

**ESTIMATES COMMITTEE
1960-61**

HUNDRED AND TWENTY-FOURTH REPORT

(SECOND LOK SABHA)

MINISTRY OF DEFENCE

**Hindustan Aircraft Limited, Bangalore
(REPORTS AND ACCOUNTS)**



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**LOK SABHA SECRETARIAT
NEW DELHI**

April, 1961/Chaitra, 1883 (Saka)

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**ESTIMATES COMMITTEE
1960-61**

CHAIRMAN

Shri H. C. Dasappa

MEMBERS

2. Shri Premji R. Assar
3. Shri C. R. Basappa
4. Shri Chandra Shankar
5. Shri Panna Lal*
6. Shri Shambhu Charan Godsora
7. Shri H. C. Heda
8. Shri Yadav Narayan Jadhav
9. Shri D. A. Katti
10. Shri Khushwaqt Rai
11. Shri Bhausahab Raosaheb Mahagaonkar
12. Rani Manjula Devi
13. Shri Bibhuti Mishra
14. Shri G. S. Musafir
15. Shri M. Muthukrishnan
16. Shri K. P. Kuttikrishnan Nair
17. Shri Jagan Nath Prasad Pahadia
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19. Shri P. T. Punnoose
20. Shri Raghunath Singh
21. Shri T. Nagi Reddy
22. Shri Vutukuru Rami Reddy
23. Sardar Amar Singh Saigal
24. Shri Satis Chandra Samanta
25. Shri Kailash Pati Sinha
26. Shri Tayappa Hari Sonavane
27. Shri Sunder Lal
28. Shri A. M. Tariq

*Elected with effect from 25-11-60 *vice* Shri Dinesh Singh resigned.

(iv)

29. Shri Mahavir Tyagi
30. Shri M. G. Uikey.

SECRETARIAT

Shri A. K. Ray—*Deputy Secretary.*
Shri M. C. Chawla—*Under Secretary.*

INTRODUCTION

1. The Chairman of the Estimates Committee, having been authorised by the Committee to submit the Report on their behalf, present this Hundred and Twenty-fourth Report on the Ministry of Defence—Hindustan Aircraft Limited (Reports and Accounts).

2. The Estimates Committee examined the working of the Hindustan Aircraft Ltd., in 1956-57 and their recommendations/observations in this behalf are contained in their Sixty-seventh Report (First Lok Sabha). The replies furnished by Government indicating action taken on the aforesaid Report were considered by the Committee (1959-60) and the same are embodied in their Sixty-Fifth Report (Second Lok Sabha).

3. This year, again a general examination of the published Annual Report and Accounts of the Company for the year ending 31st March, 1959 was conducted by the Sub-Committee of the Estimates Committee on Public Undertakings whose Report thereon was finally approved by the whole Committee.

4. A statement showing an analysis of recommendations contained in this Report is also appended (Appendix III).

5. The Committee wish to express their thanks to the Officers of the Ministry of Defence and the Hindustan Aircraft Ltd. for placing before them the material and information that they wanted in connection with the examination of the Annual Report and Accounts of the Company.

NEW DELHI;
April 4, 1961
Chaitra 14, 1883 (Saka).

H. C. DASAPPA,
Chairman,
Estimates Committee.

A. Short Background

The Hindustan Aircraft Ltd. (hereinafter called the H.A.L.) was established as a private limited company on the 23rd December, 1940 by Messrs Walchand Hirachand in collaboration with the Government of Mysore. The Government of India joined the company in 1941 as a shareholder and shortly afterwards, in 1942, purchased the entire interests of Messrs Walchand Hirachand. Establishment.

B. Functions

2. The Company was initially set up for the commercial manufacture of aeroplanes. During the last World War it was, however, utilised by the Defence Department for repair/overhaul of Allied Airforce planes. It resumed its operations as a commercial concern on April 1, 1946. Utilised for repair/overhaul of Allied Planes during the last War.

3. Since then, besides the manufacture and development of aircraft/aero-engines and their overhaul, the Company has taken up various other lines of business which include the manufacture of rail coaches, bus body kits, castings, folding boats for the Army and development of a low cost utility car. The Committee were informed by the Defence Secretary that the aircraft industry was prone to "ups and downs" and it was necessary to have ancillary lines of production. The Committee were further told that while production of bus body kits was being given up, the rail coach project was being kept on as it was both profitable and a useful standby. Activities since the War.

4. The following table shows the percentage of value of sales of various items to total sales during the years 1956-57 to 1958-59:— Analysis of present activities.

