

**THIRD REPORT**

**COMMITTEE ON PUBLIC UNDERTAKINGS  
(2014-2015)**

**(SIXTEENTH LOK SABHA)**

**BHARAT ELECTRONICS LIMITED**

**MINISTRY OF DEFENCE  
(DEPARTMENT OF DEFENCE PRODUCTION)**

**[Action taken by the Government on the Observations / Recommendations contained in the Twenty-sixth Report of Committee on Public Undertakings (Fifteenth Lok Sabha) on Bharat Electronics Limited]**



**Presented to Lok Sabha on 28.04.2015**

**Laid on the table of Rajya Sabha on 28.04.2015**

**LOK SABHA SECRETARIAT**

**NEW DELHI**

**April 2015 / Vaisakha 1937(S)**

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**COMMITTEE ON PUBLIC UNDERTAKINGS**  
**(2014 – 2015)**

**Chairperson**

**Shri Shanta Kumar**

**Members, Lok Sabha**

2. Shri L. K. Advani
3. Shri Ramesh Bais
4. Shri Pankaj Chowdhary
5. Shri Nand Kumar Singh Chauhan
6. Shri Biren Singh Engti
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11. Shri Prahlad Patel
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13. Shri Rayapati Sambasiva Rao
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**Members, Rajya Sabha**

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18. Shri Majeed Memon
19. Shri Muthukaruppan
20. Shri Rangasayee Ramakrishna
21. Shri C. M. Ramesh
22. Shri Tapan Kumar Sen

**Secretariat**

- |                          |                  |
|--------------------------|------------------|
| 1. Smt. Sudesh Luthra    | Joint Secretary  |
| 2. Shri M.K. Madhusudhan | Director         |
| 3. Shri G.C. Prasad      | Deputy Secretary |

## **INTRODUCTION**

I, the Chairperson, Committee on Public Undertakings having been authorized by the Committee to submit the Report on their behalf, present this Third Report on action taken by the Government on the Observations / Recommendations contained in the Twenty-sixth Report of the Committee on Public Undertakings (Fifteenth Lok Sabha) on “Bharat Electronics Limited”.

2. The Twenty-sixth Report was presented to Lok Sabha / laid on the Table of Rajya Sabha on 9 December 2014. Replies of the Government to the Observations / Recommendations contained in the Report were received on 28 October 2014. The draft Report was considered and adopted by the Committee at their Sitting held on 6 April 2015. The Minutes of the Sitting are given in Appendix-I.

3. An analysis of the action taken by the Government on the Observations / Recommendations contained in the Twenty-eighth Report is given in Appendix-II.

**New Delhi**  
**24 April 2015**  
**4 Vaisakha, 1937(S)**

**SHANTA KUMAR**  
**Chairperson**  
**Committee on Public Undertakings.**

## CHAPTER I

### REPORT

This Report of the Committee deals with the action taken by the Government on the Observations/Recommendations contained in the Twenty-sixth Report (Fifteenth Lok Sabha) of the Committee on Public Undertakings (2013-14) on "Bharat Electronics Limited". The Report was presented to the Speaker, Lok Sabha on the 12<sup>th</sup> October, 2013 and to the Parliament on the 9<sup>th</sup> December, 2013.

2. Action Taken notes have been received from the Government in respect of all the nineteen Observations / Recommendations contained in the Report. These have been categorized as follows:

- (i) Observations / Recommendations which have been accepted by the Government (Chapter II)  
Sl. Nos. 2, 3, 4, 5, 6, 9, 10, 11, 12, 13, 14, 15, 16, and 18 (Total 14)
- (ii) Observations / Recommendations which the Committee do not desire to pursue in view of the Government's replies (Chapter III)  
Nil
- (iii) Observations / Recommendations in respect of which replies of the Government have not been accepted by the Committee (Chapter IV)  
Sl. Nos. 1, 7, 17 and 19 (Total 4)
- (iv) Observations / Recommendations to which the Government have furnished interim replies. (Chapter V)  
Sl. No. 8 (Total 1)

3. The Committee desire that final replies on the Observations/Recommendations to which interim replies have been furnished should be expedited. They also desire that response to their comments in Chapter I of the Report should be furnished to them expeditiously.

4. The Committee will now deal with the Action Taken by the Government on some of the Observations/Recommendations in succeeding paragraphs.

## **Recommendation (Serial No. 1)**

### **Performance of BEL**

5. The Committee in their Twenty-sixth Report had recommended the following on the performance of BEL:

“The Committee are not impressed by BEL's performance. BEL has been making profits but its profits have declined during the last two years and its value of production has stagnated of late. BEL's value of production which stood at Rs.5273 Crores in 2008-09 rose marginally during the three year period to reach Rs.5794 Crores in 2011-12. Its profits declined considerably from Rs.1161 Crores in 2010-11 to Rs.1075 Crores in 2011-12. According to BEL's CMD, the poor performance is mainly caused due to BEL's migration from equipment manufacturing to system integration and opening of defence market to private sector. The Committee are not convinced of these reasons. The Company still gets 70% of its orders on single vendor nomination and BEL's migration from equipment manufacturing is not an unplanned step. It has been stated that the performance will improve in two to three years with about Rs.25,000 Crores orders in hand and by effecting cost reduction measures. It is a matter of satisfaction to note that the profit of BEL increased to Rs.1125 Crores and the value of production registered a quantum jump to touch Rs.6290 Crores during 2012-13, after the Committee went into the functioning of BEL. The Committee feel that in order to further improve its performance; there is need for diversification, cost cutting measures and re-focussing R&D...”

6. The Department of Defence Production, Ministry of Defence in their action taken reply stated as follows:

“Value of Production: Despite a healthy order book, BEL has not been able to achieve significant increase in the value of production due to following constraints:

- Majority of the contracts in order book have staggered delivery and are spread across 3 to 4 years.
- Most of the projects available in order book are first-time inducted projects and such development projects entail concurrent design, Bulk Production Clearance, platform readiness (ship, aircraft, vehicles) etc. Hence execution requires longer cycle time.
- Naval projects require Harbour & Sea Acceptance Trials which are linked to ship availability resulting in longer cycle time.
- Frequent changes in user requirements post-contract leads to re-design and consequent delay in execution in major projects such as Battlefield

Surveillance System(BSS),Command Information & Decision Support System(CIDSS).

- Issues in respect of security grading (Chinese components), malware certification etc. (Project Shakti, CIDSS, BSS).
- BEL is associated in many projects of National importance such as Socio Economic and Caste Census, National Population Register (NPR), Parliament Security etc. which requires huge efforts in terms of design and execution.

### Profitability

- A major reason for low profitability has been increase in material cost as compared to value of production during past four years - from around 57% levels between the years 2008-09 to 2010-11 to 63 % levels in 2011-12 & 64.44 % in 2012-13. However, the company's profitability has risen from Rs.1115 Crore during 2012-13 to 1175 Crore during 2013-14.
- In order to address the issue of low profitability, instructions have been issued to all concerned to eschew unnecessary non-productive expenditure.
- Focus has now been placed on reduction of material cost through other methods like value engineering, indigenization, sourcing etc.
- Manpower recruitment is restricted on a need basis only. Additions to service areas like Finance/HR are closely monitored.

### Diversification

BEL has adopted diversification into new areas as a strategy for growth. Though supplies to Defence constitute a majority share in BEL's turnover, BEL realizes that, to grow in the years to come, it has to diversify into other areas.

Leveraging the capabilities and strengths in the Defence business, BEL is also focussing on new business with reputed foreign OEMs/Defence Labs for collaboration, in the following technology areas:

- Indigenous Air Defence Systems including manufacture of Missiles
- Satcom Terminals for GSAT6 of ISRO.
- Ammunition Fuses for varieties of Guns
- Homeland Security (Critical infrastructure)
- Air Traffic Management Radar

BEL has obtained Government approval for the formation of a Joint Venture Company with Thales, France to Design, Develop, establish Market, Supply and Support of Civilian & select Defence Radars for Indian and Global markets.

### Cost cutting measures

As part of cost cutting measures Company has initiated following actions:

- Issued circulars in line with DPE OM no. DPE/3(4)/08-Fin dated 15<sup>th</sup> October 2013, indicating cost cutting measures in the areas of organizing Seminars & Conferences, Purchase of Vehicles, Domestic & Foreign Travel Expenses, Creation of Posts and other Administrative Expenses (including Office Expenses).
- Identified various Cost Reduction avenues which will be reviewed periodically at Unit/Strategic Business Unit level.

