

STUDY TOUR REPORT NO 16

C.P.U.NO.....839

COMMITTEE ON PUBLIC UNDERTAKINGS

(2001-2002)

(THIRTEENTH LOK SABHA)

STUDY TOUR REPORT

ON

HINDUSTAN ANTIBIOTICS LIMITED

Laid in the Lok Sabha on
30 AUG 2001

Laid in the Rajya Sabha on
30 AUG 2001

LOK SABHA SECRETARIAT

NEW DELHI

August, 2001 / Bhadrapada 1923(S)

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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 Antibiotics Ltd.

2. The Committee held discussions with the officials at Pune on 4.6.2001. 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 Antibiotics 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

STUDY TOUR NOTES OF COMMITTEE
ON PUBLIC UNDERTAKINGS

DISCUSSION WITH THE OFFICIALS OF HINDUSTAN
ANTIBIOTICS LIMITED AT PUNE ON 4.6.2001

A. INTRODUCTORY

At the outset the Convener, Committee on Public Undertakings, made opening remarks and then requested the Managing Director of the Hindustan Antibiotics Ltd (HAL) to introduce himself and his colleagues to the Committee and give a brief resume of the working of the Company.

2. After introduction of the officials of the Company, the Managing Director HAL informed the Committee that Hindustan Antibiotics Ltd., is the first Public Sector drug unit, manufacturing life saving drugs in India. It has been playing a vital role in making essential drugs available for the people of India. Set up on 10th March, 1964, with active cooperation of WHO/UNICEF HAL is the first drug manufacturing unit to undertake commercial production of antibiotics like Penicillin, Streptomycin, Gentamicin, etc besides, the discovery of two new drugs viz. Tramycin and Aureofungin. It was also informed that HAL has also developed a process for manufacture of immobilized enzyme which is used for the manufacture of 6-APA from Penicillin G 1st Crystals. The Company has also been instrumental in promoting the policies of the Government of India regarding Public Health and Pharmaceutical Industry in the country.

3. Outlining the important role played by HAL, particularly in the field of manufacturing of life-saving drug, it was informed to the Committee that the Company was set up as a single product company manufacturing Penicillin for the first time in the Country. The capacity of Penicillin Plant which started from 9 mmu was increased to 800 mmu by the year 1991 and the company was the largest producer in the country. The company also started manufacturing Streptomycin, an Anti-TB drug which has helped in the TB Eradication Programme of Government of India to a very large extent. HAL started manufacture of Gentamicin, a broad spectrum antibiotic, for the first time in India, in the year 1982. This is an anti-bacterial which is used in case of eye, ear and urinary tract infections. In addition to producing these essential life-saving bulk drugs, HAL also started manufacturing formulations in conventional dosage forms viz. Small Volume Parenterals, Large Volume Parenterals, Tablets, Capsules, Syrups, etc. for human as well as for veterinary use. The company also set up a plant and started manufacturing IV Fluid from the year 1991. As a result, life-saving drugs were supplied at affordable prices to the general public. It was also informed to the Committee that HAL also plays an important role of supplying life-saving drugs during natural calamities like Earthquakes, floods, draughts, cyclones, etc.

4. He further informed to the Committee that Penicillin is still used as raw material for manufacture of many newer generation drugs like semi-synthetic Penicillin, Cephalosporins and intermediates like 6-APA, 7-ADCA, etc. HAL has also entered into newer products like Erythropoietin Plasma Volume Expander, which are high-tech products and are made available at the most reasonable prices, in addition to manufacture of conventional products in Antibiotic segment. He also categorically pointed out that PSUs do not sacrifice quality for the sake of participating as a lowest tender. HAL's products are rated very high as far as quality is concerned. It was also mentioned before the Committee that HAL should, therefore, be allowed to play its conventional role of providing life saving drugs to the general public and at the same time venture into high-tech areas like r-DNA products which will give the Company better returns for its survival and future growth.

