

STUDY TOUR REPORT NO. 15

C.P.U.NO. 838

COMMITTEE ON PUBLIC UNDERTAKINGS

(2001-2002)

(THIRTEENTH LOK SABHA)

STUDY TOUR REPORT

ON

HINDUSTAN PHOTO FILMS MFG. CO. LIMITED

Laid in the Lok Sabha on 30-8-2001

Laid in the Rajya Sabha on 30-8-2001

LOK SABHA SECRETARIAT

NEW DELHI

August, 2001 / Bhadrapada 1923(S)

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COMPOSITION OF COMMITTEE ON PUBLIC UNDERTAKINGS
(2001-2002)

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Prof. Vijay Kumar Malhotra

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LOK SABHA

2. Shri Prasanna Acharya
3. Shri Mani Shankar Aiyar
4. Prof. S.P. Singh Baghel
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7. Shri Ajay Singh Chautala
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11. Shri K. E. Krishnamurthy
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20. Smt. Ambika Soni
21. Shri C.P. Thirunavukkarasu
22. Shri Ranjan Prasad Yadav

SECRETARIAT

- | | | |
|----|---------------------------|----------------------------|
| 1. | Shri. M. Rajagopalan Nair | Joint Secretary |
| 2. | Shri S. Bal Shekar | Director |
| 3. | Shri Raj Kumar | Under Secretary |
| 4. | Shri Tirthankar Das | Senior Executive Assistant |

INTRODUCTION

In pursuance of the procedure adopted under Rule 281 of the Rules of Procedure and Conduct of Business for laying the Study Tour Reports on the Tables of both the Houses of Parliament, I, Chairman, Committee on Public Undertakings have been authorised by the Committee to lay the Study Tour Report on their behalf, lay the Study Tour Report of the Committee on their discussions with the officials of Hindustan Photofilms Manufacturing Co. Ltd.

2. The Committee held discussions with the officials at Ootacamund on 9.6.2001. A copy of the tour programme is annexed (Annexure-I).

3. The Committee considered and approved the Report at their sitting held on 27th August, 2001.

4. The Committee wish to express their thanks to Hindustan Photofilms Manufacturing Co. Ltd. for providing facilities during the visit of the Committee and for supplying necessary material and information required in connection with the Study Tour.

5. They would also like to place on record their sense of appreciation for the invaluable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

New Delhi
28 August, 2001
6 Bhadrapada, 1923(S)

PROF. VIJAY KUMAR MALHOTRA
CHAIRMAN
COMMITTEE ON PUBLIC UNDERTAKINGS

(v)

**STUDY TOUR NOTES OF THE COMMITTEE
ON PUBLIC UNDERTAKINGS**

**DISCUSSION WITH THE OFFICIALS OF HINDUSTAN PHOTO
FILMS MANUFACTURING CO.LTD.AT OOTACAMUND ON 9.6.2001.**

A. INTRODUCTORY

At the outset, the Hon'ble Chairman, Committee on Public Undertakings made an opening remarks and requested the CMD, Hindustan Photo Films Mfg. Co. Ltd. to introduce himself and his colleagues to the Committee. The Chairman, COPU also requested him to give a brief resume of the working of the company

2. After introduction of officials of the company, the CMD, HPF informed the Committee that Hindustan Photo Films Mfg. Co. Ltd. (HPF) was incorporated in 1960 with the sole objective of being "self reliant" in meeting the demand of photo sensitized goods. HPF commenced commercial production in the year 1967 for manufacturing and marketing of various types of photosensitized products covering the entire range of photo, Cine and X-ray. HPF has played a vital role since 1967 towards development and sustenance of indigenous photo goods film industry. HPF is the only fully integrated manufacturer in India/Asia other than in Japan (Fuji & Konica) and China (Lucky & Kodak). HPF is one of the only six manufactures of photo goods in the whole world, from raw material to the finished products stage.

The Company has two manufacturing plants - (a) Main factory at Ootacamund and the other (b) Conversion and Processing Chemicals plant at Ambattur near Chennai

3 The CMD further informed that the actual strength of the employees of HPF is 2068 which includes 262 executives and 1806 non-executives. He also stated that the company has given adequate representation to every group including Backward class, SC/ST, Physically Handicapped and Ex-servicemen. 69% of Company's employees^{belong} to SC/ST and OBCs. The reduction in manpower due to VRS since 1992-93 was stated to be (as on 1.6.2001) 1413 persons in the company. Besides, 680 more people have been identified to be excess and need to be relieved. He also stated that HPF has got manpower and officials who are efficient. But presently, they are under 1987 wage levels. He mentioned the importance of photo goods for the purpose of mass consumption in various important sectors like health, industry, defence, entertainment and futuristic development. He also stated that HPF is an ISO 9002 Internationally accredited Quality Systems Management Certificate Company (since 1994).

4. The Committee were also informed that R&D activities were carried out in the company on New Products Development, Product/Process development/process improvement, technology upgradation, import substitution and cost reduction. It was also stated that the expenditure incurred on these activities were more than commensurate with the results achieved.

5. About quality assurance, the Committee were informed that the Company has taken various steps to maintain the quality standard of its products. Quality improvement and awareness programme have been conducted internally for all employees. Quality audits were conducted at manufacturing plants and marketing branches.

B. OBJECTIVES

6. Briefing the Committee about the major achievements made by HPF in meeting the designated objectives, particularly in regard to achieving 'self-reliance' in meeting the demand of photo-sensitised goods, the CMD, HPF stated the following :

- HPF absorbed, assimilated and developed BWV technology for all the BWV photo-sensitised films and papers currently in use.
- HPF became self-reliant in meeting the Country's entire needs of photo goods in 70s after liberalisation of Indian Economy for all BWV films and papers.