### Re-focusing R&D

- BEL has a Three-Tier R&D structure with Central Research Labs working on cutting edge technologies.
- As directed by the Ministry during 2013, BEL is re-aligning its R&D plan in line with the Technology Perspective & Capability Roadmap (TPCR) requirements in line with long-term plan of Tri-services brought out in the TPCR document.
- BEL is setting up a Central Product Development & Innovation Centre (PDIC) which will focus on development of common technology modules and sub-systems for use across the company. Development of such sub-systems is expected to result in Savings & Value Addition through prevention of duplication of R&D efforts and through replacement of bought-out subsystems.”

**7. Notwithstanding the several measures taken by BEL for cost cutting, diversification and refocusing its R&D so as to improve its performance, BEL has not been able to achieve significant increase in the value of production as acknowledged by BEL itself due to the constraints elaborated in the action taken note. The Committee would, therefore, like to emphasize that BEL should explore all possible avenues to overcome / address the problems so as to increase its value of production. The Committee would like to be apprised of the action taken in this regard within three months from presentation of the Report to Parliament.**



## **Recommendation (Serial No. 7)**

### **Delays in Evaluation / clearance of Equipment / Products**

8. Noting undue delays in evaluation / clearances of newly developed equipments / products by Armed forces / Ministry of Defence, the Committee in their Twenty-sixth Report had recommended as follows:

“The Committee have been informed that evaluation/final clearance of newly developed equipment/products by armed forces / Ministry of Defence takes unduly long time with resultant delay in placement of orders causing huge investment being locked up and manpower remaining idle. Another fall out of this delay is the new technology becoming obsolete in the rapidly changing technological environment. The Committee feel that the problems faced by BEL in this regard can be obviated if the Ministry of Defence in consultation with the evaluation agencies/armed forces and taking into account all relevant factors lays down a time frame for evaluation and clearance of equipments/products and ensures its adherence. The Committee hope that necessary action will be taken in this regard under intimation to the Committee.”

9. The Department of Defence Production, Ministry of Defence in their action taken reply stated as follows:

“The recommendation of the Committee has been considered positively by the Ministry. In order to cut down the delays in procurement of equipment and ensure that the procurement system is more responsive to the needs of the Armed Forces, broad time frames for completion of different procurement activities have been addressed in the Defence Procurement Procedure (DPP) - 2013 which include various Technical, Field and Staff Evaluations. Major deviations from this time frame are brought to the notice of the Defence Procurement Board (DPB), for necessary corrective measures. In addition, Standard Operating Procedure for ‘Handling of complaints’ is being formalized in the Ministry, as complaints had delayed the procurement process in the past.

Timely completion of evaluation is also affected by following factors:

- (a) Poor quality of the vendor's Equipment which leads to equipment failure during evaluation and consequent re-engineering thereby lengthening the process.
- (b) Delay in modification & resubmission of modified equipment by the vendor to meet specifications of the Armed Forces.”

10. The Committee are not inclined to accept the contention of the Ministry that poor quality of vendor equipment as well as delay in their modification and resubmission by vendors are the reasons for delay in timely completion of evaluation / clearance by the Armed forces. The Committee are of the considered view that these problems are not entirely new and ought to have been anticipated and factored into by the Company while developing the equipment / products. The Committee hardly need to emphasize that the Government should take all out measures for broadening the vendor base as also its development so as to obviate the problem of poor quality of equipment being supplied by them. The Committee trust that the Ministry would strictly monitor adherence to the time lines laid down in Defence Procurement Procedure so as to ensure that there are no delays in procurement of the equipment by the Armed forces.

#### **Recommendation (Serial No. 8)**

##### **Exemption of Taxes to BEL and Defence PSUs**

11. Noting loss of many contracts by BEL due to unfair global bidding process, the Committee in their Twenty-sixth Report had recommended the following :

“BEL is facing international competition in "Buy Global" category of Defence purchases and reportedly lost major market opportunities in the segment of Radar, C41, communication etc., and facing competition from indigenous private sector companies in all its major business segments. The Company has lost around 28 contracts amounting to Rs.1624 Crores during the last five years in multi-vendor environment. One of the main reasons attributed for the loss of contracts was that in the case of Global Tender, the pricing by an overseas vendor when compared to that of BEL is more competitive due to the fact that the overseas vendor incurs 'nil' customs duty, excise duty and sales tax. To aggravate the matter further, in case of services, the 'Reverse Charge' mechanism in India further puts the burden of service tax on import of services on the Company and not on the overseas vendor. The Committee is concerned about the loss of such large contracts to foreign suppliers having an edge on account of exemption of Customs, Central Excise Duty and Sales Tax being offered to global bidders at the cost of BEL. What is most surprising is that the Department of Defence Production has done precious little to ensure a level playing field for BEL and other Defence PSUs. In fact, the Department was not even aware of this very unfair situation until the matter was brought to their notice by the Committee. This speaks volumes about the quality of performance review meetings held by the Department. The Committee feels that the issue is serious and needs to be attended to without any further loss of time. The Committee, therefore, desire that the Department of Defence Production take up the matter at the highest level in the Finance Ministry to get the issue resolved and ensure

that the Indian Companies do not lose precious contracts in global biddings due to the grossly unfair preferential treatment being accorded to foreign companies at the cost of the domestic industry.”

### **Reply of the Government**

12. The Department of Defence Production, Ministry of Defence in their action taken reply stated as follows :

“In Buy (Global) cases, while carrying out evaluation of bids to determine L1, necessary criteria have been laid down in Defence Procurement Procedure (DPP) 2013 in order to neutralize the impact of taxes and duties payable by the Indian Industry. In case of Indian bidders including Defence PSUs/OFs, excise duty on fully formed equipment, VAT/Sales Tax and other local levies i.e. octroi, entry tax etc. quoted by Indian bidders are not considered for the purpose of comparison of various bids.

However the issue of Reverse Charge mechanism in ‘Service Tax’ on service remains to be resolved. The burden of service tax does not arise when DPSUs and Indian private firms participate in Buy(Global) bids without taking recourse to import of services. However on account of lack of indigenous capability if DPSUs and Indian pvt firms decide to participate in such bids, the burden of service tax has to be borne by them. Since the matter involves seeking exemption/ change in existing provisions of Customs laws, matter has been taken up with Acquisition Directorate of this Ministry and further progress will be informed to the Committee.”

**13. The Committee note that the issue of seeking exemption / change in existing provisions of Customs laws to ensure a level playing field to BEL and Defence PSUs in global bidding has been referred by the Ministry of Defence to its Acquisition Directorate. The Committee feel that the issue needs to be attended without any further loss of time. The Committee reiterate that the matter be taken up at the highest level by the Ministry of Defence with the Ministry of Finance to ensure that precious contracts in global biddings are not lost by BEL due to unfair preferential treatment accorded to foreign companies.**

## **Recommendation (Serial No. 17)**

### **Attendance of Members in the Board Meetings**

14. With regard to attendance of members in the Board meetings of the Company, the Committee in their Twenty-sixth Report had observed as follows:

“The Committee note that there are nine non-official Directors and 2 Government Directors on the Board of the Company. There were six Board meetings during 2008-09 and seven each in 2009-10 and 2010-11. The Committee note that one Government Director attended just one out of six Board meetings during 2009-10. The Committee have been informed that although the Director was absent from the Board meeting, he had been by virtue of his positioning interacting quite often with the Company management even other wise and also on crucial matters. The Committee are of the view that attendance of all Directors in the Board meetings is vital for the Company to benefit from their vast experience and expertise. Frequent absence of Directors from Board meetings will defeat the very purpose of existence of the Board. The Committee, therefore, recommend that regular attendance of other members of the Board should be invariably insisted upon and ensured. The Department of Defence Production should also ensure the presence of their officers in the Board meetings so that the purpose of their inclusion in the Board is served and the Company benefits from their vast experience and expertise.”

15. The Department of Defence Production, Ministry of Defence in their Action Taken Reply stated as follows:

“Following steps have been taken by the Company to encourage regular attendance of Directors in the Board Meetings:

- A calendar of Board Meetings for the whole financial year, approved by the Board in April every year is communicated to all Board members and Special invitees.
- Board Meeting Notices are issued one month in advance.
- Detailed Agenda and briefing papers are circulated to the Board Members and Invitees one week in advance of each Board Meeting.”

