# COMMITTEE ON PUBLIC UNDERTAKINGS

**(2001-2002)**

**(THIRTEENTH LOK SABHA)**

## STUDY TOUR REPORT

## ON

# FERTILISERS AND CHEMICALS TRAVANCORE LIMITED

STUDY TOUR REPORT NO. 24

**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)**

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ANNEXURES

## 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 Soni
21. Shri C.P.Thirunavukkarasu
22. Shri Ranjan Prasad Yadav

**SECRETARIAT**

| | | |
|---|---|---|
| 1. | Shri John Joseph, | Additional Secretary |
| 2. | Shri S. Bal Shekar, | Director |
| 3. | Shri Raj Kumar | Under Secretary |
| 4. | Shri Prabal Chakraborty, | Committee Officer |

*** Elected w.e.f. 29th November, 2001 <u>vice</u> Shri Rajiv Pratap Rudy ceased to be Member of the Committee consequent upon his appointment as Minister w.e.f. 1.9.2001.**

# *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 Fertilisers and Chemicals Travancore Ltd.

2. The Committee held discussions with the officials at Kochi on 28.10.2001. A copy of the tour programme is annexed (Annexure-I).

3. The Committee considered and approved the Report at their sitting held on 19th March, 2002.

4. The Committee wish to express their thanks to Fertilizers and Chemicals Limited 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 OFFICIALS OF FERTILISERS AND CHEMICALS TRAVANCORE LIMITED ON 28TH OCTOBER, 2001 AT COCHIN

At the outset, the Chairman, Committee on Public Undertakings made opening remarks and requested the Chairman & Managing Director, Fertilisers and Chemicals Travancore Limited (FACT) to introduce himself and his colleagues to the Committee. The Chairman, Committee on Public Undertakings also requested to give a brief account of the working of the Company.

2 After the introduction of the officers of FACT, CMD informed the Committee that the Fertilisers and Chemicals Travancore Ltd., was incorporated in 1943 and India’s first large-scale Fertiliser Plant was set up on the banks of the river Periyar at Udyogamandal near Alwaye (Ernakulam District of Kerala State). Initially promoted by the Seshasayee Brothers, FACT later became a Public Sector Company in 1960 and by 1962, the Government of India became the major shareholder.

From the modest beginning, FACT had over the years grown and diversified into a multi-functional Corporation. The main activities involve manufacturing of Fertilisers, Chemicals (Intermediary), Bio-Fertilisers and Caprolactam, Engineering and Consultancy Services, Fabrication Works and marketing of Fertilisers, Bio-Fertilisers and Pesticides. The parent Division at Udyogamandal underwent 4 stages of expansion until the year 1972 by upgrading the technology and by increasing the capacity.

3. The Committee were also informed that the Cochin Division of the Company was established in two phases at Ambalamedu near the Kochi Refineries Ltd. In the Phase-I, an Ammonia-Urea Complex was commissioned in 1973 and the Phase-II consisting of Sulphuric Acid, Phosphoric Acid and Complex Fertiliser Plant was commissioned during 1976-78.

The Petrochemical Division at Udyogamandal for production of Caprolactam was commissioned during 1990-91 and since then FACT entered into the Petrochemical industry.

4. In the 1960's, recognising the need for developing indigenous capabilities for design and construction of Chemical and Fertiliser Plants, FACT established an Engineering & Consultancy wing christened FEDO (FACT Engineering & Design Organisation) and also a Fabrication Division FEW (FACT Engineering Works).

5. As per the information furnished to the Committee, the products manufactured at Udyogamandal, Cochin and Petrochemical Divisions of the Company are given below:-

| **Division** | | **Products** | **Capacity (TPA)** |
|---|---|---|---|
| Udyogamandal | | NP20:20 | 148500 |
| | | Ammonium Sulphate | 225000 |
| | | Ammonia + Syn Gas | 326700 |
| | | Sulphuric Acid, Oleum, SO2 | 379500 |
| | | Phosphoric Acid | 33000 |
| | | Composite Ammonia | 39600 |
| Cochin | | Urea | 330000 |
| | | NP 20:20 | 485000 |
| | | Ammonia | 198000 |
| | | Sulphuric Acid | 330000 |
| | | Phosphoric Acid | 115000 |
| Petrochemical | | Caprolactam | 50000 |
| | | Soda Ash | 4750 |
| | | Nitric Acid | 3800 |

6 About the source of raw-materials/inputs, the Committee have also been informed that Petroleum products like feed-stock Naphtha, Fuel Oil and LSHS are received from the Oil Companies who source supply invariably from the Kochi Refineries Ltd. While Naphtha is supplied through a dedicated underground pipeline, LSHS and FO are supplied mainly through road tankers.

