

**COMMITTEE ON PUBLIC
UNDERTAKINGS
(1981-82)**

(SEVENTH LOK SABHA)

TWENTY-EIGHTH REPORT

ON

**H. M. T. LTD.—TRACTORS DIVISION
(MINISTRY OF INDUSTRY—DEPARTMENT OF
HEAVY INDUSTRY)**



*Presented to Lok Sabha and
Laid in Rajya Sabha on 24 December, 1981*

**LOK SABHA SECRETARIAT
NEW DELHI**

December, 1981/Paus, 1903 (S)

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COMMITTEE ON PUBLIC UNDERTAKINGS (1981-82)
ON HMT LTD. - TRACTORS DIVISION

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(1981-82)

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**STUDY GROUP III ON BHARAT HEAVY ELECTRICALS LTD.,
ENGINEERING PROJECTS (I) LTD., AND CERTAIN
ASPECTS OF HINDUSTAN MACHINE TOOLS LTD., JESSOP
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5. Shri Swami Dinesh Chandra

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Twenty Eighth Report on HMT Ltd.—Tractors Division.

2. The Committee took evidence of the representatives of HMT Ltd. on 20 and 26 August 1981 and Ministry of Industry (Department of Heavy Industry) on 26 August, 1981.

3. The Committee considered and adopted the Report at their sitting held on 23 December, 1981.

4. The Committee wish to express their thanks to the Ministry of Industry (Department of Heavy Industry and HMT Ltd. for placing before them the material and information they wanted in connection with the examination of the subject. They wish to thank in particular the representatives of the Ministry of Industry (Department of Heavy Industry) and HMT Ltd. who gave evidence and placed their considered views before the Committee.

NEW DELHI;
December 23, 1981
Pausa 2, 1903 (S).

BANSI LAL,
Chairman,
Committee on Public Undertakings.

PART-I

BACKGROUND ANALYSIS

Hindustan Machine Tools Ltd. (HMT) was incorporated in February, 1953 for the production of Machine Tools. Later, Watches were taken up as an additional product line in the early sixties. Subsequently the Company diversified further into non-machine tools lines like tractors, printing machines, lamps and lamp making machinery.

Tractor Project

A. Project Approval

2. **HMT** took up assembly of tractors in May, 1971 with imported components in collaboration with M/s. Motokov of Czechoslovakia, utilising the facilities and infrastructure already available at Pinjore where it had set up its third factory for the production of machine tools in May 1962. Subsequently in June, 1972 the company submitted the Detailed Project Report to the Ministry of Industrial Development for the manufacture of agricultural tractors. The approval for the project was issued by the Ministry on 29th March, 1974.

3. The Committee enquired about the reasons for the delay in the approval of the project. The Secretary, Department of Heavy Industry stated in evidence:

“There is a lot of processing. When an organisation submits its project report, it has to be scrutinised by a large number of government organisations including the Planning Commission and the Bureau of Public Enterprises. After that scrutiny, the Public Investment Board scrutinises it. Then they recommend it to the government. The organisation can only persuade various agencies to help them in scrutiny, but cannot take decisions.”

4. Subsequently in a note submitted, the Ministry furnished the following chronological account of the time taken at each level/stage

in the Ministry from the date of receipt of the proposal from HMT upto the approval of the project by the Government;

-
- 14-6-1972 . . . Detailed Project Report (DPR) in respect of tractor Project received from HMT.
 - 23-6-1972 . . . DPR circulated to the Ministry of Finance, DGTD, Planning Commission, Ministry of Agriculture etc. for examination and comments.
 - 31-7-1972 . . . Comments of Bureau of Public Enterprises (BPE) (Production Division), Ministry of Finance received.
 - 7-8-1972 . . . Comments from BPE (Construction Division), Ministry of Finance received.
 - 21-8-1972 . . . Ministry of Agriculture, Planning Commission, DGTD reminded to expedite their comments.
 - 26-9-1972 . . . Ministry of Agriculture, Planning Commission, DGTD again reminded to expedite their comments.
 - 26-10-1972 . . . D. O. letter sent to Ministry of Agriculture, DGTD and Planning Commission to offer comments on DPR.
 - 1-11-1972 . . . Planning Commission convened an Inter Departmental meeting to consider the DPR.
 - 14-11-1972 . . . A note on the points in respect of DPR raised by BPE and other Departments sent to HMT for comments.
 - 16-11-1972 . . . Comments from Ministry of Agriculture received.
 - 17-11-1972 . . . Comments from DGTD received.
 - 15-12-1972 . . . HMT's clarification on various points raised by BPE and other Departments received.
 - 19-12-1972 . . . Comments of Planning Commissions received.
 - 6-2-1973 . . . Inter-Ministrial meeting held to consider further the DPR.
 - 19-2-1973 . . . Ministry of Finance (Plan Finance) asked for additional information regarding foreign exchange implications of the project.
 - 23-4-1973 . . . Note for PIB finalised in consultation with Ministry of Finance.
 - 2-6-1973 . . . Proposal considered by PIB who desired that the project should be scrutinised against with a view to achieving maximum possible economy.
 - 8-6-1973 . . . Revised comprehensive note prepared and referred to Ministry of Finance (Department of Expenditure).
 - 23-6-1973 . . . Ministry of Finance (Department of Expenditure) desired certain additional information to be incorporated in the note.
 - 27-6-1973 . . . Comments of the Ministry on the points raised by Ministry of Finance sent to them.
-