7. He further informed the Committee about the achievements made by HPF in earlier years which are detailed below :

- Indigenous technologies developed and commercialised for 20 different photo sensitised films and papers for Medical Diagnostic Imaging Films, Films for Motion Picture Industries, BWV Films for printing industries and other speciality films for Defence, for space etc.
- Significant reduction in silver content in all major products (e.g., 66% in medical X-ray (CTA), 22% in Medical X-ray Polyester, 33% in Bromide Paper, 16% in Cine Positive, 14% in Cine Sound Negative, 25% in Roll Film).

- Import substitution of Gelatine : 30 Active imported gelatine were substituted with indigenously available inert gelatine.
- Indigenous technologies developed for synthesis for more than 60 fine speciality chemicals for in-house consumption.
- Manufacturing technology for coating developed – Dip coating to air-knife coating to Bar Coating. Coating speed increased from 5 meters per minute to 60 meters per minute.
- Developed in-house production technology for manufacturing of 99.999% purity photographic grade Silver Nitrate and Processing Chemicals.
- Contemporary technology acquired through collaboration with Dupont of USA in 1997 for Medical X-ray films, Industrial X-ray films and Graphic Art films respectively.
- HPF manufacturing and marketing all photo goods (except colour) in its state-of-the-art manufacturing facility by strictly conforming to the ISO 9002 Quality Standards (Certification since December, 1994).
- Conversion of Colour Products (Cine Colour Positive & Colour Paper).
- Diversification into Magnetic Tape Products, ID Cards and Automatic Photo Dispenser Units.

8. When the Committee desired to know whether in the light of the changes that have taken place in the production and demand of the photo sensitised goods, the company is planning to reorient its objectives/micro-objectives to cope up with the changes, the Committee have been informed

that the company is planning to induct digital and colour photo-sensitised products manufacturing technology to cope up with the changing scenario. The colour photogoods constitutes 77% of the total domestic market size in terms of value and with increasing awareness of digital media, HPF has already developed water based Inkjet Paper product technology at its R&D. It was also stated that due to resource crunch, the Company was unable to proceed further in the matter.

9. The Committee were also informed that the emerging Information Technology holds good promise for the Company. The IT products like Inkjet Films/Papers (including Laser Scanner) are being under Research in the Company's R&D. The digital divide between the existing conventional silver halide technology and the advanced digital technology is to be bridged through identifying a prospective JV partner through Rehabilitation of HPF. It was also stated that the Company's Marketing and Sales performance can also be improved through e-converca/e-business.

C. BOARD OF DIRECTORS

10. The Composition of the Board of Directors as on May 2001 is stated to be as follows:

S/Shri

Brig Chaitanya Prakash	:	CMD, HPF
M Venkatesan	:	Director (Finance), HPF
B.K. Tripathi	:	Director, DHI, Gol
C.R. Sundaramurthi	:	Chief Controller & Accounts DHI, Gol
S.A.M. Hyder Ali	:	TN Govt. representative
R. Venkatesan	:	Spl. Director appointed by BIFR
S.Kuppuswamy	:	Nominee of UTI

11. The Committee have also been informed that the present strength of Board of Directors is seven (including CMD & DF) as against the total strength of twelve.

It was also stated that the Company has been requesting the government to appoint Non-official Directors in place of those Directors retired by rotation and only after Revival the Board of Directors will be revamped.

D. PHOTO-FILMS MANUFACTURING

12. The integrated manufacturing process of photographic products consists of 4 main stages i.e. i) Film base making; ii) Emulsion making; (iii) coating and (iv) conversion/confectioning.

It has been stated by HPF that manufacturing of photo films involves intricate processes, adoption of sophisticated technology, high investment in plant and machinery and continuous research. The industry has been dominated by the developed world. However, realising the importance of this industry in the life of common man and for strategic sectors such as Health care and Defence, the Govt. of India decided to create indigenous capability in 1960. In order to keep pace with the rapid advances in technology, high investment in R&D and development of state-of-the-art technology were required. HPF has pointed out that this was not available to it.

13. When enquired whether the company had requested the Administrative Ministry to provide resource support for making investment in R&D, it was stated that the Company had sought support from the

Administrative Ministry during 90s for establishing modern R&D Centre housing sophisticated equipments required for continuous research.

The photo goods manufacturing technology is highly secretive and closely guarded. There are only FIVE major companies in the world who possess the photo goods manufacturing technology and they are KODAK, FUJI, KONICA, AGFA and ILFORD and are willing to transfer their technologies in view of

1. No incentive to integrated manufacturing.
2. Ease of imports (Reduced customs duties since liberalisation).
3. No incentive for investment in India.
4. Excess capacity worldwide.

And it was for these reasons that no investment has been made in integrated manufacturing in the last 50 years.

14. The Committee were also informed that HPF approached DSIR through the Administrative Ministry for allocating funds for development of colour manufacturing technology (Rs. 80 lakhs in 1996-97). It was also informed that the Ministry approved upgradation of R&D Centre and an expenditure of Rs. 2 Crores approximately was incurred and providing modern equipments like R&D Bar Coater and the same was implemented along with the Polyester X-ray Plant Project.

As the Company was referred to BIFR in October, 1995 and declared sick in January 1996, DSIR declined to fund the project due to non-availability of matching grant from the Company.

15. When the Committee wanted to know the specific operational problems faced by HPF after delicensing of photo films/products it early

1990s, it was stated that HPF was having monopoly with capacity utilisation over 75% till liberalisation of Indian Economy. On delicensing, the import of photographic goods was removed from special import licensing to OGL and drastically reduced the Customs Duty much below the WTO Bounds Rates. This Policy change of the Government has brought in competition from foreign manufacturers without giving adequate time and level-playing ground for HPF to cope up with this competition. The arrangement of conversion of Colour product was suddenly terminated by the suppliers (MNCs) due to delicensing and thereby the capacity utilisation reduced drastically. The Multinational Companies tied up conversion of their imported colour jumbos with either small scale converters or their own conversion plants, with minimal capital investments (low end of technology with 10% value addition only) and with handful of employees, by operating from tax free zones.

