have recently agreed in consultation with the Ministry for Industrial Development to very much more liberal payment terms, this will call for much higher working capital for BHEL|HEIL. Ministry of Industrial Development will approach the Ministry of Finance for this shortly after the Fifth Plan Programmes are finalised.

Monopolistic nature of BHEL|HEIL

BHEL|HEIL factories, though essentially meant for manufacturing equipment for power generation, are also designed for the manufacture of a number of allied products required for various other Industries. They include:

(a) motors for steel mills, cement mills, sugar mills and a variety of other applications where electrical driven are used;

(b) traction motors—for Railways:

(c) industrial turbosets for Refineries, Petrochemical plants, paper industry, chemical plants, sugal mills, etc.

(d) Turbo compressors for steel plants;

(e) Centrifugal compressors for fertiliser and other applications for gas and air compression.

(f) Control equipment for a variety of industrial applications in steel, aluminium and other major industries;

(g) medium size and other industrial boilers for steel plants, petro-chemical industries, Refineries Fertilizers and other Chemical Industries;

(h) valves for steam, gas and oil lines;

(i) transformers, switchgear and capacitors for major industries;

(j) marine turbines for Navy;

(k) nuclear steam turbines, turbo alternators and steam generators of Atomic Power Plants; and

(l) pressure vessels for chemical industries.

Capacity that has been built up for these products (other than for power generation) in the BHEL's plants at Hardwar, Hyderabad and Tiruchirapalli, corresponds to an annual production of Rs. 60 crores and that of Bhopal Rs. 15 crores. The manufacture of these industrial equipment have been built into these factories in order to take up products of allied technology and also to make the optimum use of the manufacturing, testing and engineering facilities available in these plants. If Hardwar, Hyderabad, Bhopal and Tiruchirapalli were to be treated as a captive facility for the power generation programmes, it would result in the additional equipment meant for other vital industries being included under similar captive facilities being set up by the respective sectors with consequent waste and dispersal of efforts and diffusion of technical expertise.

Comparison with captive units of other Ministries

Chittaranjan locomotive works, Diesel Locomotive works or Indian Telephone Industry or Hindustan Aeronautics are all in the real sense captive industries. None of these factories shown under the Ministries of Communication. Railways, Steel and Mines produce equipment for development activities outside the respective Ministries. These sectors *viz.* communication, Railways, Steel and Central subjects unlike power which is a state subject. Hindustan Teleprinters or Indian Telephone Industries did not manufacture any equipment outside the requirement of the. Ministry of Communication. Similarly the Integral Coach Factory, Chittaranjan Locomotive

Works, Diesel Locomotive Works do not produce any equipment which is required outside the Railways.

Firstly all equipment required for power is not manufactured by HEIL and BHEL. Secondly all equipment manufactured by HEIL/BHEL are not used only for power generation. Besides, the power equipment manufactured by HEIL and BHEL are supplied to a large number of State Electricity Boards where the Centre has very little control. In fact the normal commercial operation of these factories will be very much prejudised if a Ministry coordinating the power development programmes at the Centre would also hold charge of the manufacturing plants, as very often they may have to sacrifice the commercial aspects to meet the pressure from the State Electricity Boards.

Research and Development Effort

Mention is made of the research effort of the Central Board of Irrigation and Power and other laboratories under the Ministry of Irrigation and Power. Most of these institutions are engaged in basic research relating to civil structures for irrigation systems, fundamental work relating to hydraulic flows, problems of power system, operation etc. While this type of work has its own use and place in the overall scheme, the Research and Development base required by the Industry, has necessarily to be set up within the industry itself. It can and will draw support of existing institutions working in allied fields. But the scope of Research and Development efforts required for BHEL|HEIL is much that existing organisations, under the Ministry of Irrigation and Power cannot be of much help.

Recommendations of the COPU

The COPU has essentially recommended that there should be a close liaison amongst all the agencies concerned with power development. Apparently an impression has been left with the COPU that the power development programme in this country has suffered only on account of delays by HEIL/BHEL and their general lack of awareness of the importance of the power programmes. It is necessary to improve the liaison between the Electricity Boards and the manufacturers. The Ministry of Industrial Development has directed the management of BHEL|HEIL to adequately strengthen their wings for customer service, and is confident that greater report will be established. However, an adequate and constructive response from the Ministry of Irrigation and Power is a necessary pre-requisite.

Ministry of Industrial Development is equally interested in the orderly development of power in the country. This Ministry fully realises that if this is not achieved, the entire industrial growth in the country would receive a setback. It would also retard the growth of production is BHEL|HEIL. The Ministry of Irrigation and Power can help us in this task of assisting the State Electricity Boards is preparing a realistic programme of power development adequate Construction agencies both under the Government and outside for power stations has also to be set up in order to ensure that the construction of the various power stations proceed uninterruptedly. The Ministry of Irrigation and Power can also actively pursue possibilities of central generation where State resources would not permit taking up large power stations.

APPENDIX VIII

(*Vide* para 5 of Introduction)

Analysis of action taken by Government on the recommendations contained in the Nineteenth Report of the Committee on Public Undertakings. (5th Lok Sabha)

I.	Total number of recommendations	49
II.	Recommendations that have been accepted by Government (*vide* recommendations at Sl. Nos. 1 (Para 2·16) 3, 4, 9, 10, 11, 13, 17, 18, 19, 25, 27, 33, 36, 37, 39, 42, 44, (Para 11·17) 46 and 47	20
	Percentage to total	40%
III.	Recommendations which the Committee do not desire to pursue in view of Government's replies (*vide* recommendations at Sl. Nos. 2, 5, 6, 7, 8, 12, 15, 16, 20, 21, 22, 23, 24, 26, 28, 29, 30, 32, 38, 40, 41, 43, and 44 (Para 10·67)	23
	Percentage to total	48%
IV.	Recommendations in respect of which replies of Government have not been accepted by the Committee (*vide* recommendations at Sl. Nos. 1 (Para 2·9) 14, 31, 34, 35 and 45	6
	Percentage to total	12%
V.	Recommendations in respect of which final replies of Government are still awaited	NIL

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