20-7-1973 . . .	File received back from Ministry of Finance with observations on the comments made by this Department.
28-7-1973 . . .	File referred back to Ministry of Finance with the requisite clarifications.
29-8-1973 . . .	Further Comments received from Ministry of Finance.
15-9-1973 . . .	Revised draft sent to Ministry of Finance .
22-9-1973 . . .	File received back from Ministry of Finance with the suggestion for incorporating additional information in the note.
25-9-1973 . . .	Revised note sent to Ministry of Finance for being placed before PIB.
1-12-1973	Proposal considered by PIB was cleared the project.
31-12-1973 . . .	Note for the Cabinet Committee on Economic Coordination (CCEC) in respect of the above project sent to the Cabinet Secretariat.
7-1-1974 . . .	Proposal considered by Cabinet Committee on Economic Coordination.
29-3-1974 . . .	Approval in respect of the tractor project communicated to HMT after receipt of the clearance of the Cabinet Committee.

5. The Committee enquired from the Ministry as to what prompted the Government to allow Hindustan Machine Tools Ltd. to take up tractor manufacture. The Secretary of the Ministry stated that tractor was an item of vital interest in an important area of the economy, i.e. agriculture. Accordingly, it was thought that it would certainly be useful to have one public sector unit which could make contribution in controlling the prices and maintaining the quality through competition. As the machine tool business was going down HMT came forward with the proposal to go into this field. This got married with the broad objectives stated earlier and it was allowed by the Ministry.

B. Range of Production

6. The Company manufactures tractors in H.P. Ranges of 25 (HMT Zetor-2511), 35 (HMT—3511) and 58 (HMT Zetor—5911). It also introduced the 55 HP tractor (HMT Zetor-5711) in 1977-78 but abandoned it in 1980-81 after selling 2490 tractors and took up manufacture of 58 HP Tractors (HMT Zetor-5911).

7. The Committee desired to know the reasons for taking up the manufacture of 55 HP tractor and discontinuing it within a period of 3 years. The Ministry intimated that assembly and supply of 55 HP Tractors with imported components was commenced in 1977-78. Before HMT could undertake phased manufacture of these tractors

their collaborators—Motokov, Czechoslovakia, who had been developing the improved version had successfully developed and introduced a new improved model 5911 against their earlier model 5711. This technology upgradation resulted in increase in horse power, reduction in engine smoke rate, reduction in specific fuel consumption as also other design features for improving durability, safety and performance of the tractor. Since HMT at that time had yet to procure the required tooling for model 5711 it was agreed in November, 1979 to take advantage of the technology upgradation and to take up the manufacture of model 5911 instead of 5711 tractor. In this connection the Managing Director, HMT also stated in evidence that the Budni Tractor Testing Station had suggested that instead of manufacturing an older model with a lower horse power it would be preferable if HMT considered manufacturing a higher horse power tractor. Since they had not invested in tooling it was decided that they could accept the advice.

8. Asked whether it would not have been better to adopt the new model *ab-initio* rather than going in for the older 5711 model, the Secretary, Department of Heavy Industry stated that it would have been best possible alternative if right from the beginning the better tractor had been manufactured. However, at the time of introduction of the 5711 model, the new model was in design development stage and had not become proven one. The Committee were also informed that HMT had obtained in their collaboration agreement the option to take latest technology of 5911 model without any additional collaboration fees.

9. The Committee wanted to know whether the change over from model 5711 to 5911 would not create any maintenance problem in the case of model 5711 tractors already sold. The Ministry have intimated that the two models have common parts to the extent of 84 per cent in value. The power pack design of 5711 is similar to that of lower horse power tractor (2511) which continues to be manufactured by HMT. Further HMT have stored imported components valued at Rs. 10 lakhs for meeting maintenance requirements of 5711 tractors.

10. Asked about the number of uncommon components in 5711 and 5911 model of tractors, the HMT stated in a note that there were 18 uncommon components for 5911 model as compared to 5711 model. Of these 10 were imported and 8 were indigenous components. As regards the arrangements made for meeting requirements of uncommon parts, it was stated that out of total stock of spare parts worth Rs. 10 lakhs for 5711 tractors that were being maintained with

HMT, uncommon items were worth Rs. 6 lakhs. It was replenished every year in tune with market demand and the customers demand would be met during the normal life of 5711 tractors.

