

**COMMITTEE ON PUBLIC UNDERTAKINGS**

**(2001-2002)**

**(THIRTEENTH LOK SABHA)**

**STUDY TOUR REPORT**

**ON**

**NATIONAL FERTILISERS LIMITED**

**STUDY TOUR REPORT NO. 23**

Laid in the Lok Sabha on 19.12.2001

Laid in the Rajya Sabha on 19.12.2001

**LOK SABHA SECRETARIAT**

**NEW DELHI**

**December, 2001 / Agrahayana 1923(S)**

## **CONTENTS**

	<b>Page</b>
<b>Composition of the Committee(2001-2002)</b>	<b>(iii)</b>
<b>Introduction</b>	<b>(v)</b>
<b>Study Tour Notes on National Fertilisers Limited</b>	<b>1</b>
<b>Recommendations/Observations of the Committee</b>	<b>28</b>

## **ANNEXURES**

<b>Annexure-I</b>	<b>Tour Programme of the Committee on Public Undertakings to Chandigarh and Shimla from 2<sup>nd</sup> July, 2001 to 6<sup>th</sup> July,2001.</b>	<b>38</b>
<b>Annexure-II</b>	<b>Composition of the Committee on Public Undertakings which visited Chandigarh and Shimla from 2<sup>nd</sup> July, 2001 to 6<sup>th</sup> July,2001.</b>	<b>39</b>
<b>Annexure-III</b>	<b>List of officials of the NFL who were present during discussion with the Committee on Public Undertakings at Shimla on 5-7-2001.</b>	<b>40</b>

---

**COMPOSITION OF COMMITTEE ON PUBLIC UNDERTAKINGS**  
**(2001-2002)**

**CHAIRMAN**

Prof. Vijay Kumar Malhotra

**MEMBERS**

**LOK SABHA**

2. Shri Prasanna Acharya
3. Shri Mani Shankar Aiyar
4. Prof. S.P.Singh Baghel
5. Shri Sudip Bandyopadhyay
6. Shri Ram Tahal Chaudhary
7. Shri Ajay Singh Chautala
8. Shri Shiv Raj Singh Chauhan
9. Shrimati Sangeeta Kumari Singh Deo
10. Shri C K. Jaffer Sharief
11. Shri K E Krishnamurthy
12. Shri Vilas Muttemwar
- \*13. Shri C.P Radhakrishnan
14. Shri Tarit Baran Topdar
15. Shri Dinesh Chandra Yadav

**RAJYA SABHA**

16. Shri Suresh Kalmadi
17. Shri K. Kalavenkata Rao
18. Shri Jibon Roy
19. Shri B.P.Singhal
20. Smt. Ambika Sori
21. Shri G.P.Thirunavukkarasu
22. Shri Ranjan Prasad Yadav

**SECRETARIAT**

1. Shri John Joseph. Additional Secretary
2. Shri S. Bal Shekar. Director
3. Shri L N Gaur. Under Secretary
4. Shri Girdhari Lal Executive Assistant

\* Elected w.e.f 29<sup>th</sup> November, 2001 vice Shri Rajiv Pratap Rudy ceased to be Member of the Committee consequent upon his appointment as Minister w.e.f. 01.9.2001

---

## 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 National Fertilisers Ltd.

2. The Committee held discussions with the officials at Shimla on 5.7.2001. A copy of the tour programme is annexed (Annexure-I).

3. The Committee considered and approved the Report at their sitting held on 18<sup>th</sup> December, 2001.

4. The Committee wish to express their thanks to National Fertilisers 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  
18, December, 2001  
27, Agrahayana, 1923(S)

PROF. VIJAY KUMAR MALHOTRA  
CHAIRMAN  
COMMITTEE ON PUBLIC UNDERTAKINGS

---

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

### **DISCUSSION WITH THE REPRESENTATIVES OF NATIONAL FERTILISERS LIMITED AT SHIMLA ON 5.7.2001**

At the outset, the Chairman, Committee on Public Undertakings made opening remarks and requested the Chairman and Managing Director, National Fertilisers Ltd. (NFL) to introduce himself and his colleagues to the Committee. The Chairman, COPU also requested him to give a brief account of the working of the National Fertilisers Ltd.

2. After the introduction of officers, the Chairman and Managing Director, NFL informed the Committee that National Fertilisers Limited which was incorporated on 23<sup>rd</sup> August, 1974 for the installation of two Ammonia – Urea plants located at Panipat & Bhatinda has now in operation five Ammonia – Urea plants located in the States of Punjab, Haryana and Madhya Pradesh. With two plants each located in Punjab & Madhya Pradesh and one plant in Haryana, the aggregate installed capacity of the Company as on 31<sup>st</sup> March, 2001 is 32.08 lakh tonnes of urea, besides 3.18 lakh tonnes of Calcium Ammonium Nitrate (CAN) produced by Nangal unit in Punjab. It was also informed that NFL, a Mini Ratna Company, is the second largest producer of Nitrogenous fertilisers in the country. The Company has a manpower strength of 6602 as on 31<sup>st</sup> March, 2001. The Company's marketing and distribution net-work is spread over 18 States in the country.

3. The Committee were also informed that the three plants of the Company located at Nangal, Panipat and Bhatinda are Fuel Oil based on Shell Gasification Technology, while the plants located at Vijaipur in Madhya Pradesh are Gas Based. The Company also set up a bio-fertiliser plant at Indore with 100 MT per annum production capacity. Despite vintages, the fuel oil based plants of NFL have been operating at more than 100% capacity utilisation.

4. The CMD, NFL also informed that Panipat & Bhatinda Plants have been equipped with Captive Power Generation plants in the year 1989. The Nangal unit also produces Methanol with an installed capacity of 22,110 MT per annum, besides other industrial products like Ammonium Nitrate, Nitric Acid, Oxygen and Nitrogen Gas etc. Panipat unit also produces Argon Gas with 120 NM<sup>3</sup> per hour capacity. The Nangal unit recently executed Urea Revamp Project which went into commercial production w.e.f. 1.2.2001. The Urea Revamp Project was completed three months ahead of its planned schedule. The annual installed capacity of Urea at Nangal unit thus increased from 3.30 lakh tonnes to 4.78 lakh tonnes per annum.