Year	Aircraft assembly/manufacture	Overhaul and servicing	Rail coaches	Bus body kits and other jobs
1956-57	20%	41%	35%	4%
1957-58	35%	34%	27%	4%
1958-59	37%	26%	35%	2%

Need for concentrating on the manufacture and development of aircraft.

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

C. Board of Directors

Officials on the Board.

6. The present composition of the Board of Directors of the Company as on 1st November, 1960 is given in Appendix I. It will be seen that of the 8 Directors one is a representative of the Government of Mysore, one is a non-official and the rest are officials appointed by the Government of India. The Secretary of the Ministry of Defence is the Chairman of the Board.

Committee's earlier recommendation to have more non-official Directors and non-official Chairman.

7. In paras 14 and 15 of their 67th Report (First Lok Sabha) on the H.A.L., the Estimates Committee recommended that the composition of the Board of Directors of the Company should be broad-based by reducing the official element and including more experienced industrialists, one of whom might be appointed as the Chairman. *Though Government, in their reply in August, 1959,* recognised the need for reconstitution of the Board in the light of the recommendations made by the Committee, the same have not yet been given effect to.* The Defence Secretary, however, reaffirmed during the evidence that the Committee's recommendations made in this behalf were being kept in view. *The Committee trust that Government will implement the recommendations without any further delay.*

Reasons for having part-time Directors.

8. The Managing Director is a whole-time officer of the Company. All other Directors work part-time. Referring to the question of appointing whole-time Directors, the Defence Secretary informed the Committee that such Directors might not have enough work. They would have also to be paid heavily. He further stated that in the policy making body there should be people who had no special interest in the working of the Company, who should meet occasionally and could take a detached and objective view.

*Cf. Chapter III Sl. No. 2 of 65th Report of the Estimates Committee (Second Lok Sabha).

9. In this connection, it is interesting to invite attention to the following suggestion made in the Report* of the Subcommittee of the Congress Party in Parliament on "Parliamentary Supervision over Public Undertakings" which was presided over by Shri V. K. Krishna Menon:—

Suggestion
by Krishna
Menon
Committee.

"The Managing Director and/or Chairman is the Head of a Board of Directors who should, except in the case of very small concerns, all be full time persons.....normally, the Board should consist of a Chairman, the Managing Director (if there is one), someone who is a financial expert, not drawn from outside the company, one or more of the senior executives, the chief production executive, a representative, wherever possible, of labour and, often, one of the staff."

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

Desirability
of increasing
the strength
of full time
Directors.

11. No term of office is at present specified for the members of the Board of Directors. They continue in office unless a member resigns or is removed by the President. No uniform practice is apparently followed by public undertakings in this regard. For instance, while in the case of the Hindustan Shipyard Ltd. and the Neyveli Lignite Corporation Ltd., all the Directors (except the Chairman and the Managing Director) retire annually, in the case of the Hindustan Aircraft Ltd. and the Indian Telephone Industries Ltd. such tenure has not been prescribed. *It would be obviously desirable to prescribe a tenure for directors and make it uniform to all Public Undertakings.*

Need for
uniformity
in tenure of
Members of
the Board.

*Published by Secretary, Congress Party in Parliament, New Delhi—
(Price Re. 1).

D. Production

(i) Shortfall in production

12. Estimated and actual production of the H.A.L. during the years 1955-56 to 1958-59 are indicated in the table below:—

(In lakhs of Rs.)

	1955-56	1956-57	1957-58	1958-59
Estimated Production	575·33	594·07	661·03	758·46
Actual Production .	520·86	504·98	608·24	697·53
Shortfall . . .	54·47	89·09	52·79	60·93

Reasons for
shortfall.

13. From the information furnished to the Committee, it appears that the shortfall in production has mainly been in respect of assembly and manufacture of aircraft. This was stated to be due to difficulties in obtaining supplies of machinery, raw materials and parts from abroad and transport difficulties both in and outside the country. Secondly, due to the continuous modifications that took place in the aircraft industry, different types of raw materials had to be obtained at short notice. The third contributory factor was stated to be labour difficulties in the year 1957-58. It was also admitted that the earlier estimates were perhaps over-generous. The position was stated to have improved in 1959-60 when the estimates had actually been exceeded.* *The Committee trust that the H.A.L. has turned the corner and the future will show increasing improvement.*

(ii) Components and Parts

Need for
development
of ancillary
units by the
H.A.L.