**16. From the action taken reply furnished by the Ministry of Defence, the Committee regret to note that BEL was merely content with issuing notices, agenda and briefing papers to members well in advance of the Board meetings. Apparently no efforts seem to have been made by the management of the Company to urge and impress upon the members to attend the Board meetings**

**regularly. The Committee, therefore, reiterate that steps should be taken by the Ministry / BEL to invariably insist upon and ensure regular attendance of all members to the Board meetings.**

### **Recommendation (Serial No. 19)**

#### **Problems faced by BEL**

17. The Committee in their Twenty-sixth Report had recommended the following for resolving the various problems faced by BEL:

“It is the responsibility of the Department of Defence Production to identify the problems faced by BEL which are beyond its control and render all possible help to resolve them. During the course of examination of the Company, it transpired that intervention of the Department of Defence Production could have helped BEL to tide over some problems in matters such as (a) Funding of Strategically Critical Technology Projects e.g. IR Detector (Cooled & Un-cooled), II Tubes, IF & RF Seekers, High Power Laser etc., (b) Placement of order of Security Sensitive Projects on DPSUs only - EW Systems., (c) Disposal of obsolete inventory to generate revenue- Amendment required in Custom Duty rules., (d) Exemption of Octroi (approx 3.5%) for BEL and BEL Optronics Limited in Pune (Maharashtra)., (e) Shorter evaluation cycle time for indigenized products and (f) Early placement of order for which trials have been completed successfully. It is only after the matter was taken up by the Committee, BEL has reportedly been asked by the Department of Defence Production to submit proposals for being taken up with the concerned Ministries. The Committee urge the Ministry of Defence to examine the issues in right perspective and get them resolved expeditiously by taking them up at the highest level with all concerned Ministries/Departments / Agencies.”

18. The, Department of Defence Production, Ministry of Defence in its action taken reply stated as follows:

(a) “Ministry of Defence has invested about Rs. 269 Crore for Transfer of Technology in respect of Night Vision Devices to BEL. While processing the categorisation cases for procurement of various categories of Night Sights, DDP has been insisting on the utilization of the existing facilities by BEL before undertaking procurement under any other categorization. Now, the proposal for incremental Transfer of Technology for XR-5 technology forwarded by BEL is under consideration by the Ministry.

(b) Subsequent to review undertaken by NSA on our capabilities and our capacity for indigenous manufacture of Electronic Warfare(EW) equipment, guidelines were issued by Ministry of Defence, in Oct 2009, restricting the manufacture of sensitive systems for military use to Defence PSUs and DRDO labs considering the spate of acquisition and mergers of private companies. Any fresh global procurement proposal with regard to the EW systems was to be placed before the Screening Committee Chaired by DG (Acq) before it is placed in various categorisation committees. In November 2012, NSA reviewed the existing guidelines and partially modified guidelines have been issued by the Ministry in December 2012. As per these guidelines, proposals for addressing the existing gaps as well as new proposals for acquisition of EW systems will be considered on case-by-case basis by the Screening Committee followed by Categorisation Committees. While determining the categorization for these proposals, the Committee will take into consideration the capabilities of DRDO labs, Defence PSUs as well as Indian Private Sector; operational requirements and security sensitivity of the system. As per the guidelines, steps will be taken for augmentation of capabilities of DRDO labs and Defence PSUs in the area of EW.

(c) BEL's products range comprises small components, standalone equipment, complex systems and System of Systems. The input materials imported for these Defence applications are exempted from Customs Duty with the condition that they are utilized for specified purpose for which they were imported under Customs Notification 39/96. Over the period of time, due to change in Technology, Design, Customer requirements, Obsolescence etc., some of the input materials procured for these applications have become unusable inventory and company is unable to dispose the same in view of Customs Duty Exemption availed for utilization against specific purpose. BEL has been advised to re-examine and submit a proposal with details of inventory rendered obsolete, quantity, and cost project-wise and ways the company propose to dispose these items if permissible. Depending on the scale and extent of obsolescence this Ministry will take up matter with the ministry of Finance.

(d) This Ministry has requested Government of Maharashtra vide letters dated 12-06-2013 and 25-03-2014 to look into the matter for waiver of Local Body Tax (LBT) for the inputs material for defence products of BEL Pune and BELOP so that the production of electro Optical Products and Batteries for Defence applications from these two locations where skilled manpower and specialized infrastructure is available continues without dislocation.

(e) This aspect has been covered in the reply to Recommendation Serial No. 8.

(f) This aspect is covered in the reply to Recommendation Serial No. 8. Further, BEL had brought to the attention of the Ministry regarding early

placement of orders for Weapon Locating Radar (WLR), Missile Approach Warning System(MAWS) and L-70 Gun Upgrade. On date Contract Negotiation has been completed for WLR and L-70 Gun Upgrade and orders will be placed after obtaining approval of sanctioning authority (These orders are above Rs. 500 Cr). As regards MAWS, orders were placed on BEL during 2013 itself and contract is under execution.”

**19. The Committee regret to note that despite their recommendation to address the various problems faced by BEL, barring few issues, not much progress has been made by the Ministry in this regard as several issues which are critical to the improvement of its functioning are yet to be resolved by the Government. It is seen from the action taken reply that the issue of funding of various strategically critical technology projects, is still under consideration by the Ministry of Defence. Further, on the issue of amendment in Custom Duty Rules for enabling BEL to dispose of obsolete inventory to generate revenue, the Ministry of Defence is yet to take up the matter with the Ministry of Finance. While expressing their dissatisfaction over the slow progress made by the Ministry of Defence in resolving critical issues of BEL the Committee reiterate that the various problems / constraints faced by BEL should be resolved by the Government in the right earnest within a definite time period. With regard to waiver of Local Body Tax (LBT) for the inputs material for defence products of BEL, Pune and BELOP, though the Ministry has taken up the matter with the Government of Maharashtra, the matter need to be pursued further. Besides, concerted efforts need to be made for augmentation of capability of DRDO labs and Defence PSUs in the area of EW systems. The Committee would like to emphasize urgent and immediate action in this regard. Besides the Committee may again like to stress for proactive intervention by the Ministry of Defence to help BEL tide over the problems resulting in growth in production and profit of BEL.**

## CHAPTER II

### RECOMMENDATIONS / OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

#### Recommendation (Serial No.2)

As is obvious from the information furnished to the Committee that, there will be increasing participation of private sector in Defence, facilitated mostly by back-to-back collaboration with foreign partners. In order to be competitive, DRDO has suggested that BEL should become an overall integrated consortium head involving private players with proven strength in identified areas and workout MoUs with them on a work sharing basis. The Committee would like the Government to examine the suggestion from all angles and the Committee be apprised of the outcome.

#### Reply of the Government

BEL has been partnering with Indian companies having complementary strengths to address large system projects of Indian Defence Forces.

For e.g. BEL has led the following projects in Public Private Partnership (PPP) model successfully:

- Akash Weapon System for Indian Air Force (BEL, BDL, ECIL, L&T, TATA)
- Central Acquisition Radar (CAR) Rohini (BEL, L&T, ASTRA)
- Samyukta EW System (40 Work Centres around Hyderabad developed)

BEL is in discussion with both public & private design houses for partnership in the upcoming indigenous 'Make' programs like Tactical Communication Systems (TCS), Battlefield Management Systems (BMS), Future Infantry Combat Vehicle (FICV) etc.

Also, BEL has recently floated an 'Expression of Interest' asking niche technology companies / Academic institutions / Consultants to respond for joint development of subsystems / products through collaborative R&D. The first phase of empanelment of partners has been done.

[Ministry of Defence (Department of Defence Production), O.M.No.-23/13/2013-D (BEL) dated 28 October, 2014]



### **Recommendation (Serial No.3)**

The Committee would also suggest that the measures recommended by them for optimising the performance of the Company need to be implemented expeditiously, particularly in the wake of the present global downturn in the economy, slow down in domestic market, the depreciation of rupee, the increasing competition, etc.

### **Reply of the Government**

The Government has taken note of the recommendations of the Committee and the measures are under implementation.