5. It was also informed to the Committee that HAL is discussing the proposal for manufacturing of Anti-Haemophilic Factor VIII in collaboration with the Haemophilic Society of India. When the Committee desired to know details about the project proposal, it was stated that a detailed project proposal has been worked out and the total cost of project is Rs. 6.5 crores. It was also stated that the proposal is under the scrutiny by the Haemophilic Society. It was

also stated that the salient features of the project involves importation of Human Blood Serum in the form of cryopaste, chromatographic purification of Factor VII in a sterile environment, dispensing of Factor VIII in the liquid form into Vials in sterile condition and lyophilized. It was also stated that the existing facilities in EPO Plant will be augmented suitably to manufacture this product for the first time in India. The Agreement is yet to be finalized.

R & D ACTIVITIES

6. About R and D activities, the Committee were informed that the Company had incurred an expenditure of Rs.114.04 lakhs, Rs.101.67 lakhs and Rs.105.64 lakhs during 1997-98, 1998-99 and 1999-2000 respectively. It was also informed that the expenditure incurred by the Company on R and D activities during the last 3 years is commensurate with the results achieved. The Committee were also informed that R & D Division continued to render support and services to production and marketing functions of the Company.

7. When the Committee enquired whether HAL has attempted to broad-base the R & D support considering its importance in the manufacture of life-saving Drugs, the Company stated the following :

We have broad based our R & D activities in the area of Recombinant-DNA (r-DNA) technology (Erythropoietin) and agribiotechnology (AZOTOMEAL & PHOSPHOMEAL – biofertilizers) projects in addition to the developments in the field of pharmaceutical technology.

Our R & D Division has successfully absorbed, adapted and commercialized Erythropoietin technology in collaboration with ELANEX Inc, USA.

We have successfully scaled-up, commercialised and launched Azotomeal and phosphomeal.

Work is in progress on biotechnology projects of two biopesticides-based on *Bacillus thuringiensis* var *kenyas* and MYCOHIT – based on *Hirautella thompsonii*.

We have recently obtained board approval to go ahead with another r-DNA based product namely Hepatitis-B vaccine in collaboration with GUHA BIOPHARMA INTERNATIONAL, USA.”

B. BOARD OF DIRECTORS

8. The composition of the Board of Directors of is HAL given below :

1. Shri MC Abraham, Managing Director, HAL
2. Shri suresh Chandra, Jt. Secy. & Financial Advisor, Government of India, Ministry of Chemicals and Fertilizers – Director.
3. Shri Sharad Gupta, Jt. Secretary, Government of India, Ministry of Chemicals & Fertilizers – Director.
4. Prof. NK Singh, Spl. Director from the Board of Industrial and Financial Restructuring, New Delhi – Director.

It has been stated that Chairman for the Board meeting is selected from among the Directors present in that meeting. The Board has been delegated powers to make decisions about all policy matters, including manufacture of life saving drugs as per Article 72 of the Articles of Association.

9. It was further stated that there was one vacancy of Director (Finance) since March, 1998. The position of Director (Finance) has been filled up vide Ministry's letter No.F.No.10(2)/98-P1(IV) dated 4.5.2001.

C. COMPETITION FROM MNCs

10. It has been stated by HAL that due to non-revision of prices for products covered by DPCO and acute competition from MNCs and small acute pharmaceutical companies, the company became sick and was declared as a sick company in the year 1997.

11. When enquired since when the prices of HAL products covered under DPCO have not been revised, it has been stated that the two major bulk drugs manufactured by the Company viz. Penicillin and Streptomycin fall within the price control under DPCO. The prices of these bulk drugs in pursuance of the increase in the input cost was delayed in the past causing substantial financial loss to the Company. For example the price of Penicillin was fixed in 1970 at Rs.400 per BOU which was revised only in 1976 by about 8%. Consequent to the oil crisis in Gulf during Nov., 1973, the cost of production in HAL

has practically doubled, but HAL could not get any revision in price for the products. The company also started incurring loss for the first time since 1973-74. This price remained constant for another 5 years and was revised only 1981 causing financial loss to the Company. Further revision of Penicillin price took place only in 1987 inspite of the continuous price rise in the input cost. Similarly, for the other bulk drug i.e. Streptomycin, the price was fixed in the year 1982 which remained constant till 1986.