14. The H.A.L. itself produces practically all components required for aircraft production, except those imported. It is now almost a common place for large manufacturing concerns to develop ancillary industries for supply of components and parts. This results both in economy and efficiency in production. In the U.S.A. approximately 60,000 sub-contractors, most of them small firms, presently

*At the time of evidence it was stated that in 1959-60 the actual production was Rs. 884 lakhs against the estimates of Rs. 857 lakhs.

supply the aircraft industry with components and sub-assemblies which go into a finished aircraft. As a general rule, airframe manufacturers sub-contract approximately half of their total business to other companies.*

15. *It is obvious that adequate attention has not been paid towards development of ancillary industries by the H.A.L. The Defence Secretary did not consider this to be the responsibility of the H.A.L. The Managing Director referred to certain difficulties in doing so as the requirements of components of H.A.L. were small. In view of the importance of the aircraft industry to the country and its speedy expansion in the foreseeable future the requirements of components are bound to go up very much. Increasingly more and more components will also have to be produced indigenously. The Committee, therefore, recommend that steps should be taken by the H.A.L. without delay for the development of ancillary industries.*

(iii) Cost of Production

16. There has been an increase in the cost of production in respect of all items of output of the H.A.L. during the years 1955-56 to 1958-59. In the case of Vampire fighters the increase has been of the order of 7 per cent. In the case of overhaul work the increase ranges from 7 to 71 per cent. The Committee were informed that the main reason for the increase was the substantial rise in the cost of materials used, age of aircraft in the case of overhaul, etc. There had been also an increase in the wages of workers and certain concessions had been given to them.

Cost for production rising.

17. The increase in the cost of material and labour would mostly go to increase direct charges. The Committee were informed that the average overhead expenditure had risen from 329 per cent. on direct labour cost in 1957-58 to 392 per cent. in 1960-61 in the case of aircraft. The Financial Controller, H.A.L. felt that the ratio of 350 between labour and overheads would be quite reasonable for an aircraft factory. This assessment was not, however, based on a verification of the position obtaining in similar factories elsewhere.

High Over-heads.

18. *The ratio of 350 per cent. between labour and overheads appears prima facie on the high side. The Committee hope that efforts will be made to fix a lower ratio as the*

Need to reduce Over-heads.

*Vocational and Professional Monograph No. 94. The Aircraft Industry by Henry T. Simmons, Military Editor, American Aviation Pubs., Inc.

target. Unless the ratio of overheads is brought down, it is unlikely that the cost of production can be appreciably reduced.

Desirability of proforma allocation between old and new projects.

19. Another reason given for rise in the cost of production was that a substantial portion of expenses incurred on new projects especially the factory and administrative overheads were debited to the old projects. *This practice does not appear to be quite correct as such a practice will not give a clear picture of the cost of production. The Committee feel that it would be desirable to make at least a proforma allocation between the projects already established and those under development so that a more realistic cost of production is available.*

High cost of production of integral rail coaches.

20. Integral rail coaches are manufactured both at the H.A.L. and the Integral Coach Factory, Perambur. The estimated cost of production of an integral rail coach at the H.A.L. on stabilisation (*i.e.*, 1962-63) was stated to be Rs. 1.56 lakhs. The cost of an integral coach produced at Integral Coach Factory, Perambur was Rs. 1.40 lakhs. The reasons for higher cost at the H.A.L. were stated to be the superior interior furnishing and anti-corrosive treatment of its coach and also due to difference in accounting methods between both the factories particularly in regard to provision of depreciation.

Need for reducing the cost of Integral Coach at the H.A.L.

21. From a statement showing the break-up of the cost of production of both the factories furnished to the Committee, it is seen that while the cost of direct material per coach is less by Rs. 1,000 at the H.A.L. the expenses on direct labour and overheads are more by Rs. 2,000 and Rs. 15,000 respectively. *Obviously the higher cost of the H.A.L.'s coach is due to higher overheads. In this connection it would be relevant to invite a reference to the statement made by the representative of the H.A.L. before the Public Accounts Committee in 1957-58 that their coach was expected to be cheaper than that of the Integral Coach Factory. The Committee feel that though the H.A.L.'s coach might be somewhat different that cannot justify such large difference in cost. The Managing Director, H.A.L. informed the Committee that the figure of Rs. 1.56 lakhs was only an estimate prepared sometime back and had some cushion. He assured the Committee that every measure would be taken to reduce the cost. The Committee hope that on stabilisation the H.A.L. would be able to produce a rail coach at lower cost than in the Integral Coach Factory, as previously promised.*