11. In regard to a specific question about the availability of front tyre fitted on the 5711 tractor, the HMT stated that the size of the front tyre used on HMT Zetor 5711 was 6.50 x 20-6 ply. There were three manufacturers in India for these tyres. These tyres were available in the market. For HMT Zetor-5911 also now in production the same size of front tyre was being used. HINDUSTAN HWD-50 tractor produced by M/s. Gujarat Tractor Corporation was also using the same size front tyres. As regards the availability of the gears fitted in the gear box, the HMT intimated that gears for the gear box of 5711 were hitherto imported but sufficient stock was available with them. Moreover these gears were common with their tractor 5911 now in production. They had started manufacture of these gears at their works and they would be available "off-the-shelf" to meet requirement of their customers.

12. The Committee desired to know whether any arrangements had been made for the manufacture of uncommon components by HMT. It was stated that for most of the Gear Box and Transmission Housing Components, forgings were common and corresponding uncommon components were manufactured by Machining these forgings differently. Such forgings had been developed indigenously and their manufacture had started in HMT for 5711 tractors also.

C. Production Performance

13. The following table gives the installed capacity, budget estimates and actual production of the Tractors Division in physical terms from the years 1976-77 to 1980-81.

In numbers

Year	Installed Capacity	Budget Estimates	Actual Production
1976-77	9000	9000	4415
1977-78	9000	8500	6457
1978-79	9000	8500	8500
1979-80	9500	9500	8524
1980-81	10500	10500	8105

14. The reasons given by the HMT for not achieving the installed capacity and budgeted production in various years are as under:—

1976-77: The shortfall in production was due to non-availability of hydraulics caused by failure of supplies from foreign collaborators during the first nine months of the financial year and consequent loss of opportunity of sales during two major agricultural seasons in 1976. Production had to be curtailed to avoid stock piling of unmanageable quantity of tractors at the end of the year.

1977-78: The opening stock of finished tractors was as high as 1254 numbers. The market demands were not encouraging. Also there were heavy power-cuts in Haryana upto 75 per cent during May, June, August and September, 1977 and disruption and delay in the supply of critical bought-outs. Production had, therefore, to be kept at a reasonable level with a view to avoid stock piling of completed tractors. The production was revised downwards during the year from 9000 to 6500 and later to 6150. The year ended with a closing stock of 22 tractors.

1979-80: The shortfall in production was caused by disruption of supplies due to extensive power shortages in West Bengal, Punjab, Haryana, Maharashtra and other States where bought out components are normally manufactured for production. Diesel shortage in the country also contributed to disruption of supplies. In-house manufacture of certain items was affected due to power-cut in the State. The market demand during this year also came-down due to drought situation in the northern States of the country.

1980-81: The labour strike in September-October, 1980 lasting for 42 days and subsequent timelag in normalisation of procurement and production levels was one of the main reasons for the shortfall in production. The other main reason was power-cuts ranging from 20 per cent to 60 per cent imposed by Haryana State Electricity Board during November, 1980 to March, 1981.

15. Asked as to when production as per installed capacity was expected to be achieved, the Committee were informed that it was expected to be achieved in 1981-82.

D. Import Substitution

16. The Committee wanted to know the percentage of imported components for all types of tractors manufactured by HMT. The Managing Director, stated that the percentage of imported components in 58 HP tractor was 61 per cent. The import content in 55 HP tractor during last phase of its production in 1980-81 was 60 per cent which was brought down from 77 per cent and 73 per cent in 1977-78 and 1978-79 respectively. The 25 HP and 35 HP tractors were, however, fully indigenous.

E. Utilisation of men and machine

17. The following table shows the machine hour and man hour utilisation as a percentage of achievable capacity:—

Year	Machine Hour	Man Hour
1976-77	77	91
1977-78	68	76
1978-79	78	91
1979-80	67	84
1980-81	68	84

18. The Committee enquired to what extent lesser utilisation of capacity and manpower was responsible for high cost of production. The Managing Director, HMT, stated that in 1976-77 and 1978-79 their utilisation was 91 per cent in respect of man hours, which was quite good but in the years 1977-78, 1979-80 and 1980-81 the utilisation could not come to this level because they had power cuts, and it ranged from 20 to 60 per cent. Further in 1980-81 there was a strike for 42 days.

19. In regard to machine-hours utilisation, the witness stated:

"In respect of machine hours we have actually two types of machines, special purpose machines and general purpose machines. For this kind of configuration, utilisation of 70 percent is quite reasonable."

F. Operational Efficiency of tractors

20. The Diesel Oil and Mobil Oil consumption of HMT tractors vis-a-vis various models manufactured by its competitors was stated to be as follows:—

Range H. P.	S.No.	Tractor Model	Specific fuel consumption in grams per BHP per hour.	Engine Lub.Oil Consumption at High ambient temp. of 40 C° grams/BHP/HR
18 to	PH 1 2	HMT Zetor —2511 Harsha T-25	. 247.6 . 210	2.19 1.736
25	HP 3 4	Swaraj 724 . Eicher 241 .	. 227 . 223	2.44 2.93
30 to	HP 1 2	HMT-3511 Swaraj 735 .	. 233 . 213.9	1.170 0.597
40 to	HP 3 4 5	Escorts 335 . MF-1035 . International B—275 .	. 206.1 . 215 . 233	1.811 2.14 1.71
40 to	HP 1 2	HMT Zetor-5711 . HMT Zetor-5911 .	. 249 . 201	0.31 Not available
60 to	HP 3 4 5 6 7	(OECD) TAFE-504 . Kirtoskar 4006 K . Ford 3600 . International 444 . Hindustan 50 .	. 242 . 177 . 202 . 253 . 220	1.07 1.968 0.074 0.84 1.52

