

Study Tour Report No.37

C.P.U. NO. 860

**COMMITTEE ON PUBLIC UNDERTAKINGS**

(2001-2002)

(THIRTEENTH LOK SABHA)

STUDY TOUR REPORT

ON

**MECON LIMITED**

Laid in the Lok Sabha on.....

Laid in the Rajya Sabha on.....

**LOK SABHA SECRETARIAT**

**NEW DELHI**

April, 2002 / Vaisakha, 1924 (S)

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

**CHAIRMAN**

Prof. V Jay Kumar Malhotra

**MEMBERS**

**LOK SABHA**

2. Shri Prasanna Acharya
3. Shri Mani Shankar Aiyar
4. Prof. B.P Singh Baghel
6. Shri Sudip Bandyopadhyay
6. Shri Ram Tejal Chaudhary
7. Shri Ajay Singh Chautala
8. Shri Shiv Raj Singh Chauhan
8. Shrimati Sangeeta Kumar Singh Das
10. Shri C.K. Jaffer Sharief
11. Shri K E Krishnamurthy
12. Shri Vias Mullenwar
13. Shri C.P. Radhakrishnan
14. Shri Taril Darar Topdar
15. Shri Omesh Chandra Yadav

**RAJYA SABHA**

15. Shri Suneh Kalsaci
17. Shri K. Kalavankala Rao
18. Shri Joon 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 Shaker,     | Director             |
| 3. | Shri Raj Kumar          | Under Secretary      |
| 4. | Shri Prabal Chakraborty | Commission Officer   |

1. \* Elected w.e.f 20<sup>th</sup> November, 2001 vide Shri Raju Prasad Rody elected to be Member of the Committee consequent upon his appointment as Minister w.e.f. 01.05.2001.

2. \* Referred w.e.f. 9.4.2002

## **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 MECON (India) Limited.

2. The Committee held discussions with the officials at Bhubaneswar on 17.01.2002. A copy of the tour programme is annexed (Annexure-I).

3. The Committee considered and approved the Report at their sitting held on 24<sup>th</sup> April 2002.

4. The Committee wish to express their thanks to MECON (India) 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  
24, April, 2002  
04, Vaisakha, 1924(S)

PROF. VIJAY KUMAR MALHOTRA  
*CHAIRMAN*  
COMMITTEE ON PUBLIC UNDERTAKINGS

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

### **DISCUSSION WITH THE OFFICIALS OF MECON LIMITED ON 17.1.2002 AT BHUBANESWAR**

At the outset, the Chairman, Committee on Public Undertakings informed the Members that the CMD, MECON Limited had sought exemption from being present during the Committee's discussions with the representatives of the Company and that he had agreed to the request. In the absence of the CMD, the Director of MECON Limited represented the Company during the discussions with the Committee.

The Chairman, Committee on Public Undertakings made opening remarks and requested the Director, MECON Limited 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 the MECON Limited, the Director of the Company informed the Committee that MECON Limited (formerly known as Metallurgical & Engineering Consultants (India) Limited) was incorporated on 31<sup>st</sup> March, 1973 taking over all the assets/liabilities and running contracts of Central Engineering & Design Bureau (CEDB), a Department of erstwhile Hindustan Steel Limited (HSL). The CEDB was created in April, 1959 with the objectives to provide design, engineering and consultancy work for the Iron & Steel Industries in India and was engaged in rendering services for the various Steel Plants under HSL. The Company was incorporated initially as a fully owned subsidiary of Steel Authority of India Limited (SAIL), but with further restructuring of Steel Industries in 1978, it was brought directly under the Ministry

of Steel. MECON is one of the premier multi disciplinary design, engineering, consultancy and contracting organisation in the field of iron & steel, chemicals, refineries & petrochemicals, power, roads & highways, water management, ports & harbours, gas and oil, pipelines, non ferrous, mining, general engineering and other related/diversified areas with extensive overseas experience.

3. On being asked about Company's thrust and objective, the Committee have been informed that the Company's thrust is securing jobs in diversified areas executing them to desired quality and satisfaction of clients while retaining core competence in metallurgical field with the objective of building up references and gross margins. MECON has identified and recently short listed thrust areas as Transmission & distribution, Power, Infrastructure, Oil & gas, Ports & Material Handling, Environmental Engineering besides Metals and Minerals.

4. When asked to give brief account of the achievements made by the Company in meeting its designated objectives, it has been stated in their reply that the basic purpose for formation of MECON (earlier known as CEDB) was –

- to reduce the dependence on foreign consultants and build indigenous capability for design & consultancy of steel plants in the country;
- to absorb and assimilate technologies available in different developed countries and adopt them to suit Indian conditions; and
- to conserve precious foreign exchange resource for the country.

5. In regard to the transformation the company has undergone since its inception and the prospects/challenges the future holds for the Company in view of the changes being witnessed in the economy in general and in Natural Gas Sector in particular, it has been stated as under :

“With the changing business scenario the Company has spread its wing beyond normal consultancy operation and is executing jobs on EPC/turnkey basis. Further, because of sluggishness in Iron & Steel industry which was its core business and looking at the emerging markets in diversified fields, the company has diversified into non-steel areas i.e. non-ferrous, power, petrochemicals, information technology, general engineering including defence, port and other infrastructural development.