E. Expenses

22. The following table shows the expenditure on salaries, wages and bonus etc., welfare schemes, travelling and miscellaneous operating expenses during the period under review:—

(In lakhs of Rs.)				
Items	1955-56	1956-57	1957-58	1958-59
1. Salaries, Wages, Bonus, Provision for accrued leave and contractual obligations, provision for gratuity and contribution to P. Fund.	186	204	236	281
2. Expenses on Welfare Scheme.	11.20	15.33	20.26	20.08
3. Travelling	3.8	4.6	4.7	10.5
4. Misc. Operating expenses.	20	17	27	31
TOTAL	221.00	240.93	287.96	342.58

23. Thus while the production of the Company over the period 1955-56 to 1958-59 rose by 34 per cent. (from Rs. 520.86 lakhs to Rs. 697.53 lakhs) the expenditure on salaries, wages and bonus etc. rose by 51 per cent., on welfare schemes by 79 per cent., on travelling by 176 per cent. and on operating expenses by 55 per cent. Total percentage increase in respect of these items has been 55 per cent. The disproportionate rise in expenditure was explained to be due to overall increase in the activities of the Company, increase in wages, grant of various concessions to labour and training of more engineers and technicians abroad. *The Committee expect that raising the wages of workers should be accompanied by a corresponding rise in productivity.* It would appear that some 5 or 6 years ago there was a study made of man-hour productivity by IBCON which it was stated was now obsolete. The representative of the Ministry agreed that such a study would open the eyes sometimes. *The Committee suggest that it is time that such an expert study is made to assess whether the large increase of ratio in the expenditure over the production was fully justified and whether the production could not be stepped up reasonably.*

Need to check disproportionate rise in expenditure.

F. Turnover and profits

24. A table indicating the turnover and yield of the Company during the last four years is given below:—

(In lakhs of Rs.)

Particulars	1955-56	1956-57	1957-58	1958-59
A.				
1. Total Capital*	993	1,482	1,727	2,256
2. Net Worth :				
(a) Paid-up capital	380	680	830	1,080
(b) Reserves and Surpluses	125	134	166	206
(c) Less fictitious assets	(—)25	(—)12	(—)33	(—)101
TOTAL	480	802	963	1,185
3. Net working capital **	368	655	636	407
4. Sales	521	505	608	698
5. Net Profits (before tax & interest)	32.12	46.43	47.32	48.56
6. Net Profits (after tax & interest)	28.02	32.29	34.16	39.51
B.				
1. Ratio of total capital to Sales	1 : .5	1 : .34	1 : .35	1 : .31
2. Ratio of net working capital to Sales	1 : 1.4	1 : .77	1 : .96	1 : 1.71
3. Percentage of Net profits (before tax & interest) to Sales	6%	9%	8%	7%
4. Percentage of Net profits (before tax & interest) to Total Capital	3%	3%	2.7%	2.2%
5. Percentage of Net profits (after tax and interest) to Net worth	5.8%	4%	3.5%	3.3%

* Total of all assets less fictitious assets which consist mostly of the expenditure on research and development.

** Represents difference between current assets and current liabilities.

(i) *Turnover*

25. The sales of the Company went up from Rs. 521 lakhs in 1955-56 to Rs. 698 lakhs in 1958-59, i.e., an increase of 34 per cent. During the same period, the total capital employed in the Company rose by 127 per cent. viz., from Rs. 993 lakhs in 1955-56 to Rs. 2,256 lakhs in 1958-59. It was stated that of the additional investment (amounting to Rs. 1,263 lakhs), a sum of Rs. 873 lakhs had been invested on several new projects undertaken in recent years, which have not yet gone into production and the balance of Rs. 390 lakhs only was invested on old projects. It was further stated that in aircraft industry it took several years to stabilise the production of new items. *This may be true for developing a new aircraft but not necessarily for items which are already proved and are being developed under licence. However, taking only the investment on old projects into account, the ratio of total capital employed on old projects to production during 1958-59 works out to 1:5. Normally, the minimum ratio of capital to turnover should be 1:1. Thus it would appear that the turnover of the Company is low.*

Turnover
Low.(ii) *Profits*

26. The percentage of net profits (before tax and interest) to the total capital employed has come down from 3 to 2 and the percentage of net profits (after tax and interest) to net worth has also fallen from 5:8 to 3:3 during the four years ending with 1958-59. Similarly, the percentage of net profits (before tax and interest) to Sales, which rose from 6 in 1955-56 to 9 in 1956-57, has been declining since then.