21. In the case of HMT-Zetor-2511 and HMT-3511 tractors fuel consumption is the highest as compared to similar tractors of the competitors. The Committee desired to know whether HMT had considered at any time, modifications to the designs of these tractors in consultation with the Tractor Training and Testing Station, Budni as was suggested by them in the case of 5711 model to reduce fuel consumption and the operating cost. The Managing Director, HMT stated in evidence that in respect of 2511 model their first attempt was to indigenise the tractors rapidly. They were, however, doing certain exercises for reducing the specific fuel consumption.

22. Asked whether their R&D organisation had made any suggestions to bring down the fuel consumption in HMT tractors, the Managing Director, HMT stated in evidence:

“We started it about two years ago... We have started making certain components and we hope to bring down the fuel consumption.”

23. When pointed out that this being a very important area, more attention should have been given to this aspect of fuel economy, the Managing Director, HMT submitted:

“I fully agree with you. We are conscious of this. We have not done on this model (25 HP) much work.”

24. The Committee wanted to know whether high fuel consumption in HMT tractors was a constraint in making them popular in the market. The Managing Director, HMT stated:

“My answer is that it has not reduced its popularity because the draw bar pull is more.... The engine can be designed for various parameters and one of the parameters is the draw bar pull. When we increase that draw bar pull, we need a high torque engine which may not be as fuel-efficient in specific fuel consumption. Of all the models our corresponding model has the highest draw bar pull.”

G. Cost of Production

25. The following table shows the actual average cost of production in respect of various types of models manufactured by HMT for the years from 1976-77 to 1980-81:

2934 LS—2.

26. The manufacturing operations of tractors was largely assembly of bought out components whose percentage of the direct Cost of Production was around 60 in the case of 25 HP-2511 tractor, 98 in the case of 55 HP-5711 tractor, 62 in the case of 35 HP-3511 tractor and 93 in the case of 58HP-5911 tractor during the period 1977-81. Asked whether the competitors of HMT also undertook largely the assembly of bought out components, the Managing Director, HMT stated in evidence:

"Like automobiles, in tractors also a large percentage of materials and components have to be bought, and this is applicable to the industry as a whole. The items are mostly tyres, batteries, fuel injection equipment, lights, seats, starter motors etc."

27. Asked about the percentage of bought-out components in other tractors comparable with HMT Zetor-5911, the witness stated that "It would be in the region of 80 per cent." On a further query as to when the HMT would be able to reduce the percentage of bought-out components in respect of 5911 tractor, the Managing Director HMT stated that they expected that in 1983-84 for 5911 also the percentage would be 80 per cent.

28. The Committee desired to know whether there had been any value analysis with a view to reduce cost of production. The Managing Director, HMT, stated:

"We did it in 1976-77. We did the value engineering and in fact from the next year there was a drop in the inputs, costs of materials and other bought outs which was done by an exercise of value engineering."

29. The Committee enquired whether the Ministry considered the cost of production of HMT tractors to be reasonable. The Secretary, Department of Heavy Industry stated: "The cost of production was high. That is why they were making losses."

30. Asked whether there was a case for a detailed cost study of the HMT tractors by Bureau of Industrial Costs and Prices or any other independent body, the Secretary, Department of Heavy Industry stated in evidence:

"Not only the Government agrees, indirectly the Government has accepted and the study has been done. . . . The Department of Heavy Industry requested the Bureau of Industrial Costs and Prices in April, 1980 to undertake a

detailed examination of the tractor industry as a whole. That study has been done. In fact, it has been completed only a few days ago and the report has come."

31. Asked about the action taken on the basis of the findings in the Report, the Secretary stated that the report was under the consideration of the Ministry.

32. It is also noticed from the Annual Report of HMT for 1980-81 that the percentage of value added to value of production was only 21.67 per cent in the case of Tractors as compared to 60.83 per cent in case of watches and 56.72 per cent in case of Machine Tools.

H. Sales and Servicing

(i) Sales

33. The sale of tractors by HMT is made largely through private dealers and State Agro Industries Corporation. The percentage of sales through private dealers, State Agro Industries Corporation and Miscellaneous Sales for the year 1978-79, 1979-80 and 1980-81 was as follows:—

Year	Private Dealers %	State Agro %	Miscellaneous %
1978-79 .	68.33	31.46	0.21
1979-80 .	66.51	33.03	0.46
1980-81 .	72.85	26.37	0.78

34. Asked which were the States in which major sales took place, the Managing Director, HMT stated that in 1979-80, out of the total sale of 8159 tractors, the highest sale of 2,250 tractors was in the State of Punjab, following by U.P. 1328 tractors, Haryana 1066 tractors and Gujarat 611 tractors.