[Ministry of Defence (Department of Defence Production), O.M.No.-23/13/2013-D (BEL) dated 28 October, 2014]

### **Recommendation (Serial No. 4)**

The Committee notes that during 2010-11 and 2011-12, the MoU rating of the Company was downgraded to 'very good' category. The slide in performance is reportedly due to erosion in profit before tax caused by payment of wage arrears of employees in 2010-11. This also had a cascading effect on the Company's balance-sheet in 2011-12 as well. The Committee is of the opinion that the revision of wages in a listed Company ought not to be such a time consuming exercise as to affect its fortunes in a negative manner. Had the process been completed expeditiously, the cumulative effect of the revision of wages could have been avoided. The Committee, therefore, recommend that since another wage revision will, in normal course, be due after three years or so, the Company should work out a mechanism, albeit of interim nature, including presumptive allocations, whereby, the arrears of wages are not carried forward for years together, but liquidated in substantial measure during the very year they become due.

### **Reply of the Government**

The Company has been following the accepted accounting practices with regard to making provision for the revision of wages/salary be it for non-executives or executives. The executive revision is decided by DPE and is implemented after receiving Presidential guidelines on the subject. The non-executives revision is a negotiated settlement between the union representatives and the Management which is then put up to the Board prior to implementation of the revision. In both these cases, the revision does not happen as soon as it becomes due. Till such time the actual revision takes place, the Company makes a provision in the books for each financial year based

on certain assumptions. Any variation between the assumed increase and the actual revision impacts the profitability of the year/s in which the revision is implemented. In case of 2007 revision of BEL, the executive revision took place in March 2009 and non-executive revision happened in May 2010. The Company has taken note of the advice of the Hon'ble Committee and would make efforts to make more realistic provisions for the next Revision of pay scales due from 01.01.2017.

[Ministry of Defence (Department of Defence Production), O.M.No.-23/13/2013-D (BEL) dated 28 October, 2014]

### **Recommendation (Serial No. 5)**

New projects are necessary for growth and expansion of any organization. However, no major project has been undertaken by BEL in the recent past, other than the Product Support Centre at Kochi. Even the Ministry of Defence does not appear to have given any direction to BEL in this regard except monitoring the progress of BEL's R&D project, reviewing its infrastructure requirements and modernization plans. With the opening of the Defence sector to private industry, the Committee feel that there is an urgent need for BEL to explore new areas of growth and' would like BEL and the Ministry of Defence to work out a suitable plan and identify major projects for implementation in a time bound manner.

### **Reply of the Government**

Following are some of the new projects BEL has been working on, in view of growth and expansion:

- BEL has signed MoUs with LRDE(Electronics and Radar Development Establishment) for the joint development of next generation Active Electronically Scanned Array (AESA) based Surveillance Radars & Fire Control Radars. Prototype development of these Radars is under progress. This initiative is expected to translate into business for BEL in the coming 3 to 4 years.
- BEL has planned to diversify into Missile Electronics and has signed a MoU with Research Centre Imarat(RCI), Hyderabad to develop and manufacture RF seekers used in ASTRA Missile program based on ToT from Agat, Russia. BEL has also taken up indigenous development of Integrated Seeker Electronics unit, Ku band synthesizer / exciter and Front end receiver for use in ASTRA Missile. This will be a new business area for BEL.

- BEL has signed a MoU with RCI, Hyderabad to develop and manufacture Inertial Navigation Systems(INS) for various land based applications. This also will be a new business area for BEL.
- Joint Venture with M/s. Thales: During December 2013 the Government approved the formation of Joint Venture Company by BEL with M/s.Thales, France for the design, development, marketing, supply and support of civilian and select Defence Radars for Indian and Global markets. The shareholding of BEL and Thales in the JVC is 74% and 26% respectively. Thales is an acknowledged world leader in Radar technology. With the support of BEL and Thales, the JVC is expected to provide state of the art Radar solutions for Indian and export markets.

[Ministry of Defence (Department of Defence Production), O.M.No.-23/13/2013-D (BEL) dated 28 October, 2014]

### **Recommendation (Serial No. 6)**

Thin order book of some of the BEL's units operating in Radio Business is stated to be a major concern, notwithstanding the fact that BEL is currently having an order book of about Rs.25000 Crores and is expecting orders of Rs.27,000 Crores in another three years. Reasons for BEL's radio business not getting sufficient orders and steps to remedy the situation should be studied and the Committee be apprised of the outcome. The Committee feels that BEL has not done much to tap the vast export potential for variety of its products. Whatever little exports made by BEL - US \$ 38.45 Million in 2011-12 are mainly on account of offset sales. The Committee hardly needs to stress that BEL should draw up an export strategy to boost exports exclusive of offset sales, with specific targets and show results in a time bound manner.

### **Reply of the Government**

Insufficient orders for Radio Business:

- Some of BEL's business units were engaged in the manufacture of earlier generation communication equipment/analog radios for Defence Forces. However change in technology from analog to Software Defined Radios (SDRs) was responsible for underutilization of capacity. In line with new requirement of technologies, BEL has been developing SDRs in collaboration with DRDO labs.
- For optimal utilization of capacity, business units dealing with analog technology have now been allocated with other product lines like small Surveillance Radars, Night Vision Devices (NVDs), Instant Fire Detection and Suppression System (IFDSS), Signal Data Processor for Radars etc.

BEL's Export strategy:

Export is one of the thrust areas and BEL is exploring various possibilities to export its products & systems to different countries. Export made by BEL during 2011-12 was US\$ 38.45 million, out of which *offset was US\$13.14 million* and *other than offset was US\$ 25.31 million*. BEL achieved an all-time high export turnover of US \$42 Million during 2013-14 due to continued thrust. Some of the initiatives under BEL's Export strategy are-

- Participation in AERO INDIA, DEFEXPO and overseas Defence exhibitions.
- Presentations and demonstration of BEL's products & systems to prospective overseas customers through Indian High Commissions and representatives in other countries.
- Contract Manufacturing (both build-to-print and build-to-specs) with OEMs.
- Supply chain partnership with Aerospace OEMs like BOEING, PILATUS.
- Strategic alliances with global OEMs (Elbit, IAI, Thales, SAAB) for joint development / co-production.
- Focus on SE Asian Countries for Radar, Sonars and C4I solutions.

[Ministry of Defence (Department of Defence Production), O.M.No.-23/13/2013-D (BEL) dated 28 October, 2014]

### **Recommendation (Serial No. 9)**

The Committee finds that though Research & Development activity of BEL started five decades ago and R&D expenditure as a percentage of turn-over has been healthily improving from 3.55% in 2006-07 to 8.21% in 2011-12, no efficiency audit of R&D projects was carried out till recently. It is only in August 2012 that a methodology of measuring in-house R&D value addition has been introduced. The measurement carried out for the last five years has reportedly shown in-house R&D value addition of around 56% (average) across BEL. The Committee would like to know, how this percentage compares internationally and whether the methodology of measurement is globally recognized. Incidentally, the Committee note the observation of one of the Directors of the Company that the R&D interface and customer interface is weak in BEL and that there is need to modify the Company's strategy to reflect customer focus. Notwithstanding some steps taken to address these issues, the Committee feel that BEL should not be found wanting in this respect in future.

## **Reply of the Government**

### **R&D Value Addition Index:**

The R&D value addition index worked out by BEL gives a relative measure of value addition between Units / Strategic Business Units and Year-on-Year performance. The model provides for highest emphasis for in-house development of subsystems/ systems followed by indigenous development within the country.

However, there is no globally accepted single R&D value addition model that can fit all models of business. Models and metrics for measurement vary depending on the type of product mix. Among many metrics followed, R&D investments, Gross profit, IP management etc are also followed internationally for measuring R&D value addition. Since measurement models and metrics vary, there are no international Value addition index figures to compare.

### **R&D and Customer interface:**

In line with recommendation of the Committee, the Government has directed BEL to align its R&D to meet the Technology Perspective Capability Roadmap (15 years TPCR) of the Armed Forces. BEL has carried out technology mapping for the capabilities required in areas of its core competencies. BEL also undertakes many R&D Projects which are critical to National defence based on directives from MOD. (E.g., Coastal Surveillance System for Indian Coast Guard).

[Ministry of Defence (Department of Defence Production), O.M.No.-23/13/2013-D (BEL) dated 28 October, 2014]

## **Recommendation (Serial No. 10)**

The Committee is surprised to know that a company having long record of successful R&D activity and having 54% of its turnover from in- house developed products had not patented the technologies developed in- house for Defence equipment. The Committee would like to have an assessment of the loss, if any, incurred on account of this lapse over the years. It has been stated that an aggressive campaign has been initiated over the past two years to protect the intellectual property rights for the new technologies I process developed and 12 patent applications filed during 2011-12 and 7 applications till August 2012. The Committee urges that patenting activity should be one of the elements to be managed by the structural mechanism which has been put in place by BEL for R&D initiative.