Profitability
Low.

27. Two reasons were adduced for this low yield. First, the proportion of manufacturing activities of the Company was progressively increasing as compared to the overhaul work on which a 10 per cent margin of profit was allowed by Government as against 5 to 6 per cent on the former. Secondly, the bulk of the additional investment made during the years under review has been on new projects which have not yet started giving any returns.

Reasons for
low yield.

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

(iii) *Dividends and Reserves*

No return
on Capital.

29. No dividends have been declared by the H.A.L. during the years under review. In fact, during the 20 years of its existence, the Company had declared dividend only once in 1949-50, when a dividend of Rs. 5.25 lakhs (at the rate of 3 per cent of the paid-up capital) was declared. The same was, however, capitalised by the issue of additional shares to the share-holders. *Thus the Company has been unable to give any return on the invested capital.* During evidence the Defence Secretary stated that they had not been very anxious to the paying of dividends by the H.A.L. and that it was thought better to plough back the surpluses into Reserves.

Reserves
very low.

30. The balance of reserves and surpluses of the Company at the end of 1958-59 was Rs. 206 lakhs as against the paid-up capital of Rs. 1,080 lakhs. Thus the Reserves are about 19 per cent. of the paid-up capital. Even after excluding the proportionate investment on new projects, the percentage of Reserves to paid-up capital comes to about 33 per cent. Normally, the ratio of Reserves to the paid-up capital should be 1:1. *Considering that the Company has been in existence for 20 years and the fact that no dividends have been declared, except once, the amount of reserves built up by the Company is very low* just one fifth of what it should be normally. It has also not been able to meet any significant portion of expansion/development programme for which the paid-up capital has had to be raised by Rs. 700 lakhs during the three years.*

(iv) *Depreciation*

Depreciation
not ade-
quate.

31. The Company has been providing depreciation on fixed assets at the ordinary income tax rates. The total amount of depreciation provided upto 31st March, 1959 was Rs. 167 lakhs. The Financial Controller, H.A.L. informed the Committee during evidence that the existing depreciation provision was by and large adequate. The matter would, however, be reviewed shortly to see whether any revision was called for. *Income Tax rates of depreciation are fixed for tax purposes on the basis of the overall expected life of a class of assets. In an industry changing so*

* The aggregate ratio of paid-up capital to reserves of 1001 Companies in the private sector, worked out by the Ministry of Commerce and Industry (Deptt. of Company Law Administration) as at the end of the year 1956-57 was 1 : 1.1. The ratio of Reserves to paid up capital of HAL was 1 : 5.

rapidly and radically, like the aircraft industry, the normal rate of depreciation allowed by Income Tax authorities is not likely to prove adequate. The Committee understand that in U.K. the aircraft industry has to practically write off its assets every five years and has to provide much larger amounts for depreciation than accepted by Income Tax authorities.* The Committee consider that in the case of H.A.L. the special requirements of the aircraft industry in respect of depreciation call for examination.

G. Pricing System

32. Most of the work done by the H.A.L. is on 'cost-plus' basis. The margin of profit on I.A.F. manufacturing projects is stated to be fixed on an *ad hoc* basis after taking into consideration the overall cost of the aircraft/engines, the volume of work involved, the number of man hours put in by the H.A.L. and the cost of the material utilised. As already stated generally Government allowed 5 to 6 per cent profit on manufacturing projects and 10 per cent on overhaul. The difference between the two margins was due to the fact that while in the case of overhaul the entire capital employed was of the Company, in the case of manufacturing projects the cost of materials, jigs, tools etc. was often paid from the I.A.F. funds. It was stated that the margin of profit allowed to the Company was adequate.

Pricing on
'Cost-plus'
basis.

33. The present system of 'cost-plus' basis is apparently a legacy of the war. Such a system is generally held not to provide an incentive to the manufacturer to be efficient and to minimise his cost. In the U.K., the Select Committee on Estimates have repeatedly criticised this fixation of 'cost-plus' basis of pricing. Other authorities have also commented adversely on the desirability of having a 'cost-plus' basis in the following words:—

“During the war general principle was laid down, although never accepted by the industry, that prices should be fixed to give a certain rate of profit on capital employed. At first the standard laid down was 10 per cent but this was later reduced to 7½ per cent. This was to be a basic figure and additional percentages were allowed, upto a maximum of 15 per cent where the manufacture was carrying some risk and as a premium for efficiency. . . . All who have commented on aircraft pricing during recent

*Second Report of the Select Committee on Estimates, U. K. (Session 1956-57), pages 144 and 296.

years have stressed the need to introduce into the system some incentive to the manufacturer to be efficient and minimise his costs. This, it is argued can only be achieved if at an early stage a fixed price is arranged for the contract which the manufacturer can work to

'Cost-plus' basis to be replaced by fixed price.