35. The Committee wanted to know the number of State Agro Industries Corporation and other dealers who act as sales agents of HMT. The Managing Director HMT stated that there were in all 18 Agro Industries Corporations including NAFED. The number of

dealers, who acted as sales agents of HMT Tractors during 1980-81 in each State was as follows:—

State	No. of dealers
Punjab	12
Haryana	8
U.P.	15
Karnataka	1
M.P.	8
Bihar	8
Rajasthan	7
Jammu & Kashmir	1
Andhra Pradesh	4
Gujarat	6
Maharashtra	7
Tamil Nadu	4
Others	3
TOTAL	84

36. Asked about the reasons for appointment of private dealers as their sales agents, the Managing Director, HMT stated that they were earlier selling tractors only through the State Agro Industries Corporation but they were not able to sell all the tractors in the market through them. Therefore, they appointed private dealers, due to which sale of HMT tractors increased.

37. The Committee wanted to know the terms and conditions on which these agents were employed. The HMT furnished the following criteria for selection of dealers:—

- (1) Their financial strength and capability to provide infrastructure like show room, work-shop and trained personnel etc.
- (2) Their technical background and experience in tractors, connected agricultural commodities and Automotive trade.
- (3) Their reputation in the market. Selection is made by inviting applications and assessment of their potentiality against the criteria mentioned above.

38. The Committee desired to know the procedure for distribution of tractors amongst the State Agro Industries Corporations and other dealers. The HMT in a note stated: "In the beginning of the financial year, State Agro Industries Corporations, as well as other dealers give their monthly requirement for the whole year. This requirement is worked out by them based on the potential existing in their area. Tractors are subsequently made available to them based on their requirement and our production programme, our assessment of market potential in their area and timely availability of payments."

39. Asked whether the State Agro Industries Corporations were given preference the Managing Director, HMT stated that they give preference to State Agro Industries Corporations if there was a simultaneous demand.

40. As regards the sales commission allowed by the HMT *vis-a-vis* other competitors to the agents, the Managing Director, HMT gave the following data for various types of tractors:

A. 25 HP Range :	Model	Commission Paid (Rs.)
H.M.T.	Zetor 2511	1900
Harsha	T-25	2100
B. 35 HP Range :		
HMT	3511	2350
Escorts	335	2400
	345	2525
C. 45 HP to 55 HP Range :		
HMT	Zetor-5911	3000
Escorts	Ford. 3600	3429

41. The Committee wanted to know whether the State Agro Industries Corporations were sole selling agents of HMT tractors. In reply the Managing Director, HMT stated that they were selling other models also. Asked about the position in regard to private dealers, the HMT have stated:—

"There is a clause in our dealership contract, which binds a dealer not to deal with competitive makes of tractors. If he does so, he renders himself liable for termination of his dealership."

(ii) *Servicing*

42. The Committee wanted to know the procedure for servicing of tractors. In a note the HMT stated:

"State Agro Industries Corporations, as well as other dealers provide first installation service and subsequently 3 more services free of cost to the customers. However, payment for consumables like lubricants and filters etc. is chargeable to the customers. Subsequently, they can make use of repair facilities with State Agro Industries Corporations and other dealers on chargeable basis."

43. The Committee enquired whether it would be better if the HMT had their own service stations in each state, where the users could get their tractors repaired. The Managing Director, HMT stated that the State Agro Industries Corporations and private dealers, who were their agents were doing the servicing and repair work of HMT tractors also. It was difficult for the company to have their own service centres all over the country because of large volume of work. It had therefore been de-centralised.

44. Asked whether it was not possible for the HMT to have at least one sales depot in each State Capital of the country, the Managing Director, HMT stated that it was not possible for HMT because their overheads would increase.

I. *Complaints*

45. The Committee enquired about the complaints received by HMT from the users against the dealers of HMT tractors during the last five years. HMT stated in a note that they had not received any serious complaints from users against their dealers excepting for a few stray cases. Such complaints were as under:

<i>Nature of complaints</i>	<i>No. of Complaints</i>
1. Delay in delivery of Tractors	19*
2. Delay in Registration of Tractors	52
3. Delay in Warranty replacement	78
4. Delay in reimbursement of claims (*Figures for two years)	

Timely corrective action had been taken by them in all such cases to settle the complaints.

J. Pricing Policy

46. Prior to October, 1974, there was statutory control on the selling price of tractors. Statutory control was discontinued in October, 1974 but prior approval of Government was necessary before any revision of prices could be effected. In March, 1979, it was decided by the Government that future price increase would be determined by the HMT keeping in view factors like least profit margins, cost economics, production efficiencies, competitors' prices for equivalent models etc. Prices were accordingly being fixed by the company on the basis of the above guidelines issued by the Government. Price surveillance and control on distribution and sale however continued in respect of three preferred makes of tractors viz. MF 1035 (35 HP), TAFE-504 (50 HP) produced by M/s. Tractors & Farm Equipment Ltd., Madras & Ford-3600 (46 HP) produced by M/s. Escorts Tractors Ltd., Faridabad.

