

CPU NO. 939

6

SIXTH REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS

(2009-2010)

(FIFTEENTH LOK SABHA)

SECURITY PRINTING AND MINTING CORPORATION OF INDIA LIMITED

MINISTRY OF FINANCE  
(DEPARTMENT OF ECONOMIC AFFAIRS)



Presented to Lok Sabha on 30.04.2010

Laid in Rajya Sabha on 30.04.2010

LOK SABHA SECRETARIAT

NEW DELHI

April, 2010 / Chaitra 1932(S)

## CONTENTS

	<b>Page No.</b>
Composition of the Committee (2009-2010)	(v)
Introduction	(vii)
<b>Part- I Report</b>	
<b>CHAPTER I.   ROLE AND OBJECTIVES</b>	<b>6</b>
a).     Introductory	
b).     Rationale for formation	
c).     Role and functions	
 <b>CHAPTER II   ORGANISATIONAL MATTERS</b>	 <b>13</b>
a).     Organisaional set up	
b).     Board of Directors	
c).     Manpower	
 <b>CHAPTER III  PERFORMANCE</b>	 <b>19</b>
a).     Policy of the Govt.	
b).     Indents	
c).     Order Book Position	
d).     Capacity Utilisation	
e).     System of forecasting	
f).     Disposal of Impaired Machinery	
g).     Export/Import	
h).     Foreign Exchange	

CHAPTER IV	FUNCTIONAL MATTERS	30
	a). Capital Structure	
	b). Sundry Debtors	
	c). Corporate Social Responsibility	
	d). Security System	
	e). Taxation matters	
	f). Mini-Ratna Status	
	g). Modernization	
CHAPTER V	R&D AND INDIGENISATION	38
	a). R&D	
	b). Outsourcing	
	c). Challenges of Counterfeit Notes	
	<b>Part –II</b>	
	<b>Observations / Recommendations of the Committee</b>	48
	<b>ANNEXURES</b>	
	Minutes of the sittings of the Committee	72

**COMPOSITION OF THE  
COMMITTEE ON PUBLIC UNDERTAKINGS (2009 - 2010)**

**Shri V. Kishore Chandra S. Deo - Chairman**

**MEMBERS, LOK SABHA**

2. Shri K.C. Singh 'Baba'
3. Shri Ramesh Bais
4. Shri Hemanand Biswal
5. Shri Anant Kumar Hegde
6. Shri Sukhdev Singh Libra
7. Dr. Charan Das Mahant
8. Shri Bajjayant Panda
9. Shri L. Rajagopal
10. Shri Nama Nageswara Rao
11. Chaudhary Lal Singh
12. Shri Ganesh Singh
13. Shri N. Dharam Singh
14. Shri Rajiv Ranjan Singh alias Lalan Singh
15. Shri Bhisma Shankar alias Kushal Tiwari

**MEMBERS, RAJYA SABHA**

16. Shri Birendra Prasad Baishya
17. Shri Bharatkumar Raut
18. Ms. Mabel Rebello
19. Dr. T. Subbarami Reddy
20. Shri Vijay Kumar Rupani
21. Shri Tapan Kumar Sen
22. Shri Amar Singh

**SECRETARIAT**

- |    |                    |                      |
|----|--------------------|----------------------|
| 1  | Shri J.P. Sharma   | Joint Secretary      |
| 2  | Shri Rajeev Sharma | Director             |
| 3. | Shri Girdhari Lal  | Sr. Executive Asstt. |

## **INTRODUCTION**

I, the Chairman, Committee on Public Undertakings having been authorized by the Committee to submit the Report on their behalf, present this Sixth Report on the Security Printing and Minting Corporation of India Limited (SPMCIL).

2. The Committee took oral evidence of the representatives of SPMCIL on 27<sup>th</sup> October, 2009 and further, took oral evidence of the representatives of Ministry of Finance (Deptt. of Economic Affairs) and Reserve Bank of India on 20<sup>th</sup> January, 2010.

3. The Committee on Public Undertakings (2009-10) considered and adopted this Report at their sitting held on 9th March.2010. .

4. The Committee wish to express their thanks to the representatives of the Security Printing and Minting Corporation of India Limited (SPMCIL) and Ministry of Finance (Deptt. of Economic Affairs) and Reserve Bank of India for placing before them the desired material and information in connection with the examination of the subject. The Committee would also like to place on record their appreciation for the invaluable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

5. For facility of reference and convenience, the observations and recommendations of the Committee have been printed in bold letters in Part-II of the Report.

New Delhi:  
9<sup>th</sup> March, 2010  
19 Phalgun, 1931 (Saka)

**SHRI V. KISHORE CHANDRA S. DEO**  
**Chairman**  
**Committee on Public Undertakings**

**PART-I**  
**CHAPTER-1**  
**ROLE AND OBJECTIVES**

**INTRODUCTORY**

1.1 Security Printing & Minting Corporation of India Ltd. (SPMCIL) is a Mini-Ratna Central Public Sector Enterprise (CPSE) wholly owned Schedule 'A' Company of Government of India, incorporated on 13th January, 2006 with its registered office at New Delhi. SPMCIL. The Corporation is engaged in the manufacture / production of Currency and Bank Notes, Security Paper, Non-judicial Stamp Papers, Postal Stamps & Stationery, Travel Documents viz., Passport and Visa, Security Certificates, Cheques, Bonds, Warrants, Special Certificates with Security Features, Security Inks, Circulation & Commemorative Coins, Medallions, Refining of Gold, Silver and Assay of Precious Metals, etc.

**RATIONALE FOR FORMATION**

1.2 The Corporation was incorporated by taking over two security presses at Nashik and Hyderabad, two currency note presses at Dewas and Nashik, four mints at Mumbai, Kolkata, Hyderabad and Noida and one security paper mill at Hoshangabad which were working under the direct administrative control of the Ministry of Finance, Department of Economic Affairs.

1.3 Explaining the background for formation of a Corporation by the corporatization of the departmental industrial organisations, SPMCIL furnished the following information:

“The Expenditure Reforms Commission in its 3<sup>rd</sup> Report dated 23<sup>rd</sup> December, 2000 while giving a set of nine recommendations concerning mints and presses, suggested exploration of the option of placing India Security Press, Nashik and four India Government Mints under a corporate body. It was also recommended by the Commission that the feasibility of the Department of Posts taking over the Security Printing Press, Hyderabad may be explored. The Commission further recommended for the two currency note presses at Dewas and Nashik to be transferred to the control of Bharatiya Reserve Bank Note Mundran Private Limited, setting up of a new security paper mill by the Reserve Bank of India and phasing out or privatization of Security Paper Mill, Hoshangabad. Neither Reserve Bank of India nor Department of Posts agreed to take over the security presses as per the recommendations of the Expenditure Reforms Commission. The feasibility of hiving off security paper mill at Hoshangabad could not fructify due to operational and logistic constraints. On subsequent review of functions and performance of the Units, it was realized that the main constraints in the existing system of keeping these units as Government entities were low productivity, obsolete technology, outdated financial systems and procedures, besides delay in responding technologically to the challenges of counterfeiting. All these factors, in combination, were resulting in inefficient capacity utilization and consequential higher cost of production. In view of the above, the Industrial Finance Corporation of India (IFCI) Limited was appointed as consultant to study the working of the nine units and present a feasibility report for their

corporatization. The IFCI Report highlighted the inefficiencies and low productivity prevalent in the system leading to higher cost of production and lower profitability. The Report suggested that –

- (a) The corporatization was necessary for the overall improvement in decision making process, operational flexibility coupled with commensurate accountability fostering efficiency and higher productivity in the units. As a sequel, the corporatization of units would lead to reduction of Government expenditure in terms of managing the units besides inculcating efficiency through rationalization of operational hassles and flexibility in employing advanced technology.
- (b) Corporatization of the units under a unified corporate was necessitated to enable the management to take appropriate and timely decisions for manpower deployment, improving financial performance and fixing of performance and productivity standards. The Report of the IFCI was accepted by the Government. Accordingly, it was decided to form a wholly owned corporation by taking over all the nine security presses/mints/security paper mill. The Union Cabinet in its meeting held on 2<sup>nd</sup> September, 2005 approved the formation of a wholly owned corporation, namely, the Security Printing and Minting Corporation of India Limited (SPMCIL). The corporation was incorporated under the Companies Act on 13<sup>th</sup> January, 2006.”

1.4 When asked why the Government considered it expedient to incorporate SPMCIL by placing under it all the nine departmental units functioning under the direct control of the Ministry of Finance for a fairly long period in a sensitive area like printing of currency notes and security documents/papers, minting of coins, etc., the Ministry stated in a written note as under:

“A review of the international scenario reveals that the form of governance of Mints and Security Presses has by and large moved from government to a corporate like structure in case of many countries, such as, United Kingdom, France, Germany, China, South Korea and many other countries. Printing of currency notes and security documents and minting of coins are sensitive areas in all the countries. That is why, though the production of Bank Notes, Coins and Security Documents have been transferred to a corporate body, the design, material, security features and circulation of these is still under the control of the Union Government, RBI and the State Governments (in respect of non-judicial stamp papers and court fee stamps). Further, the security of all the establishments is looked after by the Central Industrial Security Force (CISF). At three places, the security is under State Police Establishments which is also being handed over to the CISF. The policy aspects concerning currency and coinage are still under the control of the Central Government and the Reserve Bank of India and the security to the units is also provided by the Central/State Security Agencies. Thus, there is no security risk at all in transfer of the functions of the 9 departmental units to a corporate body, i.e., SPMCIL”.

### **ROLE AND FUNCTIONS**

1.5 According to the information made available, SPMCIL is broadly operating through four production verticals i.e. Currency Printing Presses, Security Printing

Presses, Security Paper Mill and India Government Mints. A brief introduction of these units alongwith details of operational activity is as follows:

### **1. CURRENCY PRINTING PRESSES**

- (i) There are two Currency Printing Presses i.e. Currency Note Press (CNP), Nashik Road (Maharashtra) and Bank Note Press (BNP), Dewas (M.P) which are engaged in production of Bank Notes for our country as well as for foreign countries using state of the art technology.
- (ii) These units have created a niche for themselves in the market. More than 40% of Currency Notes circulated in India are printed by company. These units are equipped with designing, engraving, complete Pre-printing and Offset facilities, Intaglio Printing machines, Numbering & Finishing machines etc.
- (iii) Both the Currency Note Printing Presses are ISO 9001:2000 & ISO 14001:2004 certified units having fool-proof accounting of security items, stringent security systems with ultra-modern eco-friendly efficient treatment facilities and complemented by a service department to ensure maximum in-transit security.
- (iv) These units have captive railway treasury wagons / carriages for transporting the treasury consignments. These units have history of export of Bank Notes to countries like East Africa, Iraq, Nepal, Sri Lanka, Myanmar, Bhutan etc.

### **2. SECURITY PRINTING PRESSES**

- (i) There are two Security printing presses of SPMCIL namely India Security Press (ISP), Nashik Road (Maharashtra) and Security Printing Press (SPP), Hyderabad (A.P.). Security Printing Presses have glorious history of employing specialized technology and multiple printing processes to produce security products under secure operating procedures and manufacturing protocols. These presses have the latest technological facilities for Designing, Pre-printing and Post-Printing.
- (ii) These Presses print the 100% requirement of passports and other travel documents, Non-judicial stamp papers, cheques, bonds, warrants, postal stamps and postal stationery and other security products.
- (iii) The Security Printing Presses have the capability of incorporating security features like chemically reactive elements, various Guilloche patterns, micro lettering, designs with UV inks, bi-fluorescent inks, optical variable inks, micro perforation, adhesive/glue, embossing, die-cutting and personalization, etc.

### **3. SECURITY PAPER MILL (SPM) HOSHANGABAD (M.P.)**

- (i) Security Paper Mill (SPM), Hoshangabad was established in 1968 and notified as non-commercial undertaking under the administrative control of Govt. of India, Ministry of Finance. This unit is responsible for manufacturing of different types of Security Papers.
- (ii) Papers manufactured by this unit are used for printing of Currency Notes by Currency Note Press (CNP), Nashik and Bank Note Press (BNP), Dewas and



for Non-Judicial Stamps being printed by India Security Press (ISP), Nashik and Security Printing Press (SPP), Hyderabad.

- (iii) SPM has the distinction of incorporating numerous security features in paper viz. Fluorescence Fibers, Multi-tonal Three Dimensional Watermark, Electrotype Watermark, various types of Security Threads, Taggants, etc. At SPM, Hoshangabad, the eco-friendly process and the energy conservation aspects are assigned the utmost importance.
- (iv) In the year 2008-09, SPM has indigenously developed Rhododendron flower watermark in CWBN Paper and supplied the paper to CNP for printing of Nepalese Bank Note of Rs.10/- denomination. For maintaining quality management system, SPM has received ISO 9001:2000 certification by QSI Certification Service, USA.

#### **4. MINTS**

SPMCIL's four Mints at Mumbai, Hyderabad, Kolkata, Noida have rich minting heritage and legacy of producing quality products. These mints are carrying out minting of all coins circulated in the country. India Government Mints (IGM) offer comprehensive range of services covering every stage of the minting process – from planning to the finished products. Utilization of advanced technology, innovation, quality and reliable delivery methods are some of the components of strength of these mints.

#### **Circulation Coins**

(i) The manufacturing process for circulating coins in these mints constitutes a perfect symbiosis between the centuries-old art of engraving, the minting process and the most advanced industrial processes-world class technology and material management, traceability, automation to finish the coins adhering to extreme quality and security norms. IGMs have struck coins for countries like Greece, Sri Lanka, East Africa, Australia, Egypt, Bhutan, Iraq, Saudi Arabia, Malaysia, Oman, Thailand, in the past, and Dominican Republic in the current year.

(ii) The mints are equipped with Computerized Numeric Control Engraving Machines which are used for manufacturing master punches/matrix/dies for coins. India Government Mints are having latest Coining Presses. In all, these mints are having 60 Coining Presses.

(iii) There are latest Blanking Lines available for in-house production of coin blanks. India Government Mints are having Polishing and Pickling Lines for polishing of coin blanks. India Government Mint (IGM), Noida is also equipped with automatic visual inspection and sorting system to check the quality of coin blanks/ coins to meet International Quality Standards.

(iv) SPMCIL has also placed purchase order for three numbers of fully automatic centrifugal finishing lines and four numbers of semi automatic centrifugal finishing lines from Germany. All India Government Mints are equipped with coin Pouch Packing Machines. Apart from above, Mints are equipped with Heat treatment, Workshop, Assaying/ Medallion/ Bullion facilities etc.

### **Commemorative Coins**

(v) The Commemorative / Collectors' coins are anybody's prized possession. And the range of these exclusive coins manufactured by IGMs is the result of proven track record with efficiency, excellence and elegance.

(vi) Minting of these coins starts with developing the designs and engraving by deft hands. Then begins the mechanical exercise of manufacturing master punch/dies on CNC machines followed by stamping with Automatic Multi-Strike Medal Presses, ensuring the top-notch quality. This is an exclusive process as it obviates deterioration of the Blanks and allows great precision. The same piece is struck repeatedly with a view to achieving clarity and comprehensive expression of the image. These commemorative coins are manufactured in Proof and Un-circulated variety.