The challenges before the company are fewer opportunities in core competence area, sluggish industrial growth, changes in business approach (Financing & procurement decisions), patronage to international consultants and lower margins in free markets.

Not much success has been achieved on supply side in Natural Gas Sector. However, MECON is rendering detailed engineering and consultancy services to GAIL & IGL for gas and pipeline project.”

6. To bridge the know-how/technology gap, MECON has entered into MOUs/Pre-tender tie-ups/Collaboration/Licence/Agency Agreements with several leading Firms (both Indian and Foreign) in past twenty five years. MECON has made collaboration Agreements with various reputed Firms from USA, Germany, France, Italy, Russia etc. in various fields.

7. When Committee desired to know whether these agreements expanded the scope of services and areas of activities of MECON, the Committee have been informed as under :

“Yes, by virtue of these agreements MECON has been able to enter into new areas where it did not have expertise. MECON has also been able to bridge the gap in know-how/technology for grey areas in collaboration with Foreign Firms. Successful completion of the project in association with Foreign Collaborator becomes future reference for fulfilling the pre-qualification/eligibility criteria for other similar tenders in which MECON can participate on its own and assume complete responsibility of the Project. In this endeavour MECON has indigenised many Rolling Mills, Coke-Ovens, Blast Furnace, etc.”

8. It has been stated in the Annual Report (1999-00) that for improving Power Generation capacity with minimum injection of capital, Government has in principle agreed to the philosophy of Renovation, Modernisation and Upgrading (RMU) including Residual Life Assessment (RLA) of existing Hydel and Thermal Power Stations. MECON is fully associated in RMU, RLA and Life Extension

Studies (LES) work and has bagged assignments in thermal as well as hydel power generation sector from various State Electricity Boards.

9. MECON's scope of services for these assignments have been primarily that of an Engineering Consultant. We have not rendered the Project & Construction Management Services during execution of these projects and therefore cannot elaborate on the time and cost over run in completion of these Projects.

10. About the benefits which have accrued to MECON by virtue of incorporation of state of the art technology, the Committee have been informed that MECON is the fore-runner in the field of RLA and RMU for Hydel Power Plants. The first such RMU work has been successfully carried-out for OHPC (Hirakud). MECON is now fully equipped to take-up detailed engineering, consultancy and supply of Hydro Mechanical Equipment (Balance of Plant), transformer and other associated electrics for Hydel Power Plant

11. The net worth of the company has been consistently declining since 1997-98 despite an increase in the turn over as shown in the following table:-

(Rs. in million)

YEAR	NET WORTH	TURNOVER
1995-96	851.2	2724.4
1996-97	915.8	2118.2
1997-98	919.7	1858.1
1998-99	830.9	2079.3
1999-00	576.9	2350.4



12. When asked about the reasons for this declining trend, it has been stated that in the changing market scenario , there are very few pure consultancy & engineering assignments for penetrating in diversified areas and to meet the challenges posed by established players, profit margins are kept small. The impact of increase in establishment expenses, employee cost (social and overhead expenses) and other project related expenses has increased the expenditure of the company and eroded the profit margin. Hence, inspite of increase in turnover there have been losses in the last 2 years thus reducing the net worth.

13. The Company also furnished the details of the profit/loss made in the last 10 years are as under :

Year	Profit/Loss (Rs. lakh)
1991-92	362
1992-93	829
1993-94	705
1994-95	539
1995-96	1022
1996-97	839
1997-98	167
1998-99	-1117
1999-2000	-2027
2000-2001	-5267(Provisional)
2001-2002 (first half)	-3700(Provisional)

The main reason of losses in last 2 years has been fewer opportunities in Steel sector which has been the core area of business for the company. In year 1994-95 turnover from Steel sector was 89% whereas in year 2000-01 turnover from Steel sector is only 12%.

Nascent database & limited experience and expertise in diversified areas are affecting the profitability of the Company.

Sluggish industrial growth, changes in the concept of project financing like part financing essential for getting jobs, patronage for international consultants, stringent pre-qualification criteria etc. are the factors which had hit the bottomline of the company.

14. The Company has attributed the following reasons for making losses by the Company inspite of the turnover going up steadily in their post tour reply as under:

“Profitability has declined inspite of increase in Turnover due to stiff competition in the market with more players coming in the field. Many players are quoting rock bottom prices to keep the business running as there is general recession in the market especially in the manufacturing & construction industries resulting in poor order booking in consultancy field over past few years. The income under consultancy jobs has dropped from Rs. 80 crore per annum to Rs. 50 crore per annum due to recessionary trend in the economy and the trend of EPC contracts.

Besides, MECON's expenditure has gone up due to increase in employee cost, general increase in establishment cost and higher outflow of out of pocket expenses as compared to corresponding incomes from the projects. The very adverse ratio of earner to non-earner (1.3 against the desired ratio of 4 to 6) in present competitive times resulted in deficit. Surplus manpower and adverse ratio is being addressed through VRS schemes.

Further, we wish to mention that MECON endeavors to complete the assignment to full satisfaction of the client in National interest and does not leave the site like others who leave the front wherever they anticipate losses.

Some of the projects which are of national importance and being executed for the first time in India, are more of R&D nature. These have also contributed to the losses.”