47. The Committee desired to know what exactly was the mechanism for price control prior to October, 1974. The Secretary, Department of Heavy Industry explained that the manufacturers had to submit their cost data. The Government, in consultation with the Cost Accounts Wing of the Ministry of Finance analysed the cost data and based on that examination, the costs and prices were fixed.

48. Asked about the reasons for removing the statutory control over the prices of tractors, the Secretary of the Department stated that in the case of control over the prices, the prior approval of Government was required for any increase. Sometimes, it was resulting in undesirable practices. Elaborating further he stated:

"In the hope of getting a higher price, the manufacturer keeps his stock and does not release them. So, it will be much better if we can develop a situation in which we can control the price through competition or overseeing or surveillance. At a particular point of time—October, 1974—it was thought that probably with the cooperation of the various manufacturers, surveillance would be enough for controlling the price."

49. Explaining the difference between the controlled price and surveillance on certain makes of tractors, the Secretary, Department of Heavy Industry stated that in controlled price, approval of the Government was required for increasing the price. In the case of surveillance, the manufacturer had got certain norms and guidelines, he fixed the price accordingly and sent the data to the Government. It was examined in the Ministry and if it was found that

somebody had fixed a price at a higher rate, he was forced to adjust that price.

50. Asked about the reasons for keeping price surveillance and control on distribution and sale of only on three makes of the tractors, the Secretary of the Department explained that these happened to be preferred makes in the sense that they had been in the field for the last twenty years and had created a name. On account of that name the common man went after them. They had always a waiting list. It was, therefore, considered necessary to keep some check on these types of tractors.

K. Selling Price.

51. The average selling price of tractors of three models during the five years (1975-76 to 1979-80) was as follows:—

	2511	3511	5711
1975-76 .	28336		
1976-77 .	30886		
1977-78 .	33613		55000
1978-79 .	36455		55416
1979-80	41979	47231	64131

52. The Committee enquired as to how the selling price of HMT tractors compared with the price of those of the other manufacturers e.g. Eicher prior to October, 1974 when there was complete price control. The Managing Director of HMT stated that in 1973, the price of Eicher (Good Earth 241) was Rs. 27,720 and the price of HMT (Zetor 2511) was Rs. 23,650.

53. The Committee wanted to know as to how the position of selling price of each variety of HMT tractors after *vis-a-vis* that of the competitors after October, 1974 and the number of price revisions made. From the information furnished by HMT it was noticed that between October, 1974 and March, 1979 there were 8 price revisions of HMT-Zetor 2511 as compared to 6, 4 and 3 price revisions in respect of Harsha T-25. Swaraj 724 and Eicher Good Earth-241 Tractors respectively. Asked whether the Government ensured the cost efficiency of the HMT while approving each price

revision during that period, the Secretary, Department of Heavy Industry stated:

"In all these examinations the cost efficiency is always considered. There is a specialised wing of the Chief Cost Accountant of the Government of India, which is associated with it."

54. The HMT Zetor 2511 tractors which was cheaper by Rs. 4100 in 1973 had become costlier by Rs. 9700 in 1981 as compared to Eicher 241 tractor. Asked about the reasons for it the Managing Director, HMT stated that till 1973 they were using imported components. Now the tractor was fully indigenised. As the percentage of indigenous components went up the cost of materials also went up. Further Eicher 241 does not have all the features which the HMT Zetor-2511 has. It was however admitted that over the course of years there was no change in the features.

L. Profitability

55. The Committee enquired about the anticipated and actual internal rate of return for tractors division. The Secretary of the Department of Heavy Industry stated that as per DPR submitted in 1972 the total investment required for the project was Rs. 11.89 crores and the anticipated internal rate of return was 10.8 per cent net on gross capital on completion of the gestation period of 4 years i.e. from 1976-77. However, as the project was cleared only in 1974, the 10.8 per cent internal rate of return should be calculated from 1978-79. As against it the actual position in regard to net rate of return for each year upto 1980-81 was as under:

Year	Net Profit	Gross Fixed Capital	Net return percentage
	(Rs. in lakhs)	(Rs. in lakhs)	(before tax*)
1975-76	41	1013	4.05
1976-77	(—) 349	1196	(—) 29.18
1977-78	(—) 117	1250	(—) 9.36
1978-79	(—) 135	1297	(—) 10.41
1979-80	74	1322	5.60
1980-81	97	1404	6.90

*Since HMT a multi-unit undertaking is taxed after taking into account its total operation, separate figures of net return after tax for the tractor unit are not given.

56. The Committee enquired whether the Ministry had any time investigated the reasons for H.M.T. not getting the stipulated return. The Secretary, Department of Heavy Industry stated that a detailed review was conducted about two years ago, in which number of items were picked up. Some of the important ones were delay in the establishment of HMT's own ancillaries; need for improvement in material management; delayed and inadequate supplies from vendors; necessity for manufacturing its own power packs etc. In late 1979, as a follow up, an investigating team was asked to undertake ABC analysis for inventory control, identify measures for cost control and work out the strategy so that better management could be ensured. As a result of these detailed investigations certain remedial measures were also taken e.g. rationalisation of production, faster development of ancillary units, inventory control system by computer etc.