(vii) In 2008-09, India Government Mint (IGM), Mumbai has issued commemorative coins on Khadi & Village Industries, First War of Independence and Gur-Ta-Gaddi of Shri Guru Granth Sahib.

(viii) India Government Mint (IGM), Kolkata has issued commemorative coins on Shahid Bhagat Singh Birth Centenary and 200th Birth Anniversary of Louis Braille.

### **Medallion and Bullion Activity**

(i) Apart from circulation coins minting, IGMs are also a trusted name in minting of items like Medallions and Investment Coins, etc. In doing so, the manufacturing of Medallion starts with steps of creating a perfect design, followed by quality minting which culminates into a personalised examination of the finished product. The dies are put to an exceptional care in terms of cleanliness and inspection to generate output of optimum quality.

(ii) Further, building credibility and gaining trust, for decades, at Mumbai, Kolkata and Hyderabad the Refining and Hallmarking of the Precious Metals is also undertaken. The IGMs set benchmark in the Assay Certification and the same is emulated by other players as industry norm.

(iii) IGMs spearhead in refining the offerings of precious metals made to various temples, religious places, trusts, etc. and minting them into coins. IGMs have made a niche in the minting world – with excellence in design, expertise in minting precious metals, and above all, a long tradition of craftsmanship. Reliability is combined in a natural manner in design and production of individualistic solution that truly reflect the customers' values.

(iv) In 2008-09, out of the new orders executed/customer added, the manufacturing of medals for Commonwealth Youth Games, Pune, 2008, National Youth Award Medal, Dollars for Shri Thirupati Thirumala Devasthanam, Shipping Corporation of India Limited, North Eastern Railways, etc. are worth mentioning.

(v) Various Stamping Equipments and Weights & Measures to Pan-India offices of Controller of Legal Metrology (Weights & Measures) and Special silver anodes for Telecom Factory, Deonar were also supplied by IGM, Mumbai.

(vi) Gold bars, from the gold ornaments which were earlier melted by IGM, Mumbai, were also supplied to State Bank of India.

1.6 It is seen from the Annual Report (2008-09) of SPMCIL that the Department of Economic Affairs has granted Mini-Ratna Category-1 CPSE status to the Corporation which provides enhanced powers to the Corporation in the field of investments, joint ventures and other commercial matters. It has also been stated that from time to time, directions have been issued by the Ministry for productivity, costing, R&D etc.

1.7 On being asked what specific functions have been retained by the Ministry of Finance in the matters connected with overall working of the Corporation, the Ministry in a written note stated as under:

“Government of India has retained the functions of policy formulation regarding design and security features of currency and coins, administrative control of the Company, issues relating to counterfeiting and other such issues having security and monetary policy concerns.”

1.8 With regard to the monitoring role being played by the Ministry of Finance in the working of SPMCIL, the Ministry stated in a written note as follows.

“Ministry of Finance, Department of Economic Affairs conducts half yearly review meeting of Memorandum of Understanding (MoU) as per MoU stipulations. In addition, annual review meeting is also held with the task force of DPE. Further there is a Production Planning Meeting regularly convened by Ministry to decide about indent, production and distribution of indents among SPMCIL and Bharatiya Reserve Bank Note Mudran Private Limited (BRBNMPL), a wholly owned company of RBI.”

1.9 As per the information furnished, SPMCIL has been created with the objectives of overall improvement in decision making process, operational flexibility coupled with commensurate accountability fostering efficiency and higher productivity in the units. As a sequel, it would result in reduction of Government expenditure in terms of managing the units besides inculcating efficiency through rationalization of operational hassles and flexibility in employing advanced technology. This would also result in bringing down the actual cost of production leading to relatively lower budgetary support from the Government. Management is mandated to take appropriate and timely decisions for manpower deployment, improving financial performance and fixing of performance and productivity standards. Other objectives are optimization of managerial deployment and manpower along with formation of promotion policies, rewards and remuneration structure linked with the performance and productivity. The role of SPMCIL is to take care of management, control, operations and maintenance of, production/printing/ manufacture of security grade paper; coins and medallions; currency and bank notes; stamps, non-judicial stamp papers; passport, visas and related documents, security paper; postage stamps and stationary; security certificates, government securities, bonds, cheques, demand draft, identity cards, ink and other related materials required for production/printing of above-stated items and to do the acts or thing being necessary or incidental thereto.

1.10 The Committee have been informed that the Corporation has been created with the objectives of overall improvement in decision making process and operational flexibility so as to bring down the actual cost of production leading to relatively lower budgetary support from the Government, However, no study has been conducted by the Administrative Ministry to ascertain the extent to which the Corporation has achieved its assigned objectives as the company is recently created. It is also stated that SPMCIL has increased productivity, turnover and profit and is likely to be rated as "Excellent" during 2008-09 as per the performance measurement of Memorandum of Understanding (MoU) signed between the company and the Ministry of Finance.

1.11 When asked what parameters for measuring physical and financial performance of the Corporation have been stipulated by the Ministry of Finance in the MoU signed between the Corporation and the Ministry, the Ministry in a written note stated as under:-

“The parameters for physical and financial performance of SPMCIL are as per the broad guidelines given by DPE for signing of MoUs.”

1.12 On a question how these parameters compare with actual achievements reported by all the production units before their corporatization, the Ministry in a written reply stated as under:-

“Prior to corporatization, these units were operating like departmental organizations and maintaining accounts on cash basis. Hence the static financial parameters such as gross margin, net profit etc, which are primarily for commercial undertakings with accrual basis of accounts, were not monitored or maintained. Regarding dynamic parameters e.g. ISO certification, project implementation and modernization etc, targets have been assigned and same are monitored for the relevant period. Hence, any comparison with past performance may not give relevant/comparable result.”

1.13 On being asked whether the Ministry of Finance feels that the Corporation has succeeded in its objective of bringing down the cost of production and reduced budgetary support from the Government, the Ministry in a written reply stated as under:-

“Cost of production has come down due to measures of improvement taken by the company. There is no budgetary support to the company. During the year 2007-08 and 2008-09, prices of currency notes have not been revised despite overall increase in raw material and manpower costs. Company has been in a position to absorb the cost due to improved productivity and enhanced efficiency. For coins and postal stationery also, cost analysis has been done by Institute of Cost and Works Accountants of India and it has been observed that company has been able to bring down the cost of production.”

1.14 The Secretary, Ministry of Finance further added during the evidence before the Committee as under:

“..... we feel that in its brief existence so far, the Corporation has vindicated the promise with which it was set up and lived up to the initial expectations.”

## **CHAPTER-II**

### **ORGANISATIONAL MATTERS**

#### **ORGANISATIONAL SET-UP**

2.1 In the preliminary material, SPMCIL stated that the Company is headed by the Chairman and Managing Director. There are three functional Directors heading Technical, Finance and Human Resource. CVO is heading Vigilance department. Technical department takes care of technical matter, production planning, maintenance, technology, R&D, Logistics, procurement and marketing. Finance Department handles Finance, accounts, taxation, Internal audit, costing, budgeting, capital investments, corporate finance, co-ordination with Auditors, Systems and Co-ordination, Company Secretariat etc. HR department handles Administration, establishment, training, personnel and Industrial relations etc. Full time CVO has recently joined the organization and vigilance set up is being strengthened in the corporate office and units. Units are headed by General Managers with the same organizational setup which was practiced at the time of Government department but is presently functioning under the control and directions of Head/corporate office. General Manager is assisted by functional heads like Dy. General Manager (DGM), Financial Advisor & Chief Account Officer (FA&CAO), Chief Purchase & Stores Officer (CPSO), Works Manager and Chief Administrative Officer. Each unit has a security set up of CISF/State special police force and headed by Commandant/ Dy. Commandant.

2.2 On being asked whether the present organizational set up is adequate / satisfactory, the Company in a written reply stated as under:-

“The present set up in the Units is same and corporate set up has been created in the last three years. To rationalize standard manpower study has been conducted by National Productivity Council (NPC) at non-executive level. For the organizational set up study has been proposed. By inputs from the professional consultant the vision and mission for the next 10 years is being worked out. The set up will be strengthened as per the business requirements in the field of information technology, marketing, corporate communications, taxation, R&D, corporate strategy, internal audit, etc. which are presently not exclusive functions. Further, the existing functions of Technical, Maintenance, Production, Planning, HR, Finance and Accounts need strengthening both at unit and corporate level. Vigilance set up is also being strengthened in the units.”

2.3 When asked whether the Government has received any proposals from SPMCIL to conduct a study on its organizational set up as well as its future plans, the Ministry in a written reply stated as under:-

“No Sir. However, SPMCIL states that the set up will be strengthened as per the business requirements in the field of information technology, marketing, corporate communications, taxation, R&D, corporate strategy, internal audit, etc. which are presently not exclusive functions. Further, the existing functions of Technical, Maintenance, Production, Planning, HR, Finance and Accounts need strengthening both at unit and corporate level. Vigilance set up is also being strengthened in the units.”

## **BOARD OF DIRECTORS**

2.4 When asked whether the composition of the present Board is in accordance with the proportion prescribed by DPE regarding the strength of functional and non-functional Directors, the company in a written reply stated as under:-

“There are four functional Directors including Chairman & Managing Director. There are three Government nominees i.e. two of Ministry of Finance and one of Ministry of Home Affairs. There are three customer department nominees of Ministry of External Affairs, Department of Posts and Reserve Bank of India. Keeping in view the security sensitive nature of the business of the corporation Government has decided to create this set up which is slightly different set up recommended by DPE for other Public Sector Undertakings (PSUs).”

2.5 The Committee have been informed that keeping in view the security sensitive nature of the business of the Corporation, Government has decided to create this set up of Board of Directors which is slightly different from that recommended by DPE for other Public Sector Undertakings.

2.6 On being asked the extent to which the composition of Board of Directors in SPMCIL is different and for what precise reasons, the Ministry in the written reply stated as under:

‘In accordance with the Cabinet approval in the case of SPMCIL, due to security sensitive nature of the organization, a decision was taken to nominate directors from the user departments (RBI, Dept. of Post, and Ministry of External Affairs) who may be considered as Independent Directors and Government Directors have been nominated from other Government departments i.e. Home Affairs and Ministry of Finance”.

2.7 Regarding the contribution of Government/Non-official Directors, the company in a written note stated as under:-

“At present about more than 90% business of the corporation is in the domain of security products for Government/semi Government Departments and RBI. Since Government of India has retained the functions of policy formulation regarding design and security features of currency and coins, administrative control of the Company, issues relating to counterfeiting etc., therefore, the two Government Directors of Ministry of Finance have a key role in monitoring the functions of the corporation affecting Government functions. The security of the units and issues related to Intelligence Bureau (IB) etc. are with Ministry of Home Affairs, therefore nominee directors oversee these activities on behalf of Ministry of Home Affairs. The three customer representatives namely Department of Posts, Ministry of External Affairs, and Reserve Bank of India (RBI) contribute in the production planning, payments, and quality issues related to their products in addition to the other role and responsibilities of the part time non-official Directors.”

2.8 The Committee observed that the three customer representatives in the Board of Directors contribute in the production planning, payments and quality issues related to their products and that the representatives of Ministry of External Affairs during the period 30 August, 2007 to 23 July, 2008, did not attend nine meetings out of 10 meetings of Board of Directors held during his tenure.

2.9 In this context, when asked to clarify whether this absence of nominee of the Ministry of External Affairs from meetings had any impact on the decision making process of the Corporation, the Ministry in the written reply stated under:

“Though his absence from the Board Meetings was noted by the Board but ..... nominee of the Ministry of External Affairs has been in constant dialogue with the General Manager, Indian Security Press (ISP) where passport and related documents are produced. He has played an important role in the successful launch of the pilot project of E-passport and regularly monitoring the production of the Passports in ISP. Recently there has been substantial increase in indent by MEA and by the gradual addition of machines and diversion of manpower the production of passport has been substantially increased from 5.7 million pieces (mpcs) in 2006-07 to 8.29 mpcs in 2008-09.”

### **MANPOWER**

2.10 According to the information furnished, SPMCIL was created on 13/01/2006 and corporatization of the existing nine units (four mints, two currency note presses, two security presses and one security paper mill) was effected from 10/02/2006. All the Government employees were treated as on deemed deputation to the Corporation. As on 31/3/06 there were 18448 number of Government employees. As already brought out, the units were saddled with excess and untrained manpower and outdated machinery and bring in efficiency, productivity and performance related payment system was part of the objectives of corporatization. After the signing of the tripartite agreement with the unions, SPMCIL and Government on 15/9/2008, about 90% of the existing employees have opted for the corporation and balance have chosen to remain with Government. As on 31/3/09 there are 14075 number of corporate employees and about 2000 are Government employees on deputation pending deployment by the surplus cell. Existing employees being in the high age bracket there is an average 6-7% retirement per year. Keeping in view the present and future business scenario, a study is being conducted by engaging consultant to know the manpower required vis-à-vis available and the upgradation of their skills to meet the new challenges.

2.11 As regard the justification for the existing manpower and expenditure thereon the Company stated in a written reply as under:

“Absorption of Government employees in SPMCIL has recently been finalized and notified by the Ministry on 02/5/09. About 90% have offered for absorption in the corporation. Efforts have been directed towards the optimization of manpower resources and increase in the productivity levels. As per report of National Productivity Council the level of manpower expenditure incurred by SPMCIL is found to be on the higher side and steps are being taken to rationalize manpower. Voluntary Retirement Scheme (VRS) is being offered to the employees during 2009-10.”

2.12 About the manpower productivity, the Company stated in a written note as under:

“As may be seen from the table below, there has been consistent increase in the value addition per man per month during the last three years though there

had also been substantial increase in the average monthly emoluments during 2007-08 over 2006-07 because of provisioning of all arrears on account of VI Pay Commission recommendations.

Amount in Rs.

Financial Year	Value Addition per man/month	Avg. monthly emoluments
2006-07	34,392	16,108
2007-08	60,152	28,297
2008-09	68,485	28,475

2.13 Regarding the retiring employees, the Chairman, SPMCIL during the evidence stated as follows:

“..... as far as manpower is concerned, it is reducing by natural retirement of 5-7 per cent. But people are retiring from critical categories also, ..... The only thing is that there is a lot of untrained manpower in Control Category because now we are improving the control structure with new technology.

As far as NPC is concerned, .....It was basically to rationalise their incentive schemes as there were different incentive schemes in different units. Mints are different. Somewhere officers were also included. Somewhere overtime was included. Somewhere transport allowance was included. ....“

2.14 The Committee have been informed that the Company has gone through a critical phase during the year 2008-09 because of uncertainties prevailing over the issue of en-masse transfer of Government employees to the rolls of the Company because some Unions and Association were initially opposed to the process of corporatization of Mints/Presses and Paper Mill. A Tripartite Agreement has since been entered into with the Government, SPMCIL and Unions for en-masse transfer of the employees to the Corporation.