16. It was also stated that some of the essential raw materials are charged higher customs duty than Finished Goods, resulting in high cost of production for the indigenous manufactured goods. In addition, there is no manufacturer of polyester subbed base in India and on company's request, the Basic Customs Duty has been reduced from 25% to NIL in November 1998, but the Countervailing Duty (CVD) is still being levied at 16%. The import of various finished and semi finished goods are being allowed in various accounting Units such as Kgs, Meters, Square Meters, Rolls, Packets, Boxes etc. due to which correct assessment of value of goods is not possible and such importers are in a position to market their products at competitive prices to grab the market share to a great extent and thus indigenous products market share decreases.

17. It was also stated that several other operational problems were stated to be compounded with the delicensing which are as follows :

1. No CMD was appointed for nearly 5 years and the Company was not able to take major decisions when required.
2. Lack of Finance for completion of Polyester X-ray Plant.
3. Mismanagement and certain irregularities by the then management were discovered leading to activities gradually turning towards standstill.
4. Provision of funds by Government dried up.
5. Bank accounts became NPAs and credit facilities stopped – bankers impounded the sales receipts from 1992 to 1994 and thereby the working capital also dwindled.

18. The Committee were further informed that the company is still facing the problems after delicensing. Due to huge loan outstandings to various Banks and Financial Institutions, no Bank/Financial Institution is prepared to give any further exposure to HPF in any form and the Company is solely dependent on Government Budgetary supports. It was further stated that the Company has taken a number of preventive actions through various cost reduction measures to mitigate the problems. The ideal solution for the Company to come out of the red is to revive as per the Administrative Ministry approved Rehabilitation package lying with the Union Cabinet. HPF stated that the Revival Plan should be cleared by the Government of India and the measures included in the same to be implemented at the earliest. The Government of India should provide funds for downsizing excess manpower

with attractive VRS. The Government of India also should consider imposition of tariff and non-tariff barriers and thereby ensuring that the photo goods manufactured by HPF are totally made difficult for any imports. Further, JV partner is stated to be arranged for manufacturing and marketing of photo goods.

16. The Committee were also informed that HPF can get a JV partner only on fulfilling the following conditions :

- Clearing the Balance Sheet (existing huge liabilities to be restructured by waiver and infusion of funds by Government of India etc.)
- Releasing the excess identified manpower by another 500 to 700 personnel.
- Government encouraging manufacturing rather than trading/conversion by imposing several Non-tariff barriers
- Increase in customs duty to WTO Rates
- NIL custom Duty on Polyester Subbed Base and Photographic Base Paper and other raw materials required to be imported by Integrated Manufacturer.

E. **INSTALLED CAPACITY VS. DOMESTIC DEMAND**

20. The installed capacity vis-à-vis the Domestic Demand of the various products of HPF is given below :

(in million sq.m per annum)

PARTICULARS	INSTALLED CAPACITY	DOMESTIC DEMAND
Cine Group (incl Colour)	5.06	5.16 (including 4.2 for Cine Colour Positive films)
Photo Group (film/papers incl colour)	10.51	45.28 (including 43.60 for Colour Films and papers)
X-ray Group	12.33	10.29 (89% for Polyester X-ray)
Graphic Arts	2.26	4.74
Magnetic Tape Group	3.49	---
Total	33.64	---
	Metric Tons p.a.	Metric Tons p.a.
Processing Chemicals	400.00	2550
Photographic Grade Silver Nitrate	120.00	---

21. The reasons for non-utilisation of capacity utilisation of installed capacity stated by the company is as follows :

"The Company was declared sick in January 1996 by BIFR and since then, the Company has received Budgetary support of Rs. 44.14 crores towards working capital & salaries and wages payment. The Company further received Rs. 35 crores towards completion and commissioning of the New Polyester X-ray Plant (having completed 95% of the work in 1993). The Company utilised all its resources for completion and commissioning of New Project and established production worthiness of the technology transferred by M/s Dupont of USA in the record time of one year. (all such huge projects normally take 3 to 4 years for stabilisation). Due to poor credibility in the financial market and Government of India's strict policies of not effecting sufficient budgetary support, the Company could not achieve higher capacity utilisation mainly because of the lack of working capital and this was supplemented due to increasing competition from MNCs due to their indulgence in unethical business practices."

It has also been informed to the Committee that with delicensing and deregulation, the Company is not able to utilise the existing installed capacity even to the extent of 5% and hence not contemplated to increase the installed capacity.

22. When enquired upto what extent the capacity utilisation percentage can be increased the Committee were informed that the Capacity Utilisation could be raised atleast to 20 to 25% on provision of adequate working capital. The Revival Plan submitted to the Government envisages increasing the capacity utilisation upto 75% in 10 years time. With the closure of Magnetic Tape Plant, the installed capacity will come down by 3.49 Million sq.mts per annum from the existing 33.64 M.Sq.mts per annum capacity.

23. When the Committee desired to know the efforts made by HPF to be competitive in the Market, the company stated the following :

"HPF solicited consultancy from 1985-86 to analyse the viability of the company through M/s ICICI and M/s Pricewaterhouse Coopers (PWC). As per their Reports, the company is viable at operational level, provided drastic Financial Restructuring and shedding of excess manpower along with certain policy concessions are extended to the Company.

Company has been seeking Budgetary support from Government of India to increase its present capacity utilisation to absorb more overhead costs and make our products competitive. The Company has not received the desired working capital both in time and value (in the last 3 years, the Company has received a total amount of Rs.14.64 crores only toward working capital/operations). Further, the company has submitted comprehensive Revival Plan to the Administrative Ministry during August 2000 and the Administrative Ministry in-turn, has recommended the same for approval by the Union Cabinet (During January, 2001)."

24. When the Committee enquired whether the matter was taken up with the Administrative Ministry, the Company stated the following

"We have taken up the issue with the Administrative Ministry umpleen number of times and the Ministry in turn has taken up the matter with the concerned Ministries. There has been no outcome on these matters except modification of Purchase Preference Clause (from Rs. 5 Crores limit to Rs. 1 Crore and extension of the Clause till March, 2002) and reduction of Basic Customs Duty on import of Polyester Subbed Base to Nil."