## **Reply of the Government**

Patenting and other IPR management:

- In the 1980's, BEL had obtained patents for Liquid Crystal Displays. BEL has also obtained patents for Surface-Acoustic-Wave Filters, Phase tapering techniques in antennas for Cellular Base Station, Solar Traffic Signaling System and Electronic Voting Machines. BEL had not actively pursued filing patents in the area of Defence systems as filing patents involves publishing information which could be counter-productive.
- However, in order to protect its business interests, BEL has launched measures for filing Patents and other IPR like Integrated Circuit design layout registration. In the last two years, nearly 30 patents have been filed and are being actively pursued for grants. There is no assessment of loss, since BEL has not paid any IP charges to vendors for technologies already developed by BEL.
- BEL has put in place a structural mechanism for managing R&D initiatives through Corporate Technology Planning division which is actively managing filing of patents & other IPR and pursuing for grants by centrally coordinating with all R&D groups across the company and with IP attorneys.

[Ministry of Defence (Department of Defence Production), O.M.No.-23/13/2013-D (BEL) dated 28 October, 2014]

## **Recommendation (Serial No. 11)**

On a suggestion made by the Committee that BEL license out its designs which could become a major profit area, the CMD, BEL was candid in his admission that BEL never explored that particular area. The Committee wishes that necessary action is taken in this regard at the earliest under intimation to the Committee.

## **Reply of the Government**

Patenting and Licensed production: As suggested by the Committee BEL has examined the possibility of licensing out its designs. From among technologies for which BEL has obtained patents such as Liquid Crystal Displays, Surface-Acoustic-Wave Filters, Phase Tapering Techniques in Antennas for Cellular Base Station, Solar Traffic Signaling System (STSS) and Electronic Voting Machines (EVMs), the last two i.e. STSS and EVMs are products that could be licensed for production through other companies. However, confidentiality requirements of the EVM and investments in an

internal Mass Manufacturing Facility at BEL have deterred licensed production through other companies. This restriction need not apply to the STSS. BEL will consider licensed production of the STSS and other similar products in civilian domain.

[Ministry of Defence (Department of Defence Production), O.M.No.-23/13/2013-D (BEL) dated 28 October, 2014]

### **Recommendation (Serial No. 12)**

The Committee note that BEL has taken up a number of marketing initiatives to counter competition being faced from private players which include recruitment of ex-service personnel, conducting marketing conferences, imparting short term and long term professional training in marketing to executives by top business schools like India Institute of Management, etc. BEL has also taken initiatives for cost reduction and has successfully achieved savings of Rs.2.3 Crores during 2011-12 by coordinating in-house efforts of 57 Task Forces. The Committee has also been informed that BEL is in the process of creating a Central Marketing Research Group for securing marketing intelligence to address marketing challenges. The Committee believes that generating customer trust with highest standards of quality coupled with effective marketing are key to ensuring customer satisfaction. Increasing revenues and enhanced profits automatically flow, thereafter. The Committee, therefore, recommends renewed focus by the Company on a state-of-the-art, robust R&D mechanism with best available and complementing human resource on rolls, a highly professional market intelligence network, a reliable feedback and vigorous follow-up interface with the customers, a bouquet of products with a reasonable price band. The Committee would like to be apprised of a definite road-map encompassing all these facets at the earliest.

### **Reply of the Government**

The following initiatives have been taken up to enhance the effectiveness of R&D, the marketing intelligence and customer co-ordination activities in the company:

- **Research &Development:** BEL's R&D is spearheaded by the Central Research laboratory (CRL) at the apex of three-level R&D structure with a dedicated team of over 300 scientists involved in development of futuristic technologies. The research scientists in CRL have a separate remuneration package in order to attract and retain the best talent. The R&D engineers working in Central Design & Engineering Group and Units/Strategic Business Units are recruited through all India competitive examination drawn from the best Institutions in the country. Further, BEL is in the process of setting up a

centralized Product Development & Innovation Centre, pooling the best available resources in the company, with a long term focus in line with TPCR.

- A Marketing Research Core group has been established at the Corporate Office, with a Two-Tier structure, for carrying out the Marketing Research activity in the Company:
  - i. Marketing Research Core Group at Corporate Office.
  - ii. Marketing Research Resource Persons at Unit/SBU level.
- A Competitor's database portal has been created in SAP(ERP application) in order to analyze business scenarios and competitive environment for each business segment of BEL. This will enhance competitive edge in the market.
- Institutional meetings are held with the customers throughout the year. For Army requirements, regular institutional meetings were held with Directorate Generals of Artillery, Army Air Defence, EME and Ordnance etc. Indian Air Force holds Projects Progress Review meetings regularly, at Air Head Quarters. The Navy holds WESMMC meetings which deal with spares as well as equipment maintenance related aspects.

[Ministry of Defence (Department of Defence Production), O.M.No.-23/13/2013-D (BEL) dated 28 October, 2014]

### **Recommendation (Serial No.13)**

The Committee feels that ensuring the quality of products is vital to improve the market presence, reliability and trustworthiness of the products supplied by BEL. The Committee, therefore, recommend that BEL should ensure a stringent quality control regime for each and every product being rolled out from its plants so that the quality of products is thoroughly checked before supply, especially the Defence products which may otherwise directly risk the safety and security of the Country. Furthermore, as stated previously in this Report, marketing strategies and customer interface should be improved to infuse reliability and for enhancing the customer satisfaction level. It would also be worthwhile if apart from the stipulated pre-delivery tests post delivery tests are also conducted to ensure that the quality of products supplied is maintained at highest levels and the customers have no reasons to complain.



## **Reply of the Government**

A stringent quality control regime exists for each and every product rolled out from the plants.

- BEL has an extremely well established quality control mechanism, manned by competent personnel wherein inspections and testing is carried out on the basis of a structured Quality Plan and Approved Test Procedure.
- Inspection and test records are maintained and these are verified during manufacturing by DGQA & associated agencies.
- Endurance test and factory acceptance tests are also performed.
- Products and systems are dispatched only after obtaining DGQA & DGAQA inspection clearance notes.

Marketing strategies and customer interface should be improved to infuse reliability and enhancing the customer satisfaction.

Following steps have been taken for enhancing customer satisfaction levels-

- Customer interaction meetings are being held at the senior management levels, on a regular basis, to discuss and resolve various issues related to product performance.
- Customer Satisfaction Survey is being conducted on regular basis, to capture perceptions of our customers and take corrective/preventive actions as necessary.
- A comprehensive Marketing Plan is being prepared for continuously tracking new technologies/products required by our customers and converting them to business opportunities for BEL.
- Toll-Free telephone number facility has been established for registering customer complaints, which has been functioning since December 2011.

Post delivery test apart from pre-delivery tests.

- Functional tests are carried out for all products/systems by BEL during installation and commissioning phases.

- Harbour Acceptance Test/Sea Acceptance Test performed by BEL at Naval Dockyards.
- Post delivery test are validated through simulated test condition by way of sending equipments to extreme environmental conditions. or by creating those conditions in laboratory/factory as per Quality Assurance Plan(QAP).
- Annual Maintenance Contract (AMC) and Repair Contract, post warranty are established with customers to ensure product quality during use.

[Ministry of Defence (Department of Defence Production), O.M.No.-23/13/2013-D (BEL) dated 28 October, 2014]

### **Recommendation (Serial No. 14)**

The Committee observe that out of 83 products delivered to the armed forces during the last five years, there was delay in delivery of 27 products (33% of products) ranging from one month to more than two years. The major delay was in delivery of products such as TRANSPORTABLE SATCOM TERMINAL, FCS LYNX U1 P16 AND CMS (SNF), where the delay period was of more than two years. According to BEL, there are certain delays mainly in system integration, change in configuration by customer, site readiness, etc. The Committee would like to be assured that delay in none of the products is attributable to BEL. The Committee desire that in case, delay is due to lapse on the part of BEL, its product planning should be designed in such a way as to ensure timely delivery of products in future. This is all the more necessary in a competitive situation increasingly faced by BEL.