15. When asked about the steps being contemplated to reverse the declining trend of the profitability of the company, the Committee have been informed that all possible measures are being taken towards cost cutting like implementation of VRS, travelling below entitled class, accommodation below entitled class and curbs in various perks.

16. The Committee, when asked about the targets fixed for turnover and profit during 1997-98, 1998-99 and 1999-2000 and whether these targets are fixed realistically or on the basis of assumptions have been informed that the targets are fixed based on the requirement and the market trend keeping in view. Besides, the previous year's performance too is looked into. The targets are fixed based on the Market potential and penetration, expertise and manpower available in the company. When further asked whether these assignments were profitable, it has been informed that most of the assignments have resulted in only marginal profit which has been off-set considering the high manpower cost.

17. The Committee have been informed that as against the sanctioned strength of 3614, 2788 employees (2274 executive and 514 non executive) are in position in the Company. When the Committee desired to know the adequacy or otherwise of the manpower keeping in view the volume of work or the business handled by the Company, it has been stated that MECON, as Company's policy undertake preparation and updating of long term Corporate Plans. This policy document analyses, besides Organisational aspects, manpower and HRD aspects of the Company as well with reference to Retirement, VRS and related activities.

18. Based on recommendations of Advisory Task Force (ATF) during review of MOU performance of the Company in 1998 and later by the Board of Directors, an Organisational Diagnostic Study was carried out by engaging International expert agency KPMG India Limited. In their final recommendation report submitted in March, 1999, it was suggested that MECON may prune its workforce by about 600 employees at the earliest. They even recommended for a financial package/support to the tune of Rs. 60 crores to implement the same.

19. To bring down the operational costs yet demanding higher productivity, downsizing of MECON's workforce has been taken up. Due to this downsizing through VRS and natural separation, the manpower strength of MECON which was 3101 as on 31/12/1999 has come down to 2788 as on 31/12/2001. The manpower strength will further come down to 2588 as on 31.3.2002 as a result of roll back of age of superannuation from 60 to 58 years.

20. When the Committee further desired to know the details of the VRS implemented by the Company, it has been stated that the VRS Scheme-III (Gujarat), as approved by the Ministry of Steel has been implemented. However, when the Committee further desired to know whether there have been any resentment or demand for improvements in the above VRS scheme, the Committee have been ;informed that there is ;no resentment or demand in the VRS Scheme at present under implementation. About the financial implications, in case more VRS benefits are provided to the existing employees, the Committee have been informed that the response to the present VRS scheme is not attracting the employees because of non-implementation of Revised Pay Scales. It is expected

that sizable number of employees would opt for VRS once the pay revision is implemented in MECON.

21. MECON has been able to achieve the objectives of the MOUs/agreements signed with the reputed national/international organisations to some extent. For many projects, although MOU have been entered into, but consortium has failed to fulfill the Pre-qualification Criteria and offer has not been considered by Client. In some cases, MECON with Collaborator have failed to become the lowest Bidder (L-1) and thus lost the order. When asked in what way these MOUs have helped MECON in technology and business promotion, the Committee have been informed that with recession in Indian Steel Industry and investment not coming up, MECON has entered into new areas like Oil & Gas Sector, Refineries, Petrochemicals, Power Plant, Environmental Projects, Oil, Gas & Water pipelines, material handling, refractories, information technology, infrastructure projects like road, bridges, fly-overs etc. It is difficult to participate directly in these tenders due to lack of MECON's experience and expertise in this field. In most of the Tenders, there is a Qualification criteria. Bidders not fulfilling the Qualification Criteria are rejected by Client. So with MOU/Agreement/Pre-tender tie-ups with Foreign/Indian Collaborators Partners, MECON is able to fulfil Qualification Criteria and able to slowly develop the technical and cost data base by participating as an Associate in these tenders. By entering into a pre-tender tie-up with Equipment Manufacturer/Local Erection Contractor, MECON gets a very competitive back up offer from these Parties which improves Company's chance of bagging the order.

22. It has been stated in the Annual Report (1999-00) that with the introduction of Energy Bill 2000 in the Parliament on 24<sup>th</sup> February 2000, energy audit has become mandatory for power intensive industries. MECON has been registered as an authorised Energy Auditor by the Ministry of Power, Industrial Development Bank of India and various State Governments. This will enable MECON to expand business in the above field in the coming years.

23. When asked to what extent will it help in ensuring conservation of energy in the country in the long run, the Committee have been informed that the Energy Conservation Bill 2001 has been passed by Lok Sabha on 17.8.2001. This has vested powers to Central Government for facilitating and enforcing efficient use of energy and its conservation. Energy Audit is an effective tool in defining and pursuing comprehensive energy management system thereby reducing energy consumption. Consumption of energy is most important economic indicator of development of any country. In India, about half of total consumption of commercial energy is by the industrial sector alone. The economic advantage of cheap raw materials and labour available in our country is therefore offset by higher level of energy consumption. After implementation of proven energy conservation measures, there is a scope of energy savings to the tune of 15-25%. This will help in cost cutting without compromising on quality and thus becoming competitive. Holistic approach at macrow level is required for addressing the issue of energy conservation.