25. It has also been stated that for inexplicable reasons, the company did not go for manufacturing colour products in earlier years. Thus, technology and plant for production of colour films is not available. Capability exists for conversion only of Cine Colour and Colour paper products and manual conversion of colour Roll films The company has stated that it is essential to have tie-up for colour manufacturing with an existing MNC.

26. When the Committee desired to know whether the Company has identified any MNC for business tie-up for color manufacturing, HPF stated that initially MNCs like Kodak, did show interest in entering into business tie-up, subsequently because of Government Policies, making trading more lucrative than manufacturing, by lowering custom duties and removing tariff barriers etc, no other Company took interest in HPF. The Company also stated that administrative Ministry is fully aware of the Company's position with respect to induction of Colour photo goods and the Ministry has approved the same and this has been highlighted in the Rehabilitation package approved by the Ministry and submitted to the Union Cabinet.

27. On being enquired why Indian private parties have not entered into manufacturing of colour photo sensitised goods, the company stated that manufacturing of colour photo sensitised goods requires huge amount of investment in Plant and Machinery & bringing in latest technology to set up a fully integrated manufacturing facility in India, which at present is not being done due to :

➤ Ease of imports

➤ No incentive for Indigenous manufacturing vis-à-vis Trading/Contracting.

➤ Closely guarded manufacturing technology.

E. PHYSICAL PERFORMANCE

28. The physical performance of the company from 1991-92 to 2000-

2001 is given below :

(Vol. in lakhs sq.m., value: Rs. in crores)

Year	Target		Actual	
	Volume	Value	Volume#	Value
1991-92	169.39	274.22	149.72	284.50
1992-93	219.50	312.88	71.70	192.87
1993-94	127.00	240.15	41.98	89.83
1994-95	90.00	154.03	48.10	52.03
1995-96	47.54	78.03	27.30	36.31
1996-97	59.97	119.48	18.99	14.58
1997-98	63.67	119.94	26.23	40.83
1998-99	37.83	88.53	19.87	31.58
1999-2000	18.45	23.17	22.83	27.10
2000-01	14.20	31.98	14.82*	25.02*

Includes job order quantities

* Provisional

The job order production commenced since 1993-94 and this includes 9.80 lakh sq.m (1993-94) 20.40 lakh sq.m (1994-95), 11.90 lakh sq.m (1995-96), 11.60 lakh sq.m (1996-97), 6.68 lakh sq.m.(1997-98), 6.73 lakh sq.m.(1998-99) 10.88 lakh sq.m (1999-2000), and 4.04 lakh sq.m (2000-2001 prov.)

29. The reasons for variance in the earlier years were stated to be due to the fact that the targets were fixed with the assumption that the new polyester-x-ray panel will be commissioned, leading to higher capacity

utilisation, and on the presumption that adequate budgetary support from Government of India towards working capital would be available.

30. When enquired about the principal constraints for 'Actuals' being lower than the 'targets' during the year 1991-92 to 1998-99, the Committee have been apprised that the principal constraint for the actual being lower than the target is mainly due to non-completion of the Polyester X-ray Plant till 1997-98 and since 1998-99, the reason being non-availability of adequate working capital and no level-playing field as compared to the MNCs, high customs duty for imports of raw materials required for HPF and unethical business practices indulged in by the competitors etc. It was also stated that due to delay in completion of the New Project, HPF products could not be made available in the Market

G. SALES PERFORMANCE

31. The sales figures for the last 10 years in comparison with the targets are given below :-

(Vol. in lakhs sq. m. value : Rs. in crores)

Year	Target		Actual	
	Volume	Value	Volume	Value
1991-92	127.20	262.30	131.58	238.24
1992-93	159.83	342.60	84.00	174.81
1993-94	146.85	295.27	44.22	62.60
1994-95	146.00	118.00	28.31	64.28
1995-96	47.64	78.03	22.66	41.08
1996-97	59.97	116.48	11.00	21.05
1997-98	53.67	118.94	19.69	34.61
1998-99	37.63	68.63	16.10	34.27
1999-2000	16.48	23.17	11.22	28.20
2000-01	14.20	31.98	11.31*	25.88*

* Provisional

32. Giving the reasons for decline in the sales turnover, the Committee have been informed that it is mainly due to the following major factors :

- Non-completion of Polyester X-ray Plant.
- Non-availability of Working Capital.
- Non level Playing field in the domestic market.

HPF also stated that the Company needs to reorient the existing sales strategy to cope up with the changing scenario and for that, the company needs highly professional and motivated team of marketing staff to compete effectively with MNCs and for this remunerations should match to the best available in the industry. HPF's present salary structure 1987 level(s) does not enthruse good quality manpower to join the service.

33. When the Committee desired to know what actions were taken to boost the sales performance of the Company, it was stated that HPF has realised its shortcomings in marketing as early as in 1997 and accordingly Company entered into a strategic marketing alliance agreement with M/s PHIL corporation of Goa in 1998 for increasing the sales performance of the Company. However, due to acute shortage of working capital, the Company was not able to supply material on demand and M/s PHIL Corporation also could not deliver the targeted sales figures. Subsequently, the Company continued undertaking job orders from M/s Sharky Films and also from M/s Magnum Graphics, Mumbai in 2000-2001, to ensure higher utilisation of Plant and machinery and availability of INDI Brand products in the market. It has also come to the notice of the Committee that HPF prices are being adopted as benchmarks, in view of highly price sensitive nature of domestic market.

The Committee were also informed that the Company has sought additional level playing field along with infusion of interest free working capital

funds from the Government of India to boost the sales performance of the Company in the years to come.