#### **PRODUCTION PERFORMANCE**

5. The production performance of different types of units of the company during the years 1996-97 to 2000-2001 is shown in the table below:-

(Unit: Lakh Metric Tonnes 'N')

PRODUCTION												
YEAR	NANGAL		PANIPAT		BATHINDA		VIJAIPUR-I		VIJAIPUR-II		TOTAL NFL	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
1996-97	2.19	1.91	2.35	2.07	2.28	1.78	3.80	3.88	-	-	10.62	9.64
1997-98	2.19	2.31	2.35	2.59	2.35	2.61	3.81	3.92	3.34	3.73	14.04	15.16
1998-99	2.20	2.34	2.35	2.46	2.35	2.32	3.80	3.93	3.80	3.96	14.50	15.01
1999-00	2.20	1.97	2.35	2.45	2.35	2.50	3.80	3.93	3.90	4.16	14.60	15.01
2000-01	2.00	1.65	2.35	2.27	2.35	2.20	3.93	3.73	3.93	3.93	14.56	12.69

When asked about the factors attributable to the shortfall in actual production in each of the units against their targets in the years 1996-97 and 2000-2001, the CMD, NFL informed the Committee that shortfall in production and capacity utilisation during 1996-97 was on account of raw materials limitations at Nangal, Panipat & Bhatinda plants arising out of severe financial crunch faced by the Company. The total production loss during 1996-97 was on account of raw-material limitation including gas limitation at Vijaipur, while during the year 2000-2001, the Company suffered due to the following:-

- (a) Nangal-II plants were stopped for completing the hooking up of Urea Revamp Scheme during Oct. to Dec., 2000. CAN production at Nangal during the year was maintained at low level due to viability problems.
- (b) Synthesis gas water cooler leakage and snapping of earth wire of 132 KV HSEB line at Panipat unit and Urea reactor leakage at Bathinda unit during Oct. & Dec., 2000.
- (c) Partial gas cut imposed by M/s. GAIL at Vijaipur plants during [Nov. to Dec., 2000] and March 2001.
- (d) The financial year started with high inventory of urea at 6 lakh tonnes due to movement restrictions. On account of high stocks, Urea production at Nangal plants had to be maintained at two

gasifiers load during April, May, June and September' 2000 & at Panipat & Bhatinda during April, 2000. Production had also to be restricted at Vijaipur plants during April & November' 2000 on account of this reason.

6. The Committee were informed that NFL has been able to exceed the production target prior to 2000-01 mainly due to better utilisation of plant capacity by bringing down the planned number of plant shut downs. However, during 2000-01 & 2001-02, due to glut, Deptt. of Fertilisers capped the capacity utilisation to 100% and accordingly, the targets fixed for 2000-01 and 2001-02 are based on 100% of the installed capacity.

7. When asked why there has been shortfall in meeting the targets of CAN, as also the justification for NFL's request for bringing CAN under Retention Price Scheme (RPS), the Committee have been informed that Urea, which contains 46% Nitrogen, is under subsidy and as a result its selling price is lower. CAN which contain 25% Nitrogen is not covered under subsidy. Therefore, its selling price is based on cost of production. Based on Nitrogen content, the farmer expects its price to be lower than Urea, which is not possible unless CAN is covered under subsidy scheme. Because of this pricing, it has less demand. During 2000-01, CAN production at NFL was reduced mainly due to less demand/viability problems. Government has been propagating the use of CAN for dry land farming. Concession on CAN will help to enhance the application of CAN. Despite CAN being not economical from price point of view, CAN has specific features like hygroscopic nature, application for underground crops and suitability for acidic soils. CAN also contains micronutrients, which



have great impact on the crop yield. The Government has been requested to bring CAN under concession scheme.

8. When asked what are the targets fixed for the year 2001-2002 the Committee were informed that the production target of urea for the Company as a whole for the year 2001-2002 is fixed at 14.84 lakh tonnes of Nitrogen that is equivalent to 100.5 %of the installed capacity. The plant-wise production targets for 2001-2002 and capacity utilisation thereof has been fixed as under:-

[Lakh MT (N)]

Plant	Production Targets	Capacity Utilisation
Nangal-II	2.28	103.4%
Panipat	2.35	100.0%
Bathinda	2.35	100.0%
Vijaipur-I	3.93	100.0%
Vijaipur-II	3.93	100.0%
Total	14.84	100.5%

9. About the steps being taken to attain the targets, the Committee were informed as follows:-

- (a) To avoid gas shortage, NFL is following up with GAIL and the Petroleum Ministry through DoF to increase the gas allocation for Vijaipur plants. The Vijaipur unit-II has also the facility of use of Naphtha as feed and fuel in case of shortage of gas up to 100% of capacity utilisation.
- (b) The equipment problems are being thoroughly investigated for proper remedial measures. There is a proper system at all units for preventive and predictive maintenance. Monthly performance review meetings are held at each unit as also at Corporate level on regular basis.
- (c) To avoid build up of inventory in the silos in the light of movement restrictions imposed by DoF leading to lowering of production level, the Company entered into an MoU with M/s. Zuari Industries Limited and M/s Coromondal Fertilisers Limited for supplying 41,000 tonnes of urea for production of complex fertilisers.

10. Specifying the competitive edge in producing a range of chemicals, the CMD, NFL stated that once the fertiliser pricing policy is cleared, NFL would plan for a product mix that gives higher returns as far as production of chemicals and industrial products is concerned. The process of inputs, mainly Naphtha and fuel oil/LSHS, have a direct bearing on the competitiveness of the industrial products being produced by the Company. Nangal unit of NFL being the largest plant in Northern India for bulk production of chemicals and industrial products, has a logistic advantage to compete in North India with other competitors who are mostly located in Western and Eastern India.