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

H. Works-in-Progress

Need for valuing works-in-progress at factory cost.

35. The value of works-in-progress of the Company has been consistently going up as would be seen from the following statement:

	(Amounts in lakhs of Rs. & decimals)			
	1955-56	1956-57	1957-58	1958-59
Material and Overhead	134.36	164.58	164.16	218.01
Labour and Overhead	93.97	117.95	140.70	135.70
Sunday Direct Charges	2.04	2.83	13.00	3.53
	<u>230.37</u>	<u>285.36</u>	<u>317.86</u>	<u>357.24</u>

It has been explained that the works-in-progress have been valued on the basis of total cost. The Committee understand that under this method, the value of the works-in-progress tends to be inflated and that the recognised practice is to value them at factory cost and not at total cost as has been done.† *The Committee, recommend that the existing practice in regard to the valuation of the works-in-progress may be reviewed.*

I. Book Debts

High Book Debts. ¶

36. The book debts of the company have been progressively rising and at the end of 1958-59 stood at Rs. 306 lakhs, a cent per cent increase over a period of 3 years. The

*The Structure of British Industry by Duncan Burn Vol. II, 1958, p. 86.

†Internal Finance by J. G. Rose, p. 39.

Committee were informed that in pursuance of an earlier recommendation of the Estimates Committee, the Ministry of Defence has reviewed the position through an *ad-hoc* Special Committee. As a result, the total outstandings have been reduced to Rs. 205 lakhs as on 31st March, 1960. *Though the position has undoubtedly improved during the last one year, the total amount of outstanding is still substantial. The total amount of loans taken by the Company from the Government and the State Bank of India as on 31-3-59 was Rs. 42 lakhs. Better realization of its own dues would have enabled the undertaking to dispense with such borrowings. The Committee were informed that in a system in which selling price is fixed on 'cost-plus' basis, a certain amount of delay in the recovery of outstanding dues is unavoidable. This is yet another ground for changing the present system of 'cost-plus' basis recommended by the Committee in para 34 above. Till that is done special efforts should continue to be made for prompt recovery of dues and liquidation of old outstanding amounts.*

J. Presentation of Reports and Accounts

37. No manufacturing and trading account used to be appended to the Annual Reports of the Company. It was contended by the H.A.L. that there was no provision for the submission of this account in the Companies Act, 1956. *The Committee are glad to find in the latest Annual Report for the year ending 31st March, 1960 that the manufacturing and trading account has been appended.*

Inclusion of Manufacturing and Trading Account in Annual Reports.

K. H.A.L. and the I.A.F. Maintenance Command, Kanpur

38. Government have recently undertaken the manufacture of Avro 748 aircrafts at the I.A.F. Maintenance Command, Kanpur to replace Dakotas in the Indian Air Force. In evidence the Defence Secretary stated that the selection of this centre for production of aircrafts was governed by the following factors:

Reasons for Undertaking manufacture of aircrafts at I.A.F. Maintenance Command, Kanpur.

- (i) Desire to create competition between two undertakings of the Public Sector;
- (ii) Strategic location; and
- (iii) Availability of facilities.

Need for
one organi-
sation

39. Explaining the reasons for creating an independent unit for the purpose, he stated that it was desirable to have competition between two undertakings in the public sector for 'creative effort'. *Since both the organisations would be under the administrative control of the same Ministry and would be manufacturing different types of planes the necessary element of competition is not prima facie very apparent. On the other hand, as already recommended by the Committee in para 3 of their 80th Report (2nd Lok Sabha) the normal pattern should be to utilise the existing organisations to take up new activities in the line instead of creating new units. The Committee hope that Government will examine at an appropriate time the feasibility of having one organisation for the two undertakings engaged in air-craft industry. In this connection the Committee note the pattern followed in the case of Fertilizers and Steel—where for very good reasons the Government set up one organisation to look after allied producing units.*

Need for
Co-ordinated
planning
between
I. A. F. and
Civil Avia-
tion.

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

NEW DELHI;
April 4, 1961
Chaitra 14, 1883 (Saka).

H. C. DASAPPA,
Chairman,
Estimates Committee.

APPENDIX I

(Vide para 6)

Statement showing the composition of the Board of Directors of the H.A.L. as on 1-11-1960.