H. EXPORT PERFORMANCE

34. The export performance of the company during 1991-92 to 2000-2001 is as follows .

Year	Rs. in Lakhs
1991-92	102.02
1992-93	258.31
1993-94	208.89
1994-95	128.19
1995-96	77.83
1996-97	9.74
1997-98	7.03
1998-99	3.82
1999-2000	1.13
2000-01(provisional)	34.07

35. Regarding the sudden decline of export performance after 1994-95, HPF stated that exports were badly affected due to non-availability of working capital. Further, shortage of funds prevented the Company from taking aggressive steps towards product and brand promotion through participation in various national and International exhibitions/visits. It was also stated that decline in Export performance was mainly due to non-completion of the Polyester X-ray Plant, non-availability of working capital and insignificant expenditure on advertisement and brand promotion for development of export market. In 1999-2000, efforts made to solicit export to neighbouring SAARC Countries which resulted in higher export performance during 2000-2001.

36. When enquired about the steps taken to prevent further decline in the export performance, the Committee have been informed that the Company is awaiting infusion of funds by the Government of India and thereby contemplates to enhance the volume of exports by soliciting orders from abroad and active participation in various International exhibitions and tying up with well established export agent like HMT (International) for Exports.

I. FINANCIAL PERFORMANCE

37. The net profit/loss of the company during the last ten years have been as under :

(Rs. In crore)

Year	Profit/(Loss)
1991-92	2.005
1992-93	(117.31)
1993-94	(58.81)
1994-95	(58.85)
1995-96	(70.87)
1996-97	(95.81)
1997-98	(176.29)
1998-99	(309.83)
1999-2000	(278.44)
2000-01 (provisional)	(337.08)

38. When enquired about the continued losses since 1992-93, it was informed to the Committee that due to some cases of irregularities and malpractices and adjustments in the accounts in 1992-93, the same have resulted in increased loss. The continued losses since 1992-93 have occurred mainly due to lower capacity utilisation and non-availability of adequate working capital and non-level playing field in the domestic market (severe competition from MNCs resorting to unethical business practices).:

was also informed that continued increase in the volume of losses is mainly due to completion and commissioning of Polyester X-ray Plant. The increased losses are mainly due to high interest burden, depreciation and high overhead costs. For example, for the year ending 31st March, 2000, out of the net loss figure of Rs. 337.08 crores, the interest portion alone is Rs.271.32 crores (i.e. 80.5% of the net loss).

39. When asked about the remedial measures taken/proposed to be taken to reverse the declining trend in profitability, it was stated that the Company proposes to reverse the declining trend in profitability by implementing the Revival Plan of the Company (under consideration of the Union Cabinet). This Revival Plan attempts to overcome the problems faced by the Company like high interest burden, excess manpower, lower capacity utilisation, non-level playing field and non-availability of working capital.

J. DISINVESTMENT

40. When the Committee enquired whether any negotiation has been initiated regarding 74% disinvestment with the Government the company answered in the affirmative. It also stated that on 30th June 1997, the Union Cabinet considered a Note of DHI (dated 24.12.1996) and approved 'in principle', permission of JV with offer of equity holding upto 74% for various Companies including HPF.

K. REVISION OF WAGES OF EMPLOYEES OF HPF

41. The Committee have been informed that the employees of HPF are getting the pay and allowances based on 1987 levels. It has also been stated that the pay should be revised on the basis of the 1992 wage norms and VRS

should be offered to the employees based on notional 1992 wages at the earliest.

L. DG S&D TESTS FOR FILMS

42. It has been brought to the notice of the Committee that DG, S&D has prescribed certain tests only for films supplied by HPF whereas no such tests have been prescribed for films supplied by foreign company. It has also been informed that HPF films are available on DG S&D Rate Contract whereas Private suppliers are bagging supply contracts by quoting rates which are only 0.01% less than HPF.

RECOMMENDATIONS/OBSERVATIONS OF THE COMMITTEE

NEED FOR PRESERVATION OF THE EXPERTISE AND KNOWLEDGE BANK OF HPF

1. The Committee note that Hindustan Photo Films Mfg. Co. Ltd. (HPF) is the only integrated manufacture of photo sensitised products in the country. They also note that it has not only absorbed, assimilated and developed B/W technology for all the B/W photo sensitised films and papers, but also has become self-reliant in meeting the country's entire needs of photo goods in 70s till liberalisation of Indian Economy for all B/W films and papers. But with the onset of liberalisation, it began to lose its grip over the market because of the availability of imported cheap photo goods of multinationals in the country. The Committee find that the present status of the Company is a pathetic one and it is on the brink of being closed down. To their utter surprise, the Committee note that no investment has been made by Government in integrated manufacturing in the last 50 years. The Committee also notice that due to sickness of the company, its bank account became NPAs and no credit facility is being extended by any financial institutions to the company, due to which the operations have been reduced to the minimum. And due to non-supply of finished goods,

customers are switching over to the competitor brands and are cancelling orders placed on HPF. The Committee are very much apprehensive that in the event of closure of HPF, marketing of photographic goods will be left only in the hands of foreign companies and there is no doubt that the prices of essential mass consumption photographic goods like Medical X-ray in the healthcare sector will soar making it beyond the reach of the common man. They, therefore, desire that the Government should make all-out efforts to save this prestigious company from the brink of collapse, as in the absence of indigenous manufacturing capability, the country will have to perennially depend on imports of mass consumption of photo films in various sectors such as Health, Industry, Defence, Entertainment and Futuristic Digital Medium. The Committee are also of the opinion that the expertise and knowledge bank developed in the country in the last 30 years needs to be preserved and developed at any cost by saving this company and in order to make our nation self-reliant in its strategic requirements. The Committee wish to remind the Government in this regard that photo-goods in itself constitute a class of commodity that is of strategic nature, as it is a product for mass essential consumption in health-care, industrial applications and defence needs. At present 80% of the domestic market requirement is met through

is dangerous to make 1 Billion of this country to depend solely on imports.