11. When asked to specify the steps being taken to improve the knowledge of farmers with respect to usage of the fertiliser, the Committee were informed that NFL has a specific action plan which includes various Agricultural Extension Activities on Farmer Education to improve the knowledge of farmers with respect to use of fertiliser.

In regard to promotion of bio-degradable fertilisers and reduction of the usage of chemical fertilisers, it was informed to the Committee that NFL continued trial demonstrations on farmers' fields with bio-fertilisers which led to 25% less use of chemical fertilisers. The results with regard to crop yield were found encouraging.

### **Fertilisers Policy**

12. When asked about the number of Government Undertakings dealing with fertilisers, the Committee were informed that there were ten PSUs engaged in the production of various types of fertilisers in the country.

Additionally, there are two companies in the Co-operative Sector who are also engaged in the production and marketing of fertilisers.

13. On the question of merger of all individual undertakings into one big undertaking which could compete at national & international level, it was informed to the Committee that prior to April 1978, Fertiliser Corporation of India(FCI) with 17 Units/Projects under its fold was one such very large Public Sector Undertaking. For better managerial control, based on locations and technology, it was considered prudent to divide it into smaller PSUs. As a result, in April 1978, Nangal Unit of FCI, that was based on fuel oil, was merged with National Fertilisers Limited (NFL), as NFL's two existing projects at Bhatinda and Panipat were also based on fuel oil. The remaining Units of FCI were divided into three Companies i.e. M/s Rashtriya Chemicals & Fertilisers Limited (RCF), Hindustan Fertiliser Corporation (HFC) and of the remaining Units as FCI. The FCI's Design and Consultancy Unit was made a separate Company as Projects and Development India Limited(PDIL). As regards competition at national & international level, the fertiliser has been in short supply within the country and has been put under control under Essential Commodities Act (ECA). Import is also canalised. It has been seen in the past that whenever India or China has entered in to the International market, the price of fertilisers starts firming up.

14. The Committee were informed that the subsidy given by the Central Government to the manufacturing Company is facilitating the lower selling price of the fertilisers. Under the retention price system, the maximum

retail price fixed by the government on urea is Rs. 4600 per MT+ taxes as applicable, whereas the actual cost of production of urea is much higher. Both indigenous and imported fertilisers are being subsidised. The subsidy payment during 1999-00 on fertilisers was Rs. 8750 crore and the subsidy payment for 2000-01 was budgeted at Rs. 8558 crore.

15. When asked who are the private competitors of the Company in the Country, it was informed to the Committee that the major private competitors in the fertilisers industry in the country are Chambal Fertilisers, Indo-Gulf Fertiliser, Tata Chemicals, Nagarjuna Fertilisers, Oswal Chemical & Fertilisers, SPIC, GNFC, GSFC, Sriram Fertilisers.

16. About the import duty and the cost of imported Urea, the Committee were informed that the import duty on urea is 5%. The landed cost of imported Urea at FOB price of US \$ 95 works out to Rs. 6012/- MT.

17. When desired to know the reason for putting a cap on the production by DoF, the Company informed that for the last one year, there has been glut situation in the country, mainly arising out of lower consumption and partly due to drought condition in several parts of the country. As a result, there has been large stock with the manufacturers. Therefore, DoF have put a cap on the production to match the demand and supply position of fertilisers in the country.

### **SALES PERFORMANCE**

18. The Company has furnished the following details regarding the budgeted and actual turnover in respect of sale of various products and

also details of the percentage of the profit in the turnover in the last five years :-

(Rs. in Crore)										
Particulars	1996-97		1997-98		1998-99		1999-2000		2000-2001	
	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual
Sales Turnover										
-Urea	1303.34	1245.99	1763.73	2047.67	2367.86	2115.36	2056.11	2282.10	2685.80	2646.19
-CAN	83.70	59.47	91.84	66.00	90.30	95.94	93.74	81.13	90.89	58.20
-Industrial Product	113.23	129.99	99.49	107.93	157.30	90.91	136.47	89.43	108.34	104.35
<b>Total</b>	<b>1500.27</b>	<b>1435.45</b>	<b>1955.06</b>	<b>2221.60</b>	<b>2615.46</b>	<b>2302.21</b>	<b>2286.32</b>	<b>2452.66</b>	<b>2885.03</b>	<b>2808.74</b>
Profit before tax	56.33	10.24	68.76	236.17	120.93	58.36	83.06	30.94	11.16	19.67
% Profit	3.751	0.71	3.52	10.63	4.62	2.53	3.63	1.26	0.39	0.70

19. About the target set for sales turnover for 2001-2002 and the trend of achievement, the Committee were informed that the target for sales turnover was fixed at Rs. 2802.61 crore, while the actual attained (up to May 2001) was Rs. 245.86 crore. The Committee were also informed that the actual sales turnover during first quarter of the year generally remains lower due to low consumption of fertilisers.

20. The Committee pointed out that GAIL / IOC had a large marketing network and sought to know as to whether NFL had explored making use of/tying up with M/s GAIL/IOC, the CMD, NFL informed that the Marketing Network of GAIL/IOC is not kind of Network that is required for sale of Fertilisers. The operation of the Marketing Network in respect of fertilisers is to be handled by staff who have adequate knowledge about crops, soil types, seasons, fertiliser application, soil testing, etc. The petrol pumps should also have huge godowns to stock the fertilisers in them. Besides, the petrol pumps or gas outlets are with the private parties and are not a

part of IOC's or GAIL's own network. Recently oil sector have few outlets under their network with which the possibility of using their base for sale of fertilisers are being explored through negotiations/discussions.

21. On the question of the number of Dealers appointed by NFL all over the country, the Committee were informed that the total number of private dealers appointed by the Company in 19 States are 1515.

22. When asked about the number of complaints received / action taken against various dealers and officials, the Committee were informed that during 2000-01, NFL received one complaint, which is under investigation. The report shall be submitted to DOF.

23. The Committee noted that in the North-East, the Company has not opened any Marketing Office and desired to know the reasons for the same. The CMD, NFL apprised the Committee that the Company has not opened any marketing network in north eastern states, as the Company operates only in the areas where ECA allocation is given by the Government. NFL has no ECA allocation of Urea in the North-East.