24. With regard to the foreign exchange earned by MECON, it has been stated that the Company has earned Rs. 1,620.75 lakh in Foreign Exchange during 1999-00. But the expenditure in Foreign Exchange remitted/actually spent during the year was Rs. 2,593.37 lakhs.

25. The following is the Foreign Exchange earnings and its outgo of the Company for the last five years :

Financial year	Turnover (Rs. in Million) *	F.E. Earnings	F.E. Expenditure (Rs. in Millions)		
			Know-how	Purchase of Eqpt./Services **	Total
1999-2000	51.437	162.075	8.356	250.981	259.337
1998-1999	68.097	27.926	8.604	60.928	69.532
1997-1998	09.098	9.097	4.987	23.263	28.250
1996-1997	19.835	43.984	-	39.173	39.173
1995-1996	15.148	15.148	-	35.920	35.92

26. In regard to boost the export performance of the Company, it has been stated that MECON has business associates in 22 countries abroad for furthering business interest. They are using the High Commission's/Embassies services extensively for exploring business opportunities in that country. They are utilising the services of the offices of other Public Sector Undertakings in foreign country in the field of the Company's interest.

\* There is no separate target set for export oriented jobs.

\*\* : Cost of purchase of foreign equipment/services pertains to turnover in Indian Rupees toward supply related equipment. The earnings and expenditures are due to two separate and distinct activities of the Company. The earnings in Foreign Exchange primarily arise from export of Consultancy Services. The expenditure is mostly due to import of critical/proprietary equipment required for execution of turnkey projects.

27. It has been stated in Annual Report (1999-00) that in the diversified areas. MECON has made a major breakthrough by procuring business of turnkey execution of projects from clients like ISRO for Second Launch Pad Facilities at SHAR Centre, Sriharikota, IBP for POL Depot at Sangrur in Punjab and Central Coalfields Limited for Sewage Treatment Plant at Rajrappa Open Cast Project and on total responsibility ;basis for IOCL for various oil terminals.

28. When the Committee desired to know the progress of the Company in the diversified areas and whether it commensurate with the targets fixed for the same it has been stated that POL depot at Sangrur for IBP has been commissioned and significant progress achieved in the construction of retail outlets for IOCL in Gujarat, Maharashtra, Tamil Nadu, Andhra Pradesh & Karnataka. Group gathering stations II, III & IV at Balol for ONGC have also been commissioned. MECON is also provided engineering and consultancy services for second VDU project at Haldia for IOCL, technical audit services to GAIL, PMC services for MAFAH outlets in Bihar and Orissa for BPCL, Delhi City Gas Distribution and CNG project for Indraprasth Gas Limited, MECON has commissioned Sewage Treatment Plant for CCL at Rajrappa within schedule.

29. The SLP Project for SHAR is under advanced stage of implementation. However, because of the knowledge gap in critical high technology areas the cash out-flow for this Project has far exceeded the estimates and has landed the Company under severe financial hardship. The Company look forward to ISRO for compensating MECON for the expenditure in terms of equipment cost and



man-power related expenses beyond the contracted amount to enable us overcome cash deficit in this project and its successful commissioning.

30. In line with the changing investment and market scenario, MECON has expanded its areas of activities in high growth market. Refineries & petrochemicals, petroleum & gas. LPG/LNG storage & transportation, cross country oil & gas pipelines, power generation; transmission & distribution, roads & highways, water management, ports & harbours, ocean engineering, environmental engineering, material handling & transportation system, Information Technology, architecture & township planning etc. will be the main thrust areas for business. Further, to adhere to national policy, MECON considers environmental protection as an integral part of every project. MECON undertakes unique assignments like control of forests fire, assessment of pollution potential & its impact on environment, disaster mitigation, and renders complete spectrum of services in this area.

31. With regard to the specific problems being faced by the Company in various spheres of its functioning and availability of the support to get over these problems, it has been stated that in many of the projects, be it Consultancy or EPC, the qualifying criteria are made in such a way that MECON finds it difficult to qualify. These qualifying criteria could be relaxed for MECON. Many of the projects in the State and Government bodies could be assigned to MECON on nomination basis. Due to recession in the industrial growth, business scenario is not encouraging as such the Company is facing severe financial crunch. Purchase Procedure 2000 of SAIL and CVC Guidelines do not permit advance payment. A company like MECON whose capital base is meager Rs. 2.4 Crores and has never

received any financial assistance from Government inspite of regularly paying dividends and taxes to State/Central Government all through the years till 1998, it has become utmost necessary that capital injection is immediately done to tide over the acute financial crisis, MECON is presently facing.

32. When further asked as to why does MECON request for jobs on nomination basis, it has been informed that MECON has been in the competitive market for over 3 decades and has been receiving orders on regular basis. MECON has never shied away from competition as such both in Steel sector and in diversified sector and continues to win orders against stiff domestic/international competitions. A large consultancy organisation of the stature of MECON for its sustenance needs a major consultancy order to the tune of Rs. 80-90 crore and Rs. 200-250 crore in EPC every year. It has been further informed that Engineers India Limited (EIL) is patronised by PSUs under Ministry of Petroleum, RITES under Ministry of Railways is patronised by Indian Railways and both of them receive jobs on nomination basis/cost plus basis which helps them in making greater profits. In some PSUs like SAIL & NTPC creation of in-house engineering organisations has also eaten into the market, which is also in the nature of nomination. Even large private enterprise like TATA gives jobs on nomination basis to their sister concerns like TCE & TCS and for steel plants to MN Dasturco.