2.15 In this context, when asked about the features of the settlement reached between the Government, SPMCIL and Unions, SPMCIL stated in a written note as under:-

“The main features of the tripartite settlement are as given below:

S.N. Main Feature

- 1 The settlement shall remain in vogue in perpetuity
- 2 SPMCIL shall continue to be wholly owned Corporation of Government of India
- 3 Yardsticks for design, security features production, planning of coins & currencies and other policy issues shall remain with the Government
- 4 Government shall not use the process of corporatization as means to privatize.



- 5 Government shall provide support to the Corporation to the tune of Rs.1200-150 crores for modernization
- 6 Government shall ensure that assets transferred to the Corporation on 10.02.2006 are not sold by the Corporation.
- 7 Efforts shall be made by SPMCIL to get more work orders through marketing.
- 8 Implementation of Sixth Central Pay Commission and migration to wage pattern of PSEs
- 9 Job security to the employees by SPMCIL
- 10 The service conditions on deemed deputation would be protected.
- 11 (a) Creation of GPF fund under PF Act, 1925 (applicable for combined pension optees)  
(b) For pro-rata optees formation of the trust under EPF Act, 1952 (applicable to the employees who opted pro-rata pension from the government)
- 12 Employees on deemed deputation will be governed by the rules of the Corporation now as modeled on CCS Rules.
- 13 Payment of terminal benefits consequent upon en masse transfer to the rolls of the Company w.e.f. 1.11.2008 for which formal order has been issued by the Govt. on 29.05.2009.
- 14 Insurance coverage in line of CGEGIS
- 15 SPMCIL medical benefit scheme
- 16 The leave salary liability shall be borne by the Government.
- 17 All the absorbed employees shall be confirmed in SPMCIL
- 18 Payment of bonus to the employees as applicable to CPSUs
- 19 Central Pool Accommodation
- 20 Rationalisation of Incentive Scheme in the establishment of SPMCIL
- 21 The officers and employees in the pay-scales of Rs.6500-10500 shall be liable for transfer to any of the units.
- 22 Payment of Overtime as per Factories Act.
- 23 The Recruitment Rules of the Corporation should not adversely affect as were prevalent during the Government time.
- 24 Formation of a structure in SPMCIL on lines of JCM
- 25 Anomaly in pay-scales arising out of implementation of Vth CPC
- 26 Pending Court Case of out of Court Settlement
- 27 Continuation of Night Shift

- 28 Payment of Electricity and Water Charges at actuals
- 29 Formulation of Scheme of Lumpsum Compensation in lieu of Compassionate Appointment
- 30 a.) Three additional increment not absorbable in future increase of pay (i.e. with cumulative effect)  
b.) One time Lumpsum payment of Rs.3500/-
- 31 Voluntary Retirement Scheme
- 32 Review of Security Requirements

Most of the issues as agreed and incorporated in the memorandum of settlement have been settled and pending issues are being implemented amicably in consultation with the stake holders.”

**CHAPTER-III**  
**PERFORMANCE**

**POLICY OF THE GOVERNMENT**

3.1 On the policy of the Government for circulation of currency notes and coins, RBI stated in a written reply as under:-

“As per Section 22 of the RBI Act,1934, the RBI has the sole right to issue bank notes in India. Regarding coins, under Section 6 of the Indian Coinage Act,1906, the coins are coined at the Mints for issue under the authority of the Central Government which in turn are lifted by the RBI from the Mints for circulation.

**INDENTS**

3.2 According to the information made available by SPMCIL, the details of production of currency notes printed, circulation coins minted, other security products manufactured and paper production are indicated below:-

PRODUCTION in Million Pieces [mpcs] / Metric Ton [MT]			
Currency Printing Presses			
	2006-07	2007-08	2008-09
CNP, NASHIK	2402	2750	3477
BNP, DEWAS	2241	2370	2667
INDIA GOVERNMENT MINTS			
IGM, KOLKATA	144.3	663.84	1150.16
IGM, MUMBAI	262.29	659.39	1188.88
IGM, HYDERABAD	221.9	626.51	920.59
IGM, NOIDA	49.34	428.64	1196.27
SECURITY PRINTING PRESSES			
ISP, NASHIK	423.7	438.48	415.67
Postal items	88.1	105.4	126.04
NJSP	182	168.28	155.81
Passport	5.7	5.34	8.29
Misc. Security Items	147.9	159.46	125.53
SPP, HYDERABAD	560.1	489.5	473.2
Postal items	374.6	305.2	295.3
NJSP	164.7	153.3	155.5

Misc. Security Items	20.8	31	22.4
<b>SECURITY PAPER MILL</b>			
SPM, HOSHANGABAD (In MT)	2706	2283	2032

Note:- Production figures are in Million pieces/ Metric Tones

The planned vis-à-vis actual production during the last three years was as under:

(Quantity in Mpcs/MT)

PRODUCT	2006-07		2007-08		2008-09	
	Planned	Actual	Planned	Actual	Planned	Actual
Currency	4600	4643	5100	5120	6250	6144
Coin	700	677.83	1950	2378.38	4550	4455.9
Passports	6	5.7	6	5.34	7	8.29
NJSP	432.3	346.7	346.98	321.58	330.53	311.31
Postal Items	421.8	462.7	497.16	410.6	406.88	421.34
Misc. Security Items	190.2	168.7	192.76	190.46	134.52	147.93
Security Paper (in MT)	2946.8	2706	2303.3	2283.6	2765	2032.17

3.3 Explaining the reasons for the shortfall in the Planned vis-a-vis actual production during the last three years, the Company furnished the following:-

- There has been uneven demand projection from RBI during last 5 years in respect of coins.
- In the case of currency notes demand has been met. Minor shortfall during 2008-09 was due to late receipt of currency paper from imported sources.
- In the case of coins during 2008-09, it could not be achieved due to lack of capacity of the mints. Huge demand of coins has been projected for 2007-08, 2008-09 and 2009-10. It was decided to add capacity after getting some firm assurance from the RBI about lifting of increased no. of coins for atleast 5 years. It took some time and then procurement and installation of machines took some more time. Now machines are getting installed and capacity has been added in this year.
- Production of passport has been achieved by deploying additional resources.
- The Security Paper Mill is more than 40 years old and necessity exists to increase significantly currency and security paper production. Setting up of one new line at SPM, Hoshangabad and another paper mill in Joint Venture with BRBNMPL at Mysore is under consideration.”

### **ORDER BOOK POSITION**

3.4 When asked about the constraints, if any, being experienced by the Company in receiving orders, the Company in a written reply stated as under:-

- a) Company receives firm orders from its clients namely Ministry of Finance, Reserve Bank of India, Ministry of External Affairs, Department of Posts, other Government of India Departments and State Governments.
- b) Demand projection of coins and currency notes are done by RBI. For coins, it has been highly uneven during last few years.
- c) The demand of postal items and stamps are coming down. Further, State Governments often raise indent for stamp papers without advance part payment and do not lift the material on production. Some States have introduced full or part e-stamping e.g. Andhra Pradesh, Delhi, Maharashtra which has led to reduction in demand of stamp papers.
- d) Since it is necessary to have sufficient machine capacity and human resources to meet production requirement, therefore the capacity when created needs to be optimally utilised. Difficulties have been faced in this regard due to highly unpredictable nature of demand more so when SPMCIL has to give priority to its existing government users. This is a handicap in diversifying to manufacturing other security products.”

3.5 Explaining the difficulties being experienced by SPMCIL due to subsidized cost of Postal Products, the Company in a written note stated as under:-

“Due to the Government Policy to restrict price of some Postal product in Public interest, SPMCIL is facing losses as the payment by postal deptt. are restricted to the capped prices, though the production cost of these products is higher. SPMCIL has requested to be paid the actual cost plus profit as it is now a commercial entity and its performance is monitored through MOU.”

3.6 To a question about the efforts being made to improve its order book position, the Company in a written reply stated as under:-

“Indents are given by Government of India, Organizations and State Governments which are decided by factors beyond the control of SPMCIL. That is why the company has started exploring the possibility of taking up assignments which have not been traditionally done by it e.g. printing of degree certificates for IGNOU, manufacturing of medallion for various organizations, printing of currency note for Nepal Rashtra Bank etc. The corporation will be looking for printing currency for other countries through competitive global bidding once sufficient indigenous bank note paper is available.”

3.7 Adding further, the CMD, SPMCIL during the evidence before the Committee stated as under:

“We are trying to diversify in the security presses like for Excise Label we are in touch with the State Excise Departments. It is a big business for us. The Ministry of Consumer Affairs, Food and Public Distribution has introduced us to the warehousing receipts, which is a negotiable instrument and a security product. We are going in for them. We are going in for the University Degree Certificates; we can add the security features. We are

trying to diversify as far as our security product is concerned. But one of the big business potentials for us in this is the E-passport because the present demand which was 50 lakh passports is now projected to be 2 crores per annum after two years”

### **CAPACITY UTILISATION**

3.8 As per the information made available, the capacity utilization in production/ manufacturing of major products against their licensed/installed capacity during 2008-09 was as under:

Capacity Utilisation for Major Products

PRODUCT	UNIT	INSTALLED CAPACITY 2008-09	% UTILISA- TION IN 2008-09	REMARKS
CURRENCY	mpcs	3950	157	More utilisation of capacity has been achieved through deployment of manpower on Over time basis and through payment of productivity linked incentive. Further, staggered lunch hour working has also been attempted.
COINS	mpcs	2560	174	
Security Printing Products (ISP)	SPU	5950	157	
Security Printing Products (SPP)	SPU	3700	149	

Note: - The Security Printing Presses can use sheet fed or web fed machines for making a product depending upon nature of printing and number of colours in printing. The production output is converted on the basis of man hour effort required into Standard Product Units (SPU) to assess productivity.

3.9 When desired to know how the installed capacity of the each of the units presently functioning under SPMCIL was originally arrived at and what factors were taken into consideration at the time of fixing such installed capacity for major products, the Company in a written note stated as under:-

“The nine units under SPMCIL were established at different point of time for meeting the currency/coin and other security product requirement. For example, mint at Mumbai was established in 1829 and Noida Mint was established in 1988. BNP, CNP, ISP and SPP were established in 1973, 1928, 1925 and 1982 respectively. The units had less automation and the process was labour intensive. Thus, the capacity was depending more on the manpower efficiency. With the reduction of manpower due to

superannuation, the processes were modernised in a phased manner wherein the capacity depended on the machine efficiency. With the machines becoming old, the actual capacity reduced further. The production of coins/currency/security products is depending on the indenters who are primarily RBI/state Governments/ MEA etc. Due to inconsistency in the indent, the capacities were either under utilised or have to be over utilised by extra working hours/incentive to workmen. For example, RBI projected a requirement of 9050 mpcs coins in the year 1998-99 and nil requirements in 2005-06. The following factors were considered at the time of fixing of said installed capacity: i) Operating Machine Speed, (ii) Machine Availability, (iii) Rejection Percentage, (iv) Actual Utilization of Man power, (v) Effective Man-days, (vi) Working Hours, and (vii) Working efficiency

3.10 On being asked what initiatives have been taken by the Government to strengthen SPMCIL to optimize its production capacity to the fullest extent, the Ministry in a written note stated as under:-

“Government has agreed to provide “support to the Corporation to the tune of Rs. 1200-Rs.1500 crore as per need, in the form of equity or any other form, for the modernization and capacity upgradation of the existing plants and machineries, for making units of SPMCIL competitive” as per the tripartite agreement signed between the Government, SPMCIL Management and Unions.”

3.11 When desired to know whether any assurance has been accorded to SPMCIL for sourcing Security products, the company in a written note stated as under:- :

“The Government has committed in MoS that it will make efforts for the full exhaustion of the capacity of SPMCIL. The extract of clause 7 of the MoS is as under:

The production target shall be given to various units of SPMCIL according to the existing capacity as demonstrated by their past performance. Efforts will be made by corporation to get more work orders through marketing or other such means so that optimum capacity utilization can be achieved. Government also assures that requirement of products being made by SPMCIL, will not be sourced from any outside organization without utilizing the full capacity of SPMCIL.

Entities like RBI and Department of Posts should make maximum efforts to procure their requirements from SPMCIL.”

### **SYSTEM OF FORECASTING**

3.12 According to the information furnished by SPMCIL, Reserve Bank of India (RBI) does the forecasting for the supply of currency and coins based on its statistical formula and this requirement varies from year to year. As an example for the coinage in the year 1998-99, there was approximately 9000 mpcs of indent and it was zero in the year 2005-06. With this type of variable forecasting the whole machinery/ resources at SPMCIL remains idle or are not able to produce the projected requirement unless RBI gives a long-term forecasting for at least five years. It is not possible to invest in machinery and manpower by SPMCIL which may either go waste or may be underutilized. SPMCIL has raised this issue both with the

RBI and with the Government (Department of Economic Affairs, Ministry of Finance). The Ministry has already taken up this issue with RBI to enter into a five years MoU with SPMCIL so that SPMCIL can plan for investment in machinery, manpower and technology.

3.13 While making the comments on the above, the Ministry in their written reply stated as under:-

“Ministry agrees with above information and difficulties experienced by SPMCIL due to erratic and highly variable forecasting. RBI has been requested to project its demand for production of currency notes and coins for five years at a time.”

3.14 When asked about the methodology RBI adopts for forecasting annual requirements of currency notes and coins and the specific reasons for substantial variations in the projected requirements in each year of the year during the preceding decade, the RBI in a written reply stated as under:-

“Reserve Bank of India arrives at the requirements of banknotes and coins on the basis of the projections based on long term 'relationship' of notes in circulation with macro economic variables like GDP, inflation, soilage, technology advancement like advent of other modes of payment and settlement like Credit/ Debit cards. Withdrawal plan of certain series of notes, are also factored in the indent, whenever required. The value of projected banknotes in circulation is then apportioned to different denominations based on the trends of past 'Issue.'”

3.15 As regards the variation in projections, the representative from the RBI during the evidence stated as under:-

“there was definitely a wide variation in 2003-04 *vis-à-Vis* 2002-03 that was because there was huge and unexpected demand of 500 rupee denomination for the ATM machines. That went up from 700 million pieces to 1,500 million pieces. It is almost doubled. Another major variation happened in 2008-09 *vis-à-Vis* 2007-08 when there was increase in demand because of the withdrawal of 500 rupee denomination, old series. This also almost doubled from 1,800 to 3,500 billion pieces.”

3.16 The Committee have been informed that the indent for currency note as divided between SPMCIL and BRNMPL by Reserve Bank of India is 60:40 ratio. On being asked about the basis on which these indents are placed in the ratio of 60:40 between SPMCIL and BRNMPL, the RBI stated in the written reply as under:-

“Based on the above parameters our Department of Statistical and Information Management works out the projections of the requirements of banknotes. Based on the said projections, RBI finalizes the indent for the year by strategic management of the denomination keeping in view the production capacity of the presses. Allocation is made based on the production capacity of the presses managed by SPMCIL and BRNMPL. Production Capacity of SPMCIL and BRNMPL are as under :

SPMCIL

Dewas - 2400 million pieces.