The Committee have also been informed that for production of Urea, Ammonium Sulphate, Sulphuric Acid etc. the Company depends on imported raw materials like Sulphur, Rock Phosphate and Phosphoric Acid. Imported raw materials like Sulphur, Rock Phosphate and Phosphoric Acid are received in Company's storage facilities at Cochin Port and transported to the factories by barges and/or tankers/trucks. Additional requirements of Sulphuric and Phosphoric Acid are procured from suppliers in South India. Benzene required for producing Caprolactam is sourced depending on economic advantage, availability etc. either from Kochi Refineries Ltd. / Reliance Petrochemicals or through imports.

7. The Committee have further been informed that Sulphur is imported from Arabian Gulf countries like Kuwait, Saudi Arabia, UAE and Iran. Rock Phosphate is imported from Jordan and Morocco. Phosphoric Acid is imported from Morocco, Tunisia and USA.

8. When enquired about the quantity of Sulphur, Rock Phosphate and Phosphoric Acid imported during the last 3 years i.e. from 1998-99 to 2000-2001, the Company furnished the following information:

| | **Year** | **Quantity (MT in Lakh)** | **Total Price (USD in Lakh)** |
|---|---|---|---|
| Sulphur | 1998-99 | 1.87 | 79.60 |

| | | | |
|---|---|---|---|
| | 1999-00<br>2000-01 | 2.28<br>2.16 | 120.20<br>102.90 |
| Rock Phosphate | 1998-99<br>1999-00<br>2000-01 | 1.90<br>1.39<br>2.26 | 120.26<br>79.73<br>138.01 |
| Phosphoric Acid<br>(as P2O5) | 1998-99<br>1999-00<br>2000-01 | 1.07<br>1.15<br>0.56 | 456.75<br>474.47<br>209.25 |

9. It has been informed to the Committee that Ammonia is a basic input for FACT's Fertilisers and the also Caprolactam product and the requirement is about 4.5 lakh MT per annum. Until 1998 this was being met from the production from the Ammonia Plants of Kochi Division (capacity: 198000 MT per annum) and Udyogamandal Division (Capacity: 85800 MT per annum ) and imports (2.1 lakh per annum) The Company has for long been contemplating setting up a new 900 TPD Ammonia Plant at Udyogamandal as a step towards replacing the older generation, low capacity, highly energy intensive Plants being operated there and also achieving self-sufficiency in Ammonia availability. However, imported Ammonia being relatively much cheaper, the economic returns from the new Plant were seen to be poor and hence the project was kept in abeyance.

10. The Committee were further informed that the Company was, however, forced in 1994 to take up the Ammonia Plant project consequent to a High Court Judgement directing the Ammonia Storage facilities at Kochi Port be closed due to environmental considerations. The Company was able to obtain a stay on the closure from the Supreme Court under assurance that the facilities would be

used only until such time as required for setting up a new Plant and only sparingly thereafter.

11. The Committee were also informed that the new Ammonia Plant was set-up at Udyogamandal at a cost of Rs.638 crore and was commissioned during March 1998. The cost of the project was met by raising a loan of Rs.400 crore from Government of India and also through a Rs.35 crore loan from a nationalised bank and the balance from internal resources. The cost of production of Ammonia from the new Plant was high mainly due to the capital related charges for the new Plant was amounting to Rs.100 crore per annum and the high cost of the feed stock, Naphtha. The new investment in the Ammonia Plant did not bring to FACT any additional revenue and only substituted the imported Ammonia with more Naphtha based captive Ammonia. Consequent to the additional financial burden on commissioning and capitalising the new Ammonia Plant, FACT incurred a loss of Rs. 48 crore, Rs.40 crore and Rs. 152 crore during 1998-99,1999-2000 and 2000-01 respectively.