### **Reply of the Government**

Delay in some of the projects is due to its nature of large / complex systems and concurrent engineering change in user requirement, specifications to incorporate additional features, first time inducted projects, site / platform readiness, etc.

Following are the steps taken by BEL to ensure timely delivery of products

- Adequate thrust is provided at all levels in the organization for 'Contract Management' through continuous process improvement to enhance on-time delivery and to meet customer commitments.
- Focused groups have been established at Units/Strategic Business Units for continuous monitoring and review of the projects to meet delivery commitments.

- Implementation of SAP(ERP application) and deployment of state-of-the-art Project Management Tools to ensure timely delivery of products.
- Engineers are extensively trained on project management techniques certified by Project Management Institute (PMI), USA. Company has around 120 PMI certified engineers for effective monitoring & execution of projects.

[Ministry of Defence (Department of Defence Production), O.M.No.-23/13/2013-D (BEL) dated 28 October, 2014]

### **Recommendation (Serial No. 15)**

The Committee notes that e-Procurement has been implemented by the Company in all its nine units for both purchase and sub-contract. Further, BEL has also adopted Integrity Pact with all vendors/suppliers/contracts/ service providers for all orders/ contracts of value of over Rs.20 Crores as per the initiative of CVC to eradicate corruption in procurement activities. So far 52 orders/contracts are covered under Integrity Pact. The Committee, however, is concerned to find that a large quantum of procurement in BEL is still being done through single vendor though the number of single vendor procurements has come down from 13 per cent in 2008-09 to 3.88 per cent in 2011-12. The Committee also notes that about 27.34 per cent of the purchases have been made through Limited Tendering process during 2011-12 and about 12.31 per cent of the purchases through nominated tendering and 23.52 per cent through License Agreement. This is in sharp contrast to the principles enunciated by the Company as only 32.95 per cent of the purchases have been made through Open Tendering process. From the information furnished to the Committee, the Committee does not find any plausible explanation for BEL resorting to single vendor/ limited tendering process. The Committee feels that it is a serious matter as it is not in conformity with the CVC guidelines which emphasize that single vendor procurement should be gradually reduced through vendor development. The Committee, therefore, recommends that intensive efforts should be made by the Company to increase the vendor base in constant consultation with DRDO. Furthermore, single vendor tendering/procurement should be reduced to barest minimum and resorted to only in rarest case. With a view to ensure strict adherence to the principle, the procurement system should be continuously monitored and reviewed through frequent meetings and progress reports.

### **Reply of the Government**

There are certain situations where single vendor procurement becomes unavoidable when procurements are Designer Approved, Customer Suggested Sources, through ToT Partner, Proprietary etc.

However, as recommended by the Committee, BEL has taken following measures to reduce single tender procurement:

- the Company is developing alternate indigenous sources in case of ToT procurements
- In-house development programs for sub-systems/modules in customer suggested cases.
- In case of the designer approved cases, the company has taken up the issue with designers (DRDO) for involving BEL in the vendor selection process.

[Ministry of Defence (Department of Defence Production), O.M.No.-23/13/2013-D (BEL) dated 28 October, 2014]

### **Recommendation (Serial No. 16)**

The Committee also notes that the value of most of the purchases made by open tendering or through nominated sources is below Rs.20 Crores and therefore does not attract provisions of the Integrity Pact. The Committee, therefore, feels that the matter for reducing the value of the Integrity Pact from Rs.20 Crores should be taken up with the concerned Department with a view to cover more and more orders/ contracts under it. This would not only ensure transparency in open tendering but would also go a long way in ushering fairness in procurement and minimizing scope for corruption to a large extent.

### **Reply of the Government**

BEL has implemented the Integrity Pact (IP) for threshold value of Rs.20 Crores during 2010-11 and the same has been amended to Rs.10 Crores in February 2013 and further reduced to Rs.5 Crs w.e.f May 2014.

[Ministry of Defence (Department of Defence Production), O.M.No.-23/13/2013-D (BEL) dated 28 October, 2014]

### **Recommendation (Serial No. 18)**

The Committee notes a number of measures being taken by BEL to strengthen its manpower which includes periodical review of manpower requirements, regulating various forms of recruitment, provision of training, effective deployment of manpower, taking suitable welfare measures for staff, etc. The Committee however note that the number of regular employees of the Company has gone down from 13750 persons in 2002-03 to 11180 persons in March 2012. This, in spite of the explanation of the Company about it professing a need based HR policy appears too drastic a cut. On the

other hand, the number of contract laborers has increased from 3204 persons in 2009-10 to 4460 persons in 2011-12 giving an impression that the Company is encouraging provisional employment which may be prone to exploitation. It also implies a lacuna in manpower planning and projection as over one-third of BEL's work force is temporary staff. The Committee finds such a trend disturbing and feels that in the long run it may prove counter-productive and impede the consistency and stability of the organization. The Committee believe that fresh talent combined with experience would, like in any other commercial organization, strengthen BEL's human resource and with infusion of new technology in the coming years, the in-house activities will grow to accommodate more and more permanent staff. The Committee recommends the Company should make a realistic assessment of its manpower requirement and its in-house work without undermining the importance of permanent staff to ensure that core areas of production and marketing do not suffer.

### **Reply of the Government**

The manpower requirement in BEL is assessed based on the requirements projected by Units/Strategic Business Units at the start of the financial year. The manpower reports are consolidated and examined vis-à-vis the projected volume of business, changes in technology, skill sets required, manpower cost and its long term sustainability.

The decline in manpower is mainly due to retirements. Further, due to the changes in Product line and technology, many manufacturing processes are not labour intensive as in the past. Also, one-to-one replacement may not be desirable keeping in view the upward trend in manpower cost.

From 2009-10 to 2013-14 the total number of non-executives recruited were 373.

Further in keeping with the changing business requirements, the Company has been recruiting Probationary Engineers/ Probationary Executives based on requirement. The details of Probationary Engineers recruited during the last 5 years are as follows:

From 2009-10 to 2013-14 the total number of executives recruited were 1447.

As indicated above the number of engineers has been growing particularly in the core areas of Production, Research & Development and Marketing. Contract labour in BEL is deployed only in non-core areas in conformity with existing statutory requirements.

[Ministry of Defence (Department of Defence Production), O.M.No.-23/13/2013-D (BEL) dated 28 October, 2014]

## CHAPTER III

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

-----NIL-----

## CHAPTER IV

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

#### Recommendation (Serial No.1)

The Committee is not impressed by BEL's performance. BEL has been making profits but its profits have declined during the last two years and its value of production has stagnated of late. BEL's value of production which stood at Rs.5273 Crores in 2008-09 rose marginally during the three year period to reach Rs.5794 Crores in 2011-12. Its profits declined considerably from Rs.1161 Crores in 2010-11 to Rs.1075 Crores in 2011-12. According to BEL's CMD, the poor performance is mainly caused due to BEL's migration from equipment manufacturing to system integration and opening of defence market to private sector. The Committee is not convinced of these reasons. The Company still gets 70% of its orders on single vendor nomination and BEL's migration from equipment manufacturing is not an unplanned step. It has been stated that the performance will improve in two to three years with about Rs.25,000 Crores orders in hand and by effecting cost reduction measures. It is a matter of satisfaction to note that the profit of BEL increased to Rs.1125 Crores and the value of production registered a quantum jump to touch Rs.6290 Crores during 2012-13, after the Committee went into the functioning of BEL. The Committee feels that in order to further improve its performance; there is need for diversification, cost cutting measures and re-focusing R&D, as brought out in some of the subsequent paragraphs.

#### Reply of the Government

Value of Production: Despite a healthy order book, BEL has not been able to achieve significant increase in the Value of Production due to following constraints:-

- Majority of the contracts in order book have staggered delivery and are spread across 3 to 4 years.
- Most of the projects available in order book are first-time inducted projects and such development projects entail concurrent design, Bulk Production Clearance, platform readiness (ship, aircraft, vehicles) etc. Hence execution requires longer cycle time.
- Naval projects require Harbour & Sea Acceptance Trials which are linked to ship availability resulting in longer cycle time.

- Frequent changes in user requirements post-contract leads to re-design and consequent delay in execution in major projects such as Battlefield Surveillance System(BSS),Command Information & Decision Support System(CIDSS).
- Issues in respect of security grading (Chinese components), malware certification etc. (Project Shakti, CIDSS, BSS).
- BEL is associated in many projects of National importance such as Socio Economic and Caste Census, National Population Register (NPR), Parliament Security etc. which requires huge efforts in terms of design and execution.