Nashik – 2700 million Pieces.

BRBNMPL

Mysore and Salboni - 9600 million Pieces.”

3.17 On being asked as to when BRBNMPL was established and what necessitated its formation when the units for currency note printing were already functioning under the Ministry of Finance, the RBI in the written note stated as under;-

“BRBNMPL was set up on February 3, 1995 as a fully owned subsidiary of RBI. It's presses at Mysore commenced production on June 1, 1996 and the press at Salboni on December 11, 1996. The main reasons for establishing of BRBNMPL are under:

**a) Demand for bank notes :** As per RBI projections, the circulation and replacement requirement of the currency/ bank notes was expected to increase from 13430 million notes in 1987/88 to 28791 million notes in 1995/96. Assuming that by 1995/96 Re.1 and Rs2/- notes would be completely replaced by coins, the demand for bank notes was expected to rise to 17211 million notes by 1995/96.

**b) Existing capacity :** The Currency Note Press at Nashik and Bank Note Press at Dewas were then producing 6500 million pieces in 2 shifts of 11 hours each with incentive. But this practice of working 11 hours continuously, was against accepted industrial working practice and habit forming over-time working, had to be discontinued. Steps were being taken to modernize the presses and work in two shifts of 9 hours each. The expected production with 9 hours working was 6050 million notes.

**c) Justification for two New Note Presses :** After modernization the Currency Note Press at Nashik, would have reached its optimum capacity of production 4400 million pieces with the manning strength of 5500. It was not feasible to expand beyond this, for the reasons of security and constraints in infrastructural facilities. Expansion of Bank note Press Dewas beyond the capacity of 1650 million pieces was not feasible for severe constraint of water.

Most viable alternative therefore was to set up new production capacities. It was proposed to set up two presses with total capacity of 9950 million notes. This along with the existing presses could meet the demand for 16000 million notes by 1995/96. The shortfall of 1211 million notes could be met from the two New Note Presses by introducing suitable group incentive schemes. Initially the Ministry of Finance had decided to set up two bank note press at Mysore(Karnataka) and Salboni(WB). However, adequate fund were not allocated in the plan for these projects due to resource crunch. Later RBI suggested to the Government that two bank note presses may be set up under aegis of RBI and Government approved the proposal in November, 1989.”

3.18 To a question about the installed capacity of BRBNMPL in each year during the first five years of its inception as well as during the preceding five years, the RBI in the written reply stated as under:-

“The installed capacity of both the presses (Mysore and Salboni) was envisaged as 9950 Million Banknotes / 2 Shift running. Accordingly machineries were procured, commissioned and installed at these two places. Presently the company is able to produce 9000 million pieces in single shift operation basis (both the presses put together) and 18000-19000 million banknotes in two shift operations ( both the presses together). This has been achieved through business process re engineering, which has resulted in up gradation of process and production parameters.”

3.19 When desired to know about the criterion followed by the Government while placing annual indents on SPMCIL and BRBNMPL for printing of currency notes, the Ministry in a written reply stated as under:-

“Indents are distributed among BRBNMPL and SPMCIL on the basis of available capacity and past track record of production as agreed by RBI, BRBNMPL and SPMCIL in production planning meeting convened by the Ministry.”

3.20 In the written reply, SPMCIL has furnished the details of quantum of currency units indented by RBI and actually printed by BRBNMPL and the Currency notes printing units of Ministry of Finance, (subsequently SPMCIL) in each of the years from 2003-04 in the following tabular form :

	2003-04		2004-05		2005-06		2006-07		2007-08		2008-09		2009-10*	
	Indent	Actual	Indent	Actual	Indent	Actual	Indent	Actual	Indent	Actual	Indent	Actual	Indent	Actual
Quantum of currency notes got printed by RBI.														
Total Indent	17300	13166	14855	12593	15000	7001	11500	11473	12700	12745	15250	15225	16800	11775
Share of BRBNMPL	11950	8101	9925	7971	9100	4307	6900	6830	7600	7625	9000	9081	10100	7197
Share of SPMCIL	5350	5065	4930	4622	5900	2694	4600	4643	5100	5120	6250	6144	6700	4578

\*Data as on December 2009.

3.21 To a query whether Ministry of Finance had taken up the issue of varying projections/uneven annual demands of currency notes and coins with RBI, the Ministry in a written note stated as under:-

“Matter has been taken up with RBI during production planning meetings. RBI has assured to look into the mechanism of forecasting of currency notes and coins. For entering into MoU for five years at a time with SPMCIL formal response from RBI is still awaited. RBI have now informed that they are examining the issue.”

### **DISPOSAL OF IMPAIRED MACHINERY**

3.22 When desired to know about the steps being taken for safe disposal of impaired assets particularly after the Telgi scam in 2003, the CMD of the Company during the evidence explained as under: .

“We have a Central Stamp Depot in Nashik. The stamp papers from the factory are transported to CSD. They initially used to be despatched them. Now, they are despatched under security and taken over by the customers. The customer comes, takes custody of the consignment alongwith security is despatched. Earlier the State Governments used to give indents without any commitment. There was a rolling indent going on. The indent used to be about fifty crore pieces for the indent. At that time, the Government decided, after the Telgi scam in 2003, the State Governments must give 30 per cent advance with the stamp paper so that they do their diligence about the stamp paper needed.

3.23 Further elaborating, the CEO of the Company stated as follows:

“Thereafter the procedure order, which has been issued, is that basically a committee is constituted for disposal of machinery. The machine parts are destroyed by pressing or by gas cutting and the dyes etc., are defaced. Only then, the parts are auctioned. In fact, in Nashik, since I joined in March, I saw there is a huge hall filled with machinery. Nobody has touched the machinery for disposal because of Telgi scam. Nobody wants to touch it.”

3.24 On being asked about the monitoring mechanism adopted at the time of discarding or actually dismantling the machineries, the Secretary of the DEA stated as under:

“.....after the Telgi Scam a decision was taken that no machinery would be discarded or dismantled. So, as of now that process is frozen. These machines, even when they become dysfunctional, are not dismantled or discarded. “

### **Export/Import**

3.25 According to the information furnished by SPMCIL, the financial performance of the Company during the last three years:

Year	2006-07		2007-08		2008-09	
	Budget*	Actual	Budget	Actual	Budget	Actual
Turnover	1096.52	1513.3	1605.02	2004.2	2463.44	2339.02
Profit/Loss	-99.62	268.38	150.08	199.70	342.90	433.83
Dividend paid to the Government	- NIL-	- NIL-	-NIL-	- NIL-	-NIL-	-NIL-
Internal Generation of resources	-99.62	268.38	150.08	199.70	342.90	433.83

\* Being the first year of operation only revenue budget was prepared.

- Due to VI pay commission recommendation expenses increased in 2007-08.
- Due to proposed modernization of the units, surplus has been retained.
- Downward Price revision of coins has resulted in reduced turnover than the budgeted figure during 2008-09.

3.26 Giving a note on the export/import performance of the company indicating, *inter-alia*, the names of the countries to which exports/imports were made, the value of export/imports during each of the last three years and efforts made by the Company to augment the exports and reduce the imports, the Company in a written reply stated as under:-

“In its major initiative to procure order for printing currency for foreign country, Currency Note Press, Nashik has succeeded in receiving order for printing 50 million pieces of bank notes of the denomination of Rs. 10/- of Nepal Rashtira Bank (NRB) through competitive global tender. Recently, the company has also been successful in getting the order for the printing of Rs.100 currency notes for Nepal Rashtira Bank. India Government Mint, Noida minted 450 mpcs one Baht coins of Thailand and also 10 mpcs 25 peso coins for Dominican Republic. Export has been to the tune of Rs.0.88 crores, Nil and Rs.4.96 crores during 2006-07, 2007-08 and 2008-09 respectively. Company imports almost entire requirements of paper for currency, passport and high-value stamps from France, UK, Germany, Sweden, Italy, Netherlands, Switzerland and Slovenia. Machines and other capital goods have been imported from Germany, Switzerland, Austria, Italy, Netherlands, Singapore and France. Efforts have been made to use indigenous raw material to reduce the imports. Being the security products, the alternatives available are limited. Value of imports of capital goods, raw materials and other stores during last three years are given below:

Sl. No	Nature of Foreign Exchange Outgo	2006-07	2007-08	2008-09
1.	Plant and Machinery	5.09	29.65	64.41
2.	Raw Material	357.96	328.81	625.58
3.	Stores & Spares etc.	12.13	35.78	68.22
	Total	375.38	394.24	758.31

### **FOREIGN EXCHANGE**

3.27 According to the information furnished by SPMCIL, the foreign exchange earnings & outgo during the last three years was as under;-

(Rs. in Crores)

Sl. No	Nature of Foreign Exchange Earnings	2006-07	2007-08	2008-09
1.	Export of Thai Baht Coins	0.88	-	-
2.	JOB Work PESO Coins	-	-	0.06
3.	Sale of Bank Notes to Nepal Rashtra Bank	-	-	4.88
4.	Total	0.88	-	4.95

Sl. No	Nature of Foreign Exchange Outgo	2006-07	2007-08	2008-09
1.	Capital Goods	5.09	29.65	64.41
2.	Raw Material	357.96	328.81	625.58
3.	Stores & Spares	11.92	33.72	61.27
4.	Components & Spare parts	0.21	1.26	6.04
5.	Foreign Travel	0.20	0.80	1.01
6.	Total	375.38	394.24	758.31

## **CHAPTER-IV**

### **FUNCTIONAL MATTERS**

#### **CAPITAL STRUCTURE**

4.1 About the investment made by the Government, the Company in a written reply stated that paid up capital of the company is Rs.5 lacs. After corporatization all assets and liabilities were transferred to the company. However, value and nature of assets has not been finalized therefore, capital structure does not represent the true picture of asset base of the company. There is no investment from any other source other than Government of India

4.2 When asked about the precise reasons for non-finalization of the nature and the value of assets transferred to the company after corporatization, the Company in a written reply stated as under:-

“SPMCIL submitted its proposal of finalization of assets after obtaining its board’s approval. However, it was observed that assets were not physically verified and audited by the auditors hence SPMCIL was asked to get the assets verified and audited. As each unit has a major capital base and was working as a departmental unit under the coins & currency Division under this Ministry before corporatisation, a detailed exercise has been undertaken in each unit of SPMCIL in last two years for the identification of the impaired Fixed Assets and Dead Stock by the Auditors. Non-finalization of the nature and the value of assets transferred to the Company after corporatization were primarily due to reason that at the time of the corporatization, transfer of assets were made on book value based on records prepared on single entry system without any detailed verification of Assets and Stock. As Fixed Assets form the capital base of a company, hence it was necessary to record the correct value of Fixed Assets less accumulated depreciation. SPMCIL was asked to furnish the audited value of the Impaired Assets, dead Stock and overdue Debtors for taking appropriate decision in the matter. Exercise has been undertaken in each unit of the SPMCIL. After this exercise by SPMCIL, the proposal has been received by DEA and the Ministry is processing the proposal to finalise the capital structure.”

4.3 When sought to know whether any direction has been issued by the Ministry to complete this work in a time bound manner, the Ministry in a written note stated as under:

“Non-finalization of the nature and the value of assets transferred to the Company after corporatization were primarily due to reason that at the time of the corporatization, transfer of assets were made on book value, based on records prepared on single entry system without any detailed verification of Assets and Stock. As Fixed Assets form the capital base of a company, hence it was necessary to record the correct value of Fixed Assets less accumulated depreciation. SPMCIL was asked to furnish the audited value of the Impaired Assets, dead Stock and overdue Debtors for taking appropriate decision in the matter. Exercise has been undertaken in each unit of SPMCIL. After this exercise by SPMCIL, the proposal has been received by DEA and the Ministry is processing the proposal to finalise the capital structure.”

## **SUNDRY DEBTORS**

4.4 As on 31.03.2009, an amount of Rs. 836.31 crores is outstanding against various sundry debtors. When sought to know whether the Government has issued any directions to the various Government Departments/RBI/State Governments to clear the outstanding debts of the SPMCIL in a timely manner, the Ministry in a written note stated as under:-

“The Status of Sundry Debtors as on 31.03.09 is as follows:

(Gross amount in Rs. Crores)	
Ministry of External Affairs	196.86
Deptt of Posts	156.86
Ministry of Finance	51.05
Ministry of Defence	15.6
National Savings Organisation, Nagpur	44.84
State Governments	230.64
RBI	92.02
Other Central/State Govt. Departments	48.44
Total	836.31

Matter has been taken up at different levels and in different meetings. RBI has cleared significant amount of old and current dues. MEA is not able to clear all the dues due to inadequate provision in the budget. MEA has been asked to enhance their budget for the current year and formulate budget estimate for next year as per actual requirements. Regarding states, matter has been taken up in the meeting of State Secretaries and follow up is also being done. Further this matter is proposed to be taken up in the ensuing meeting of Chief Secretaries of States with the Cabinet Secretary. For settlement of old dues pertaining to Department of Posts, a committee has been constituted to finalize the cost of products manufactured by SPMCIL.”

4.5 According to the information furnished by SPMCIL, the majority of the outstanding debtors are the State Govts. for the NJSP and other stamps. As per the directions of the Govt. of India the supply of the NJSP and other stamps to the State Govt. can not be stopped because scarcity in the market leads to the potential for introduction of fake stamp paper as happened in Talegi scam. On the other hand, the State Governments do not clear the dues of SPMCIL with the result the debtors of SPMCIL are increasing year after year. As on 31.03.2009 there is an amount of Rs.230.64 crores lying with various State Govts. The debtors increase working capital costs of SPMCIL. Govt. is seized of this issue and will put up institutional mechanism to see that the outstanding dues from the state govts. are cleared timely

### **CORPORATE SOCIAL RESPONSIBILITY (CSR)**

4.6 When asked to give details about the initiatives that have been taken by the Corporation to discharge its corporate social responsibility during the last three years, the Company in a written reply stated as under:

“SPMCIL has formulated its Corporate Social Responsibility policy to deliver benefits to society at large in tune with the philosophy of Central public sector enterprise. As per MOU signed with the administrative ministry for the year 2009-2010 an amount of Rs 2 crores has been earmarked for CSR. In the earlier years units were shouldering the CSR by promoting education, community development, medical facilities, drinking water, fire brigade services etc. but no specific head of account was earmarked. The details of activities undertaken and expenditure incurred so far during 2009-10 is as under:

Activity	Expenditure (In Rs.)
Ambulance has been provided to Nashik Accident and Medical Emergency (NAME) foundation a non profit organisation on Public Private Partnership model with aim of providing speedy evacuation of accident/medical emergency Patients to a hospitals free of cost	Rs. 10,17,000
The annual running cost of the Ambulance for one year.	Rs. 6,00,000
Prizes to the Winner of the Post card writing competition organised for the Children across the country on the theme that “ Gandhiji writes a Post Card” on any issue of current topic of interest	Rs. 2,16,260
Financial assistance to the Palse Gramin Vikas Mandal, Nashik for construction of school building at Nashik.	Rs. 10,00,000
<b>Total</b>	<b>Rs. 28,33,260</b>

4.7 When asked whether anything has been done as corporate social responsibility for the adjoining communities and poor villages around the projects of the Corporation, the CMD of the Company during the evidence stated as under:

“I surely agree; we have not been doing as proactively what you have said for the adjoining communities and poor villages...”.....