12. The production performance in the various Divisions of the Company during the last 3 years were as follows:

(Unit in MT)

| **Unit Product** | **1998-99** | | **1999-2000** | | **2000-2001** | |
|---|---|---|---|---|---|---|
| | **Budgeted** | Actual | **Budgeted** | Actual | **Budgeted** | Actual |
| **Udyogamandal Division** | | | | | | |
| Ammonium Sulphate | 180366 | 179238 | 199389 | 231286 | 207000 | 238066 |
| NP 20:20 | 140000 | 157639 | 142000 | 194415 | 148000 | 205108 |
| **Cochin Division** | | | | | | |
| Urea | 278000 | 183055 | 278000 | 265298 | 260000 | 275170 |
| NP20:20 | 510000 | 580200 | 510000 | 590100 | 510000 | 633000 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Petrochemical Division**<br><br>Caprolactam | <br><br>43000 | <br><br>38783 | <br><br>45000 | <br><br>50723 | <br><br>45000 | <br><br>52541 |

13 The Committee were informed that there was no shortfall in production during the year 2000-01 as the actual production exceeded the budgeted figures for all products. About the reasons for shortfall in production of various products during 1998-99 and 1999-2000, the Committee were informed as under:-

(1) Recession in demand and market conditions necessitated stoppage of Ammonium Sulphate and Caprolactam production which resulted in production shortfall during the year 1998-99.

(2) Production of Urea from the Kochi Division Phase-I Plant was less than the budgeted figures during 1998-99 and 1999-2000 due to maintenance work in the Ammonia and Thermal Plants.

(a) In 1998-99, Urea production shortfall was on account of:-

(i) Maintenance required in the Ammonia Plant Converter.
(ii) Commissioning and stabilising of New Urea Prilling Tower.
(iii) Maintenance in the Ammonia and Thermal Plants.

(b) In 1999-2000, there was a shortfall of 12702 MT on account of maintenance in the Ammonia and Urea Plants.

14 The Sales and Services performances of the Company during the last five years are as follows:-

| | 1996-97 | | 1997-98 | | 1998-99 | | 1999-00 | | 2000-01 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Target | Actual | Target | Actual | Target | Actual | Target | Actual | Target | Actual |
| **Sales**<br>Fertilisers* (LMT) | 10 | 9.99 | 11.4 | 11.52 | 10.93 | 11.44 | 11.1 | 11.46 | 11.02 | 13.68 |
| Lactam 000 MT | 40 | 40.8 | 48 | 39.6 | 42 | 40.3 | 45 | 50.2 | 45 | 52.9 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Services**<br>FEDO Turnover (Rs. in Lakhs) | 1063 | 1128 | 1290 | 1317 | 1290 | 1126 | 1300 | 1290 | 2000 | 2194 |
| FEW Turnover (Rs. in Lakhs) | 1727 | 996 | 1890 | 982 | 1830 | 708 | 2270 | 490 | 1500 | 744 |

15. It has been informed to the Committee that fertilisers produced by FACT are sold in the Southern States of India, the marketing territory being mainly defined by the movement costs. Fertilisers are distributed through a dealer network which has been extensively developed over the years. The Marketing infrastructure of FACT is given below:

| **Area Office** | **Regional Office** |
|---|---|
| Trivandrum, Kerala | Alappuzha, Kottayam, Palakkad |
| Chennai, Tamil Nadu | Vellore, Trichy, Coimbatore, Madurai |
| Bangalore, Karnataka | Bangalore, Mangalore, Hospet, Belgaum |
| Hyderabad, Andhra Pradesh | Hyderabad, Vijayawada, Kakinada, Nellore |

16. Besides manufactured fertilisers, the marketing operations include sales of traded products like imported Urea, DAP & MOP and also Pesticides and Bio-Fertilisers. Selling prices of Fertilisers are basically controlled by the Government of India.

17 When enquired about the reasons for not marketing the products in Andaman Nicobar, Lakshadweep and Goa, the Committee were informed that the Company was supplying Fertilisers in Lakshadweep and even though some steps had been taken to market Fertilisers in Goa, at present Goa was not covered in marketing territory. Goa was being supplied by a sister PSU in Mumbai and private units. As regards Andaman Nicobar, Units from Eastern

India were supplying to this Union territory. The Committee were further informed that FACT manufactures and markets both Complex Fertilisers and Urea. For Urea, the Company had an ECA Allocation and the Company could market the product only in accordance with the ECA Allocation. For other fertilisers, freight also played a role and considering the demand and supply factors at present, it was economical to concentrate operations in South India.