12. When the Committee wanted to know details of the MNCs and Small Scale Pharmaceutical Companies which provide stiff competition for HAL products, the company stated the following :

"Our range of products are mainly antibiotics, anti-inflammatory group, which most of the MNC Companies and small scale manufactures are having.

In the trade segment, the competition is mainly from MNC and Indian Companies and in the Institutional sales small scale manufactures play a vital role. We are listing herewith some of the MNC's and Indian Companies.

1. **MNCs**

(a) PFIZER (b) HOECHST MARIAN ROUSSEL (c) GLAXO (d) U.S. VITAMINS (e) KNOLL (f) ALLENBURGS (g) WELLCOME (h) R.PAULNAE (i) NICHOLAS (j) WYETHLEDERLEE

2. **LEADING INDIAN COMPANIES**

(a) RANBAXY (b) CIPLA (c) CADILLA (d) TORRENT (e) ALKEM (f) WOCKHARDT (g) ARISTO (h) LYKA (i) SUN PHARMA (j) REDDY'S LAB (k) LUPIN (l) IPCA (m) ALEMBIC (n) SARABHAI (o) CORE"

13. On being enquired what cost cutting measures have been taken to enable reduction in the prices of HAL products, the Committee were informed that the company has undertaken a massive cost reduction drive in order to control the price of its products. The major cost reduction measures undertaken and continued to be undertaken are as follows :-

- The raw material cost has been brought down by over 15% by resorting to direct procurement from the manufacturers and encouraging competition among the suppliers.
- In order to reduce the cost of production bench mark exercise has been undertaken in respect of major products of the company like I.V. Fluids.
- The administrative overheads of the company have also been drastically brought down by curtailing the expenses of telephone, transport, school, Canteen, Hospital, CISF, travelling, etc.
- The marketing expenses have already been brought down by streamlining the marketing operations, controlling the commission, samples, travelling and other expenses, etc.

- The company has also introduced Voluntary Retirement Scheme under which more than 600 employees have been relieved by the company.

It was also stated that the above cost reduction measures have substantially reduced the cost of production of the company and improved its profitability.

14. It has been stated in the Brief submitted to the Committee that IDBI was appointed as Operating Agency and M/s Kirtane & Pandit, a reputed professional consultant, was appointed to conduct Techno-economic viability study. The Professional Consultant subsequently submitted their recommendations alongwith draft Rehabilitation Scheme. The Operating Agency accepted the report of the Professional Consultant and circulated the draft Rehabilitation plan to Ministry, Banks, other lenders and other concerned parties.

15. About the findings of the techno-economic viability study, it was stated that IDBI, the Operating Agency appointed M/s Kirtane & Pandit, Pune, a consultancy firm to carry out the techno-economic viability study and suggested measures for the rehabilitation of the Company. After analyzing the operations of the company's macro and micro level, the consultant found the company operationally viable if proper actions are taken on strategic and operational front. The consultant already analysed the strength and weakness of the company as follows .

STRENGTH

1. Well maintained production facilities with economic viability capacity.
2. The products manufactured by the company are still in demand and the market for the same growing at 11% p.a.
3. Representation of the Company's products for its quality.
4. Cost advantage for the products because of fully depreciated facilities.

WEAKNESS

1. Lack of product concentration resulting into unfocus approach.
 2. High production cost compared to the industrial norms.
 3. Lack of focussed marketing strategy.
 4. Excess manpower strength.
 5. Substantial investment of fixed assets without adequate returns.
16. Detailing the components of the Rehabilitation Scheme prepared and submitted by the Professional Consultant, it was stated by the Company that the consultant recommended the following

measures for reviving the operations of the company which were subsequently recommended by the Operating Agency also :

1. Business Focussing so that outdated and non-profitability products are eliminated and making products portfolio homogenous consisting of products that have sufficient profit margins.
2. The channelising cost of the company's products like commission, discount, establishment cost, etc. to be brought down.
3. For utilising of the idle production facilities and the marketing network of the company, the company should resort to business alliances with other companies
4. The skilled level of the manpower of the company should be further improved to cope up with the latest business practices.
5. The financial restructuring of the company has to be carried out to retire the high cost loans and make the company's balance sheet profitable for better financial image of the company
6. The company should also implement a massive cost reduction programme to bring down its cost.