33. The Company's experience in the diversified areas is more of constraint in meeting pre-qualification criteria rather than in our understanding and execution of these jobs. This is so because in the present context, the design and engineering depends, to a large extent, on computer based analysis, modeling and simulation

rather than simple interpolation/extrapolation in past designs. In view of this the Company has represented at various levels that the qualification criteria should emphasize experienced on more or less identical projects instead of knowledge and expertise in generic areas, which is not very fair. Accordingly Government support has been sought for awarding jobs on nomination basis in a few areas like infrastructure, Defence, Atomic energy, Power, Oil and petrochemicals etc. where MECON has adequate expertise and know-how and feel that Government should be considerate till we acquire competency in diversified area and are able to cross the entry barriers on our own strength. This approach will help MECON to maintain a steady flow of funds and enable to sustain on its own. Government should be considerate till MECON acquires knowledge and competency in the diversified areas. Many other PSUs are getting Government support as well as jobs on nomination basis..

34. When asked whether the Company would need budgetary support for the Government and also whether budgetary support would bail out MECON, the Company have been informed that in order to achieve the objective of turnaround MECON has requested the Government to provide budgetary support under the 10<sup>th</sup> Five Years Plan under the following heads.

<b>A) Plan Expenditure</b>		Rs. Crore	
	10 <sup>th</sup> Five Year Plan	Year	For Year 2002-03
R & D Schemes	10		2
Computer (Hardware & Software)	37.5		7.5
Investment in Joint Venture Companies	110		30
Equity participation	100		100
Test Equipment	15		7.5
<b>TOTAL</b>	<b>272.5</b>		<b>147</b>
<b>B) Non-Plan Expenditure</b>			
Interest subsidy on VRS loan – Rs. 50 crore	15.93		3.75
Gratuity	3.72		3.72
Working capital for replenishment of cash loss	50		50
Company's contribution to PF	6.24		6.24
<b>TOTAL</b>	<b>75.89</b>		<b>66.32</b>
<b>c) Grant in aid for giving VR (for right sizing the Company)</b>	105		25

35. It is felt that immediate budgetary support of Rs. 150 crore (for year 2002-03) towards equity participation & working capital will bail out MECON from present crisis.

When asked what will be the MECON's strategy, if it does not get budgetary support from the Government, it has been informed that in such case the following may be the strategy :-

- Change the business mix in favour of consultancy assignments.
- Continue its attempt to get jobs in diversified fields/areas holding promise/business opportunities.
- Enter into strategic alliance with companies to obtain jobs in Infrastructure area
- Seek Government's initial help to obtain jobs on nomination basis.
- Request from transferring MECON from Steel Ministry to other Ministry such as Power, Defence, Atomic energy, Rural development.
- With increase in expenditure in the Infrastructure sector, Steel industry may look-up in future, providing job opportunities to MECON.

36. When enquired about the R&D activities in the Company, the Committee have been informed that from its inception MECON management has given encouragement to R&D activity. History of post independent Steel industry in India is synonymous with MECON's growth. Hence R&D has been its regular activity. MECON has got its R&D Division formally recognized by DSIR in 1986 and has been getting that continuously validated at regular interval.

37. Following is the allocation of funds on R&D activities and its percentage out of the total expenditure during each of the last five years :

(Rs. in lakhs)

Sl. No.	Year	R&D Expenditure	Annual Turnover (Rs. lakhs)	Percentage
1.	1995-96	58.78	27242.71	0.215
2.	1996-97	40.25	21182.42	0.740
3.	1997-98	37.43	18581.42	0.201
4.	1998-99	71.00	18378.00	0.386
5.	1999-2000	34.00	23503.00	0.144

38. When asked about the percentage of money spent on R&D activities, the Committee have been informed that it is customary for manufacturing industries to monitor their R&D expenditure as a percentage of turnover. This index is also meaningful for an organisation offering only consultancy and design services. MECON, however, offers services not only in consultancy and design but also in supply of plant and equipment. By analyzing in-house cost data over a period of time it has been seen that only about 20% of the turnover accruing through supply of plant and equipment can be attributed to design and engineering inputs and the rest is essentially in the nature of trading. In view of this, MECON has been using an index “equivalent turnover” obtained by adding 20% of the turnover from supply of plant and equipment to the turnover from consultancy assignments.

39. When the Committee desired to know why should MECON not be disinvested, the Director of the Company in their post-tour reply has stated that the company has served well in nation building not only in Steel but in defence, space, power and other strategic areas as well. MECON is a storehouse of highly experienced and expert professionals who as a team can take up challenging engineering assignments of national importance. With a paid up capital of only 2.42 crore which is insignificant, no meaningful gain can be realised on disinvesting the company. On the other hand, its reservoir of human talents if properly harnessed, can help in capital generation for the country not only in conventional industries but highly sensitive and secretive Defence and Space projects. MECON should be viewed as a knowledge warehouse for industries growth of the country.

40. When asked about the continuous outstanding dues (bad debts) from other PSUs, the Committee have been informed that a total realisable amount from PSUs (including Government) as on 31<sup>st</sup> December, 2001 is Rs. 90 crore.