PURCHASE OF INDUSTRIAL X-RAY FILMS BY ORDNANCE FACTORIES AND INDIAN AIR FORCE FROM HPF

2. The Committee note that HPF manufactures state of the art Industrial X-Ray films used by the Indian Ordnance Factories and Indian Air Force for strategic purposes. Of late, the Ordnance Factories have started procuring X-Ray films which are cheaply imported from abroad, thereby causing erosion in the share of HPF, adversely affecting the company. The Committee wish to point out in this regard that developing dependence on imported film material by the Ordnance Factories will have grave consequences on our defence preparedness and therefore should be discouraged. Any withholding of the supplies by foreign companies can jeopardise our security. Therefore, the Committee recommend that the Government should reconsider its purchase policy in this regard so that Indian Air Force and Ordnance Factories continue to purchase their film requirements only from the indigenous manufacturer.

NEED FOR IMPOSITION OF TARIFF/NON-TARIFF BARRIERS
FOR PROTECTION OF INDIGENOUS INDUSTRY.

3. The Committee note that the interests of HPF are being hit hard by import delicensing policy of the Government. Customs duty has been reduced below WTO rates for import of finished and semi-finished photo goods. To their utter dismay, the Committee also note that even some of the essential raw materials are charged customs duty which is higher than that on the finished goods, resulting in high cost of production for the indigenous manufactured goods. Although, the customs duty on polyester subbed base has been brought down from 25% to NIL, the Countervailing Duty (CVD) is still being levied at 15%. The Committee feel that this kind of import delicensing policy has only helped the MNCs, at the cost of the only indigenous manufacturer. Moreover, the operations of the Indian Front Companies of the MNCs from the Tax Free Zones and the import of various finished and semi-finished goods in various accounting units has given the MNCs an upper hand vis-à-vis the indigenous manufacturer, that is HPF. The Committee earnestly feel that a country of India's size with 1 billion population should not totally depend on imports in the vital field of photography and imaging. They, therefore, desire that the Government of India should impose suitable tariff

and non-tariff barriers, thereby, ensuring that the photo goods manufactured by HPF do not suffer due to unethical practices of MNCs. The import of photo goods by way of dumping and through unfair practices should be made totally difficult as in France and China. They therefore, recommend that the Government should take expeditious action to designate a single difficult port in the country for imports of all unexposed photographic products. The Government should also setup in-house product identification/testing facilities at the designated port to ensure correct declaration and payment of duty on the photo goods imports on the basis of right quantity and value. The Committee also desire that strict monitoring and checking of all imported films should be done for ensuring 100% inspection by the customs authorities necessarily with the advice and association of technical experts from HPF to be stationed at the single designated port for imports to ensure correct identification of products. Further, the input of semi-finished photo goods should be mandatorily linked with the output of the finished goods, as this co-relation will definitely reveal any instances of fraudulent imports and duty evasions. The Committee feel that this will ensure correct payment of Customs and Excise Duties by the converters. The Committee also desire that the Government should make provision for mandatorily

declaring the qualities of the contents in every single unit of all imported materials with a view to avoid incorrect assessment. They believe that these tariff and non-tariff barriers will act as a protecting shield for the indigenous industry and to enhance our revenue. This will also provide a level playing field to the indigenous producers as compared to the Converters. The policy of the Government should be re-oriented to encourage setting up of manufacturing facilities by foreign companies in India instead of making our country a place for post-production activities which yield no revenue to us. The Committee also recommend that there should be total exemption from basic and additional Excise Duty, if the products are made by HPF on a particular base, in view of the need for protecting the interests of both the consumer and the indigenous industry. The Committee further recommend the complete lifting of duty on the photographic paper. In this connection, the Committee wish to point out that the Chinese Government pumped in US \$ 550 million into their indigenous photogoods manufacturing facility and introduced protective measures, as a result of which they have turned their main photographic manufacturing company (M/s China Lucky Films Corporation) into a profit-making one now. The Committee are of the firm view that if similar support is provided to our indigenous manufacturer, i.e HPF, India can

Inundate the markets all over the world with their quality products and earn valuable foreign exchange by exports and by reducing imports into India by meeting domestic requirements indigenously.

NEED FOR IMMEDIATE REVIVAL OF HPF

4. The Committee are concerned to note that this indigenous Company which once enjoyed monopoly in the domestic market has become a sick unit. Its performance – be it physical, sales, export or financial – has performed badly either due to lack of infusion of funds by Government for working capital requirement or due to non-level playing field in the domestic market. They note that HPF is an ISO 9002 Internationally accredited quality System Management Certificate Company (since 1994) and has got capable manpower. The Committee, therefore, are of the unanimous opinion that HPF should be given an opportunity for Revival, as they also earnestly feel that in a scenario of sanctions against our country, India should be self-sufficient in this vital sector.

The Committee also feel that the huge national resources spent recently to create state-of-the-art manufacturing facility needs to be nurtured and put to optimum use and is not allowed to go waste or remain idle. HPF is located in hilly tribal areas in the Nilgiris district of Tamil Nadu, which is an industrially backward area with very low employment potential. The Committee have been given to understand that HPF offers succour to the backward people of that area and has been the main source

of employment for them with 68% of HPF's employees being SC/ST and OBCs. They unanimously feel that Revival of HPF will definitely protect the livelihood of the people who mainly comprise of Backward Classes Scheduled Castes and Scheduled Tribes. They wish to point out that if this company is closed, there is no other industry available in the district to provide alternate employment to the affected employees and as such these employees would be rendered jobless and their families would be ruined. The Committee, therefore, recommend that the Government should provide all necessary support for financial restructuring of the Company in order to safeguard the interests of this geographically disadvantaged area. They also recommend that the Government should take policy initiatives to provide level playing field to Indigenous industry vis-à-vis the MNCs. The Committee desire that Organisational restructuring of HPF should be done to cope up with the changing circumstances. They, therefore, strongly recommend that the Revival proposal of HPF which is pending before the Union Cabinet should be cleared with immediate effect for enabling the company to turn around and compete and to protect the interests of the hopeless employees. The revival of this company is all the more urgently required, as this alone would infuse confidence in potential Joint

Venture partners who would step in with appropriate modern technology and funds to make the company grow and prosper.