17. It has also been stated that although the first draft Rehabilitation Plan was submitted in the year 1997, it went into difficulties due to the following reasons:-

- i) The Scheme contemplates sales of surplus land of 66 acres for which permission of State Government was required. The permission has since been received in the month of March, 2001.
- ii) Set of concessions contemplated in the scheme in line with the Reserve Bank of India guidelines were not extended by the State Bank of India and other consortium banks. While the scheme provides for concessional rate of interest at PLR from the year the Company started incurring cash losses, the banks were not prepared to extend the same.
- iii) The Company had taken Inter Corporate Loans of Rs.10 crores from Oil and Natural Gas Commission in the year 1988, but the Company could not repay this loan and defaulted in payment of its interest from 1993 onwards. On the interest rate of 16.5% on their loan, the Company requested for waiver of 25%, but the request was not acceded to by ONGC.

18. When asked whether the company has made any assessment about the cost of surplus land, it has been stated that the Company has identified the surplus land admeasuring about 66 acres which can be disposed off for raising the financial resources for its rehabilitation. The said land is adjacent to its residential colony which is shown in the residential zone of PCMC. The land is having

substantial market potential if it is sold in the open market. The realisation expected from sale of this surplus land is Rs. 40 Crores.

19. Regarding the proposal to sell the surplus land in most profitable manner, the Committee were informed that the Company has received the permission from the Central Government and State Government for the sale of surplus land and an application has been made to BIFR seeking permission for the land sale.

A Committee consisting of the Directors of the Company and the Collector, Pune, has been formed to decide the modalities and procedures for the land sale.

The Company proposes to sell the land by inviting public tenders and keeping the minimum reserve price for each plot of land based on the prevailing Ready Reckoner rate for the land in the surrounding area.

With the help of the Town Planning Deptt. of the Govt. of Maharashtra the company proposes to demarcate the land into smaller plots so that competitive bids can be attracted in Public Tender. However, the company does not plan to enter any land development activities because of financial constraints. The company also does not have any plan to collaborate with any housing finance agency for the sale of land, as it contemplates to sell the same by public tender.

20. Regarding non-compliance of RBI Guidelines, the Committee were informed that the company as well as the Administrative Ministry had taken up the issue of non-compliance of RBI Guidelines in extending the concessions in rate of interest with banks as well as Department of Banking on a number of occasions. The fact that these banks and other financial institutions had given much more concessions than what was contemplated in RBI guidelines. In the case of HAL, the company had only requested for reduction in the exorbitant interest rate charged by bankers in the past to prime lending rate fixed by RBI from time to time, but, inspite of repeated requests these concessions were not granted by the banks. This has also resulted in considerable delay in finalisation of the Rehabilitation Scheme of the company. It is added that a meeting was also held under the Chairmanship of the Hon'ble Minister for Chemicals and Fertilizers on 7.3.01 to sort out this issue, but, till date the issue remains unresolved. In that meeting the Hon'ble Minister for Chemicals & Fertilizers also directed the representative of Banking Division that a meeting should be held by the Special Secretary (Banking) with SBI and HAL to discuss these issues. The meeting convened by the Joint Secretary, Dept of Banking on 21.3.01 also ended up without resolving this issue. The matter still remains unresolved and the banks have not yet come forward to grant reliefs/concessions as per RBI Guidelines to this company. It has also come to the notice of the Committee that SBI has extended similar concessions to Private Parties such as M/s India Polifibers.

21. It was also stated that the matter regarding interest waiver of 25% of the outstanding interest on the loan taken by the company from ONGC was taken up by the company and the Ministry of Chemicals & Fertilizers with ONGC on a number of occasions. The meetings were also held both by the Secretary as well as Hon'ble Minister for Chemicals and Fertilizers but the request for granting this concession is yet to be accepted by ONGC. As an alternate to the above proposal, the company had requested ONGC for moratorium on payment of loan for a period of five years without interest and thereafter payment in five instalments on prime lending rate. This alternate request was made considering the fact that ONGC had given similar concession to Vayudoot earlier. However, ONGC in their latest communication dated 10th April, 2001 informed the company that they cannot consider the request at this stage. They also added that as far as the moratorium is concerned, the same was granted by Government of India in the case of M/s Vayudoot and the notification was issued by Government of India, Ministry of Civil Aviation.