24. When asked to specify if NFL have considered use of Doordarshan time-slot of Chaupal for giving publicity and brand image to its products, the CMD, NFL informed the Committee that NFL so far has not participated in that programme. However, the Company has been invited to 'Agri Quiz' being launched by Department of Agriculture on Doordarshan. NFL would be participating in the same.

25. On being asked about the large inventories of Urea carried by NFL, the Committee were informed that as urea demand is seasonal, which

varies from month to month, the inventory of urea keeps on fluctuating. If the monsoons are timely and demand of urea picks up, the inventories shall come down. During 2000-01, a number of NFL's Marketing Territories witnessed drought and could not achieve sales as per ECA allocation which resulted in inventories build-up. As per the existing policy of Government, the total planned production is not allowed to be moved for sale. The allocation is done only to the extent of 90-95%. This also leads to generation of stock in the silo, despite putting a cap on production. To bring down inventories, NFL has entered into an agreement during current year with some complex fertiliser manufacturers to supply them urea. NFL intends to sell about 80,000 MT of urea this year through this agreement. The company has reviewed its budgetary allocation for bringing down the marketing costs including warehousing costs, handling, rebate/discounts etc.

26. On the question of expenditure on fertilisers promotion programme the Committee were informed that the expenditure on fertilisers promotion programme and Agricultural Extension activities for the year 2000-01 has been to the tune of Rs. 22.56 lakh.

27. As regards the impact of removal of quantitative restrictions on import of various items with effect from 1.4.2001 on the Company, the Committee were informed that as of now there was no apparent impact of WTO measures felt on the fertiliser scenario in the short term, as the import of Urea was still canalised through state agencies and the RPS was continuing.

28. On the question of exploring the possibility of exporting various products to third world countries, the Committee were informed that the Country has been importing fertilisers and as such there was no scope for NFL to export its products to third world countries. However, NFL had explored the possibility of exporting urea to Nepal during the current year and in the preceding year and due to price difference no export could be effected.

### **FINANCIAL PERFORMANCE**

29. The information furnished by the Company to the Committee about its financial performance during the years from 1995-96 to 2000-2001 is as follows:

<b>Rs. in Lakhs</b>		
<b>(Profit)</b>		
<b>Year</b>	<b>Budgeted</b>	<b>Actual</b>
1995-96	5831.17	11712
1996-97	5633.22	1024
1997-98	6876.26	23617
1998-99	12092.72	5836
1999-2000	8306.16	3093
2000-2001	1116	1960

When asked to state the reasons for the continuous fall in the profitability of the Company since 1997-98, the Committee were informed that profitability for 1998-99 was lower than the profitability for 1997-98 due to the fact that subsidy arrears of Rs.148.90 crore pertaining to earlier years were received in 1997-98 and provision of Rs. 26.00 crore was made in 1998-99 for arrears of wage revision to the employees w.e.f. 1.1.1997.



The profitability for 1999-2000 was lower than the profitability for 1998-99, since 1999-2000 was a difficult period for the fertiliser industry, as it faced glut situation in domestic market resulting greater stress on margins. Negative variance in profit is attributable to curtailment of production due to insufficient orders because of sluggish demand, ad-hoc recovery by FICC on sale of ammonia, increase in freight and marketing expenses.

30. The Committee noted that in the years 1996-98 and 1999-2000 the financial targets have been scaled down significantly compared to their immediate previous year. When asked the reasons for bringing down the targets and also for not meeting even the reduced targets, the Committee were informed that the targets of profit fixed for 1996-97 at Rs. 5633.22 lakh was comparable with the target of previous year of Rs. 5831.17 lakh. However, actual net profit of Rs. 1024 lakh was achieved during 1996-97, as against the targeted profit of Rs. 5633.22 lakh. The decrease in profit was mainly on account of production loss of urea, due to limitations of raw materials caused by financial crunch and gas supply limitations from GAIL. The target of Rs. 8306.16 lakh fixed for 1999-2000 was kept lower than the target of Rs. 12092.72 lakh for 1998-99, due to provision of increase in salary and wages made in 1999-2000 for wage revision w.e.f 1.1.1997 as per Justice Mohan Committee Report and increase in marketing expenses. Actual profit of Rs. 3093.00 lakh achieved during 1999-2000 was lower than the target of Rs. 8306.16 lakh, due to increase in marketing cost as the entire Fertiliser Industry faced a glut situation in the domestic market

and there was ad-hoc recovery by FICC on sale of Ammonia from the Vijaipur unit.

31. On the actions contemplated by NFL to remedy the situation, the CMD, NFL informed the Committee that as per guidelines from Deptt. Of Fertilisers, production of urea cannot be achieved more than 100% capacity utilisation. As such, targets have now been fixed at 100% capacity utilisation of urea and all out efforts are being made to reduce the down time and achieve 100% capacity utilisation and economy in operating cost. In spite of glut in the market, efforts are also being made to reduce the marketing expenses.

32. When the Committee desired to know the methods adopted in fixing the financial targets, they were informed that financial targets were fixed based on estimated production plan considering health of the plants, production achieved during the last year and ECA/Movement allowed by the Government. The expenditure on operating fixed costs i.e. factory overheads, administrative overheads and social overheads incurred during the last year is being kept in view and pruned wherever possible while fixing the financial target for the next financial year.

33. When asked whether the profit is worked out based on the receipt of the actual cash or whether it included the sale made against credit also, the Committee were informed that as per the accounting principles followed for a Going Concern, profit is worked out on accrual basis.

34. When desired to know how bad debts are taken care of, the CMD, NFL explained that Sundry Debtors are being regularly monitored at the highest level to avoid any situation whereby it becomes doubtful of recovery and wherever the debts are considered doubtful of recovery, provision for doubtful debts is made in the Books of Accounts. A provision of Rs. 62.05 crore have been made for doubtful debts as on 31.3.2001.