ADVANTAGES OF REVIVAL OF HPF

6. It has come to the notice of the Committee that HPF has tremendous potential to hold price lines of the goods at affordable levels and as such its prices are being adopted as benchmarks, in the highly price sensitive domestic market. The Competitors will have to bring down the prices to match prices of HPF products. The Committee are of the considered view that since integrated manufacturers like HPF will be benchmarking the prices, all other photo goods will follow the same pattern on revival of HPF. They, therefore, recommend that all-out efforts should be made by the Government of India to revive HPF at any cost. The Committee also desire that HPF's INDU Brand name should be well promoted through adequate advertisement to catch the eye of the consumer.

NEED FOR INCREASING CAPACITY UTILISATION FOR HPF'S SURVIVAL

6. The Committee are happy to note that despite being crippled in its operations (capacity utilisation reduced from over 80% in 1990-91 to merely 5% during 2000-2001), the Company has shown tremendous resilience to stay in the market. They have been given to understand that due to poor credibility in the financial market and due to Government of India's strict policies of not effecting budgetary support, the Company could not achieve higher capacity utilisation mainly because of the lack of working capital. The problems of the company were further aggravated due to increasing competition from MNCs and due to their indulgence in unethical business practices. The Committee also note that in the opinion of M/s ICICI (operating Agency) and M/s Price Waterhouse Cooper (Management Consultants), HPF's operations are viable but for huge liabilities, excess manpower and non-level playing field. They, therefore, recommend that the Government should provide immediate Interim-financial assistance including working capital needed for HPF's current running till a final decision on the revival proposal is taken. The Government should also waive off the principal loan balance and the accrued interest thereon. The Committee desire that the Financial Restructuring proposal should

include a moratorium on payment of interest till repayment of 75% of the secured loan balance and thereafter the accumulated interest may be made payable as Simple Interest at the minimum possible rate to be repaid in convenient instalments. They also desire that the Government should think in terms of infusion of funds as one time interest free repayable loan towards repayment of secured and unsecured loan balance and also for working capital requirement. The Government should also make one time grant of funds towards Voluntary Retirement Scheme (VRS) to reduce excess manpower and towards payment of statutory dues. The Committee feel that infusion of more funds into the company is necessary, as this would enable it to manufacture even Laser Films for which it has developed its technology already. The Committee, therefore, urge upon the Government to come forward with proper and adequate proposal for investment in this Company. The Committee further recommend that All Central/State Government Organisations/Institutions should be instructed to procure their requirements of Medical X-ray Films and other Diagnostic Films like CT Scan, Ultra Sound and Medical Imaging Films from HPF only by accordng purchase and price preference to enable the company to increase its capacity utilisation and revive. Apart from these measures, the Committee recommend

that the union Government should take up with the State Government of Tamil Nadu the question of complete exemption of Sales Tax on the products of HPF pointing out to them the need for saving a company in one of the industrially backward District of that State.

NEGATIVE IMPACT OF NON-FILLING OF CMD POST

7. Apart from the indiscriminate delicensing of Import by the Government, another problem that compounded the matter was that the non-appointment of CMD for this organisation for a period of about 5 years, due to which critical major decisions could not be taken at the appropriate time. The Committee also note that alleged mismanagement and irregularities by the previous Management team led to further deterioration of an already worse situation in the company. The Committee deprecate the irresponsible attitude of the Government due to which the company remained headless and fudder-less for nearly five years. They, therefore, strongly recommend that the Government should take a policy decision to govern such situations and whenever such vacancies for the top post in any company arises, the Administrative Ministry concerned should initiate the process of scrutiny and selection for the top post much in advance so that the new incumbent assumes charge the moment a vacancy occurs. The Committee also desire that the Government should inquire into the alleged Irregularities committed by the previous management of the company and take punitive action against the officials found responsible for such mismanagement under intimation to the Committee.

APPOINTMENT OF NON-OFFICIAL DIRECTORS IN HPF BOARD

B. The Committee note that the present strength of the Board of Directors is seven as against the total strength of twelve. They also note that the company's request for appointing Non-official Directors in the vacant places in the Board has yielded no result so far. Except for the Director (Finance) of the Company, there is no other functional Director appointed to the Board of Directors of the Company. The Committee earnestly feel that at the present juncture, the company needs the experience and expertise of professionals who can steer the company in the desired direction to get out of its present difficulties. They, therefore, recommend that the Government should appoint some more functional Directors and a few professionals who have outstanding experience in the field as Non-official Directors in the company's Board of Directors so that the company can utilise their accumulated wisdom for its survival at this critical juncture. The Committee also wish to be informed of the action taken in this regard.

REVISION OF WAGES OF EMPLOYEES OF HPF

9. The Committee note that at present the pay and allowances being drawn by the employees of HPF are based on a salary structure decided in 1987 and is hardly attractive enough to enthuse good quality man-power to join the services of the company. Since the company requires personnel with special qualifications and skills in the Executive and Non-Executive cadres, there is an urgent need to revise the remuneration package to match the best available in the industry so that a team of highly motivated professionals is created in the company to make the company perform superbly in all spheres of its activities. At the present rates of salary based on 1987 levels, the employees receive a salary which is hardly sufficient for them to meet even the barest minimum essential needs and therefore there is an urgent need to revise their pay packed on the basis of the 1992 wage norms. The Committee further recommend that VRS should be offered to employees based on notional 1992 wages at the earliest, so that the offer becomes attractive enough to the employees which would consequently result in shedding the excess manpower.