### **SECURITY SYSTEM**

4.8 It is seen from Annual Report 2008-09 of SPMCIL that at present, CISF looks after security arrangements of six units and security of remaining there units is entrusted to State Police Guards/Departmental Security. CMD, SPMCIL has intimated that keeping in view the national security perspective; all these units have



been advised CISF security. According to him, these units face competition in terms of their selling pricing from various quarters where such expensive security overheads are not required. He has further stated that the Ministry of Finance may reimburse the security expenses on these units so that SPMCIL could function as a competitive business unit. In this context, please state:

4.9 When sought to know what security arrangements were put in place in the nine Departmental Units before their corporatization and how the expenditure on this account was met, the Company in a written reply stated as under:-

“Five Departmental Units before their Corporatization were provided security by CISF and remaining four had security arrangements through State Armed Police of the respective States. Their expenses were borne by the Ministry of Finance through budgetary allocation, for the respective units.”

4.10 When further asked whether the CISF security was made available to some of these units before their corporatization, the Company in a written reply stated as under:-

“Yes, five units are made available CISF security before Corporatization and their expenses were being met through budgetary allocation for the respective units.”

4.11 When asked to justify its proposal for reimbursement of security expenses by the Ministry of Finance when such expenses are borne by other Public Sector Undertakings themselves, the Company in a written reply stated as under:-

“SPMCIL is engaged in the production of the Coins and Currency which is a sovereign function along with the printing of Passport, Postage stamps etc. Being a matter of national importance, it faces probable threat perception and seen as potential targets by anti-national elements. Hence, SPMCIL does not have independent say on the deployment of security in units and has to go by the directions of the security and intelligence agencies and State Governments:.

Further Clause 32 of MoS states that-Security requirements of all units will be reviewed by the Security Audit Agency of the Government including shifting to electronic security/surveillance system for inner portion of the premises of the units.”

Secondly about 95 % of the Production in SPMCIL depends on the Indent placed either by the Central/State Government or Government departments. At times due to substantial reduction in indents by RBI/ Govt. agencies lead to idling of the resources and hence increase in overheads and affect the viability/ profitability of SPMCIL. Further SPMCIL is expected to meet with the substantial and sudden increase in indents. This creates a very unusual position for SPMCIL which is not faced by other PSUs. Further increased security expenditure makes SPMCIL products uncompetitive when it competes internationally as its competitors are not required to have similar security set up. Hence SPMCIL has requested the Govt. to support in the security overheads.”

4.12 About the difficulty being faced due to Security Clearance from Ministry of Home Affairs, the Company in a written reply stated as under:-

“At present, the tenders for supply of security products and machinery for the security products is issued only after obtaining the MHA/IB clearance. MHA needs to lay down the guidelines for security clearance in consultation with DEA so that the competition is not reduced and process of indigenization is not affected adversely.”

### **TAXATION MATTERS**

4.13 The Company in a written note informed the Committee as under:

“Before corporatization of SPMCIL the units were exempt from payment of excise duty, customs and local taxes on various items. After formation of SPMCIL the same units are being asked to pay various taxes and tax authorities are issuing demand notice in this regard. For most of the products of SPMCIL, Govt. is the ultimate consignee. A request is pending in Ministry of Finance, Deptt. of Revenue to maintain the *status quo ante* on Central taxation issues. The important taxation issues are as follows:-

- a) Excise Duty on Security paper and Security Ink.
- b) Excise exemption on Coins and other material supplied to Govt of India.
- c) Custom duty exemption on raw material in making of security paper and import of capital machinery for the same.
- d) Custom Duty exemption on one time import of Currency presses, which was provided to RBI Presses in 1998.
- e) Exemption from payment of local taxes by State Govts.

A meeting at the level of Finance secretary and Secretary Revenue has taken place and it was agreed to exempt taxes on products wherever govt departments are the consignees. Deptt. of Revenue is working on the proposal of SPMCIL and the anomalies are likely to be resolved soon.”

4.14 When sought to know the stand of the Government with respect to the aforesaid taxation issues, the Ministry in a written note stated as under:-

“A meeting at the level of Finance secretary and Secretary Revenue has taken place and it was agreed to exempt taxes on products wherever govt departments are the consignees. Deptt. of Revenue is working on the proposal of SPMCIL and the anomalies are likely to be resolved soon.”

### **MINI-RATNA STATUS**

4.15 The Committee have been informed that the Government has committed the financial support of Rs. 1200-1500 crores for the modernization & up gradation of the SPMCIL to make it competitive nationally and internationally. But recently, a letter has been received by SPMCIL from DPE that if above support is given to SPMCIL; the status of Mini-Ratna status will be withdrawn unless the support is in National interest.

In this regard, SPMCIL stated as under:-

“It is the contention of SPMCIL that by its hard work in the last three years it has been successful in obtaining Mini Ratna status. SPMCIL is a profitable

company with positive net worth. The support being given by the Ministry is a part of its commitment to Unions so as to bring SPMCIL to a level playing field in competing with its competitors nationally (like BRBNMPL) and globally. Some of the units in SPMCIL are running with 30-40 years old outdated machinery. Therefore the support to be given by the Govt. is part of corporatization initiative and is not related to the losses of SPMCIL etc. SPMCIL is a progressive profitable entity and the support of the Govt. commitment should be honored without affecting the Mini Ratna Status. DEA is seized of this matter and issue shall be resolved to fulfill the Tripartite agreement without affecting the Mini Ratna Status of SPMCIL.”

4.16 Justifying the demand of the SPMCIL, the Secretary, DEA during his deposition before the Committee stated as under:

“The issue was raised on the mini-ratna category status of the company and the problem which the Department of Public Enterprises is creating in terms of according of that status due to the fact that the Memorandum of Settlement when the Corporation was created, provided that the Government commits itself to providing a certain amount of money every year for a certain period of time so that the Corporation’s future activities and their need to improve their capital equipment does not suffer. We are very clear in our views that this is not the kind of normal support which the Department of Public Enterprises does not like undertakings to get from the Government. This is not in terms of charity; this is not in terms of any assistance without which they cannot operate. Therefore, we have taken up with them and we hope to be able to make that Department see reasons so that the status which they have got and which gives them enhanced flexibility is not taken away from them.”

## **MODERNIZATION**

4.17 When desired to know whether there is any proposal to modernize and upgrade facilities in the Company, the Company in a written reply stated as under:-

“Post Corporatization, modernization and upgradation is a continuous process at SPMCIL. The following major activities are in process:

### **Currency Printing Presses:**

Replacement of one line of printing machine at BNP is under consideration. Replacement of two more lines of printing equipments at BNP and few printing machines at CNP is in planning stage.

### **Ink Factory, BNP Dewas:**

In order to enhance the capacity and modernise Ink Factory, procurement of 3 Triple Roll Mills with automatic feeding system and other laboratory instruments is in process. The modernization of ink factory is targeted to be completed by 31/03/2010. After modernization, Ink Factory would be able to meet the total requirements of BNP and CNP for Quickset intaglio inks.

### **Security Paper Mill**

Procurement of one Cotton Comber Continuous Processing Plant has been finalized and installation is in progress. As part of major modernization of

SPM, procurement of one line of Currency/Security paper machine is under progress. Further, Government has approved a proposal to set up a paper mill through a 50:50 joint venture company of SPMCIL and BRBNMPL.

### **Mints**

**Pickling and Polishing Lines:** Purchase order has been placed for one number each of Fully Automatic Centrifugal Finishing Lines for IGM, Hyderabad; IGM, Mumbai and IGM, Kolkata whereas one each number of Semi Automatic Centrifugal Finishing Line for each Mint. This shall result in better quality of finished coins.

**Fully Automatic Integrated Sachet Packaging Line:** One number each of Fully Integrated Sachet Packaging Line for each mint is under procurement stage. After installation of the new machines, IGMs shall be able to pack all the coins in pouches as per the RBI requirements.”

4.18 To a query whether the Company has adequate funds at their disposal for undertaking modernization of existing facilities, the Company in a written reply stated as under:-

“Company has retained surplus for modernization of existing units and procurement of new machines. Government of India has also committed to provide Rs.1200-1500 Crores for modernization of its units as part of its commitment at the time of corporatization. Thus it is expected that with Government support, as committed, there will not be any shortage of fund for modernization / upgradation.”

4.19 Regarding the current and future plans of the Company to meet the advancement of technology, the Company in a written reply stated as under:-

“The SPMCIL has taken following initiatives to keep pace with advancement of technology in the areas relevant to its functions:

- (i) SPMCIL makes continuous effort to keep pace with technology by taking part in conferences, seminars, fairs etc. Employees are deputed to machine manufacturers’ premises or on-site inspection and training to assimilate new technology.
- (ii) A Standing Committee of Experts headed by Dr. Baldev Raj, Director, Indira Gandhi Centre for Atomic Research, Kalpakkam (IGCAR) has been constituted by government to recommend indigenization of security features. Further, any development taking place globally is also given cognizance and technology is adopted by SPMCIL.
- (iii) E-passport production has started in ISP, Nashik Road. Introduction of Multi coloured security fibres, Electrotpe Watermark and "M" feature has been achieved at Security Paper Mill, Hoshangabad. In the case of coins, new Nickel-Brass Rs. 5/- coin and Bi-metallic Rs. 10/- coin has been introduced.
- (iv) On-line Inspection system called ‘NOTA SAVE’ has been installed and commissioned. This equipment will help in maintaining the quality of Bank Note Printing. Video Spectral Comparator-5000 instrument was installed in Dec. 2008 for detection of Forged Indian Currency Notes (FICNs) providing comprehensive laboratory workstation with different

types of light sources of different frequencies for the examination of covert security features in security printing. It has high resolution imaging system and facilities for examining various security features.

- (v) ISP, Nashik Road has upgraded existing Rapida Printing Machines by adding two printing units and installed two Rotary Numbering Machines (Indigenous) for Visa Stickers and other documents. It has also installed one latest printing machine for MICR Cheque book printing.
- (vi) In all 18 numbers of state of art high speed Coining Presses have been procured and commissioned at all the Mints.
- (vii) IGM, Hyderabad, IGM, Mumbai and IGM, Kolkata have procured one number each of latest blanking lines which can accommodate greater width of coils.”

## CHAPTER-V

### R&D AND INDIGENIZATION

#### R&D

5.1 About the R&D Program being followed by SPMCIL and the major achievements during the last three years, the Company in a written reply stated as under:

- a. Initiative of R&D has been taken recently by the company
- b. Specific areas in which R & D carried out by the Company**  
BNP's Ink Factory has produced about 228 MT of Quickset Intaglio Inks and other security inks and all the quantity has been consumed at SPMCIL and BRBNMPL.
- c. Benefits derived as a result of the above R & D**  
Around 20% of total requirement is being met through indigenous production done at Bank Note Press ink factory .
- d. Future plan of action**  
To become fully self sufficient for Intaglio Inks.
- e. Expenditure on R & D expenditure as a percentage of total turnover**  
There is no dedicated set up for R&D. Expenses incurred for R&D are part of regular management and production expenditure, which is negligible. However, for the Financial Year 2008-09 the budgeted R&D expenditure is Rs.2.5 crore as per the MoU with the Ministry of Finance

5.2 The Committee have been informed that the Ink factory at Dewas has developed intaglio ink for printing of bank notes and is also trying to develop indigenous varnish for varnishing of rupees five and ten notes. It has further been stated that there is no dedicated set up for R&D in the Company and the expenses incurred on this account are part of regular management and production expenditure, which are negligible. However, for the financial year 2009-10, the budgeted R&D expenditure is Rs. 2.5 crore as per the MoU signed with the Ministry of Finance.

5.3 To a question whether the Government is contemplating steps for establishing a dedicated set up for R&D in SPMCIL particularly when substantially high expenditure is being incurred on import of raw materials, the Corporation in a written reply stated as under:

“A Standing Committee of Experts having representation from users, renowned scientists from various Govt. Laboratories/Academic Institutions as well as Ministry has been constituted in past to steer R&D efforts. The Standing Committee of experts in its one of the meeting has recommended for setting up of a laboratory at the national level, besides setting up second tier R&D in the units of SPMCIL and BRBNMPL. In the meantime it has been decided by the Govt. to re-constitute the committee having experts from

eminent professional, scientific and academic institutions. The recommendations of the earlier committee shall be examined by the reconstituted committee and actions taken thereafter. The Government has also set up another Committee to review the practices, process and procedures regarding procurement of security sensitive items, such as, paper, ink and security features. The terms of reference of the committee inter-alia include laying down the road map for setting up institutional R&D set up to indigenize all the security sensitive products relating to manufacture of currency. The report of the committee is expected before the end of February, 2010.

5.4 It is seen from the information furnished that the value of imports of raw materials during the last three years has been substantially high touching a figures of Rs. 625.58 crores in 2008-09. In this context, when asked to explain the reasons for outsourcing of paper, ink and machinery, the Chairman, SPMCIL during the evidence stated as under:

“Since Independence, ..., there was only one paper supplier, De La Rue of the United Kingdom, to this country till mid 1990s. Thereafter, there was a shortage of currency. I think, in 1996-97, currency was imported by RBI. At that time, about four to five suppliers came into the picture. .... Presently we are having six paper suppliers of the world, who are practically the suppliers to the whole world. About 30 per cent of the total supply of paper to the world is consumed by India. We had one security paper mill in Hoshangabad, which was set up in 1967, and the machineries are forty years old. The modernisation of that mill is already in progress. The pulping plant is at the advanced stage of commissioning. Its present capacity is about 2,700 MT. In total.... it is about 12 to 15 per cent. The annual consumption of paper is in the range of 18,000 MT today, and there we are producing about 2,000 MT. The rest is all imported from six sources.....”

As far as ink is concerned, practically there are two suppliers in the world.... There is practically one major supplier in the world, i.e. M/s. SICPA. They have set up one factory in India, which is in Sikkim, where they produce the intaglio and the offset inks. There is one particular ink, which is called, OVI, which is used for Rs.500 and Rs.1,000 notes, where the numerals are written, that is, colour shifting. That is imported from their plant from Switzerland. Practically....they are the sole supplier to the world including USA and other countries. As far as machinery for manufacture of paper and machinery for our coining presses, again there are very limited sources. Since we had gone for installation of one paper mill in Hoshangabad, we got two offers through global tender; one is M/s Voith from Germany, which is about 85 per cent supplier to the world, and another is G&D of Germany, who is also paper supplier and also currency supplier to the other European countries. These are the limitations.”