18. About the sales and marketing of other products of the Company, it has been stated that Caprolactam is the basic monomer for the production of the polymer Nylon and there is a well defined market for the product among the Nylon manufacturers. There are currently 10 consumers in India,-the major ones being -SRF with its units at Chennai and Gwalior and Century Enka at Pune. The domestic market demand has stabilised at around 80,000-90,000 MT per year. The competition is from GSFC, Baroda and imports. Market price has a bearing on the landed cost of imports. Imports currently attract a basic customs duty of 25 %(plus SAD etc. 33 %). Exports is at present about 5,000 tons per annum and is undertaken to take care of fluctuations in the domestic market. The Committee has also been informed that the selling price of Caprolactam in the Domestic market is directly influenced by the ruling international prices. From a price level of US$ 1400-1500 per MT during 1997-98, international price of Caprolactam has declined to range of US$ 900-1200 per MT in the last year. Current price is US$ 800 per MT. This has directly affected the domestic selling price also. This sharp fall in realisation from Caprolactam both from domestic and international sales, has affected the profitability of this line of business and consequently that of the Company. During 1999-2000, FACT was able to earn

higher realisation in the domestic market and hence this was the priority. Only surplus available was exported. Out of the total Production of 50723 MT, domestic sales accounted for 43471 MT while exports was to the tune of 6766 MT.

19. It has also been informed to the Committee that by-products of Nitric Acid and Soda Ash from the Caprolactam Plant are sold at rates which the market can take. Other Chemicals like Ammonia, Sulphuric Acid and Oleum are sold in small quantities at cost.

20. About the un-remunerative prices for Complex Fertiliser NP 20:20 and Ammonium Sulphate, the Committee have been informed that selling price and ad-hoc price concession on Complex Fertiliser is fixed by the Government of India, with DAP (18:46) as the basis and takes into account the prices of only imported inputs such as Ammonia and Phosphoric Acid. The Company uses captively produced Ammonia from the new Ammonia Plant for producing Complex Fertiliser Factamfos NP 20:20. The ad-hoc price concession takes into account only the cost of imported Ammonia and does not give any credit for Naphtha based Ammonia produced from own sources. The Company is forced to bear the additional costs of captively produced Ammonia.

21 Ammonium Sulphate is a low nutrient fertiliser (Nitrogen = 21%) and is a by-product of the Caprolactam process. Sales realisation is limited by the fact that Urea, a high nutrient fertiliser (Nitrogen = 46 %), covered by the Government Retention Pricing Scheme, is available at a relatively low price to the farmer. Ammonium Sulphate is a decontrolled fertiliser and the Company is not able to realise the actual cost of production in respect of this product.

22 The Committee have been informed that Tariff Commission had undertaken a study to ascertain the cost of production of Complex Fertilisers at each unit and fix a more realistic ad-hoc price concession mechanism for Complex Fertilisers. This is expected to improve the profitability when implemented.

About the findings/recommendations of the Tariff Commission, it has been informed to the Committee that the Tariff Commission is understood to have recommended average Nitrogen (N) for imported Ammonia based units at Rs. 122/-, Naphtha based Units at Rs. 198/-, $P_20_5$ for both the groups at Rs. 168/- and Potash at Rs. 104/-. They have also recommended average conversion cost for all the units as Rs. 2843/-. By this recommendation, FACT is likely to get an additional compensation on its prime product FF 20:20. This will enable the Company to cover up its entire cost on the manufacturer of FF and avoid losses in the prime product. The recommendations are under scrutiny of the Government.

23 The financial performance of the Company during the last four years from 1997-98 to 2000-2001 was as under:

**(Rs. in Lakhs)**

| | **1997-98** | **1998-99** | **1999-2000** | **2000-01** |
|---|---|---|---|---|
| Turnover | 126341 | 127028 | 162800 | 184500 |
| Profit (+)/Loss (-) | (+)5394 | -4825 | -3980 | -15195 |

When enquired about the reasons attributable to the losses in the Company during the years 1998-99 to 2000-2001, the Committee were informed that the losses were mainly due to (i) high capital related cost on New

Ammonia Plant; (ii) Sharp fall in the international price on Caprolactam; and (iii) Prices for Complex Fertiliser NP 20:20 and Ammonium Sulphate.