35. Regarding the reasons for the serious financial crisis during 1996-97, the Committee were informed that the serious financial crisis during 1996-97 was on account of advance of Rs. 133.69 crores given to M/s Karson, for import of 2 Lakh MT urea. However, no supply of urea was received from the party. Due to blockage of above funds, the working capital requirement was very badly affected and due to which timely payments could not be made to the suppliers resulting in shortfall in the production and capacity utilisation during the year.

The position of Sundry Debtors of the company for the years (1997-98 to 1999-2000) is as follows:-

<b>YEAR</b>	<b>Amount (Rs. in crores)</b>
<b>1997-98</b>	<b>309.26</b>
<b>1998-99</b>	<b>477.68</b>
<b>1999-2000</b>	<b>458.03</b>

In reply to a query about providing huge credit and the steps taken to reduce them, the Committee were informed that sundry debtors have risen, as higher credit has to be given considering the glut situation of urea. Fertiliser is a seasonal trade and production of fertiliser is a continuous

process. The channel of distribution i.e. State Institutional agencies and private dealers network, had to buy fertilisers for pre-positioning during off-season months and as such credit is extended. Also due to glut situation we have to resort to credit sales. Credit is reduced in the peak months. For its timely realisation, strict vigilance and monitoring is done on regular intervals.

36. On being asked the actions taken for recovery of outstanding, the Committee were informed that following actions has been taken in various cases of outstanding:-

- (a) in cases where outstanding have become long overdue and parties are not operating, legal action has been initiated for recovery.
- (b) In cases like JAKFED we have approached State Government and DOF to intervene for liquidating the outstanding payments.
- (c) In cases of bulk buyers outstanding, a committee has been constituted to examine the cases for reconciliation and final settlement of accounts and report to Management Audit Committee.

37. When questioned about Overheads and its spending on social overheads, the Committee were informed that Overheads comprised of (i) Administrative Expenses (ii) Factory Expenses and (iii) Staff Welfare Expenses. Social Overheads are basically Staff Welfare Expenses which are incurred by the Company for giving basic amenities and other facilities to its staff as per policies laid down by Government and the Company at the production units, besides at Corporate Office.

38. About the efforts made in cutting the cost of overheads, social overheads and marketing overheads, the CMD, NFL explained that for controlling the cost of overheads namely Administrative Overheads, Factory Overheads and Social Overheads, an internal budget which is always lower than the budgeted estimates is prepared by the Company and intimated to all the units. During the year 2000-01, there was saving in actual expenditure on the Administrative Overheads by Rs. 8.50 crore, as compared to the amount budgeted for the year. As regards controlling the marketing overheads is concerned, in spite of best efforts, same is increasing due to competition and glut situation in the market.

39. When desired to know the problems being faced by NFL due to Fertiliser Pricing Policy, the Committee were informed that financial performance of the Company has declined mainly due to non-finalisation of fertiliser policy. The 7<sup>th</sup> Pricing Period that was to commence from 1.7.1997 is yet to be finalised by FICC. Capital Related Charges (CRC) i.e. interest, interest on working capital, depreciation and return on net worth has been allowed by FICC based on actual for 1990-91 only. Whereas conversion cost is being allowed based on the actuals for 1995-96 & thereafter no revision has been made on this account.

40. When asked to specify the fate of the fertiliser industry in the post-economic reforms era, the Committee were informed that the Company's future in a liberalised market oriented economy is expected to be good due to the fact that (a) the location of NFL plants falls in high fertilisers consumption areas of the country, (b) the aggregate retention price of urea

at NFL plants is at Rs. 7635 per MT which is well below the national average of Rs. 8425 per MT (1.4.2000), (c) the Company has a very well trained human resource, (d) the plants are well maintained and have good health, and (e) the Company has a track record of good industrial relations.

### **Gas Supply**

41. As regards natural gas supply to the Plants located at Vijaipur in Madhya Pradesh which are Gas Based, the Committee were informed that the Natural Gas supply for Vijaipur Plants is received from GAIL through HBJ pipeline.

42. On the question of adequacy of gas supply in terms of quantity and quality for these units, it was explained that the contracted gas supply from GAIL is 1.37 and 1.50 Million Sm<sup>3</sup> per day at Latent Heat Value (LHV) of 9000 Kcal/Sm<sup>3</sup> for Vijaipur-I and Vijaipur-II respectively. After installation of LPG extraction plant at a place upstream of Vijaipur unit, the calorific value of Natural Gas received has gone down from the contractual value of 9000 to 8300-8350 Kcal/Sm<sup>3</sup>. The equivalent Natural Gas at the LHV of 8300 Kcal/Sm<sup>3</sup> is 3.16 Sm<sup>3</sup>/day.

It was also informed to the Committee that, frequently, there are cuts in gas supply from GAIL. Most of the time gas supply is reduced by 10-15%. The details are furnished below:

NG From GAIL	No of days			
	1998-99	1999-2000	2000-01	2001-02 (April –May)
0%	208	238	130	7
5%	48	44	66	13
10%	23	21	101	13

15%	14	10	12	20
More than 15% (Incl. S/D)	72	53	56	8
Total	365	366	365	61

The Committee were also informed that, in Vijaipur-II plant, there was a provision to use Naphtha as substitute Feed / Fuel oil which is comparatively an expensive fuel. FICC allows use of naphtha only up to 100% of capacity utilisation.

43. When asked to furnish the details of action taken to get adequate supply, the Committee were informed that the matter of short supply of Natural Gas has been taken up by Vijaipur Unit with M/s GAIL. Also the matter is being pursued through Department of Fertilisers.

44. When asked whether GAIL have been asked to pay compensation/penalty for the loss in production in case of short supply of gas, the Committee were informed that NFL has entered into an agreement with GAIL whereby the contractual supply of gas to NFL Vijaipur plants is 2.87 MMSM3 per day with LHV of 9000 Kcal / SM3. NFL so far has not lodged any claim from GAIL in respect of short supply of gas, as there is no penalty clause in the contract for short supply of gas. The Committee were also explained that as per contract with GAIL, in case the gas supplied did not meet the stipulated quality, NFL can refuse to draw the gas and for such quantity of refusal minimum guaranteed off-take charges clause will not be applicable. GAIL does not compensate for any variation in quantity of their contractual gas supplies to NFL. NFL have not sought any compensation in regard to quality or quantity.

