GOVERNMENT OF INDIA
DEFENCE
LOK SABHA

UNSTARRED QUESTION NO:3065
ANSWERED ON:10.02.2014
COSTING OF ORDNANCE FACTORY PRODUCTS
Bishnoi Shri Kuldeep

Will the Minister of DEFENCE be pleased to state:

(a) the details of pricing mechanism adopted for the products manufactured for armed forces by ordnance factories;

(b) the total losses incurred by five factories in general stores and clothing during the last three years along with the reasons therefor; and

(c) the corrective steps taken by the Government to address the deficiencies in operations of these factories?

Answer

MINISTER OF STATE IN THE (SHRI JITENDRA SINGH) MINISTRY OF DEFENCE

(a) The ordnance factories have been mandated to issue their products to the Services at cost. The Issue Price of different products in a given year is fixed in advance in the preceding financial year considering the following factors:

(i) Actual cost of production for last 3 years. (ii) Issue price for the last 2 years. (iii) Estimated Cost of Production for the present year. (iv) Estimated Cost of Production for the next year. (v) Price increase is restricted to 8% over last year's price as per guide line of Ministry of Defence.

(b) The loss incurred along with reasons is as under:

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(Value  Rs. in Crore)
Year  2010-11  2011-12  2012-13
Net loss  (-)69.79  (-)71.82  (-)7.96
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Though OFB has been mandated to recover the cost incurred in manufacturing of items for the supplies made to the Services; but in the estimation of cost on which issue price is based, due to dynamic market scenario, there could be some variation between the 'Issue Price' and the 'Actual Cost of Production', thus leading to either under recovery or over recovery. There has been under recovery in some items of General Stores & Clothing (GS&C). However, there had been no under recovery in supply of all items (put together) by OFB to the Services. OFB, as a whole, has not incurred any loss.

(c) While fixing the prices for 2014-15, the above issue of under recovery in GS&C items has been addressed.