24. About the quantum of subsidy received from the Government of India during the last three years, Committee have been informed as under:

| Year | Amount (Rs. in lakh) |
|---|---|
| 1998-1999 | 33367 |
| 1999-2000 | 50467 |
| 2000-2001 | 55219 |

When asked whether the Company can survive if no subsidy is received from the Government of India, the Committee have been informed that the subsidy represent that amount which is the difference between the normative realisation on the product as determined by Government of India from time to time and the amount realisable as determined by Government from the consumer. Therefore, if no subsidy is received, it will amount to decontrol of the prices and the market forces will determine the prices. Consequently, the cost to the consumer may go up.

25. It has been informed to the Committee that the Board of Directors of FACT consists of Chairman and Managing Director, Director (Finance), Director (Marketing) and three Government Directors of which two are from the Government of India and one is from Government of Kerala. Apart from the above, there are two Non-Official Part-Time Directors. The Chairman-cum-Managing Director is also performing the duties of Director (Marketing). The post of Director(Technical) has been lying vacant since 1st October, 2000. The Company has requested the Government of India for creation of the post of

Director(Personnel) six months back. It has also been informed that the present organisational set of the Company is adequate and satisfactory.

26. The Committee have been informed that the manpower strength of the Company as on 1st October, 2001 is 6691. Out of this, 1624 are managerial employees and 5067 are non-managerial. There are 576 women employees (Managerial : 150 and Non Managerial : 426) in the Company. The Committee have also been informed that the Company has a programme of manpower reduction, through rationalisation and restructuring of the organisation. A study has been conducted by the Company engaging National Productivity Council to ascertain the surplus manpower available in the organization. As a part of re-structuring, the retirement age of the employees has been reduced from 60 to 58 years. As a result of this, 358 employees retired on 30th September 2001. An agreement had been signed with the Trade Union for reduction of 20% of the manpower as on 1-1-1997 which stood at 8064. It is proposed to bring down the manpower strength to approximately 6100 by 2003. NPC had submitted its manpower study report in the month of September, 2001. Board of Directors of the Company has approved it in October, 2001 and the recommendations of the study are being implemented.

The Committee have also been informed that industrial relations in the Company are cordial. At present, there are 11 recognised and 5 un-recognised unions functioning in the company. Besides, there are 3 Officers' Associations.

27. To a query about introduction of Voluntary Retirement Scheme (VRS), the Committee were informed that a VRS was introduced in the Year 1989

based on the Government of India guidelines. Consequent to latest Government orders, a modified VRS modeled on Gujarat Pattern was introduced in the Company with Government of India approval in November, 2000. So far a total of 399 employees had already availed VRS for which the Company had paid Rs.829.98 lakh.

28. The expenditure incurred by the Company on R&D activities during the last five years is as follows:

| Year | Expenditure (Rs in Lakhs) | As % of total expenditure |
|---|---|---|
| 1996-97 | 54.18 | 0.053% |
| 1997-98 | 54.04 | 0.048% |
| 1998-99 | 70.12 | 0.057% |
| 1999-2000 | 67.16 | 0.040% |
| 2000-2001 | 77.62 | 0.042% |

When enquired about the R&D activities in the Company, the Committee have been informed that the activities of the R&D Centre are mainly directed towards development of Slow Release Fertilisers, usage of by-product Gypsum and quality surveys for raw materials and products. The R&D Centre of Company also undertakes the production of Bio-Fertilisers. In the development of Slow Release Fertilisers advances have been made and field trials are being carried out in collaboration with Agricultural Universities of Kerala and Tamil Nadu. Trials are being made for crop such as Banana, Sugar Cane, Turmeric and Cotton. In the case of Sugar Cane and Banana, trials have reached the large scale stage and initial results are encouraging.

29. About the scope for diversification, it has been informed to the Committee that the Company does not have any immediate proposal for diversification. The present financial position of the Company does not allow the Company any

scope for new investments or diversification proposals. The strategy of the Company for the short term is to consolidate and optimise on current operations to improve financial performance.