5.5 On being asked how it is ensured that the suppliers of the paper and ink being limited in number do not supply the same products to the adjoining country or to any other country, the CMD, SPMCIL during the evidence before the Committee stated as under:

“Please be rest assured, whatever agreements we have with the suppliers, the Government is a party to it, the RBI is a party to it. There is an exclusivity agreement by the supplier that that product cannot be supplied to the adjoining country or to any other country. So far, to our knowledge, where we entered into agreements, no case has come from the Intelligence agencies where these suppliers have supplied the same product to neighbouring countries. But, if a Government wants to counterfeit the note of another Government nobody can prevent it. If I print the note of Nepal, I did not need anything. I have all the resources. So, it is the political will which the Government has to take.”

5.6 On being asked what efforts aimed at indigenization have been initiated by the Government to reduce dependence on procurement of imported raw materials like paper and ink from the monopolistic supplier of the world and to promote import substitution for future in view of the perceived threat of the counterfeiting of Indian currency at large scale in the recent times, the Company in a written note stated as under:

“Regarding production of paper, a joint venture company of SPMCIL and BRBNMPL is in process of being constituted. It will have its plant at Mysore within BRBNMPL premises with capacity to produce currency paper to take care of requirement of currency paper which SPMCIL will not be able to meet through its plant at SPM, Hoshangabad. Replacement of one line of security paper manufacturing machines at SPM, Hoshangabad is under procurement process. Moreover, installation/ commissioning of a new stock preparation plant at SPM, Hoshangabad is underway as replacement of old pulp making plant. Regarding production of ink, proposal of capacity enhancement and modernization of ink factory BNP, Dewas has been approved and SPMCIL is in the process of implementing it”.

5.7 Adding further, the Chairman, SPMCIL during the evidence before the Committee stated as under:

“As far as the ink is concerned, we are already modernising the Ink Factory and a substantial part of the ink will be produced in-house. But still, till the time we are able to take care of the optically variable ink, that will continue to come from that side. About the other security products, of course, there are so many firms in the world – there is thread, M-feature, optical fibre etc. which we do not see as a common person. They are called the covert features which are only known when you see under ultraviolet light in the forensic lab. For those features, as on date, we are dependent upon the firms in the world who are monopolistic and they supply. Maybe, in the years to come, once we have our R&D centre we will have it.”

5.8 On R&D efforts by SPMCIL, the Secretary, Ministry of Finance during the evidence stated as follows:

“SPMCIL has taken significant steps to meet the challenges relating to technological innovation and put in place a continuous system for modernisation and upgradation of its activities. It has started activities in the crucial area of research and development with the overall objective of indigenising major security products within a medium timeframe.”



5.9 When asked to specify the constraints encountered to augment the ink and paper production by the Company, the Secretary, DEA stated during the evidence as under:

“We do not have the capacity. We just have one mill at Hoshangabad which is a very small capacity mill. We are now in the process of upgrading it. This effort has gained momentum in the last four-five years, particularly after the Corporation was set up and focus was given on this area in relation to security aspects. We are upgrading that capacity but there the scope to increase capacity is limited. It may not be the most efficient way. So, the exercise has been in the pipeline. Initially the attempt was that SPMCIL should set up a joint venture with some international entity to produce the paper here because they have technology and we do not have the technology. We need somebody to produce that paper. That had gone through a long and complicated process. The end result was that it was not very successful. So, now the SPMCIL and the Reserve Bank got together and they are setting up at Mysore a paper mill which will take this production capacity much higher. The detailed feasibility report, shareholders’ agreement, etc, are in the process of finalization. So, the idea is that we become self-sufficient in this. I will come to the roadmap a little later. The security presses are producing only 250 million tonnes of intaglio ink which represents 25 per cent of the total consumption. On the currency paper it is 10 per cent. So, we need to have a much higher level of indigenisation so that the threats in this regard are minimised. Recently the Finance Minister has set up a Committee. This is a Committee of outside experts – retired Secretary, who was in Defence Procurement and who has done lot of procurement – reviewing the entire gamut of practices, procedures in relation to procurement and finalisation of sensitive security items relating to currency. One of the important terms of reference of the Committee is to suggest a roadmap for progressive indigenisation of these inputs. The Committee is expected to give its report in the next month or so. Based on that, we would finalise the roadmap, work relating to setting up of R&D facilities, either in SPMCIL or BRBNMPL.”

5.10 When asked why large scale replication of the technology can not be imported, the Secretary, DEA during evidence stated as under:

“That is also not easy because they do not wish to easily part with technology knowing that they will lose this lucrative market. So, there is a problem”.

5.11 To a question as to why capacity in terms of machine, manpower and technology can be augmented having developed our own technology for ink production, the Secretary, Department of Economic Affairs during the evidence stated as under:

“For that we have developed our own technology. Intaglio is a propriety ink which is produced by few firms internationally. But we have produced our own model for producing the ink. But the constraint here is the capacity in terms of machine, manpower and in terms of large scale replication of the technology. So, when you want a large scale production of the same ink, there has to be a

quantum shift in the technology being used. So, we have not made that breakthrough. While we can do it in the modest scale, we cannot do it in the large scale. That is our present problem, but we are grappling with it and we expect that in the next year or so we will drastically step up the production. “

### **OUTSOURCING**

5.12 During the deposition before the Committee, the CMD, SPMCIL informed that during 1996-97, the country had to outsource its printing of currency notes to meet the currency note requirement of country. In this regard, when asked whether Government resorted to outsourcing of printing of currency notes to any outside organization/ country in any of the years during the previous two decades, the RBI in a written note stated as under:-

“Yes – Government of India resorted to printing of 2000 million pieces of Rs. 100 and 1600 million pieces of Rs. 500 during the period 1997-98 to meet the increased demand and to act as buffer The details are as under :

#### Rs. 100 denomination :

- |      |                                |                       |
|------|--------------------------------|-----------------------|
| (i)  | American Banknote Company(USA) | - 635 million pieces  |
| (ii) | Thomas De La Rue, UK           | - 1365 million pieces |

#### Rs. 500 denomination :

Giesecke & Devrient Consortium(Germany) - 1600 million pieces.”

5.13 When asked to give the reasons for outsourcing, the RBI in a written note stated as under:-

‘In the year 1996, average monthly demand from various offices of RBI was 6000 crores due to partly rise in notes in circulation(NIC) and partly due to bad conditions of the notes. The annual rate of growth of NIC , which was 12-15% till 1990 increased to 17%. Supplies by Govt. presses aggregated around 34-43% in pieces and 25-30% in value during 1993-94 -1996-97(April-Sept.).Taking into account requirement of fresh notes in terms of value was expected to go up to Rs. 102000 crore in the year 1999-2000.Production schedule of the notes presses vis-a-vis Bank's requirement for the years 1996-97 to 1999-2000 were as under:

#### **Demand for/Supply of bank note (Rs. in Crore)**

Supply	96-97	97-98	98-99	99-00
Dewas	15920	21920	21920	21920
Nashik	9700	9700	19765	29830
Mysore	2500	2500	14850	19800
Salboni	700	700	5050	19800
Total	28820	34820	61585	91350
Requirement	67500	78000	88400	102000
Shortfall	38680	43180	26815	10650

Requirement = Rs. 335900 Cr.  
Total Production = Rs. 216575 Cr.

(Requirement – Production)= Approx. Rs. 1,20,000 crore.

As more than 50% of the notes in circulation comprised of Rs. 100/- and Rs. 500/- notes, the shortfall of at least Rs. 75000 had to be bridged, and a buffer was also to be created for future years. Accordingly RBI proposed to Government of India to import banknotes to the extent of Rs. 1,00,000 crore (value –wise) in the denominations of Rs. 100 and Rs.500/- Govt. of India had conveyed the approval of Cabinet for RBI's proposal.

5.14 In reply to a question about the security measures adopted during such printing of currency notes abroad and its transportation to India, the RBI in a written note stated as under:-

“As per the tender document following measures were envisaged:

**Controls** : The overseas printers were required to supply certain number of specimen notes of each denomination for examination by RBI(so as to check they confirm with approved note design). The RBI also had the right to inspect all the Banknotes/ sheets for quality, cut, numbering and other aspects of the manufacturing process at any time before delivery.

**Accounting:**

(i)The printers were required to provide piece to piece input tally with the product delivered at each operational stage including trial printed sheet stage. The same were to be checked by the representative of the RBI periodically.

(ii) The manufacture of plates was to be properly accounted.

(iii) The spoilt sheets, notes or watermark paper, the plates, film, etc used / unused in printing were required to be securely stored and destroyed in the presence of RBI's representative. a certificate to that effect to be furnished to RBI.

**Secrecy**

(i) Printers were required to undertake to keep the design, the security features, the quantities manufactured and any other information concerning the supply strictly confidential. Such undertaking was to be in perpetuity and to survive the contract.

(ii) The printers were required to make required number of plates in the presence of RBI's representative and all other material so made available (for plate making)to be returned immediately.

(iii) The plates were to be numbered and kept under the custody of the printer who would intimate the representative of RBI whenever any new plates was used. The first sheet of the printing was to be approved by the representative of RBI/ GOI.

**Security Arrangements.**

The printers were responsible for maintaining the utmost secrecy of all special features of the notes during and after the execution and termination of the contract. The printers were required to manufacture the plates/notes under

strict security conditions to the satisfaction of RBI/GOI. The printers were to undertake the responsibility of the safe keeping of photo prints, progressives, dies, plates, numbering boxes, etc and printed rejects in sheet form and notes form and the numbering boxes which were to be returned free of cost to RBI/ GOI duly insured. Any and every information supplied for execution of the order was to be kept secret and not divulged to any other party without the specific written approval of RBI/ GOI. Tender was to be awarded on the strict assumption that that tenderer shall be solely responsible for any breach of security in relation to the job and there shall not be any sub contracting of the work.

### **Shipment.**

Shipping consignment from U.K/(European) Continent were arranged though the Government of India's Forwarding Agents M/s Schenker & Co, Hamburg. In case of shipment from other ports, the shipment were to be arranged by Indian flag vessels only.

The following Security features were introduced:

<u>Rs. 500</u>	<u>Rs. 100</u>
(1) Perfect Register	(1) Perfect Register
(2) Micro print	(2) Micro print
(3) Water mark(new)	(3) Water mark (new)
(4) ID mark	(4) ID mark
(5)Cross Lines	(5)Cross Lines
(6) Intaglio	(6) Intaglio
(7) Windowed Security thread	(7) Windowed Security thread

### **CHALLENGES OF COUNTERFEIT NOTES**

5.15 When asked whether any assessment about the quantum of fake currency has been made, the RBI in a written note stated as under:

“No such assessment has been made by Reserve Bank of India”.

5.16 In this regard, the CMD, SPMCIL during the evidence before the Committee stated as under:

“The information which some MHA sources and some agencies have been quoting that quantum of counterfeit currency notes is Rs.1,69,000 crore. The CBI Director had been quoted and he had given it to Ministry of Finance that he has been misquoted. There was one committee, Nayak Committee, which had projected the total currency in circulation to the 169000 crore in year 2000. In the recent report of Mrs. Usha Thorat, who is the Deputy Governor of RBI, what they have given is that as far as the counterfeit note detected in the system is concerned, there used to be about three to five pieces in a million pieces, which has now risen to eight, after the Dumariaganj incident in UP where a lot of notes were found in one of the banks’ ATM. It has risen to eight pieces per million pieces now.

5.17 Regarding the quantum of fake currency in circulation, the representative from the RBI during the evidence has put it as under:

“This is not more than about 0.001 per cent of the total notes. In terms of value, the value of fake currency seized and recovered during the last few years is: Rs.8.39 crore in 2006; Rs.10.54 crore in 2007; Rs.25.79 crore in 2008; and Rs.14.08 crore up to September in the calendar year 2009.”

5.18 With regard to the operational role of SPMCIL in checking the counterfeit currency in the country, the CMD, SPMCIL, during deposition before the Committee stated as under:-

“.....counterfeit matter remains with the Government. I am basically their vendor.”

5.19 When asked about the specific steps taken by the Government to detect the counterfeit currency in the country, the Chairman of the Company stated as under:

“As far as counterfeit detection part is concerned, it remains with the MHA, the law enforcement agency. As far as design part is concerned, we help the Ministry. But ultimately the recommending authority is the Board of Directors. They decide and the Government of India approves. In fact, in case of 97 series, 2005 year additional features were added in those notes, particularly of higher denomination because they are the potential ones for counterfeiting, namely Rs.1000 note, Rs.500 note and Rs.100 note. You hardly find or there is negligible counterfeiting in Rs.50, Rs.20 or Rs.10. The Government had introduced additional security features in 2005. Taking a cue from the fact that counterfeit note was in the news for the last two or three months, a Standing Committee of Experts from the Ministry, from CBI, from IB, from the National Security Council, from RBI, from SPMCIL and BRVNL is already sitting, and the sub-committee has already recommended for short-listing of the features. The Members will be going to few of the laboratories for testing and thereafter these features will be sent by the Ministry of Finance, from that Committee to the RBI, and the Board of Governors of RBI will recommend to the Ministry and it is approved by the Finance Minister. Then, the new series will start production with new features which normally takes, after approval, a time of about 12-18 months because you have to change all the design, the seals and in some cases the machinery changes have to be done by the supplier. So, this is likely to be introduced, maybe, anything between 2011 and 2012 to take care of the concern of the Members about fake currency.”

5.20 On being asked to elaborate on the role of RBI in addressing the menace of counterfeiting in the country, the RBI in a post evidence reply stated as under:-

“Counterfeiting is a law and order issue and RBI’s role in addressing the menace of counterfeiting lies in improving the security features of the currency notes, putting in place a system where all such notes making entry into banking channel are promptly detected and raising the awareness level of all users particularly, members of public.....”

5.21 When asked about the mechanism (Administrative and Technical) devised to cope up with the challenges of counterfeit currency in circulation in the country keeping in view the fact that any delay in responding technologically to the

challenges of counterfeit currency may threaten the very financial security of the country, the RBI in a written note stated as under:-

“Reserve Bank of India has initiated the following steps in this regard.

- All currency chest branches of banks (and certain identified non-chest branches which are close to international borders or have heavy cash transactions) have been equipped with Note Sorting Machines to detect and curb the circulation of counterfeit notes.
- The Reserve Bank has been coordinating with the investigating agencies as well as State police authorities for information sharing. State Level Committees headed by Director General of Police involving all agencies concerned have been formed to deal with the issue of counterfeiting.
- Forged Note Vigilance Cells have been formed at all the banks to pay focused attention to counterfeiting.
- New security features/ new designs in the banknotes in all denominations were introduced in 2005-06, incorporating improved anti-counterfeiting design and security features. Process has been initiated for bringing in further improvement in this regard.
- RBI has initiated the process of withdrawal of old series currency notes keeping in view the stronger security features available in notes from subsequent series(s). A withdrawal plan was submitted to GOI and according to the plan, steps have been initiated to remove from circulation bank notes of Rs. 500 denominations MG (1996 and 2000) series printed / circulated before 2005. The process for this was initiated in July 2008 and October 2009 respectively.
- A High Level Group had been constituted by RBI to look into the System and Procedure for Currency Distribution. The Group has submitted its Report in August 2009 and various recommendations of the group for combating the menace of counterfeiting are in different stages of implementation.
- RBI on 19 November 2009, has issued a directive in this regard under Section 35A of BR Act, 1949 to all scheduled banks directing them that banknotes in denominations of Rs. 100 and above should be re-issued by banks over their counters or through ATMs only if these banknotes are duly checked for authenticity/ genuineness and fitness by machines. For this purpose, banks should (i) use such machines in all their bank branches having average daily cash receipts of Rs. 1 crore and above by March 2010 and (ii) use such machines in all their branches having average daily cash receipts between Rs. 50 lakh and Rs. 1 crore by March 2011.
- A High Level Technical Committee of Experts was constituted under the Chairmanship of Additional Secretary(EA) to review the security features of currency notes. Technical sub-committee constituted by the High Level Technical Committee shortlisted the security features proposed by the various firms and submitted the report to the High Technical Level Committee. Subsequently, a review committee has been set up to review the whole gamut of processes, practices and procedures being followed

for procurement and finalization of security sensitive items relating to currency e.g., ink, paper, equipment and security features.