D. FINANCIAL PERFORMANCE

22. The net profit/loss of HAL during the last 10 years are as follows :

(Rs. In lakhs)

YEAR	NET PROFIT/LOSS(-)
1991-92	194.47
1992-93	198.79
1993-94	(-)1288.22
1994-95	(-)2229.99
1995-96	(-)2094.34
1996-97	(-)3223.21
1997-98	(-)2896.00
1998-99	(-)1158.00
1999-2000	(-)747.00
2000-2001(Prov)	(-)476.00

23. The Committee were informed that the drop in profitability of the company after 1992-93 is on account of the following reasons :

- In the absence of budgetary support to HAL by Government of India since 1988-89 for its expansion and diversification projects, HAL had to resort to external borrowings at a very high rate of interest. The company had invested over Rs.100 crores from borrowed funds with interest rate as high as 20 to 22% without corresponding increase in share capital contribution. The interest burden of the company had gone as high as Rs. 22 crores per annum. The heavy burden of interest payment affected the working capital position of the company. This has resulted in default in

payment to bankers who in turn stopped continuation of facilities like letter of credit, bank guarantees, etc. Added to that, working capital limits were reduced from Rs.55 crores to Rs. 35 crores even without allowing the company to pay back the reduced limit in instalments. All this affected the normal working cum profitability of the company.

- Due to huge cost of infrastructure and other facilities which HAL has to provide for its employees like Township, highly subsidized Canteen/Transport, etc. HAL has to incur heavy overheads and social costs. This has resulted in high cost of production and subsequent losses to HAL.
- After liberalisation Institutions, Hospitals, etc. of both Central and State Government, have withdrawn the purchases and prices preference of Central Public Sector Undertakings. HAL has to face competition from Small Scale Industries having very low overheads and quoting very low rates for various Government purchases. This has resulted in a situation wherein either HAL has to lose the order or to supply medicines below the cost.

24. When the Committee enquired as to why Government fund is required when the Company's performance is improving for the last 3-4 years, it has been stated by the Company that the Government fund is required for the following and a part of Rehabilitation Plan :

"The Company had invested funds to the tune of about Rs.110 crores in various capital projects from borrowed funds. In the normal course, a certain percentage of this investment (say 40%) should have come from the promoters which did not taken place. It is necessary to correct this imbalance to reduce the heavy interest burden of this company.

- Loans taken from various agencies during the past have to be repaid.
- The company is not able to pay statutory dues to the employees like Gratuity, etc. for the last few years. Being statutory obligations, these will have to be paid.
- Overcoming the weaknesses and bottlenecks in different areas, with a view to reduce the cost of production."

E. SALES PERFORMANCE

25. The net sales of the company as compared to the targets during the last 10 years are given below :

(Rs. In lakhs)

YEAR	TARGET	ACTUAL
1991-92	12700.00	13671.40
1992-93	15000.00	17700.16
1993-94	18700.00	19936.68
1994-95	23000.00	19782.31
1995-96*	25000.00	16962.23
1996-97	15700.00	13471.30
1997-98	11037.00	11575.00
1998-99	12805.00	11326.00
1999-2000	12600.00	12414.00
2000-2001 (Prov)	13130.00	13142.00

- * The sales figures upto 1995-96 include sales of Penicillin G Potassium which was leased out to HMGB, a Joint Venture Company with 50% participation of HAL. The Penicillin B Sales currently is to the tune of Rs. 150 crores per annum.

26. The reasons for the decline in Sales Performance of HAL during 1994-95 and thereafter stated by the Company are as follows:

"The sales have gone up by 30% in 1992-93 compared to that of previous year and by 12% during the year 1993-94. The sales target for the year 1994-95 was fixed with 15% growth anticipating continuous availability of working capital and support from government institutions but the working capital position became precarious. Added to that, the support from the Government institutions have also declined. Under the circumstances, the company could not achieve the targeted growth. The company had handed over its Penicillin Plant to HMGB in Oct., 1995 and thereafter the sales of Penicillin G do not form the part of HAL sales. The position has started further deteriorating in 1997-98 on account of sickness of the company. With the introduction of various measures under the rehabilitation plan, the company is presently growing @ 10% per annum."