30. About disinvestment, the Committee have been informed that at present the Company is not one of the companies listed for disinvestment.

31. The Committee observed that a number of PSUs are operating in the Fertiliser Sector and desired to know whether it would be better to have one PSU only instead of having many PSUs functioning in the same field, the Committee were informed as under:

> "The Disinvestment Commission has categorized fertiliser industry as a non-core activity. Hence PSUs operating in this category will be disinvested. We feel the Fertiliser industry should have been classified as core activity since the food security of the country is directly dependent on adequate supply of Fertilisers. As regards multiplicity of PSUs, we feel Government could resort to some mergers, restructuring etc. so that a healthy and sound fertiliser PSU could be retained in the public Sector."

32. Asked about the steps taken to minimize the air and water pollution and to keep the environment and ecology in and around the units of the Company sound, it has been informed to the Committee that FACT's plants have all been designed taking into account statutory requirements for environment protection and pollution control. Wastes from the factory are treated in the Effluent Treatment Plants to bring down the level of pollutants to permissible levels before disposal. All the production units of FACT have established and maintained an Environmental Management System (EMS) in accordance with ISO 14000. The system developed has been structured taking into account the appropriate elements outlined in the international standard. FACT is committed

to (a) Continuous improvement in its environmental performance and prevention of pollution; (b) Compliance with environmental rules and regulations; (c) Conservation of resources and waste elimination; (d) Improvement of communication with interested parties; (e) Use of appropriate and environment effective technology; and (f) Training for improved environmental management.

It has also been informed to the Committee that as per the requirements of the EMS, surveillance audits are carried out at regular intervals and any non-conformity identified is corrected. FACT also maintains extensive Green Belts around the factory premises, as a part of the environment management programme. The Company has also an approved "On Site Emergency Plan" which serves to identify hazards, form a rescue team with pre-determined duties and responsibilities and conduct periodic rehearsals, so that any emergency situation is controlled and contained without endangering lives in and around the factory area.

## RECOMMENDATIONS / OBSERVATIONS OF THE COMMITTEE

### RECOMMENDATION NO. 1

**Financial Relief from Government**

**The Committee note that the Fertilisers and Chemicals Travancore Limited had to set-up a 900 TPD Ammonia Plant at a cost of Rs. 638 crore (Government of India Loan Rs. 400 crore, Bank Loan: Rs. 35 crore and Internal Resources: Rs. 203 crore) following a Judgment of the High Court of Kerala in February 1994 which was subsequently stayed by the Supreme Court India. The judgment of the High Court was pronounced on a Public Interest Litigation wherein it was sought to dismantle the existing imported Ammonia Storage and Handling facility at Willindon Island (Cochin Port ) in view of possible environmental hazard. The new Ammonia Plant was commissioned in March, 1998. The Committee further note that the Capital related costs of the new Ammonia Plant in terms of annual interest and depreciation is Rs. 100 crore per annum (Annual Interest: Rs. 65 crore and Annual Depreciation: Rs. 35 crore). The Committee have been informed that the plant uses Naptha as feed stock which is costlier than the Natural Gas which is the usual feed stock of most other Ammonia Plants. Over the past three years prices of petroleum product like Naptha, Furnace Oil and LSHS have been increasing very sharply and any increase in the cost has to be borne by the Company. The Committee find that the company is unable to increase proportionately the selling price of its**

**fertilisers or Caprolactum as the selling prices of fertilisers like urea are controlled by the Government and the selling price of Caprolactum is determined by landed cost of imports. It has also been brought to the notice of the Committee that the Company has requested the Union Government for a financial relief amounting to Rs. 545 crore (waiving the interest of Rs. 167 crore on Govt. of India loan for the past three years i.e. 1998-99, 1999-2000 and 2000-2001 and the write-off of the outstanding loan of Rs. 378 crore) in respect of the new Ammonia Plant. Taking into consideration the financial health of the Company, the Committee recommend that Government should favourably consider the request of the Company for granting financial relief. They also desire that the decision in the matter should be expedited.**