41. With regard to investment in Joint Venture Companies, the Committee have been intimated that with liberalisation of Indian economy and the incentives given by the Government specially in infrastructure development projects, the philosophy and vision of project execution have gone innovative changes. Concepts of BOO/BOOT etc. are increasingly utilised for project financing & promotion in power, oil & petroleum, ports and, roads and other infrastructure sectors. Both Government and Non Government sectors are inviting proposals for pre-qualifying execution agencies for partnering into joint-ventures or consortia mode with domestic as well as foreign concerns. It is increasingly being emphasised that entire finance for the project will have to be arranged by the successful bidders. The selected organisation/bidder, in turn, invites various contractors to undertake EPC work for the project. Thus it may be appreciated that in the present scenario, engineering & consultancy is getting re-engineered into total services package inclusive of mobilization of capital and even commitment of initial investment as equity ownership. The traditional concept of providing only exclusive engineering consultancy services is fast waning. Package contracts with overall responsibility of implementation and equity participation are becoming the prime & threshold consideration for qualifying in participation for any venture. This also opens up the opportunities to successful bidder organisation of intrinsic core strength to maximize their business expansion and gains through both routes of engineering & consultancy and EPC/Turnkey operations. Being equity partners

in such project ventures, they are in a position to influence award of a large share of EPC works in their favour as a logical fallout. Obviously, organisation like MECON with proven expertise and wide ranging project experience, stands to benefit if only armed with requisite financial muscle-power. The successful engagements in projects of such nature will definitely ensure confidence building and continuing engagements in future resulting higher turnover and profitability. The areas identified for Joint Venture on BOO/BOOT etc. are ports, power, roads & bridges, oil & petrochemicals, oil & pipelines, etc.

42. The Committee have been informed that due to severe liquidity crunch, the Company needs a Budgetary Support of Rs.3.72 crore in 2002-03 to meet out Gratuity payment dues which is of a statutory nature. In addition, Company's Contribution to Provident Fund Trust for Rs. 6.24 crore in the year 2002-03 is to be made by the Company. The statutory dues on account of Company's contribution to Provident Fund Trust is getting delayed due to severe liquidity crunch. So to meet the Company's liability on account of PF Contribution, the Company also need a Budgetary Support from Government for the year 2002-03.



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

### **RECOMMENDATION NO. 1**

#### **ONE TIME EQUITY PARTICIPATION**

The Committee note that MECON has suffered losses due to recession in the Steel Sector and therefore has to make forays into Non-Steel Sectors by way of diversification, where large EPC (Engineering, Procurement and Construction) contracts are being awarded. In order to qualify and build client confidence, the net worth of a Company is one of the important criteria laid down for qualification. Since MECON has a meagre capital base of Rs.2.42 crore and its current net worth is only Rs.4.86 crore, it is not in a position to exploit emerging opportunities in large EPC / turnkey contracts and to optimally harness its excellence and wide-ranging technical resources and project execution capabilities. Therefore, the Committee feel that a turn-around with business-process re-engineering through capital base strengthening is a must. The Committee is of the considered opinion that MECON must be encouraged and enabled by the Government of India to implement appropriate capital base strengthening measures as a befitting and consistent strategic option. The Committee, therefore, recommend the

Government should implement the proposal of the Company for the One Time Equity Participation by allocating Rs.100 crore during the current financial year itself.

## **RECOMMENDATION NO. 2**

### **GOVERNMENT ASSISTANCE TO MEET WORKING CAPITAL REQUIREMENT**

The Committee note MECON in the past had been making profits and was able to generate sufficient internal resources to meet the working capital requirements. Due to adverse market conditions and the recession in the steel sector and the recent losses suffered by the Company, MECON is unable to meet its working capital requirements. Besides its capacity to obtain funds from commercial banks by way of over-drafts has reached their limits. Further, as per the latest CVC guidelines, the Company is not getting initial mobilisation advance which has adversely affected execution EPC (Engineering, Procurement and Construction) contracts. The Committee, therefore, recommend that the Government should help the Company by providing the additional working capital to overcome the constraints. This may be done in view of the fact the MECON had never received any financial assistance in the past and instead they had been only contributing to the exchequer by paying dividends regularly.

The Committee further note that the CVC guidelines spelt out that a PSU should not pay advances on the presumption that this is an undue advantage given to the parties. However, advances are taken in practice by the

industry as a token to demonstrate the commitment of the client towards the project. The Committee desire that this matter may be taken up with the CVC so that PSUs like MECON who are disadvantageously placed in the market are exempted from the application of these CVC guidelines. The Committee also recommend that PSUs should pay advances at least in EPC jobs awarded to PSUs like MECON which are facing cash constraints, as this measure alone will considerably relieve financial pressures, reduce the cost and improve the Company's performance.