27. When the Committee wanted to know whether any remedial corrective action has been taken by the Company, to give a boost to the Sales Performance, they were informed that in the year 1998, separate divisions were formed identifying the strength of the field force available to concentrate in each segment i.e. Brand Division, Generic Division and Hemax Division. Agro-vet manufacturing wing was separated from the Pharma Sector and brought under the direct control of General Manager (Agro-vet), who is heading the new profit centre viz. Agro-vet Division. Separate targets are fixed and performance is monitored on monthly basis. However, the problems arising out of shortage of working capital still continues and the company is not able to produce and stock sufficient materials as the market warrants.

28. It was further stated that in the post liberalisation phase, the following strategy has been formulated to reorient the existing sales strategy to enhance the sales performance :

- Quoting for more World-bank Tenders which gives high volume and money realisation is quick.
- Phasing out products which are having low sales and non-profitable. Eight such products have been phased out during the year 2000-2001. To fight out with the

competition, focused working was made possible by creating Brand, Generic, Hemax and Agro-vet Divisions.

- Close monitoring of performance by arranging regular meetings at Divisional Managers' level.
- Reduction of non-performing and unproductive field staff through Voluntary Retirement Scheme.

F. PHYSICAL PERFORMANCE

29. The actual production performance of various products produced by the company vis-à-vis the targets during the last 6 years are given below :

Product Unit (Lakh Nos.)		1996-98	1998-97	1997-98	1998-99	1999-2000	2000-01 (Prov)
Vials	AP	914.08	598.45	464.62	542.73	486.76	545.09
	TAR	1264	900	896	638	565	680
Tablets	AP	1492.57	868.85	852.55	1146.75	1259.1	1384.12
	TAR	2501	2000	1743	1258	1177	1519
Capsules	AP	1984.2	818.47	407.14	706.81	871.85	828.43
	TAR	2400	3000	786	851	887	837
IVF	AP	87.87	58.34	52.8	63.9	94.93	107.87
	TAR	86	100	92	94	104	114

AP: Actual Production, TAR: Targeted Actual Production

AP : Actual Production,

30. Explaining the reasons for bringing down the targets and also for not meeting the reduced target, the Company stated that the

targets are fixed based on the market requirement. Due to financial constraints and shortage of working capital, production is made strictly in accordance with the market requirement so that the money is not locked up in the Finished Goods Inventory. The company had to lower its targets as no preference is being given to Public Sector Undertakings in purchase of medicines in bulk quantities under various State Sponsored Health Programmes.

PROBLEM OF HIGH INTEREST RATE

31. In the absence of budgetary support to HAL by Government of India since 1988-89 for its expansion and diversification projects, HAL had to resort to external borrowings at a very high interest rate to finance its projects. As a result, the interest burden of the company had increased substantially causing financial problems for HAL.

32. When enquired whether the company has approached the Government for capital infusion, it was stated that the Company has been declared "SICK" on 31.3.97 and has been referred to BIFR. The Rehabilitation Plan of the Company is under the consideration of the Government. Once the Rehabilitation Plan of the Company is approved by the Government and BIFR, HAL will start making profits from the first year itself and will be able to make its own worth positive.

33. When enquired what help the company needs from the Government, HAL stated the following :

".....The financial assistance needed from the Government of India is covered in the rehabilitation plan submitted to the Ministry which is under its consideration. The Draft Rehabilitation Scheme submitted to the Department of Chemicals & Petrochemicals contemplates infusion of funds as per details given below :

1. Rs. 40 crores from sale of surplus land and in case of delay, a bridge loan from Government of India for the same amount. The bridge loan will be repaid from land sale proceeds.
2. Rs. 12.98 crores by way of interest free loan for repayment of employees related statutory dues.
3. Shortfall of Rs. 20.4 crores at PLR to discharge overdue term loans.

Approval of the scheme and the various reliefs/concessions contemplated therein is the need of the hour."