- Setting up of vigilance by the Border Security Force and Custom authorities to prevent smuggling of fake notes.
- A High Level Committee headed by the Union Home Secretary comprising officials from central agencies and other police officials has been constituted to monitor and draw up a comprehensive strategy to combat counterfeiting of currency notes. Similar bodies have also been set up in different States. In addition, Government of India have nominated Central Bureau of Investigation as the nodal agency to monitor investigation of fake currency notes.

5.22 To a pertinent question about the remedial steps taken or proposed to be taken to educate the people through press or electronic media to protect them from counterfeit currency, the RBI in a written note stated as under:-

“The following remedial steps have been taken by the RBI –

- The Reserve Bank regularly conducts training programmes for employees of banks and other organizations handling bulk quantities of cash like Railways *etc.* as well as police authorities.
- As a part of the public awareness campaign, the Reserve Bank has placed on its web site extensive information on security features of Indian banknotes.
- Posters on ‘Know Your Banknotes’ are also displayed at bank branches. RBI in collaboration with banks is regularly organizing awareness programmes for members of public in all parts of the country.
- A film on ‘Know Your Banknotes’ got prepared by RBI through Films Division, has been supplied across our Issue offices/Currency Chests, public utilities, theatres and other media for screening.
- A joint awareness campaign with the Ministry of Consumer Affairs has been launched in print and electronic media under the ‘Jago Grahak Jago’ series.
- RBI has initiated the process of multimedia mass awareness campaign for further raising public awareness on features of genuine banknotes. This campaign is expected to be launched during the current quarter and will last one year.”

5.23 In this regard, the representative from the RBI during the evidence stated as under:

“As regards media campaign, the RBI has been taking many steps; we have been doing our best. Films have been made; they have been distributed to banks and used in campaigns; we have *Jago Grahak* which is under the Ministry of Consumer Affairs. Currently we are engaged with a professional media consultant who will sit with us and we will decide about a very major media campaign to create awareness, especially amongst the people who are illiterate and poor, through TV, through vernacular newspapers. We are trying that; next year, we will have it.”

**PART-II**  
**RECOMMENDATIONS/OBSERVATIONS OF THE COMMITTEE**

**INTRODUCTORY**

The Security Printing and Minting Corporation of India Limited (SPMCIL) was incorporated on 13 January, 2006 in pursuance of a decision taken by the Government to corporatize four mints, four presses and one paper mill earlier functioning under direct control of the Ministry of Finance as industrial departmental organizations. All these nine units are working in a security sensitive area and engaged in producing coins, currency notes, non-judicial stamp papers, other security products, postal stationery, stamps etc. Although SPMCIL is still in its infancy, the Committee have undertaken comprehensive examination of the working of this Corporation with an added focus on the alarming magnitude of the problem of counterfeit currency notes in circulation in the country and the efficacious role SPMCIL is expected to play to deter counterfeiting in the area of bank note printing.

Explaining the rationale for setting up of SPMCIL by way of corporatization of the departmental units, the Secretary, Ministry of Finance informed the Committee during evidence that there was a feeling that these departmental units needed to operate with greater functional flexibility and improved functional efficiency and that the departmental methods of running them might not be the best course. The Committee have also been informed that the corporatization of the mints, security presses, etc. was recommended earlier by the Expenditure Reforms Commission in its Report dated 23.12.2000 and it was realized on subsequent review of functions and performance of these units that the main constraints in the system of keeping the units as



Government entities were low productivity, obsolete technology, outdated financial systems and procedures besides delay in responding technologically to the challenges of counterfeiting. Accordingly, the Government appointed Industrial Finance Corporation of India (IFCI) Ltd. as consultant to study the working of these nine units and present a feasibility report for their corporatization. The report presented by the IFCI was accepted by the Government and a decision was taken to form SPMCIL by taking over all the nine security presses/mints/security paper mills. The Committee are, however, constrained to find that while the subject matter of changeover of these nine units from departmental entities to corporate entities was being deliberated for a fairly long time, no simultaneous efforts appear to have been made to discern the issues relating to manpower planning and capital structure that would be required to run the production units under the new corporate structure. The net result is that SPMCIL is still in the process of settling these issues despite being in existence for over four years. While doing so, the Committee would like to caution the management not to resort to any arbitrary methods in regard to the aforesaid matters. The Committee have dealt with some such aspects alongwith issues related to the working of the Corporation in succeeding paragraphs of this Report.

**RECOMMENDATION NO. 1****MANPOWER PLANNING**

The Committee have been informed that all the Government employees functioning under the nine departmental units were treated as on 'deemed deputation' to SPMCIL after the corporatisation of these units was effected in February, 2006. The Committee's examination however, reveals that in the absence of any perspective manpower planning, the Company had to admittedly, go through a critical phase during 2008-09 because of uncertainties prevailing over the issue of en-masse transfer of Government employees to the rolls of the Company as some unions and associations of the employees were initially opposed to the process of corporatization. The fact that a tripartite agreement on absorption of Government employees in the Corporation could be reached with the Government, SPMCIL and the Unions only in September, 2008 is a clear indicator that the issue of deployment of manpower in the Corporation was not fully analysed in its entire ramifications before conceptualising corporatisation of the departmental units. The net result is that optimization of manpower is yet to be achieved as is evident from the fact that about 2000 employees as on 31 March, 2009 are still awaiting deployment by the surplus cell even after the report of National Productivity Council has brought out that the expenditure on manpower in SPMCIL is on higher side. Closely connected are the issues relating to recruitment of skilled manpower, formulation of appropriate Recruitment and Service Rules, establishment of appropriate Industrial Relations Machinery (IRM) suitable for a multi-unit Corporate entity and inculcating corporate work culture and

training of employees to meet the challenges of advanced technology besides new financial systems introduced after corporatization. While taking due notice of the initiatives taken by the Government through tripartite agreement to address the apprehensions of the employees in new set up, the Committee wish to strongly impress upon the management to pay focused attention towards all aspects of streamlining the management systems consistent with the requirement of multi unit Corporate entity, job- specific skill development and training needs of the employees working in a Corporation engaged in security sensitive area. The Committee further recommend that Recruitment and Service Rules may be finalized without further delay and no shortcut method of engaging retired officials on contract basis be resorted to. They would like to be apprised of the precise steps taken in this regard.

**RECOMMENDATION NO. 2****INDUSTRIAL RELATION MACHINERY**

The Committee appreciate that a provision in the tripartite agreement has since been incorporated for formation of a structure in SPMCIL on lines of Joint Consultative Machinery. In order to meet the genuine aspirations of the employees working in different units, the Committee recommend that all the necessary steps should be taken to expeditiously put in place an effective industrial relation machinery (IRM) to take care of the teething problems which are generally experienced on corporatization of Government industrial units. In this regard, the Committee desire that the workers and all the unions functioning in the units of SPMCIL should be taken into confidence and actively involved on the modalities of constituting such Joint Consultative Machinery.

**RECOMMENDATION No.3****ORGANISATIONAL SET UP**

The Committee note that except functioning under the control and directions of corporate office, the present organizational setup in all the nine production units of SPMCIL continues to be same as was in place when these units were functioning as departmental organizations under the direct control of Department of Economic Affairs (DEA) in the Ministry of Finance. Although SPMCIL is reported to be still working out a proposal on study on the organizational set up and the vision and the mission for the Corporation for the next ten years by inputs from the professional consultants, the Committee are in no doubt that this issue requires priority attention on the part of the management for putting in place the requisite corporate structure in the production units. The Committee, therefore, desire that the proposed studies on the organizational set up in SPMCIL should be undertaken and completed at the earliest with a view to achieving the envisaged objectives of operational flexibility fostering efficiency and higher productivity in the production units.

**RECOMMENDATION NO. 4****CAPITAL STRUCTURE**

Outdated financial systems were one of the important factors for corporatization of the departmental units. The Committee however, note that the capital structure of SPMCIL does not reflect the true picture of its asset base as the value and nature of assets transferred to the Corporation has not yet been finalized. This delay has been attributed primarily to the reasons that transfer of assets from the departmental units at the time of corporatization was made on book value without any detailed verification of assets and stock. Although the Ministry of Finance is reported to be processing the proposal to finalise the capital structure on the basis of a detailed exercise undertaken by SPMCIL to record the correct value of assets in each unit, the fact remains that unduly longer time has been taken to settle such an important issue having direct bearing on the capital base of the Corporation. The Committee, therefore, desire that an early decision on the correct valuation of assets transferred to the Corporation should be taken so as to present the financial status of the Corporation in right perspective.

**RECOMMENDATION NO. 5****SUNDRY DEBTORS**

The Committee are concerned to note that SPMCIL is encountering various problems in realizing its outstanding dues which are stated to be increasing year after year. Such dues stood at Rs.836.31 crore as on 31 March, 2009. The information furnished in this regard reveals that the entire dues pertain to Central/State Governments and RBI and majority of these outstandings are to be realized from various State Governments (Rs.230.64 crore), Ministry of External Affairs (Rs.196.86 crore) and Department of Posts (Rs.156.86 crore). The Committee's examination has brought out that while the matter of realization of outstanding dues from various State Governments has been taken up in the meeting of State Secretaries and the same is being followed up, the Ministry of External Affairs is inexplicably not able to clear its outstanding dues because of inadequate provision in its budget. What is more surprising is the fact that a committee is reported to have been constituted to finalise the cost of products manufactured by SPMCIL for the purposes of settlement of old dues pertaining to Department of Posts. The Committee wish to emphasise that the burden of growing sundry debtors has an adverse bearing on working capital costs of SPMCIL. The Committee strongly recommend that the Ministry of Finance should intervene in the matter to help SPMCIL in realization of its outstanding dues by exerting influence on the defaulting departments of the Central and State Governments.

**RECOMMENDATION NO. 6****PAYMENTS FOR POSTAL STATIONERY**

Yet another area which has engaged the attention of the Committee relates to incurrence of losses by SPMCIL on account non-payment of actual cost of production of postal stationery. The Committee have been informed that the production cost of certain items of postal stationery is high and the payments for manufacturing such stationery are restricted to capped prices due to Government policy to restrict the price of these products in public interest. While giving due credence to Government policy in the matter, the Committee recommend that ways and means should be evolved to ensure payment of atleast actual cost of production of such items so that the commercial interests of the Corporation are not compromised.



**RECOMMENDATION NO. 7****TAXATION MATTERS**

SPMCIL has informed the Committee that its production units were earlier exempted from payment of excise and custom duties as well as local taxes on various items, when these were functioning as departmental organizations. However, the same units are now being asked to pay various taxes by the authorities who are issuing demand notices after corporatization of these units. According to SPMCIL, Government is the ultimate consignee for most of its products and it has been agreed to in a meeting at the level of Finance Secretary and Revenue Secretary to exempt taxes on products wherever Government Departments are the consignees. It is also noticed from Memorandum of Understanding (2008-09) between SPMCIL and Ministry of Finance that the Government also stand committed to provide assistance in persuading State Governments for exemption from payment of VAT, entry tax etc., available to the production units prior to its corporatization. While appreciating the positive view taken in this matter, the Committee desire the Ministry of Finance to take requisite steps with due promptitude keeping in view the specific role assigned to SPMCIL in producing security products for public use.

**RECOMMENDATION NO. 8****DELAY IN LIFTING NJSP**

The Committee have been informed that the directions by Government stipulate that six months stock of printed stamp paper has to be held for the requirement of State Governments and that the supply of such papers cannot be stopped because it has the potential for introduction of fake stamp papers as happened in Telagi case. The Committee's attention has however, been drawn towards the delay in lifting the non judicial stamp papers by various State Governments leading to piling up of huge stocks in the Corporation and consequential high working capital costs. The Committee are of firm view that sound business principles should always be the guiding factors of any commercial entity. The Committee, therefore, recommend that appropriate measures should be taken by the Ministry of Finance to take up this issue with the State Governments concerned in the best financial interests of the Corporation.

**RECOMMENDATION NO. 9****CAPACITY UTILISATION**

Interestingly, tall claims have been made by SPMCIL that its capacity utilization as against the installed capacity for major products including currency notes and coins ranged from 149 per cent to 174 per cent during 2008-09. The Committee do not find any merit in the assertions made by the Corporation that more utilization of capacity had been achieved by means of deployment of manpower on overtime basis and through payment of productivity linked incentive besides reducing the rejection percentage, machine down time and better control after corporatization. On the other hand, the installed capacity in various units does not seem to have been calculated on a scientific basis giving due consideration to operating machine speed and actual utilization of man hours. The Committee, therefore, recommend that SPMCIL should undertake a thorough review for rationally assessing its installed capacity in each unit and take effective steps to ensure optimum utilization of capacity so assessed.

**RECOMMENDATION NO. 10****DISPOSAL OF IMPAIRED MACHINERY**

The Committee note that the procedure order stipulates that the parts of the impaired machinery should be auctioned only after the machine parts are destroyed by pressing or by gas cutting and the dies etc. are defaced. However, the process is reported to have been frozen and no dysfunctional machinery is presently being discarded or dismantled in pursuance of a decision taken after the Telagi scam. The Committee feel that the present policy of preserving the impaired machinery in the premises is not only fraught with danger of theft but may also lead to over accumulation besides huge expenses on its security. The Committee are of the firm opinion that SPMCIL should immediately undertake the safe and irreversible disposal of impaired machineries lying with the Corporation. This is a matter which cannot be procrastinated due to the hazards that have been mentioned.

**RECOMMENDATION NO. 11****SECURITY EXPENSES**

A suggestion has been received by the Committee from the CMD, SPMCIL that the Ministry of Finance may reimburse the huge security expenses being incurred by the production units of the Corporation which is engaged in production of currency and coins which is a sovereign function. The Committee are in agreement with the plea made by SPMCIL that it does not have any independent say in the matters of deployment of security in its units and has to be guided by the directions of the intelligence agencies and the State Governments due to probable threat perception as potential targets by anti national elements. In the opinion of the Committee, reimbursement for security expenses claimed by SPMCIL seems to be justified as the magnitude of security deployment in the various units of SPMCIL is largely in the hands of the Government. The Committee, therefore, recommend that the Ministry of Finance should favourably consider reimbursement of security expenditure incurred by the units of SPMCIL so as to facilitate functioning of these strategic business units.