### **Revamp/Replacement of Fuel Based Plants**

45. When enquired about the submission of Reports of M/s. Jacob H&G and action taken on its findings, the Committee were informed that M/s Jacob H&G, who have been appointed as the Owner's Consultant (OC) for pre-qualification / selection of Technology Suppliers cum Engineering Contractor ( TSEC) on global basis, have not yet submitted their report. Progress is slow due to anticipated changes in fertiliser policy, uncertainty in the availability of L.N.G and proposed disinvestment.

46. When desired to know the expected time of submission of the Report by M/s Jacob H&G, it has been informed to the Committee that Press advertisement for pre-qualification of TSECs is to be issued shortly and the final report is expected by June 2002.

47. When asked to specify the action taken by the Company on the suggestion of the High Powered Committee on Fertiliser Policy, the Committee were apprised by the CMD, NFL that as per the suggestions of High Powered Committee on fertiliser policy for change of feedstock in existing fuel oil based plants to L.N.G /Naphtha, NFL Board has approved the proposal for Panipat and Bhatinda. The proposal envisages revamp/replacement of Ammonia /Urea plants with change of feedstock of L.N.G and / or Naphtha on LSTK basis. M/s Jacob H&G ( a subsidiary company of Jacobs Engineering Group Inc., USA) have been appointed as Consultant for providing necessary services for Panipat and Bhatinda for pre-qualification of bidders, preparation of NIT and selection of TSEC.



Work on the pre-qualification of bidders and preparation of NIT to be issued to these bidders for the selection of TSEC is in progress. In view of uncertainty about the availability of LNG routing of pipeline and the fact that Nangal Unit is located geographically at the farthest end, the changeover of feedstock at Nangal shall be taken up later at an appropriate point of time when the availability of LNG through pipeline will become realistic.

### **Gas Based Plants**

48. When asked to state as to what necessitated the reassessment of the capacities, it was informed to the Committee that the decision on the re-assessment of nameplate capacity of gas-based plant was taken by the Govt. with the objective of reducing the out-flow of subsidy. The technology suppliers generally provide the nameplate capacity based on the design parameters with some margins to take care of equipment deficiencies/deterioration over a period of time. However, some of the recent gas based plants were operating consistently on substantially higher load. Since subsidy is related to capacity utilisation, this necessitated the reassessment of the capacity. The re-assessment of the capacity has resulted in the reduction of subsidy on account of capital related charges and conversion cost. These fixed costs are affected because of change in calculation of production base from pre-revised capacity to revised capacity i.e. 7.26 lakh tones to 8.53 lakh tones.

49. When desired to know as to how such reassessments can affect the profitability of the Company, the Committee were informed that adhoc re-assessment of capacity of Vijaipur unit w.e.f. 1.4.2000 have resulted in

reduction in Retention Price of Vijaipur-I & II by Rs. 201/MT and Rs.343/MT respectively. At 100% capacity utilisation of both the plants, profitability of the Company has reduced by Rs.46.42 crore.

### **Reimbursement of Higher Fixed Cost**

50. In the brief submitted to the Committee, it was stated that higher fixed cost are not getting reimbursed fully.

When sought to know the justification for full reimbursement of higher fixed cost, it was informed to the Committee that under the Retention Price Subsidy Scheme, Fixed Cost (Conversion Cost) is reimbursed by FICC based on the actuals of costed year, which is one year earlier from the start of the pricing period. In the existing Retention Price of Urea, the costed year was 1995-96 based on which fixed cost i.e. administrative overheads, factory overheads, social overheads and marketing expenses have been considered by FICC. Capital Related Charges (CRC) i.e. interest, interest on working capital, depreciation and return on net worth has been allowed based on the actuals for 1990-91 only, thereafter no revision has been made on this account.

### **Specialised Services**

51. The Committee were also informed that, the Company has been providing specialised services to outside Companies both in India and abroad. This includes project commissioning services, plant operating and maintenance and trouble shooting. The revenue generation on this account during 2000-2001 was over Rs. 1.50 crore.

52. When questioned to state the names of country assisted in the last 3 years and the foreign exchange revenue earned in each year, the Committee were informed that in the past three years, the foreign exchange earnings through specialised services rendered are only from M/s Snam Progetti, Italy. Our Commissioning Engineers are helping this Company in the commissioning of ammonia-urea plant at Venezuela (Fertinitro Company). The total foreign exchange earned in 2000-01 is US\$ 433,684.00. The Company earned no foreign exchange during 1998-99 to 1999-2000.

53. When desired to know if the Company tried to bid for any joint venture project abroad in the recent past, the Committee were informed that no bid for joint venture abroad has been made.

54. When further asked to state the names of the Companies, within the country, who utilise the specialised services offered by NFL and the revenue generated, the Committee were informed that NFL so far has provided specialised services to the following companies in India :-

- (1) Chambal Fertiliser Limited, Kota.
- (2) Hyundai Heavy Engg. & Construction Limited for HPCL Refinery, Mumbai.
- (3) Haldia Petro Chemicals Limited, East Bengal.
- (4) Hyundai Heavy Industrial Co. Limited for HPCL Refinery Mumbai.
- (5) Numaligarh Refinery, Assam

The revenue generated from above specialised services within the country during the last three years is as under:-

Year	Revenue
2000-2001	Rs. 60.50 lakh
1999-2000	Rs. 93.10 lakh
1998-1999	Rs.29.75 lakh

### **Disinvestment**

55. Giving the views on the issue of disinvestment of Government's share in general and the employees' reaction in particular, the Company stated that the off-loading of 51% equity of NFL to a strategic buyer along with transfer of Management control in the private hands is as per the Policy of the Government of India. The Company apprehend that the disinvestment of NFL will affect the Industrial Relations adversely. The employees of NFL have shown their resentment against disinvestment of NFL and observed agitation program including holding of rallies, one-day token strike etc. Employees Unions/Associations at the Units have also approached the Chief Ministers of Madhya Pradesh, Haryana and Punjab, where the Company's Units are located, to persuade the Central Government not to disinvest NFL.