### **RECOMMENDATION NO. 3**

#### **ASSIGNMENT OF JOBS ON NOMINATION BASIS**

The Committee note that the MECON has been in the competitive market for over three decades and has been receiving orders on regular basis and continues to win orders against stiff domestic / international competitions. However, the Company's limited experience in the new areas where they have recently entered is a constraint in meeting pre-qualification criteria. This is so because in the present context, the design and engineering depends, to a large extent, on computer based analysis, modeling and simulation rather than simple interpolation / extrapolation of past designs. The Committee have been informed that some of the public sector undertakings are patronised by their administrative Ministries and are receiving the jobs on nomination basis / cost plus basis which helps them in making greater profits. For example, Engineers India Ltd. (EIL) is patronised by PSUs under the Ministry of Petroleum & Natural Gas and RITES under the Ministry of Railways is patronised by Indian Railways and both of them receive jobs on nomination basis / cost plus basis. The Committee are given to understand that MECON has represented at various levels that the qualification criteria should emphasise

experience on more or less identical projects instead of knowledge and expertise in generic areas. The Committee recommend that the Government should support MECON for awarding jobs on nomination basis in the areas like infrastructure, Defence, Atomic Energy, Power, Oil and Petrochemicals, etc. where the Company has adequate expertise and know-how till such period they acquire competency in the new areas of diversification and are able to cross the entry barriers on their own strength. The Committee feel that this approach will help MECON to maintain a steady flow of funds and enable it to sustain on its own.

## **RECOMMENDATION NO. 4**

### **OUTSTANDING DUES**

The Committee note that a sum of Rs.90 crore is due from difference public sector undertakings / Government Departments as on 31<sup>st</sup> December, 2001. The Committee feel that the outstanding dues should be urgently realised from the concerned parties, as these outstanding dues have adversely affected the financial position of the Company. They desire that a time bound action plan should be chalked out in the matter by the Administrative Ministry for urgent execution.

## **RECOMMENDATION NO. 5**

### **BUDGETARY SUPPORT FOR MEETING VRS EXPENSES**

The Committee note that MECON has planned to reduce its manpower from the present strength of 2788 to 1500 in order to reduce the overheads and to bridge the gap between earnings and expenditure in the present competitive environment. The Committee further note that a sum of Rs.65 crore were required for meeting the VRS expenses of about 600 employees before March, 2002. Out of it, Rs.50 crore had been provided by the Government and the balance amount of Rs.15 crore was to be raised from NRF (Rs.7.5 crore) and internal generation (Rs.7.5 crore). The Committee have been informed that due to heavy losses and non-availability of NRF, the Company had requested the Government for an additional grant of Rs.15 crore from the Non-Plan Budget for meeting the shortfall. It has also been brought to the notice of the Committee that Government at the time of giving Government Guarantee for VRS loan assured 50% interest subsidy on the VRS loan of Rs.50 crore. Keeping in view the financial health of the Company, the Committee recommend that Government should provide adequate budgetary support to MECON to meet the VRS expenses completely.



**RECOMMENDATION NO. 6**

**DELAY IN PAYMENT OF GRATUITY TO  
SUPERANNUATED EMPLOYEES**

The Committee note that due to sever liquidity crunch, MECON will be in a position to meet the gratuity payment dues to the superannuated employees if it received Rs.3.72 crore from the Government by way of budgetary support during 2002-03. Since the law provides that gratuity payments should be paid without any delay to the superannuated employees, the Committee recommend that the Government should make necessary financial allocations on this count to help MECON meet its statutory obligations and on humanitarian grounds.

**RECOMMENDATION NO. 7**

**DELAY IN MAKING CONTRIBUTION TO PROVIDENT**

**FUND**

The Committee note that the statutory dues on account of MECON's contribution to Provident Fund Trust is getting delayed due to severe liquidity crunch. As per the PF Act, a PSU cannot delay its payment as it attracts penal provisions. A sum of Rs.6.24 crore has to be paid by the Company for the year 2002-03 on account of PF contribution. The Committee, therefore, recommend that necessary Budgetary Support should be extended by the Government, in view of the financial crisis being faced by the Company.

## **RECOMMENDATION NO. 8**

### **NEED TO STRENGTHEN MECON TO FORM JOINT VENTURES**

The Committee note that the traditional concept of providing only exclusively engineering consultancy services is fast waning and in its place the present scenario envisages that engineering and consultancy has to be re-engineered into total services package which includes mobilisation of capital and even commitment of initial investment as equity ownership. The current trend envisages that the Joint Venture / consortia bidders would arrange to finance the entire project and would also invite various contractors to undertake EPC work for the project. This arrangement also opens up the opportunities to the successful bidder organisation to maximise their business expansion and gains through both the routes of engineering and consultancy and EPC / Turnkey operations. Under the changed scenario, the Committee feel that organisations like MECON with proven expertise and wide-ranging project experience stand to benefit, if only they are armed with the requisite financial muscle-power. The Committee, therefore, recommend that the Government should make adequate financial provisions during the Tenth

Plan Period for investment in Joint Venture Companies so that MECON is assured of higher turn-over and profitability.

### **RECOMMENDATION NO. 9**

#### **USE OF EMBASSIES FOR BUSINESS PROMOTION**

The Committee note that MECON has been selected for the 'Highest Exporter Trophy' ;in the Engineering Group for the year 1999-2000 by the Engineering Export Promotion Council. The Committee also find that MECON has business associates in 22 countries abroad for furthering its business interests. However, the Committee feel strongly that the services of the officers of the Indian High Commissions / Indian Embassies should be utilised as extended marketing arm for MECON who can undertake tours in those countries at the request of the Company and the cost of the tours can be borne by the Company. The Committee, therefore, recommend that the Ministry of External Affairs should issue necessary instructions / guidelines to this effect in the interest of earning more foreign exchange for the country.