**RECOMMENDATION NO. 12****CORPORATE SOCIAL RESPONSIBILITY**

The Committee feel that the corporatized industrial units must show their commitment to the cause of social responsibilities towards people around the area of their operation. The Committee have been informed that SPMCIL has formulated its corporate social responsibility policy in tune with the philosophy of Central Public Sector Enterprise and earmarked an amount of Rs.2 crore for the purpose as per MoU signed with the administrative ministry for the year 2009-2010. The Committee's examination has however, revealed that the Corporation has incurred a meagre expenditure of Rs.0.28 crore to provide assistance mainly for an ambulance and construction of school buildings at Nasik. During evidence, the CMD, SPMCIL admitted that the Corporation had not been proactively doing for adjoining communities and poor villages. The Committee feel that the public sector undertakings being the extension of the State have a moral responsibility to discharge their social obligations. The Committee, therefore, desire SPMCIL to do some introspection to take initiatives for welfare of the society at large. The Committee would like to be apprised of the precise action taken in this regard.

**RECOMMENDATION NO. 13****ERRATIC INDENTS FOR COINS AND CURRENCY**

The Committee note that SPMCIL is primarily dependent upon RBI and various other departments of Central/State Governments for its operational performance. The Corporation is however, stated to be experiencing difficulties in optimizing its capacities particularly because of uneven demand projections for currency notes and coins by RBI. The Committee have been informed during their examination that RBI did not place any indents for coins during the years 2005-06 and 2006-07 and the same were suddenly increased to 3485 million pieces in 2007-08 and to 5900 million pieces in 2008-09. Substantial variations in projected annual requirements of currency notes has also been noted. Whatever may be reasons for uneven demand projections for currency and coins, the fact remains that such uncertainties in indents and lack of firm commitment for producing currency and coins put unwarranted pressure on the production planning and deployment of resources committed for printing of currency notes and minting of coins. In the light of the candid admission by RBI that it is possible for them to project 'approximate' demand for production of currency notes and coins in advance for the next five years, the Committee strongly recommend that the Ministry of Finance should clinch the issue with RBI by impressing upon them to project their indents for currency notes and coins five years in advance so that the capacity of each unit of SPMCIL is neither kept idle nor overburdened due to uneven annual demands nor difficulties experienced in meeting the increased demands as had happened in 1996-98 when the Government of India had to resort to outsourcing of printing of currency notes to foreign agencies.

**RECOMMENDATION NO. 14****OUTSOURCING OF PRINTING OF CURRENCY NOTES**

The Committee are aghast to note that the RBI had outsourced the printing of notes to three foreign countries in the year 1997-98. The Committee was informed that 2000 million pieces of 100 rupee denomination and 1600 million pieces of 500 rupee denomination of notes were outsourced for printing at (i) American Banknote Company (USA) – 635 million pieces; (ii) Thomas De La Rue, UK – 1365 million pieces (100 rupee denomination) and Giesecke & Devrient Consortium (Germany) – 1600 million pieces (500 rupee denomination), amounting to a sum of Rs. One lac crores. On further inquiry the Committee was also given to understand that such outsourcing of the printing of notes was not done either prior to 1996 or after that. The reasons such as (a) the bad conditions of the notes and (b) the 'soilage' factor etc. mentioned by the representatives of the RBI are far from convincing. The RBI system of assessment with respect to the demands of the bank notes in the country has been off the mark resulting in a gap between the demand and supply of bank notes, but this is a factor that was constant prior to and after 1996. The Committee rejects the reasons that have been forwarded for this extraordinary decision which is unprecedented.

The Committee also find it pertinent to point out that during printing of currency notes worth 1 lakh crores in three different countries, there was always a grave risk of unauthorised printing of excess currency notes, which would have been unaccounted money. The Committee simply wonder how come a decision was taken to have the currency notes printed by above-mentioned companies in three different countries. Logically speaking since



all the said three countries are well developed, each country certainly had the capability of undertaking the entire printing assignment. In any case the very thought of India's currency being printed in three different countries is alarming to say the least. During that particular fateful period our entire economic sovereignty was at stake.

The Committee is concerned of the grave implications of such a move as it has wider ramifications in a multi faceted angle. The danger of destabilising the economy by the agencies or authorities who could have misused our security parameters vis-à-vis printing of currency notes, the use of such notes which could have been printed in excess could easily have fallen in the hands of unscrupulous elements such as terrorists, extremists and other economic offenders, looms large in our minds. The Committee expresses its strong resentment over such an unprecedented, unconventional and uncalled for measure. The Committee while recommending that SPMCIL be strengthened to undertake the printing and minting of the required currency notes/coins, fervently emphasise that outsourcing of printing of currency notes/minting coins should never be resorted to in the future.

**RECOMMENDATION NO. 15****COUNTERFEIT CURRENCY**

The menace of circulation of counterfeit currency in the country has been assuming alarming proportion in the recent years. While no assessment of counterfeit currency presently in circulation in the country has been made by Reserve Bank of India, the guesstimate reported in media put such currency at an astronomical figure of Rs.169,000 crore floating in Indian financial system including official banking channels. The Committee have also been informed by Secretary, Ministry of Finance that the value of fake currency seized and recovered has increased from Rs.8.39 crore in 2006 to Rs.25.79 crore in 2008 and an estimate by CMD, SPMCIL put the figure of counterfeit notes at 8 pieces per million after the incident of detection of counterfeit bank notes in the branch of a bank at Dumariagunj, UP. It has been averred before the Committee that counterfeiting is a law and order issue and the RBI's role in addressing the problem of counterfeiting lies in improving the security features of the currency notes, putting in place a system where all such notes making entry into banking channels are promptly detected and raising the awareness level of all users particularly, members of public. Although RBI is stated to have initiated a number of steps to cope up with the challenges of counterfeit currency including those taken to educate the people, the Committee feel that the awareness campaigns launched by RBI are yet to reach the common masses particularly in the rural areas where poor and innocent people more vulnerable to counterfeit currency continues to be the victims of this problem and are easily targeted by the anti-national elements. While impressing upon the Government to take appropriate steps to amend

the penal provisions for providing protection to such hapless victims, the Committee would like to emphasise that RBI should introduce easily recognizable and yet scoring high on anti counterfeiting security features in the design of the currency notes on the lines of advanced international practices. Needless to say that inclusion of such security features will go a long way in mitigating the hardships being faced by the common man.

**RECOMMENDATION NO. 16****ROLE OF SPMCIL**

In the context of the operational role of SPMCIL in checking counterfeit currency, the CMD, SPMCIL washed off his hands during evidence stating “.....counterfeit matter remains with the Government. I am basically their vendor”. The Committee are surprised at this explanation coming from the Chief Executive of a responsible Corporate organization entrusted, *inter alia*, with the responsibility of providing design part of currency notes to the Government. In the opinion of the Committee, SPMCIL is not just a vendor but a Government agent equally accountable for production of an ideal currency which cannot be easily counterfeited. In fact, delay in responding technologically to the challenges of counterfeit was one of the main constraints experienced in the system of keeping the departmental units engaged in production of currency and coins as Government entities and it was with this purpose that the nine departmental units were corporatized and placed under SPMCIL. Although SPMCIL is stated to have taken certain initiatives to keep pace with advancement of technology, the Corporation as bank note designer and printer of currency notes does not appear to have taken requisite technological initiatives to deter counterfeiting. The Committee, therefore, strongly recommend that SPMCIL should direct its efforts towards continuous design innovations conforming to international standards so as to meet the challenges of counterfeiting effectively.

**RECOMMENDATION NO. 17****INDEGINISATION OF SECURITY SENSITIVE ITEMS**

The Committee note that the SPMCIL presently depends on foreign suppliers for raw material like paper and ink to the extent of around 80-85 per cent. The Committee have been informed by Finance Secretary during his deposition that SPMCIL “has started activities in the crucial area of research and development with the overall objective of indigenizing major security products within a medium timeframe”. The information furnished to the Committee however, reveals that only Rs. 2.5 crore are expected to be incurred during 2009-10 on R&D for which no dedicated set up exists in SPMCIL. At the same time, a joint venture company of SPMCIL and BRBNMPL for production of currency paper is yet to be constituted and the process for replacement and installation of security paper manufacturing machines at SPM Hoshangabad is still underway. As regards the indigenization of production of ink, it has been stated that the Ink factory at Dewas has developed intaglio ink for printing of bank notes and is trying to develop indigenous varnish for varnishing of Rs. five and ten notes. Although two different committees have been constituted in the past by the Government to steer R&D efforts and to review the procedures for procurement of security sensitive items, their reports are also yet to reach logical ends. From these facts, the Committee gather a strong impression that the issues of R&D and indigenization are not being given due attention thus making the country vulnerable to counterfeiting due to excessive dependence on imported currency paper and ink for printing of bank notes.

The Committee, therefore, recommend that efforts at indigenization brooks no delay whatsoever and need be taken up with utmost priority and expeditiously. The Committee while further noting that some quantity of paper and security ink are being indigenously produced, feel that if we have the capability to indigenously produce a part of our requirement, there is no reason why we can't meet our entire needs indigenously.

Indigenisation of core raw material such as paper and ink for printing currency notes are very critical from the security point of view. Once we are self reliant in respect of producing these core raw materials, we could to a great measure ward off counterfeiting and other pilferage with our valued currency.

The Committee further recommend that the Ministry of Finance and SPMCIL should expeditiously formulate a concrete plan for dedicated R&D set-up with enhanced financial allocation and draw a roadmap with a clear timeframe for achieving indigenization in security sensitive items.

**RECOMMENDATION NO. 18****MINI RATNA STATUS**

Incidentally, in terms of the tripartite settlement, the Government stand committed to provide support to the Corporation to the tune of Rs.1200-1500 crore for modernization. It has however been brought to the notice of the Committee that a letter has recently been received by SPMCIL from DPE stating that the Mini Ratna status of the Corporation would be withdrawn unless the Government support is in national interest. Considering the fact that the financial support proposed to be given by the Ministry is a part of its commitment to the Unions and is in no manner proposed to bridge the losses of the Corporation, the Committee are of firm view that it would not be appropriate to link the issue of Mini Ratna status with the financial support proposed to be given for modernization to a Corporation required to meet the challenges of upgrading the technology in the area of printing of security products and counterfeiting of currency notes. The Committee, therefore, recommend that the Ministry of Finance should resolve this issue with DPE to ensure that the Mini Ratna status of SPMCIL is not affected.

New Delhi:  
9<sup>th</sup> March, 2010  
19 Phalguna, 1931 (Saka)

**SHRI V. KISHORE CHANDRA S. DEO**  
Chairman  
Committee on Public Undertakings

**MINUTES OF THE 6<sup>th</sup> SITTING OF THE COMMITTEE ON  
PUBLIC UNDERTAKINGS (2009-10) HELD ON 27<sup>TH</sup> OCTOBER 2009**

The Committee sat from 1130 hrs to 1400 hrs.

**PRESENT**

**Chairman**

**Shri V. Kishore Chandra S. Deo**

**Members, Lok Sabha**

2	Shri Hemanand Biswal
3	Shri Anant Kumar Hegde
4	Shri Sukhdev Singh Libra
5	Dr. Charan Das Mahant
6	Shri L. Rajagopal
7	Chaudhary Lal Singh
8	Shri Ganesh Singh
9	Shri N. Dharam Singh
10	Shri Rajiv Ranjan Singh alias Lalan Singh

**Members, Rajya Sabha**

11	Shri Birendra Prasad Baishya
12	Shri Bharatkumar Raut
13	Ms. Mabel Rebello
14	Shri Vijay Kumar Rupani
15	Shri Tapan Kumar Sen
16	Shri Amar Singh

**Secretariat**

1.	Shri J.P. Sharma	Joint Secretary
2.	Shri Rajeev Sharma	Director
3.	Shri Ravindra Garimella	Additional Director
4.	Shri Ajay Kumar	Additional Director
5.	Shri Paolienlal Haokip	Under Secretary



## Representatives of SPMCIL

- |    |                     |  |
|----|---------------------|--|
| 1. | Shri M.S. Rana      | Chairman and Managing Director, SPMCIL |
| 2. | Shri Madan Mohan    | Director (Finance), SPMCIL             |
| 3. | Shri Ashwini Kumar  | Director (Technical), SPMCIL           |
| 4. | Dr. Manoranjan Dash | Director (HR), SPMCIL                  |
| 5. | Shri Ajay Nath      | Chief Vigilance Officer, SPMCIL        |
2.           xxxxx                                   xxxxxxx                                   xxxxxxx
3.       The Chairman then invited the representatives of Security Printing and Minting Corporation of India Limited (SPMCIL) for tendering evidence before the Committee. The Chairman welcomed the representatives of SPMCIL and also drew their attention to provisions of Rule 275 of the Rules of Procedure and Conduct of Business in Lok Sabha relating to evidence before the Parliamentary Committees. The CMD, SPMCIL made a brief power point presentation on the subject. Thereafter, the Members raised queries on various aspects pertaining to the subject and the explanations/clarifications on the same were given by the CMD, SPMCIL.
4.       The Chairman then thanked the representatives of SPMCIL for providing the information in a lucid manner on the subject matter.
5.       Verbatim record of evidence was kept.
6.       The Committee then adjourned.

\*\*\*\*\*

**MINUTES OF THE 12<sup>th</sup> SITTING OF THE COMMITTEE ON  
PUBLIC UNDERTAKINGS (2009-10) HELD ON 20<sup>th</sup> JANUARY, 2010.**

The Committee sat from 1500 hrs to 1615 hrs.

**PRESENT**

**Chairman**

**Shri V. Kishore Chandra S. Deo**

**Members, Lok Sabha**

- |   |                          |
|---|--------------------------|
| 2 | Shri K.C. Singh 'Baba'   |
| 3 | Shri Anant Kumar Hegde   |
| 4 | Shri Sukhdev Singh Libra |
| 5 | Shri N. Dharam Singh     |

**Members, Rajya Sabha**

- |    |                       |
|----|-----------------------|
| 6. | Shri Bharatkumar Raut |
| 7. | Ms. Mabel Rebello     |
| 8. | Shri Tapan Kumar Sen  |

**Secretariat**

- |    |                         |                     |
|----|-------------------------|---------------------|
| 1. | Shri J.P. Sharma        | Joint Secretary     |
| 2. | Shri Rajeev Sharma      | Director            |
| 3. | Shri Ravinder Garimella | Additional Director |
| 4. | Shri Ajay Kumar         | Additional Director |
| 5. | Shri Paolienlal Haokip  | Under Secretary     |

**Officials of Ministry of Finance**

- |    |                   |                            |
|----|-------------------|----------------------------|
| 1. | Shri Ashok Chawla | Secretary                  |
| 2. | Shri Govind Mohan | Joint Secretary            |
| 3. | Shri V.K. Sharma  | Executive Director, RBI    |
| 4. | Shri R. Gandhi    | Chief General Manager, RBI |

2. xxxxxx

xxxxxx

xxxxxxx