#### Profitability

- A major reason for low profitability has been increase in material cost as compared to Value of production during past four years - from around 57% levels between the years 2008-09 to 2010-11 to 63 % levels in 2011-12 & 64.44 % in 2012-13. However, the company's profitability has risen from Rs.1115 Crore during 2012-13 to 1175 Crore during 2013-14.
- In order to address the issue of low profitability, instructions have been issued to all concerned to eschew unnecessary non-productive expenditure.
- Focus has now been placed on reduction of material cost through other methods like value engineering, indigenization, sourcing etc.
- Manpower recruitment is restricted on a need basis only. Additions to service areas like Finance/HR are closely monitored.

#### Diversification

BEL has adopted diversification into new areas as a strategy for growth. Though supplies to Defence constitute a majority share in BEL's turnover, BEL realizes that, to grow in the years to come, it has to diversify into other areas.

Leveraging the capabilities and strengths in the Defence business, BEL is also focusing on new business with reputed foreign OEMs/Defence Labs for collaboration, in the following technology areas:

- Indigenous Air Defence Systems including manufacture of Missiles
- Satcom Terminals for GSAT6 of ISRO.
- Ammunition Fuses for varieties of Guns
- Homeland Security (Critical infrastructure)
- Air Traffic Management Radar

BEL has obtained Government approval for the formation of a Joint Venture Company with Thales, France to Design, Develop, establish Market, Supply and Support of Civilian & select Defence Radars for Indian and Global markets.



## Cost cutting measures

As part of cost cutting measures Company has initiated following actions:

- Issued circulars in line with DPE OM no. DPE/3(4)/08-Fin dated 15<sup>th</sup> October 2013, indicating cost cutting measures in the areas of organizing Seminars & Conferences,

Purchase of Vehicles, Domestic & Foreign Travel Expenses, Creation of Posts and other Administrative Expenses (including Office Expenses).

- Identified various Cost Reduction avenues which will be reviewed periodically at Unit/Strategic Business Unit level.

## Re-focusing R&D

- BEL has a Three-Tier R&D structure with Central Research Labs working on cutting edge technologies.
- As directed by the Ministry during 2013, BEL is re-aligning its R&D plan in line with the Technology Perspective & Capability Roadmap (TPCR) requirements in line with long-term plan of Tri-services brought out in the TPCR document.
- BEL is setting up a Central Product Development & Innovation Centre (PDIC) which will focus on development of common technology modules and sub-systems for use across the company. Development of such sub-systems is expected to result in Savings & Value Addition through prevention of duplication of R&D efforts and through replacement of bought-out subsystems.

[Ministry of Defence (Department of Defence Production), O.M.No.-23/13/2013-D (BEL) dated 28 October, 2014]

## **Comments of the Committee**

Please see para 7 of Chapter I.

## **Recommendation (Serial No. 7)**

The Committee has been informed that evaluation/final clearance of newly developed equipment/products by armed forces / Ministry of Defence takes unduly long time with resultant delay in placement of orders causing huge investment being locked up and manpower remaining idle. Another fall out of this delay is the new technology becoming obsolete in the rapidly changing technological environment. The Committee

feel that the problems faced by BEL in this regard can be obviated if the Ministry of Defence in consultation with the evaluation agencies/armed forces and taking into account all relevant factors lays down a time frame for evaluation and clearances of equipments/products and ensures its adherence. The Committee hopes that necessary action will be taken in this regard under intimation to the Committee.

### **Reply of the Government**

The recommendation of the Committee has been considered positively by the ministry. In order to cut down the delays in procurement of equipment and ensure that the procurement system is more responsive to the needs of the Armed Forces, broad time frames for completion of different procurement activities have been addressed in the Defence Procurement Procedure (DPP) -2013 which include various Technical, Field and Staff Evaluations. Major deviations from this time frame are brought to the notice of the Defence Procurement Board (DPB), for necessary corrective measures. In addition, Standard Operating Procedure for 'Handling of complaints' is being formalized in the Ministry, as complaints had delayed the procurement process in the past.

Timely completion of evaluation is also affected by following factors:

- (b) Poor quality of the vendor's Equipment which leads to equipment failure during evaluation and consequent re-engineering thereby lengthening the process.
- (c) Delay in modification & resubmission of modified equipment by the vendor to meet specifications of the Armed Forces.

[Ministry of Defence (Department of Defence Production), O.M.No.-23/13/2013-D (BEL) dated 28 October, 2014]

### **Comments of the Committee**

Please see para 10 of Chapter I.

### **Recommendation (Serial No. 17)**

The Committee notes that there are nine non-official Directors and 2 Government Directors on the Board of the Company. There were six Board meetings during 2008-09 and seven each in 2009-10 and 2010-11. The Committee notes that one Government Director attended just one out of six Board meetings during 2009-10. The Committee have been informed that although the Director was absent from the Board meeting, he had been by virtue of his positioning interacting quite often with the Company

management even other wise and also on crucial matters. The Committee is of the view that attendance of all Directors in the Board meetings is vital for the Company to benefit from their vast experience and expertise. Frequent absences of Directors from Board meetings win defeat the very purpose of existence of the Board. The Committee, therefore, recommends that regular attendance of other members of the Board should be invariably insisted upon and ensured. The Department of Defence Production should also ensure the presence of their officers in the Board meetings so that the purpose of their inclusion in the Board is served and the Company benefits from their vast experience and expertise.

### **Reply of the Government**

Following steps have been taken by the Company to encourage regular attendance of Directors in the Board Meetings:

- A calendar of Board Meetings for the whole financial year, approved by the Board in April every year is communicated to all Board members and Special invitees.
- Board Meeting Notices are issued one month in advance.
- Detailed Agenda and briefing papers are circulated to the Board Members and Invitees one week in advance of each Board Meeting.

[Ministry of Defence (Department of Defence Production), O.M.No.-23/13/2013-D (BEL) dated 28 October, 2014]

### **Comments of the Committee**

Please see para 16 of Chapter I.

### **Recommendation (Serial No. 19)**

It is the responsibility of the Department of Defence Production to identify the problems faced by BEL which are beyond its control and render all possible help to resolve them. During the course of examination of the Company, it transpired that intervention of the Department of Defence Production could have helped BEL to tide over some problems in matters such as (a) Funding of Strategically Critical Technology Projects e.g. IR Detector (Cooled & Un-cooled), II Tubes, IF & RF Seekers, High Power Laser etc., (b) Placement of order of Security Sensitive Projects on DPSUs only - EW Systems., (c) Disposal of obsolete inventory to generate revenue- Amendment required in Custom Duty rules., (d) Exemption of Octroi (approx 3.5%) for BEL and BEL Optronics Limited in Pune (Maharashtra), (e) Shorter evaluation cycle time for indigenized products and (f) Early placement of order for which trials have been

completed successfully. It is only after the matter was taken up by the Committee, BEL has reportedly been asked by the Department of Defence Production to submit proposals for being taken up with the concerned Ministries. The Committee urge the Ministry of Defence to examine the issues in right perspective and get them resolved expeditiously by taking them up at the highest level with all concerned ministries/departments / agencies.

### **Ministry's Reply**

(d) Ministry of Defence has invested about Rs. 269 Cr for Transfer of Technology in respect of Night Vision Devices to BEL. While processing the categorisation cases for procurement of various categories of Night Sights, DDP has been insisting on the utilization of the existing facilities by BEL before undertaking procurement under any other categorization. Now, the proposal for incremental Transfer of Technology for XR-5 technology forwarded by BEL is under consideration by the Ministry.

(e) Subsequent to review undertaken by NSA on our capabilities and our capacity for indigenous manufacture of Electronic Warfare(EW) equipment, guidelines were issued by Ministry of Defence, in Oct 2009, restricting the manufacture of sensitive systems for military use to Defence PSUs and DRDO labs considering the spate of acquisition and mergers of private companies. Any fresh global procurement proposal with regard to the EW systems was to be placed before the Screening Committee Chaired by DG (Acq) before it is placed in various categorisation committees. In Nov 2012, NSA reviewed the existing guidelines and partially modified guidelines have been issued by the Ministry in Dec 2012. As per these guidelines, proposals for addressing the existing gaps as well as new proposals for acquisition of EW systems will be considered on case-by-case basis by the Screening Committee followed by Categorisation Committees. While determining the categorization for these proposals, the Committee will take into consideration the capabilities of DRDO labs, Defence PSUs as well as Indian Private Sector; operational requirements and security sensitivity of the system are considered. As per the guidelines, steps will be taken for augmentation of capabilities of DRDO labs and Defence PSUs in the area of EW.