QUALITY REQUIREMENTS PRESCRIBED BY DG S&D

10. The Committee have been informed that the DG S&D is considering a proposal to modify the quality requirements of the X-Ray films to be supplied under Rate Contract to various Government departments and organisations. The Committee further understand that according to the standards that exist as per DG S&D norms, most of the imported films do not qualify for purchase orders and any further dilution in quality requirements would only favour the imported films and their manufactures and would affect the indigenous manufacturer adversely. The Committee in this regard recommend that the present procedure for DG S&D Rate Contract purchase should not be done away with and the quality norms that exist now should not be changed at all. Since HPF films are available on DG S&D Rate Contract, the price quoted by HPF for its products are known to every player in the market and in the liberalised scenario, the private suppliers are bagging supply contracts by quoting rates which are only 0.01% less than HPF DG S&D rates. Due to this practice, HPF films are not purchased by various Government hospitals and Departments and obviously HPF cannot quote a price lower than what it quoted for DG S&D. Since this practice is unfair, the Government should take a policy decision to

buy all film product requirements at DG S&D rates only in respect of all supplies. The Committee desire that no separate tenders should be called by various Governmental organisations and Government'semi-Government hospitals for purchase of the X-Ray films, when a comprehensive DG S&D Rate Contract already existed for the purpose and suitable instructions should be issued by Government in this regard to follow only DG S&D Rate Contracts. The Committee desire that a decision in this regard should be taken by Government within three months of presentation of this Report.

ANNEXURE - I

**TOUR PROGRAMME ACTUALLY PERFORMED BY THE
COMMITTEE ON PUBLIC UNDERTAKINGS TO
PUNE, BANGALORE, MYSORE AND OOTACAMUND
FROM 4TH JUNE, 2001 TO 11TH JUNE, 2001**

(MEMBERS ASSEMBLED AT PUNE)

DATE & DAY	TIME	VISIT & DISCUSSION
4.6.2001 (Monday)	1000 hrs	Discussion with the Officers of New India Assurance Co. Ltd.
	1200 hrs	Discussion with the Officers of Hindustan Antibiotics Ltd.
	1400 hrs	Discussion with the Officers of Export Credit Guarantee Corpn. (I) Ltd.
(NIGHT HALT AT PUNE)		
5.6.2001 (Tuesday)	1315 hrs	Departure for Bangalore by IC-917
	1615 hrs	Arrival Bangalore
(NIGHT HALT AT BANGALORE)		
6.6.2001 (Wednesday)	1000 hrs	Discussion with the Officers of Hindustan Teleprinters Ltd. (HTL Ltd)
	1430 hrs	Departure for Mysore by Road (Approx. 140 km)
	1800 hrs	Arrival Mysore
(NIGHT HALT AT MYSORE)		
7.6.2001 (Thursday)	0930 hrs	Discussion with the Officers of Indian Tourism Devp. Corpn. (ITDC)
	1200 hrs	Discussion with the Officers of Bharat Earth Movers Ltd.
(NIGHT HALT AT MYSORE)		
8.6.2001 (Friday)	0900 hrs	Departure for Ootacamund by Road (Approx 120 km)
	1500 hrs	Arrival Ootacamund ,
	1745 hrs	Discussion with the Officers of NTC (I&P) Ltd.
(NIGHT HALT AT OOTACAMUND)		

9.6.2001 (Saturday)	0930 hrs	Discussion with the Officers of Hindustan Photofilms Mfg. Corpn. Ltd.
	1200 hrs	Discussion with the Officers of Food Corporation of India Ltd.
		(NIGHT HALT AT OOTACAMUND)
10.6.2001 (Sunday)	0900 hrs	Departure for Bangalore by Road
	1800 hrs	Arrival Bangalore
		(NIGHT HALT AT BANGALORE)
11.6.2001 (Monday)	0930 hrs	Discussion with the Officers of Rashtriya Chemicals & Fertilizers Ltd.

DISPERSAL

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**COMPOSITION OF THE COMMITTEE ON PUBLIC UNDERTAKINGS
WHICH VISITED PUNE, BANGALORE, MYSORE AND OOTACAMUND
FROM 4TH TO 11TH JUNE, 2001**

S. NO.	NAME	DATE OF JOINING	DATE OF LEAVING
1.	Prof Vijay Kumar Malhotra, Chairman	5.6.2001 Bangalore	11.6.2001 Bangalore
2.	Prof. S. P. Singh Baghel	4.6.2001 Pune	9.6.2001 Ootacamund
3.	Shri Sudip Bandyopadhyay	3.6.2001 Pune	12.6.2001 Bangalore
4.	Shri Ram Tahal Chaudhary	3.6.2001 Pune	11.6.2001 Bangalore
5.	Shri C K Jaffer Sharief	6.6.2001 Bangalore	6.6.2001 Bangalore
6.	Shri Rajiv Pratap Rudy	5.6.2001 Bangalore	6.6.2001 Bangalore
7.	Shri Tarit Baran Topdar	5.6.2001 Bangalore	11.6.2001 Bangalore
8.	Shri Suresh Kalmadi	3.6.2001 Pune	4.6.2001 Pune
9.	Shri K. Kalavenkata Rao	7.6.2001 Mysore	11.6.2001 Bangalore
10.	Shri Jibon Roy	3.6.2001 Pune	7/8.6.2001 Mysore / Bangalore
11.	Smt Ambika Soni	3.6.2001 Pune 8.6.2001 Bangalore	4.6.2001 Pune 9.6.2001 Ootacamund
12.	Shri Ranjan Prasad Yadav	3.6.2001 Pune	6.6.2001 Bangalore
SECRETARIAT			
1.	Shri S Bal Shekar, Director		
2.	Shri L. N. Gaur, Under Secretary		
3.	Shri Raj Kumar, Under Secretary		
4.	Shri Tirthankar Das, Sr Executive Asstt		

Annexure-III

**LIST OF OFFICIALS OF HPF WHO WERE PRESENT DURING
DISCUSSION WITH THE COMMITTEE ON PUBLIC
UNDERTAKINGS AT OOTY ON 9.6.2001**

1. BRIG. CHAITANYA PRAKASH CHAIRMAN & MANAGING DIRECTOR
2. SH. M. VENKATESAN DIRECTOR (FINANCE)
3. SH. ANAND HIPPALGAONKAR SENIOR MANAGER(CORPORATE)
4. SH. B. BALASUBRAMANIAM MANAGER (HRD)