1. Shri O. P. Pulla Reddi, Secretary, Ministry of Defence—*Chairman.*
2. Shri R. P. Sarathy, Additional Secretary, Ministry of Defence—*Director.*
3. Shri S. Jayasankar, Financial Adviser, Ministry of Finance (Defence)—*Director.*
4. Air Marshal S. Mukerjee, Chief of Air Staff—*Director.*
5. Prof. M. S. Thacker, Secretary, Ministry of Scientific Research and Cultural Affairs—*Director.*
6. Shri J. R. D. Tata—*Director.*
7. Shri B. M. Abu Baker, Secretary, Commerce and Industry, Govt. of Mysore—*Director.*
8. Air Marshal A. M. Engineer—*Managing Director.*

APPENDIX II]

Summary of Conclusions/Recommendations

Serial No.	Reference to para No. in the Report	Summary of Conclusions/Recommendations
1	2	3
1	5	During the three years ending 1958-59, on an average manufacture of aircrafts and overhaul/servicing have accounted for 64 % of the undertaking's activities. The Committee are glad to note that the H.A.L. has given up the manufacture of bus body kits. It has long been engaged in the production of rail coaches which in the circumstances seem to be a good standby. They would, however, point out the desirability of planning the future developments of H.A.L. so as not to allow the standby units of production to get the better of the main line.
2	7	Though Government had recognised the need for reconstitution of the Board of Directors of the Company in the light of the recommendations made in paras 14 and 15 of 67th Report of the Estimates Committee (1st Lok Sabha), the same have not yet been given effect to. The Committee trust that Government will implement the recommendations without any further delay.
3	10	The aircraft industry is a highly technical and specialised one in which major technical changes are taking place at a fast pace. The Committee are doubtful whether there are any special advantages, as have been claimed, in having as Directors persons who have no special interest in the undertaking. As regards the reasons advanced by the Defence Secretary that the appointment of full time Directors would involve high expenditure, the Committee would invite a reference to para 1 of their 65th Report (Second Lok Sabha). It is quite likely that the appointment of

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full time functional Directors would enable the posts of General Manager (Technical) and Deputy General Managers to be done away with, which could offset to some extent the additional expenditure involved. The Committee recommend that the Government may examine the desirability of increasing the strength of full-time Directors for the H.A.L.

- 4 11 It would be obviously desirable to prescribe a tenure for Directors and make it uniform to all Public Undertakings.
- 5 13 The Committee trust that the H.A.L. has turned the corner in regard to realisation of its production targets and the future will show increasing improvement.
- 6 15 It is obvious that adequate attention has not been paid towards development of ancillary industries by the H.A.L. In view of the importance of the aircraft industry to the country and its speedy expansion in the foreseeable future the requirements of components are bound to go up very much. Increasingly more and more components will also have to be produced indigenously. The Committee, therefore, recommend that steps should be taken by H.A.L. without delay for the development of ancillary industries.
- 7 18 The ratio of 350% between labour and overheads appears *prima-facie* on the high side. The Committee hope that efforts will be made to fix a lower ratio as the target. Unless the ratio of overheads is brought down, it is unlikely that the cost of production can be appreciably reduced.
- 8 19 The practice of debiting expenditure incurred on new projects to old projects already under production does not appear to be quite correct as such a practice will not give a clear picture of the cost of production. The Committee feel that it would be desirable to make at least a *proforma* allocation between the projects already established and those under development so that a more realistic cost of production is available.
- 9 21 The higher cost of the H.A.L.'s coach is due to higher overheads. In this connection it would be relevant to invite a reference to the statement made by the representative of the H.A.L. before the Public Accounts Committee in 1957-58 that their coach was expected to be cheaper than that of the Integral Coach
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1	2	3
		Factory. The Committee feel that though the H.A.L.'s coach might be somewhat different, that cannot justify such large difference in cost. The Committee hope that on stabilisation, the H.A.L. would be able to produce a rail coach at lower cost than in the Integral Coach Factory, as previously promised.
10	23	The Committee expect that raising the wages of workers should be accompanied by a corresponding rise in productivity. They suggest that it is time that an expert productivity study is made to assess whether the large increase of ratio in the expenditure over the production was fully justified and whether the production could not be stepped up reasonably.
11	25	The plea that in aircraft industry it took several years to stabilise the production of new items may be true for developing a new aircraft but not necessarily for items which are already proved and are being developed under licence. However, taking only the investment on old projects into account, the ratio of total capital employed on old projects to production during 1958-59 works out to 1 : '5. Normally, the minimum ratio of capital to turnover should be 1 : 1. Thus it would be appear that the turnover of the Company is low.
12	28	Even if allowance is made of the investment on new projects, the percentage of net profits (before tax and interest) to total capital invested on old projects during 1958-59 comes to 3.5%. It would thus appear that the profits on the established items of production would still be low. The Committee hope that the undertaking would take adequate steps to remedy the position.
13	29	The Company has been unable to give any return on the invested capital.
14	30	Considering that the Company has been in existence for 20 years and the fact that no dividends have been declared, except once, the amount of reserves built up by the Company is very low, just one-fifth of what it should be normally. It has also not been able to meet any significant portion of expansion/development programme for which the paid-up capital has had to be raised by Rs. 700 lakhs during the three years.
15	31	Income Tax rates of depreciation are fixed for tax purposes on the basis of the overall expected life of a class of assets. In an industry changing so rapidly and radically, like the aircraft industry, the