## RECOMMENDATION NO. 2

**Implementation of Recommendations of Tariff Commission.**

**The Committee note that for complex fertilisers uniform selling price and ad-hoc price concession are fixed by the Government of India, with DAP (18:46) taken as the basis for fixing price concession. In determining the price concession, the prices of only imported inputs such as Ammonia and Phosphoric Acids are considered. The Committee further note that FACT uses captively produced Ammonia from new Ammonia Plant for producing complex fertiliser Factamfos NP 20:20. The ad-hoc price concession takes into account of the cost of imported Ammonia and does not give any credit for Naptha based Ammonia produced from own sources by FACT which is costlier . As a result thereof, FACT is forced to bear the additional cost of captive produced Ammonia. The Committee find that the Government of India had appointed the Tariff Commission to undertake a study to reckon the actual cost of production of Nitrogen for Naptha based manufacturers. The Tariff Commission has since submitted its report and the recommendations of the Commission are under scrutiny of the Government. It has been brought to notice of the Committee that the Tariff Commission has recommended average Nitrogen (N) for imported Ammonia based units at Rs. 122/-, Naptha based units at Rs. 198/-, $P_2 0_5$ for both the groups at Rs. 168/- and Potash at Rs. 104/-. The Commission has also recommended average conversion**

**cost for all the units at Rs. 2843/-. By this recommendation, FACT is likely to get an additional compensation on its prime product Factomphos (FF) 20:20. The Committee, therefore, recommend that scrutiny of the recommendations of the Tariff Commission should be completed expeditiously and the decision to implement the recommendations of the Commission should be taken at the earliest to enable the company to cover up its entire cost incurred in the manufacture of complex fertilisers and to avoid losses in the manufacture of its prime product. The Committee also recommend that Ammonium Sulphate should be included under the Subsidy Scheme or Price Concession Scheme, as the company is not able to realise the actual cost production of this low nutrient fertiliser, which comes as a by-product of the caprolactum process.**

## RECOMMENDATION NO. 3

**Need to control prices of Caprolactum.**

**The Committee note that FACT's Caprolactum business has been under pressure from the markets during the past years and margins available have eroded. They further note that Customs Duty on Caprolactum has come down from a level of 80% in 1990 to the present level of 25%. The Committee have been informed that the selling price of Caprolactam in the domestic market is directly influenced by the ruling international prices. From a price level of US$ 1400-1500 per MT during 1997-98, the international price of Caprolactam has declined to range of US$ 900-1200 per MT during the past years. The current price is less than US$ 800 per MT. It has also been informed to the Committee that due to market consideration FACT has reduced its price by Rs. 14000 per MT during the last year. The Committee find that the present Caprolactum prices in the domestic market are very competitive which is to the benefit of the end users of the product. The Committee are of the opinion that current levels of customs duty must be maintained in order to ensure a healthy and productive market for both producers and consumers. They, therefore, recommend that current levels of Customs Duty should be maintained**

## RECOMMENDATION NO. 4

**Appointment of Functional Directors on Board of Directors.**

**The Committee note that the Board of Directors of FACT consists of a Chairman and Managing Director, Director (Finance) Director(Marketing), three Government Directors and two Non-official Part-time Directors. The Chairman and Managing Director is also performing the duties of Director(Marketing) ever since the post had fallen vacant. Apart from this, the Committee regret to note that the post of Director(Technical) has been lying vacant since 18th October 2000 has not been filled up so far. Since the post of Director(Technical) is very important in day-to-day functioning of the Company, the Committee recommend that the post of Director(Technical) should be filled up without any loss of time. The Committee also note that the CMD was due to retire on 31 October, 2001 and consequently, the post of CMD and Director (Marketing) would fall vacant, leaving the company headless and directionless at a critical juncture. The Committee have also noticed that the Company had requested the Union Government for the creation of post of Director(Personnel) six months back. They desire that the entire formalities and procedures, including creation of the post, notifying the vacancy, selection and appointment of a candidate to all the posts by the Government should be completed within the specific time frame.**

**ANNEXURE - I**

**TOUR PROGRAMME OF THE COMMITTEE ON PUBLIC UNDERTAKINGS TO KOCHI AND THIRUVANANTHAPURAM FROM 27$^{TH}$ TO 30$^{TH}$ OCTOBER, 2001 AS ACTUALLY PERFORMED**