56. On being further asked whether the current exercises would be beneficial to the Company, the CMD, NFL appraised the Committee that the Plan made by the present Management may yield fruitful results. However, irrespective of the fact whether the Management is under Government Control or under Private Control, the performance of fertiliser

company would mainly depend on the Long-Term Fertiliser Policy. The Company has been given the Mini-Ratna Status and with the autonomy provided, the Company may be able to improve the performance. Therefore, disinvestment may not give the desired benefits. The Company needs to be right sized and the proposal for right sizing is pending with the Government.

57. When asked to specify the decision taken by the Government on the question of disinvestment of NFL as on date, the Committee were informed that the disinvestment process is in progress. Due-Diligence Exercises by Qualified Interested Parties & Valuation of Assets by Asset Valuer appointed by Deptt. of Disinvestment are in progress.

58. When asked what should be the Government Policy for disinvestment, the Company stated that Government should first declare the long-term fertiliser policy including policy with respect to Feed-stock availability and its pricing. Government must consider linking the question of availability of fertiliser with Food Policy. This must be seen in the light of the fact that Food is directly or indirectly being subsidised in a large number of countries. Disinvestment need only be considered, if fertiliser sector is planned on long-term basis on free market scenario.

## **RECOMMENDATIONS / OBSERVATIONS OF THE COMMITTEE**

### **MOVEMENT RESTRICTIONS ON PRODUCTS FROM FUEL OIL BASED PLANTS**

1. The Committee note that the company has built up high inventories of Urea at plants due to glut in urea market and has stopped production due to movement restrictions by the government. Besides this, a cap on production of Urea by government only upto 100% utilisation of the installed capacity has affected the profitability of fuel-oil based old plants, as these are energy intensive and this makes the break-even point high due to high cost of inputs and high fixed costs. The Committee therefore, recommend that the movement plans for the year as a whole should be eased and production should not be restricted to the installed capacities in the case of fuel-oil based plants in view of the high break-even points in respect of these old technology based energy intensive plants. The Committee also recommend that the government should immediately undertake the re-vamping of the fuel oil based plants of National Fertilisers Ltd. as their technology is

more than 25 years old and is highly energy intensive. The Committee desire that a definite time-frame should be fixed for the implementation of the Revamp Project. Since NFL is forced to incur higher inventory carrying cost and sales promotion costs due to the glut situation in the urea market in the country, the Committee desire that the company should be adequately compensated under the Retention Pricing Scheme, in view of the stiff competition in the market.

## **CAN UNDER RETENTION PRICE SCHEME(RPS)**

2. The Committee note that the company during the 2000-2001 produced 1.07 lakh tonnes of CAN (Calcium Ammonium Nitrate) against a target of 1.95 lakh tonnes of CAN. The Committee have been informed that the shortfall in meeting the targets of CAN was mainly due to less demand and also due to viability problem arising out of its high selling price. The Committee have also been informed that the consumer expects the sale price of CAN (Calcium Ammonium Nitrate) containing 25% Nitrogen to be lower than that of urea which contains 46% Nitrogen. But in reality the cost of production of CAN is more than the price of urea. As such it has to be sold at the variable cost which is more or less equal to the consumer price of urea, thereby leaving fixed cost uncovered. In order to encourage the consumption of CAN which is a preferable fertiliser for certain crops and to recover unabsorbed fixed cost incurred on CAN, the Committee recommend that it should also be brought under Retention Price Scheme or under concessional pricing scheme.



### **RATIONALISATION OF MANPOWER**

3. The Committee note that with a view to meeting the challenges of the Liberalization and Globalisation, the Company engaged Dr M. B. Athreya, a Management Expert to analyse its existing organisational structure and to recommend the desired structure. The Management Expert has submitted his recommendations for implementation at three levels i.e. (a) at the Operating Units level (b) in the Marketing Unit and (c) in the Corporate Office. According to the Management Expert, 1602 employees have been found to be in excess of the required manpower strength. The Committee have been informed that the recommendations of the Management Expert have been approved by the Board in December, 1998 and are being implemented in a phased manner. The Committee recommend that urgent action should be initiated to implement the recommendations of the Management Expert in a time-bound manner with specific targets in order to rightsize the manpower of the company, as efficiency and profitability depend on the size of manpower

### **LONG TERM FERTILISER POLICY**

4. The Committee note that the government is in the process of finalising a long term Fertiliser Policy. The Committee find that the fertiliser producing public undertakings are unable to finalise their revamp programmes and to decide

on the fuels and feed stock for the future in the absence of a pronounced long term fertiliser policy. The Committee, therefore, recommend that the government should finalise their long term Fertilizer Policy immediately so that the existing uncertainties are removed and the industry chalks out its programme for the future in a clear manner. The Committee desire that the Government should declare the Policy within the next three months. While finalising the policy, the government should positively consider the anomalies pointed out by the public undertakings so that proper policies are framed in respect of both gas-based plants and the Fuel Oil based Plants. The Committee desire that due consideration should be shown in the policy towards plants which suffer from locational disadvantages and these should not be clubbed with other units which enjoy advantages at the point of supply of inputs. Since Fuel Oil based and Naphtha based fertiliser plants produce about 40 percentage of the total production capacity in the country, appropriate consideration should be shown in the policy so that the viability of these units are protected.