(f) BEL's products range comprises small components, standalone equipment, complex systems and System of Systems. The input materials imported for these Defence applications are exempted from Customs Duty with the condition that they are utilized for specified purpose for which they were imported under Customs Notification 39/96. Over the period of time, due to change in Technology, Design, Customer requirements, Obsolescence etc., some of the input materials procured for these applications have become unusable inventory and company is unable to dispose the same in view of Customs Duty Exemption availed for utilization against specific purpose. BEL has been advised to re-examine and submit a proposal with details of inventory rendered obsolete, quantity, and cost project-wise and ways the company

propose to dispose these items if permissible. Depending on the scale and extent of obsolescence this Ministry will take up matter with the ministry of Finance.

(d) This Ministry has requested Government of Maharashtra vide letters dated 12-06-2013 and 25-03-2014 to look into the matter for waiver of Local Body Tax (LBT) for the inputs material for defence products of BEL Pune and BELOP so that the production of electro Optical Products and Batteries for Defence applications from these two locations where skilled manpower and specialized infrastructure is available continues without dislocation.

(e) This aspect has been covered in the reply to Recommendation Serial No. 8.

(f) This aspect is covered in the reply to Recommendation Serial No. 8. Further, BEL had brought to the attention of the Ministry regarding early placement of orders for Weapon Locating Radar(WLR), Missile Approach Warning System(MAWS) and L-70 Gun Upgrade. On date Contract Negotiation has been completed for WLR and L-70 Gun Upgrade and orders will be placed after obtaining approval of sanctioning authority (These orders are above Rs. 500 Cr ). As regards MAWS, orders were placed on BEL during 2013 itself and contract is under execution.

[Ministry of Defence (Department of Defence Production), O.M.No.-23/13/2013-D (BEL) dated 28 October, 2014]

### **Comments of the Committee**

Please see para 19 of Chapter I.

## **CHAPTER V**

### **RECOMMENDATIONS IN RESPECT OF WHICH FINAL REPLIES OF THE GOVERNMENT ARE STILL AWAITED**

#### **Recommendation (Serial No. 8)**

BEL is facing international competition in "Buy Global" category of Defence purchases and reportedly lost major market opportunities in the segment of Radar, C41, communication etc., and facing competition from indigenous private sector companies in all its major business segments. The Company has lost around 28 contracts amounting to Rs.1624 Crores during the last five years in multi-vendor environment. One of the main reasons attributed for the loss of contracts was that in the case of Global Tender, the pricing by an overseas vendor when compared to that of BEL is more competitive due to the fact that the overseas vendor incurs 'nil' customs duty, excise duty and sales tax. To aggravate the matter further, in case of services, the 'Reverse Charge' mechanism in India further puts the burden of service tax on import of services on the Company and not on the overseas vendor. The Committee is concerned about the loss of such large contracts to foreign suppliers having an edge on account of exemption of Customs, Central Excise Duty and Sales Tax being offered to global bidders at the cost of BEL. What is most surprising is that the Department of Defence Production has done precious little to ensure a level playing field for BEL and other Defence PSUs. In fact, the Department was not even aware of this very unfair situation until the matter was brought to their notice by the Committee. This speaks volumes about the quality of performance review meetings held by the Department. The Committee feels that the issue is serious and needs to be attended to without any further loss of time. The Committee, therefore, desire that the Department of Defence Production take up the matter at the highest level in the Finance Ministry to get the issue resolved and ensure that the Indian Companies do not lose precious contracts in global biddings due to the grossly unfair preferential treatment being afforded to foreign companies at the cost of the domestic industry.

#### **Reply of the Government**

In Buy (Global) cases, while carrying out evaluation of bids to determine L1, necessary criteria have been laid down in Defence Procurement Procedure (DPP) 2013 in order to neutralize the impact of taxes and duties payable by the Indian Industry. In case of Indian bidders including Defence PSUs/OFs, excise duty on fully formed equipment, VAT/Sales Tax and other local levies i.e. octroi, entry tax etc. quoted by Indian bidders are not considered for the purpose of comparison of various bids.

However the issue of Reverse Charge mechanism in 'Service Tax' on service remains to be resolved. The burden of service tax does not arise when DPSUs and Indian private firms participate in Buy(Global) bids without taking recourse to import of services. However on account of lack of indigenous capability if DPSUs and Indian pvt firms decide to participate in such bids, the burden of service tax has to be borne by

them. Since the matter involves seeking exemption/ change in existing provisions of Customs laws, matter has been taken up with Acquisition Directorate of this Ministry and further progress will be informed to the Committee.

[Ministry of Defence (Department of Defence Production), O.M.No.-23/13/2013-D (BEL) dated 28 October, 2014]

New Delhi,  
24 April 2015  
4 Vaisakha 1937(S)

**SHANTA KUMAR**  
Chairperson,  
Committee on Public Undertakings.

**COMMITTEE ON PUBLIC UNDERTAKINGS**  
**(2014-2015)**

**MINUTES OF THE TWELFTH SITTING OF THE COMMITTEE**

The Committee sat on Monday, the 6<sup>th</sup> April 2015 from 1100 hrs to 1230 hrs in Committee Room No. '139', First Floor, Parliament House Annexe, New Delhi.

**PRESENT**

Shri Shanta Kumar - Chairperson

**MEMBERS**

***Lok Sabha***

2. Shri Lal Krishna Advani
3. Shri Ramesh Bais
4. Shri Pankaj Chaudhary
5. Shri Dilipkumar Mansukhlal Gandhi
6. Shri Baijayant Panda
7. Shri Prahlad Patel
8. Shri Ram Sinh Rathwa
9. Prof. Saugata Roy
10. Shri B. Senguttuvan

***Rajya Sabha***

11. Shri Naresh Agrawal
12. Shri Narendra Budania
13. Shri Majeed Memon
14. Shri Muthukaruppan
15. Shri Rangasayee Ramakrishna
16. Shri Tapan Kumar Sen

**SECRETARIAT**

- |                          |                  |
|--------------------------|------------------|
| 1. Smt. Sudesh Luthra    | Joint Secretary  |
| 2. Shri M.K. Madhusudhan | Director         |
| 3. Shri Tirthankar Das   | Deputy Secretary |
| 4. Shri G.C. Prasad      | Deputy Secretary |

**WITNESSES**

**NTPC LIMITED**

- |                           |                         |
|---------------------------|-------------------------|
| 1. Dr. Arup Roy Choudhury | CMD                     |
| 2. Shri U.P. Pani         | Director (HR)           |
| 3. Shri A.K. Ahuja        | Executive Director (CP) |



2. At the outset, the Chairperson welcomed the members to the Sitting of the Committee. The Committee, then, considered the draft Action Taken Report on the action taken by the Government on the observations/recommendations contained in the Twenty-sixth Report of Committee on Public Undertakings (Fifteenth Lok Sabha) on Bharat Electronics Limited and adopted the same without any change. The Committee also authorised the Chairperson to present the Report to Parliament on their behalf, after obtaining factual verification.

3. XXXX XXXX XXXX.

4. XXXX XXXX XXXX

***The witnesses then withdrew.***

***A verbatim record of the proceedings has been kept separately.***

***The Committee then adjourned.***

**XXXX** ***Matter not related to this Report.***

## APPENDIX-II

(Vide Para 3 of the Introduction)

Analysis of the Action Taken by Government on the recommendations / observations contained in the Twenty-sixth Report of the Committee on Public Undertakings (Fifteenth Lok Sabha) on Bharat Electronics Limited

I. Total number of recommendations:	19
II. Recommendations that have been accepted by the Government: (vide recommendations at Sl. No. 2, 3, 4, 5, 6, 9, 10, 11, 12, 13, 14, 16 and 18)	14
Percentage of total	73.68%
III. Recommendation which the Committee do not desire to pursue in view of Government's replies:	Nil
IV. Recommendations in respect of which replies of the Government have not been accepted by the Committee: (Vide recommendations at Sl. No. 1, 7, 17 and 19)	4
Percentage of total	21.05%
V. Recommendations in respect of which final replies of the Government are still awaited:	1
Percentage of total	5.26%