57. Asked as to when it would be possible to achieve 10.8 per cent return the Secretary Department of Heavy Industry stated that in 1981-82 the project was expected to give a return of 10 per cent. If it could be achieved this year, they could achieve 10.8 per cent return in another year.

OVERALL WORK NO RESULTS

58. During the course of examination of H.M.T., the Committee also went into the working results of various business groups of HMT in a manner.

59. According to Annual Reports of HMT for the years 1979-80 and 1980-81 the turnover in respect of three main products of HMT for the years 1979-80 and 1980-81 was as follows:—

	Turnover (Value)	
	(Rs. in crores)	
	1979-80	1980-81
Machine Tools	65.27	62.58
Watches	69.14	75.04
Tractors	37.34	42.38

60. The profitability of the three main product groups was as follows:

	Profit (Before tax)	
	(Rs. in crores)	
	1979-80	1980-81
Machine Tools	6.30	2.93
Watches (including imported watches SKD/CKD)	16.98	19.08
Tractors	0.74	0.97

61. When the Committee pointed out that judging from turnover as well as profitability, the main activity of HMT now appeared to be watches instead of machine-tools, the Managing Director, HMT agreed that it was so in terms of turnover but not in manufacturing.

62. The Committee also drew attention the fact that in the case of watches a profit to the extent of Rs. 1560.99 lakhs was on sale of confiscated watches/watches imported in fully assembled/SKD/CKD condition. The Managing Director, HMT stated that the plan was to make two million watch component sets in their Tumkur factory. Assembly was to be done in 14 assembly units spread all over the country, out of which 12 assembly units had already come up. Therefore, to feed these assembly units and to avoid smuggling, the components had been imported and fed to these units. Their Tumkur factory was expected to produce two million sets this year and with that the import of components which were required to feed the assembly units would taper off.

63. The Committee enquired whether it was a deliberate decision on the part of the Company to diversify for watches and tractors and to make watches as a premier item. It was explained that so far as watches were concerned in the year 1959 the Government of India signed an agreement with M/s. Citizen Watch Co. of Japan for the manufacture of watches in India. Based on the technological competence, HMT had built at that time in precision engineering and the availability of managerial talent in its fold, the Government of India entrusted the implementation of the Watch Project of HMT. As regards the tractors, the Managing Director stated in evidence that in 1966 there was recession in the machine tools. From that year onward the Company deliberately looked for the product where it was anticipated that the demand would not fall at the same time.

64. When pointed out that main objective of setting up of the Company was the production of machine tools, the Managing Director stated:

“We want to increase machine tool production. This production is increasing steadily over the years. There is a separate Directorate for machine tools. Their turn-over comes next to watches. Tractor is much less.”

65. The Committee also enquired whether any study had been made to manufacture the machine tools which were being imported at present and in which the Company had expertise. The Managing Director stated that they had made a market study. There were certain numerical control machine tools which were being imported. The Company was thinking of producing all these numerical control machines which were of high value. They were also in touch with N.T.C. to find out the possible requirements of textile machinery.

66. The Committee enquired whether it would not be better and in the larger interest of the Company to manufacture watches in a separate Company so that it can concentrate more on the manufacture of machine tools. The Managing Director stated “For watches there is a technology which is becoming common. For example, machinery for the manufacturing of watch components was not made in the country. By taking up watch manufacturing we have set up a division to manufacture this machinery . . . There is no reduction in our attention on the machine tool side.”

PART II

.. Conclusions/Recommendations of the Committee

1. The HMT Ltd., incorporated as a machine tools enterprise in 1953 later diversified its products mainly to cover watches and tractors. As regards taking up production of tractors from the 70's, the Committee were informed that tractors being an item of vital interest in an important sector of the economy, i.e. agriculture, it was thought that it would be useful to have one public sector unit which could make contribution in controlling the prices and maintaining the quality through competition. The Committee's examination of the Tractors Division of the HMT, however, revealed that this objective is yet to be realised.

2. Although the HMT took up assembly of tractors in May 1971 under a foreign collaboration, a detailed project report was submitted to government only in June 1972 and it was approved in March 1974. The Committee have already dealt with delays in approval of project proposal of public undertakings in their Twenty-Seventh Report (1981-82). They hope that the project clearance procedures would be streamlined to ensure that normally decision on project proposals is taken within a period of six months.

.. 3. The HMT at present manufactures tractors in the horsepower ranges of 25, 35 and 58. The company introduced a 55 HP tractor (HMT Zetor 5711) in 1977-78 but abandoned it in 1980-81 after assembling mostly out of imported components and selling 2490 tractors and took up manufacture of 58 HP tractor (HMT Zetor 5911). The Committee do not appreciate frequent changes of models, which is bound to create serious repairs and maintenance problems for the users. They have, however, been informed that the change was attended by a technological upgradation which resulted in reduction of engine smoke rate, economy in specific fuel consumption and improvement in durability, safety and performance of the tractors. The Committee would nevertheless like the company to ensure that the users of the earlier model are not in any way handicapped in regard to repairs and maintenance atleast for a period of 10 years.