- | 1 | 2 | 3 |
|----|-------|---|
| | | normal rate of depreciation allowed by Income Tax authorities is not likely to prove adequate. The Committee consider that in the case of H.A.L. the special requirements of the aircraft industry in respect of depreciation call for examination. |
| 16 | 34 | The Committee feel that the present system of 'Cost-Plus' basis on which H.A.L. works is not very conducive to efficiency and reduction of costs. It will be desirable for the H.A.L. to work out its expected costs properly and quote prices on that basis. The profits it makes can thus be a true test of its performance. The Committee suggest that the present system of 'Cost-Plus' basis followed by the H.A.L. should be replaced by a fixed price to be worked out in the manner indicated. |
| 17 | 35 | The Committee recommend that the existing practice in regard to the valuation of the works-in-progress may be reviewed. |
| 18 | 36 | Though the position in regard to book debts has undoubtedly improved during the last one year, the total amount outstanding is still substantial. The total amount of loans taken by the Company from the Government and the State Bank of India as on 31-3-59 was Rs. 42 lakhs. Better realisation of its own dues would have enabled the undertaking to dispense with such borrowings. The Committee were informed that in a system in which selling price is fixed on 'cost-plus' basis, a certain amount of delay in the recovery of outstanding dues is unavoidable. This is yet another ground for changing the present system of 'cost-plus' basis recommended by the Committee in para 34. Till that is done special efforts should continue to be made for prompt recovery of dues and liquidation of old outstanding amounts. |
| 19 | 38-39 | Since both the H.A.L. and the I.A.F. Maintenance Command, Kanpur would be under the administrative control of the same Ministry and would be manufacturing different types of planes the necessary element of competition is not <i>prima facie</i> very apparent. On the other hand, as already recommended by the Committee in para 3 of their 80th Report (Second Lok Sabha), the normal pattern should be to utilise the existing organisations to take up new activities in the line instead of creating new units. The Committee hope that Government will examine at an appropriate time the feasibility of having one organisation for the two undertakings engaged in aircraft |

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industry. In this connection, the Committee note the pattern followed in the case of Fertilisers and Steel—where for very good reasons the Government set up one Organisation to look after allied producing units.

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

APPENDIX III

(vide Introduction)

Analysis of the recommendations contained in the Report

I. CLASSIFICATION OF RECOMMENDATIONS :

A. Recommendations for improving the organisation and working :

Sl. Nos. 1, 2, 3, 4, 5, 6, 11, 12, 13, 14, 15, 16.

B. Recommendations for effecting economy :

Sl. Nos. 7, 9, 10, 18.

C. Miscellaneous :

Sl. Nos. 8, 17, 19, 20.

II. ANALYSIS OF THE RECOMMENDATIONS DIRECTED TOWARDS ECONOMY —

Sl. No.	No. as per summary of recommendations	Particulars
1	7 & 9	Reduction in the cost of production.
2	10	Desirability of conducting productivity study.
3	18	Prompt recovery of dues.

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 4. International Consul-
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chinopoly-3.
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79. The Imperial Publishing Company, 3, Faiz Bazar, Daryaganj, Delhi-6.
80. Jayana Book Depot, Chapparwala Kuan, Karol Bagh, New Delhi.
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90. Sikh Publishing House Private Limited, 7-C, Connaught Place, New Delhi.

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93. The Secretary, Establishment Department, The High Commission of India, I dia House Aldwych, LONDON W.C. 2.

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