## **RECOMMENDATION NO. 10**

### **VACANCIES IN BOARD OF DIRECTORS**

The Committee note that the post of Chairman-cum-Managing Director and the post of Director (Projects) in the Board of Directors have fallen vacant with effect from 31<sup>st</sup> January, 2002. The Committee recommend that those posts should be expeditiously filled up at this critical juncture, so that the Company is steered on the path of success with a definite direction and purpose.

## **ANNEXURE – I**

**TOUR PROGRAMME OF THE COMMITTEE ON PUBLIC UNDERTAKINGS TO  
BHUBANESWAR, MUMBAI AND KOLKATA FROM 16<sup>TH</sup> TO 19<sup>TH</sup> JANUARY, 2002  
AS ACTUALLY PERFORMED  
( MEMBERS ASSEMBLED AT BHUBANESWAR )**

<b><u>DATE AND DAY</u></b>	<b><u>TIME</u></b>	<b><u>VISIT &amp; DISCUSSION</u></b>
16.1.2002 (Wednesday)	1630 hrs	Discussion with the officials of Mahanadi Coalfields Limited
<b>(NIGHT HALT AT BHUBANESWAR)</b>		
17.1.2002 (Thursday)	1000 hrs	Discussion with the officials of MECON (India) Limited
	1215 hrs	Departure for Mumbai by IC-169 ( 1345 hrs)
	1600 hrs	Arrival Mumbai
<b>(NIGHT HALT AT MUMBAI)</b>		
18.1.2002 (Friday)	1000 hrs	Discussion with the officials of Engineers India Limited
	1145 hrs	Discussion with the officials of Container Corporation of India Limited
	1530 hrs	Departure for Kolkata by IC-274 (1635 hrs)
	1915 hrs	Arrival Kolkata
<b>(NIGHT HALT AT KOLKATA)</b>		
19.1.2002 (Saturday)	0930 hrs	Discussion with the officials of Coal India Limited
	1145 hrs	Discussion with the officials of MSTC Limited
	1300 hrs	Discussion with the officials of Hindustan Steel Works Construction Limited

### **DISPERSAL**

**ANNEXURE – II**

**COMPOSITION OF THE COMMITTEE ON PUBLIC UNDERTAKINGS  
WHICH VISITED BHUBANESWAR, MUMBAI AND KOLKATA FROM  
16<sup>TH</sup> TO 19<sup>TH</sup> JANUARY, 2002**

<b>S. NO.</b>	<b>NAME</b>	<b>DATE OF JOINING</b>	<b>DATE OF LEAVING</b>
1.	Prof Vijay Kumar Malhotra, Chairman	16.1.2002 Bhubaneswar	19.1.2002 Kolkata
2.	Shri Prasanna Acharya	16.1.2002 Bhubaneswar	17.1.2002 Bhubaneswar
3.	Shri Sudip Bandyopadhyay	18.1.2002 Kolkata	19.1.2002 Kolkata
4.	Shri Ram Tahal Chaudhary	17.1.2002 Mumbai	19.1.2002 Kolkata
5.	Smt Sangeeta Kumari Singh Deo	16.1.2002 Bhubaneswar	18.1.2002 Mumbai
6.	Shri C K Jaffer Sharief	16.1.2002 Mumbai	19.1.2002 Mumbai
7.	Shri Vilas Muttemwar	17.1.2002 Mumbai	18.1.2002 Mumbai
8.	Shri C P Radhakrishnan	16.1.2002 Bhubaneswar	19.1.2002 Kolkata
9.	Shri Tarit Baran Topdar	18.1.2002 Mumbai	19.1.2002 Kolkata
10.	Shri Suresh Kalmadi	16.1.2002 Bhubaneswar	18.1.2002 Mumbai
11.	Shri Jibon Roy	17.1.2002 Mumbai	19.1.2002 Kolkata
12.	Shri B P Singhal	16.1.2002 Bhubaneswar	19.1.2002 Kolkata
13.	Shri C. P. Thirunavukkarasu	17.1.2002 Bhubaneswar	19.1.2002 Kolkata
14.	Shri Ranjan Prasad Yadav	17.1.2002 Mumbai	19.1.2002 Kolkata
	<b>SECRETARIAT</b>		
1.	Shri S Bal Shekar, Director		
2.	Shri L N Gaur, Under Secretary		
3.	Shri Raj Kumar Under Secretary		
4.	Shri Girdhari Lal Executive Asstt.		

**ANNEXURE - III**

**LIST OF OFFICIALS OF MECON LIMITED WHO WERE PRESENT  
DURING DISCUSSION WITH THE COMMITTEE ON PUBLIC  
UNDERTAKINGS AT BHUBANESWAR ON 17.1.2002**

- |    |                    |                    |
|----|--------------------|--------------------|
| 1. | Shri R.L.Trikha    | Director           |
| 2. | Shri R.D. Sahu     | General Manager    |
| 3. | Shri D.Rath        | Dy General Manager |
| 4. | Shri S.K.Das       | Dy General Manager |
| 5. | Shri Sanjeev Kumar | Manager            |

2/Gaur/STR-MECON