.. 4. In view of the energy crisis created by the unprecSdented increase in the petroleum prices, it is necessary to economise on the

use of petroleum products. It is, therefore, disappointing to find that the specific fuel consumption of all the models of HMT tractors is the highest compared to that of the competitor's products except in the case of the 58 HP tractor. The Committee, therefore, suggest that concerted R&D efforts should be directed towards making such modifications in the designs of these tractors as are possible to reduce the fuel consumption, to a level least among the indigenous tractors in consultation with expert organisations in the field.

5. The Committee have been informed that prior to October, 1974 there was statutory control on the selling price of tractors and that thereafter upto February, 1979 prior approval of government was necessary before any revision of price was effected by HMT. Government decided in March, 1979 that future price increase would be determined by the HMT itself. However, price surveillance and control on distribution and sale still exist in respect of three preferred makes of tractors viz. MF 1035 (35 HP), TAFE-504 (50 HP) produced by M/s. Tractors & Farm Equipment Ltd., Madras and Ford 3600 (46 HP) produced by M/s. Escorts Tractors Ltd., Faridabad. The Committee regret that despite the HMT being in the field of tractor manufacture for a decade now, none of its products could be said to belong to the 'preferred make' category. On the contrary there have been vast increases in the selling price of its products after the removal of statutory control on it, and such increases would certainly result in the prospective users shying away further from patronising the HMT. Whatever the reason for the removal of statutory control, the Committee feel strongly that ensuring the cost efficiency and reasonableness of the price charged by all the manufacturers is a must. The Committee learn that on a request of the Department of Heavy Industry, the Bureau of Industrial Costs and Prices (BICP) has undertaken a detailed examination of the tractor industry as a whole and that its report is under examination. The Committee would await the result of the examination.

6. The Committee would refer to the price increases in regard to HMT tractor, Zetor 2511. The statutory price fixed by the Government in 1973 was Rs. 23,650 as against Rs. 27,720 for the comparable private sector tractor, Eicher 241. However, the prices of these tractors were stated to be Rs. 53,183 and Rs. 43,470 respectively as on 10 July, 1981. Thus the HMT tractor which was cheaper by Rs. 4100 in 1973 has become costlier by Rs. 9700. That this differential is on account of the indigenisation of the components of the HMT tractor does not convince the Committee. Despite the vast increase, the average selling price of the HMT tractor was always less than the average cost of production during the period 1975-80. This

clearly indicates cost inefficiency. The Committee are of the view that consistent with the objective with which the HMT was allowed to produce tractors, the selling price ought to be somewhat less than that of the comparative products of the competitors in the private sector.

7. On the whole the Committee received an impression that the cost of production of HMT tractors was very high on account of underutilisation of men and machines, large-scale purchase of components from far and wide at high cost and heavy overheads. The percentage of value added to value of production is the least in tractors, of all the products of the HMT. There were heavy losses on the tractor division in the earlier years but only after obtaining complete freedom for price fixation the division had made overall profits during the years 1979-81. However, the expected rate of net return of 10.8 per cent on gross capital is yet to be realised. The Committee would like a critical review of the position on the basis of the study of the BICP in order to take timely steps to ensure that the tractors division of the HMT is put on a sound footing without recourse to frequent upward price revision.

8. In order to improve upon the productivity of labour the Committee desire that an incentive system should be devised linking wages including DA, bonus to productivity and introduced as early as possible.

9. While on the one hand the manufacturing operations are largely assembly of bought out components, on the other, sales are almost entirely through the sales agents. The commission paid to the dealers ranged from Rs. 1900 to Rs. 3000 per tractor. Thus middlemen derive the benefit of manufacture of tractors by HMT. The sales mainly took place in Punjab, Haryana and U.P. HMT did not appear to have worked out the economics of organising direct sales and servicing facilities instead of making sales through the dealers. The Committee recommend that at least on an experimental basis HMT should organise forthwith sales and servicing on its own in some areas and gradually extend to other areas. The Committee would also like the HMT to manufacture components by itself or through its own ancillaries developed in the peripheries of its factory as much as possible.

10. In terms of turnover the machine tools, watches and tractors of the HMT accounted for Rs. 62.53 crores, Rs. 75.03 crores and

Rs. 42.38 crores respectively in 1980-81. In terms of profits these accounted for Rs. 2.93 crores, Rs. 19.08 crores and Rs. 0.97 crore respectively. Having regard to the need to diversify and step up production of machine tools and explore the possibility of augmenting exports to other developing countries, the Committee feel strongly that production of watches and tractors could be organised in two different enterprises leaving the HMT to concentrate on its primary function of development and production of machine tools. This deserves serious consideration by Government.

BANSI LAL,

Chairman,

Committee on Public Undertakings.

NEW DELHI;

December 23, 1981.

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