( MEMBERS ASSEMBLED AT KOCHI )

| DATE & DAY | TIME | VISIT & DISCUSSION |
|---|---|---|
| 27.10.2001 (Saturday) | 1630 hrs | Discussion with the Officers of Cochin Shipyard Ltd. |
| | | ( NIGHT HALT AT KOCHI ) |
| 28.10.2001 (Sunday) | 0900 hrs | Discussion with the Officers of Fertilizers and Chemicals (Travancore) Ltd. |
| | 1100 hrs | Discussion with the Officers of Kochi Refineries Ltd. |
| | | ( NIGHT HALT AT KOCHI ) |
| 29.10.2001 (Monday) | 1000 hrs | Departure for Thiruvananthapuram by IC-803 (1135 hrs) |
| | 1205 hrs | Arrival Thiruvananthapuram |
| | | ( NIGHT HALT AT THIRUVANANTHAPURAM ) |
| 30.10.2001 (Tuesday) | 0930 hrs | Discussion with the Officers of Hindustan Latex Ltd. |
| | 1130 hrs | Discussion with the Officers of Hindustan Newsprint Ltd. |

**D I S P E R S A L**

**ANNEXURE – II**

**COMPOSITION OF THE COMMITTEE ON PUBLIC UNDERTAKINGS WHICH VISITED KOCHI AND THIRUVANANTHAPURAM**

| S. NO. | NAME | DATE OF JOINING | DATE OF LEAVING |
|---|---|---|---|
| 1. | Prof Vijay Kumar Malhotra, Chairman | 27.10.2001 Kochi | 29.10.2001 Kochi |
| 2. | Shri Prasanna Acharya | 26.10.2001 Kochi | 31.10.2001 Thiruvananthapuram |
| 3. | Prof. S. P. Singh Baghel | 30.10.2001 Thiruvananthapuram | 30.10.2001 Thiruvananthapuram |
| 4. | Shri Ram Tahal Chaudhary | 27.10.2001 Kochi | 30.10.2001 Thiruvananthapuram |
| 5. | Smt Sangeeta Kumari Singh Deo | 28.10.2001 Kochi | 31.10.2001 Thiruvananthapuram |
| 6. | Shri Tarit Baran Topdar | 27.10.2001 Kochi | 30.10.2001 Thiruvananthapuram |
| 7. | Shri Jibon Roy | 27.10.2001 Kochi | 29.10.2001 Kochi |
| 8. | Smt Ambika Soni | 27.10.2001 Kochi | 29.10.2001 Kochi |
| 9. | Shri Suresh Kalmadi | 28.10.2001 Kochi | 31.10.2001 Thiruvananthapuram |
| 10. | Shri Ranjan Prasad Yadav | 27.10.2001 Kochi | 30.10.2001 Thiruvananthapuram |
| 11. | Shri B P Singhal | 27.10.2001 Kochi | 30.10.2001 Thiruvananthapuram |
| 12. | Shri C. P. Thirunavukkarasu | 26.10.2001 Kochi | 28.10.2001 Kochi |

| | SECRETARIAT |
|---|---|
| 1. | Shri S Bal Shekar, Director |
| 2. | Shri Raj Kumar Under Secretary |
| 3. | Shri Prabal Chakraborty Committee Officer |

**ANNEXURE-III**

**LIST OF OFFICIALS OF FERTILISERS & CHEMICALS TRAVANCORE LIMITED WHO WERE PRESENT DURING DISCUSSION WITH THE COMMITTEE ON PUBLIC UNDERTAKINGS AT KOCHI ON 28.10.2001**

| | | |
|---|---|---|
| 1. | Shri T.T.Thoms | Chairman and Managing Director |
| 2. | Shri S. Balan | Director (Finance) |
| 3. | Shri R. Sundaresha Shenoy, | General Manager (M&IA) |
| 4. | Dr. N.K. Pillai, | General Manager (PC) |
| 5. | Shri G.C. Nair | General Manager (CD) |
| 6. | Shri M.Kochukrishnan, | General Manager (U) |
| 7. | Shri C.K. Nandakumar | General Manager (PD) |
| 8. | Shri K.G.Nair, | General Manager (FEW) |
| 9. | Shri George Sleeba, | General Manager (P) |
| 10. | Shri S.Venkatakrishnan, | General Manager(CF)-Coord. |
| 11. | Shri G.Vijayakumar, | General Manager (FEDO)-Coord. |
| 12. | Shri K.Padmadasan, | Company Secretary |