34. it was brought to the notice of the Committee that the actual manpower strength of the Company (in position) as on 01.04.2001 is 2036 as against the sanctioned strength of 3781. IT was further stated that Internal Review of manpower was made at the time of preparation of Rehabilitation plan for the Company. The manpower strength of each department was reviewed in consultation with the Head of the Departments and Personnel Department.

RECOMMENDATIONS/OBSERVATIONS
OF THE COMMITTEE

NEED FOR EARLY REVIVAL OF HAL

1. The Committee note that HAL, a wholly owned Government of India Company was established in 1954, with the objective of making available to common people of the country the life saving drugs at affordable prices. The Company has been instrumental in promoting the policies of the Government of India regarding Public Health and Pharmaceutical Industry in the Country. It was instrumental in transforming the entire Pimpri Chinchwad region into one of the fast growing industrial belts in Maharashtra. They further note that the company still plays a key role in maintaining the socio-economic scenario in the region by providing direct employment to around 2100 personnel. But unfortunately, the company was declared as a Sick Company by BIFR on 31st March, 1997. The Committee have also been given to

understand that after the liberalization of the economy in the early nineties, HAL has been faced with stiff competition from the MNCs. In the event of HAL's sickness, MNCs will play a dominant role in this vital sector. The Committee understand that more than 50% of the population in India lives below poverty line and the new generation drugs are very costly and a large population cannot just afford to buy these costly medicines. Moreover, Penicillin, which is produced by HAL, is still being used as raw material for manufacture of many newer generation drugs like semi-synthetic Penicillin, Cephalosporins and intermediates like 6-APA, 7-ADCA etc. In the opinion of the Committee, PSUs do not sacrifice quality for the sake of participating as a lowest tenderer. They are very proud to note that HAL's products are rated very high as far as quality is concerned. They, therefore, recommend that Government should take all necessary steps including the early approval of the Rehabilitation Scheme to make the company viable and allow it to play its conventional role of providing life saving

drugs to the general public at affordable prices. They also desire that Government should make all-out efforts to create a conducive atmosphere for HAL to venture into high-tech areas like r-DNA products which will give the company better returns for its survival and future growth.

APPOINTMENT OF FUNCTIONAL DIRECTORS IN THE BOARD OF DIRECTORS

2. The Committee are dismayed to note that the post of Director (Finance) which was vacant in the company since March, 1998 has been filled up only in May, 2001. They wonder how a company of HAL's stature was functioning without an important functionary like the Director (Finance) for almost three years. In the post-liberalisation phase, when the company was in a critical juncture to take major decisions, it was found to be without a Director (Finance) for three long years. The Committee, therefore, deprecate this lackadaisical approach of the Government in not filling up the post of Director (Finance) for three long years in the company. The Committee are also not aware as to whether Director (Finance) has actually taken charge of the post in the Company as they were earlier informed that a letter to this effect was only issued and the developments after that are not known to the Committee. They are also of the opinion that the functional Directors of

the company should be appointed to the Board in the proportion as stipulated in the DPE guidelines on the subject.

NEED FOR EXPEDITIOUS APPROVAL OF REHABILITATION SCHEME

3. The Committee note that after the liberalisation of the economy in the early nineties, HAL has to compete with Private and Multinational Companies and many structural and cultural adjustments have been made by the company to cope up with this competition. They also note that in the absence of budgetary support to HAL by Government of India since 1988-89 for its expansion and diversification projects, HAL had to resort to external borrowings at a very high rate to finance its projects. They are concerned to note that suggestions of IDBI, who has been appointed as operating Agency by BIFR for certain concessions, reliefs and waivers from Government of India, Banks, Financial Institutions and other lenders have not yet taken concrete shape so far. The Committee, therefore, recommend that the Operating Agency's suggestions should be implemented without any further delay and the Government should take immediate action to

provide all possible financial assistance for HAL to overcome the burden of repayment of high interest bearing loan which it had taken in the past. They feel that the heavy interest burden of the company is a major stumbling block in the process of its revival. The Committee, therefore, desire that the Government should consider the rehabilitation plan submitted to it at the earliest. The Committee also desire that BIFR should accord top priority to clear the application of HAL made to them for enabling the sale of surplus land with the Company.

quality of their products. They also desire that Government should provide all necessary help and guidance to the Company in starting benchmarking exercise for HAL's products so that quality is improved and cost is reduced. The Committee also urge upon the Government to revise the prices of HAL's products which are covered under DPCO. The Committee would also like to be informed of the decisions taken in this regard within three months of presentation of this Report.