## **SUPPLY OF GAS TO FERTILISER PLANTS**

5. The Committee note that partial cut imposed by Gas Authority of India Limited in the supply of Gas to the Vijaipur plants has resulted in shortfall in production and also in capacity utilisation during 2000-01 in these plants. The Committee find that NFL has taken up the matter with the authorities concerned through the administrative ministry to get the allocation of gas increased. The Committee find that there is no penalty clause included in the gas purchase agreement to tackle the problem of short supply and also the problem of fall in calorific value of gas supplied, whereas there is a clause which penalises the NFL if it fails to utilise the full quantum of gas supplied by GAIL. The Committee feel that this aspect should be re-examined so that there is fairness in the contractual agreement. The Committee further recommend that ONGC should ensure that their proposed shut down periods for gas production and for cutting the gas supply downstream should not coincide with the period when high fertilizer consumption takes place in the country so that food grains production is not affected and food-security is maintained. The Committee also recommend that the Ministry of Petroleum should not only increase gas allocation to fertiliser plants but also should supply gas to fertiliser units at reduced prices/concessional prices, as the consumption of gas is meant

for production of fertilisers which in turn serve as essential inputs for food production.

## **APPOINTMENT OF FUNCTIONAL-DIRECTORS**

6. The Committee note that two posts of full – time functional directors are lying vacant in the Board of Directors of the company. The post of Director (Finance) fell vacant on 4 October, 2000, while the post of Director(Marketing) had fallen vacant on 13 June, 2001. The Committee regret to note that the current composition of the Board of Directors of the Company is not in accordance with the guidelines issued by the Department of Public Enterprises in March, 1992. The Committee wish to point out that the absence of functional directors on the Board of Directors, (which should be 50% of the total strength) would result in the company not getting appropriate inputs for making proper decisions on such crucial areas as marketing and finance on which the profitability of the Company depends. The Committee therefore recommend that exercises for appointment of functional Directors should be urgently undertaken and both the vacant positions should be filled up in the coming three months.

**TOUR AS ACTUALLY PERFORMED BY THE COMMITTEE ON PUBLIC  
UNDERTAKINGS TO CHANDIGARH AND SHIMLA  
FROM 2<sup>ND</sup> JULY, 2001 TO 6<sup>TH</sup> JULY, 2001**

(MEMBERS ASSEMBLED AT CHANDIGARH)

DATE & DAY	TIME	VISIT & DISCUSSION
2.7.2001 (Monday)	1500 hrs	Discussion with the Officers of Housing & Urban Development Corporation
	1700 hrs	Discussion with the Officers of National Building Construction Corp. Ltd.
( NIGHT HALT AT CHANDIGARH )		
3.7.2001 (Tuesday)	0915 hrs	Discussion with the Officers of Semi-Conductor Complex Ltd
	1430 hrs	Departure for Shimla by Road
	1800 hrs	Arrival Shimla
( NIGHT HALT AT SHIMLA )		
4.7.2001 (Wednesday)	1200 hrs	Discussion with the Officers of Rural Electrification Corporation Ltd.
( NIGHT HALT AT SHIMLA )		
5.7.2001 (Thursday)	1000 hrs	Discussion with the Officers of National Fertilizers Ltd.
( NIGHT HALT AT SHIMLA )		
6.7.2001 (Friday)	1000 hrs	Discussion with the Officers of Nathpa Jhakri Power Corp. Ltd
<b>DISPERSAL</b>		

## ANNEXURE – II

### COMPOSITION OF THE COMMITTEE ON PUBLIC UNDERTAKINGS WHICH VISITED CHANDIGARH AND SHIMLA FROM 2<sup>ND</sup> TO 6<sup>TH</sup> JULY, 2001

<b>S. NO.</b>	<b>NAME</b>	<b>DATE OF JOINING</b>	<b>DATE OF LEAVING</b>
1.	Prof Vijay Kumar Malhotra, Chairman	4.7.01 SHIMLA	7.7.01 SHIMLA
2.	Shri Prasanna Acharya	2.7.01 CHANDIGARH	6.7.01 SHIMLA
3.	Prof. S. P. Singh Baghel	2.7.01 CHANDIGARH	6.7.01 SHIMLA
4.	Shri Sudip Bandyopadhyay	3.7.01 CHANDIGARH	7.7.01 SHIMLA
5.	Shri Ram Tahal Chaudhary	2.7.01 CHANDIGARH	7.7.01 SHIMLA
6.	Shri Ajay Singh Chautala	2.7.01 CHANDIGARH	2.7.01 CHANDIGARH
7.	Shri Shiv Raj Singh Chauhan	2.7.01 CHANDIGARH	7.7.01 SHIMLA
8.	Smt. Sangeeta Kumari Singh Deo	3.7.01 CHANDIGARH	5.7.01 SHIMLA / 6.7.01 CHANDIGARH
9.	Shri Rajiv Pratap Rudy	2.7.01 CHANDIGARH	6.7.01 SHIMLA
10.	Shri Tarit Baran Topdar	3.7.01 SHIMLA	5.7.01 SHIMLA
11.	Shri Suresh Kalmadi	3.7.01 CHANDIGARH	5.7.01 SHIMLA / 6.7.01 CHANDIGARH
12.	Shri B. P. Singhal	2.7.01 CHANDIGARH	6.7.01 SHIMLA
13.	Smt Ambika Soni	2.7.01 CHANDIGARH	3.7.01 CHANDIGARH
14.	Shri Ranjan Prasad Yadav	2.7.01 CHANDIGARH	7.7.01 SHIMLA

### SECRETARIAT

- |                       |                  |
|-----------------------|------------------|
| 1. Shri S Bal Shekar, | Director         |
| 2. Shri L. N. Gaur,   | Under Secretary  |
| 3. Shri Girdhari Lal, | Executive Asstt. |

**ANNEXURE – III**

**LIST OF OFFICIALS OF NATIONAL FERTILISERS LIMITED WHO  
WERE PRESENT DURING DISCUSSION WITH THE COMMITTEE  
ON PUBLIC UNDERTAKINGS AT SHIMLA ON 5.6.2001**

- |    |                       |                                |
|----|-----------------------|--------------------------------|
| 1. | Shri P S Grewal       | Chairman-cum-Managing Director |
| 2. | Shri A C Saini        | Director (Technical)           |
| 3. | Shri N K Gupta        | Executive Director (P&A)       |
| 4. | Shri O P Kaviraj      | Chief GM(Mktg)                 |
| 5. | Shri A K Singhal      | Chief GM(F&A)                  |
| 6. | Shri Sukhcharan Singh | Chief Vig. Officer             |