NEED FOR GIVING PURCHASE & PRICE PREFERENCE TO PSUs

4. The Committee are surprised to note that the prices of HAL products covered under DPCO have not been revised since 1976. Moreover, they have to compete with MNCs at the present juncture. It has also come to the notice of the Committee that after liberalisation, the health Institutions, Hospitals etc. of the Central and State Governments have withdrawn the purchase and price preference accorded in favour of Public Sector Undertakings. As a result, many of the small scale units who are having very low overheads quote very low rates for various Government purchases. The Committee find that this has resulted in a situation where HAL has either to lose the order or to supply medicines below the manufacturing cost. They, therefore, strongly recommend that Government should make some mandatory provisions which will compel the Central and State Government departments to provide purchase and price preference for the products of the Public Sector Undertakings in view of the high

NEED FOR EXPEDITIOUS GRANT OF CONCESSIONS AND RELIEF BY CONSORTIUM OF BANKS AND ONGC

5. It has come to the notice of the Committee that although the first draft Rehabilitation Plan was submitted in the year 1997, it went into difficulties due to various factors which comprise the sale of surplus land of 66 acres, non-compliance of RBI Guidelines by other Banks and refusal to waive 25% of HAL's outstanding interest by ONGC. The Committee are surprised to note that the concessions and reliefs to be given by the consortium of banks led by the State Bank of India and by ONGC still remain unresolved, inspite of the best efforts made by the company and the Administrative Ministry. They feel that extending such concessions by these institutions will go a long way in rehabilitating this company and getting its Scheme approved at an early date. They, therefore, strongly recommend that Government should strictly adhere to the RBI guidelines and prevail over the banks to give concessions to HAL.

The Committee, particularly, do not approve of the negative attitude of the State Bank of India in not extending even the minimum concessions to HAL, as contemplated in the RBI guidelines. The Committee wish to point out that such an act on the part of SBI is discriminatory, as the State Bank has already extended similar concessions to private companies such as M/s India Polifibres, who are before BFR. As regards waiver of 25% of HAL's outstanding interest, the Committee desire that the Government should take up this matter at the inter-ministerial level to persuade ONGC to at least declare moratorium on payment of loan for a period of five years without interest and thereafter payment in five instalments on Prime Lending Rate. This will not be something very new for ONGC as similar concession was given to Vayudoot earlier. The Committee also feel that it should be the onerous duty of one PSU to come to the help of another PSU and save it from the brink of collapse. Such a step on the part of ONGC will not only create a sense of fellow-feeling and belongingness among all PSUs,

but will go a long way in catering to the principle of social responsibility, as this step on ONGC's part will help revive a company which has been playing a crucial role in producing essential life-saving drugs and making them available to the people of India as well.

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. Co. pn. (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 (TN&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 L d.

DISPERSAL

ANNEXURE - II**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 6.6.2001 Bangalore	4.6.2001 Pune 9.6.2001 Ootacamund
12.	Shri Ranjan Prasad Yadav	3.6.2001 Pune	8.6.2001 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 HINDUSTAN ANTIBIOTICS LTD. WHO WERE
PRESENT DURING DISCUSSION WITH THE COMMITTEE ON PUBLIC
UNDERTAKINGS AT PUNE ON 4.6.2001**

- | | | |
|----|---------------------|-------------------|
| 1. | Shri M. C. Abraham, | Managing Director |
| 2. | Shri S. L. Phadke | GM |
| 3. | Shri J. P. Lazreses | GM (Marketing) |
| 4. | Shri S. K. Mishra | GM (Personnel) |
| 5. | Shri D. S. Yadav | DGM (IR) |
| 6. | Shri P. K. Barpand | DGM (Personnel) |
| 7. | Dr. R. K. Nanda | DGM (R/D) |
| 8. | Shri A. S. Vaidya | Company Secretary |