C. P. U. No. 487

COMMITTEE ON PUBLIC UNDERTAKINGS (1982-83)

(SEVENTH LOK SABHA)

FIFTY-THIRD REPORT

ON

Action taken by Government on the recommendations contained in the Twenty-Ninth Report of the Committee on Public Undertakings

(Seventh Lok Sabha)

ON

JESSOP & CO. LTD.—EMPLOYMENT AND OVERHEADS

MINISTRY OF INDUSTRY—DEPARTMENT OF HEAVY INDUSTRY

Presented to Lok Sabha and 5.11.82

Laid in Rajya Sabha on.....5.11.82

LOK SABHA SECRETARIAT
NEW DELHI

October, 1982/*Asvina*, 1904 (*Saka*)

Price : *Rs.* 1.20

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COMMITTEE ON PUBLIC UNDERTAKINGS
(1982-83)

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Dr. D. N. Gadhok—*Chief Financial Committee Officer.*

Shri G. S. Bhasin—*Senior Financial Committee Officer.*

ACTION TAKEN SUB-COMMITTEE OF THE COMMITTEE ON PUBLIC UNDERTAKINGS

(1982-83)

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7. Shri Satyendra Narain Sinha
8. Shri J. P. Mathur
9. Shri Syed Sibtey Razi

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to submit the Report on their behalf, present this Fifty-third Report on Action Taken by Government on the recommendations contained in the Twenty-ninth Report of the Committee on Public Undertakings (Seventh Lok Sabha) on Jessop & Co. Ltd—Employment and Overheads.

2. The Twenty-ninth Report of the Committee on Public Undertakings was presented to Lok Sabha on 24 December, 1981. Replies of Government to all the recommendations were received on 31 July, 1982. Further information called for in respect of one recommendation was received on 16 August, 1982. The replies of Government were considered by the Action Taken Sub-Committee of the Committee on Public Undertakings on 5 October, 1982. The Report was finally adopted by the Committee on Public Undertakings on 8 October, 1982.

3. Analysis of Action Taken by Government on recommendations contained in the Twenty-ninth Report of the Committee is given at Appendix.

मधुसूदन वैराले

(MADHUSUDAN VAIRALE)
Chairman,
Committee on Public Undertakings.

NEW DELHI;
October 22, 1982.
Asvina 30, 1904 (*Saka*).

CHAPTER I

REPORT

The Report of the Committee on Public Undertakings deals with the action taken by Government on the recommendations contained in the Twenty-ninth Report (Seventh Lok Sabha) of the Committee on Public Undertakings (1981-82) on Jessop & Co. Ltd.—Employment and Overheads, which was presented to Lok Sabha on 24 December, 1981.

2. Action Taken notes have been received from Government in respect of all the 8 recommendations contained in the Report. These have been categorised as follows:

(i) Recommendations/Observations that have been accepted by Government.

Sl. Nos. 1, 2, 4, 6 and 7.

(ii) Recommendation/Observation which the Committee do not desire to pursue in view of Government's reply.

Sl. No. 8.

(iii) Recommendation/Observation in respect of which Government's reply has not been accepted by the Committee.

Sl. No. 5.

(iv) Recommendation/Observation in respect of which final reply of Government is still awaited.

Sl. No. 3.

3. The Committee will now deal with the action taken by Government on some of their recommendations.

A. Delay in in-depth Study of Inventory Control

Recommendation (Serial No. 3)

4. The Committee had observed that the working capital of the company was locked up largely in heavy inventories and trade credits and that had created tremendous liquidity problems. According to the Committee, the huge inventory holding of the company (Rs. 38.26 crores at the end of March 1980) was by any standard unjustified. The works stock and raw materials alone accounted for more than a year's consumption for production. Surprisingly, no norms for inventory holding had been fixed. Although the BPE had taken up in August 1980, an in-depth study of inventory

control of the company, the study had not yet been completed. The Committee had desired that the study should be expedited and scientific inventory control introduced without delay.

5. In their reply (July 1982) the Government have informed that the BPE were still conducting the study and that they were being regularly reminded to complete the study.

6. BPE have already taken unduly long time of two years on the study of inventory control of the Company. At this rate no quick solution can be found for any problem that besets a public enterprise. The delay in this case has frustrated the Committee's anxiety to see that proper inventory control is introduced in the Company. The Committee do not find any reason for the inordinate delay on the part of the BPE. They are, therefore, constrained to reiterate that BPE should complete their study expeditiously and scientific inventory control introduced without any further delay.

B. Fixation of Staff Strength, Recommendation (Serial No. 4)

7. The Committee had observed that the strength of the various categories of employees of the company had not been fixed on any scientific basis. For all practical purposes the actual strength was taken as sanctioned strength. The Committee had recommended an independent study of the position.

8. In their reply the Government have stated that Messrs Jessop & Co. Ltd. had confirmed that the strength of various categories of employees of the Company had not so far been fixed on any scientic basis. This was due to the fact that the mixture of employees that existed before the takeover of the Company for their product lines at that time could not be abruptly changed after the takeover. The Company has also stated that this imbalance would continue for sometime more until natural wastage takes a corrective action.

9. Fixation of employees' strength on a scientific basis is a must if only to arrive at the exact surplus manpower and to take action to adjust the manpower to the actual need progressively. The Committee would, therefore, like this exercise to be taken up forthwith.

C. Inccredibly low labour productivity-Linking wages to productivity, Recommendation (Serial No. 5)

10. The Committee were surprised to learn that the system of ascertaining the idle time of labour and specifying the reasons therefor was not being followed in the company and the workers could not re-

deployed productively owing to apprehension of disruption of industrial relations. In general the workers were reported to resist all measures to progress. Although according to the company all the public undertakings in Calcutta suffered from similar problems, it was refreshing to hear from the Secretary, Department of Heavy Industry, that these were largely managerial failures. The Committee had further observed that productivity in Jessop & Co. was incredibly low. The workers reportedly put in hardly 3 hours of work per day. However, overtime allowance ranging from Rs. 59 lakhs to Rs. 129 lakhs was paid annually during the last 3 years conceding a demand by certain section of the workers to have minimum overtime anyhow. Such a practice obviously should not be allowed to continue. The Committee had further desired that some fresh incentive system should be evolved to link wages including DA and bonus to productivity and introduced in all the public undertakings.

11. In their reply the Government have stated:—

"According to Jessop & Co. Ltd., there is stiff resistance from the workers in the booking of time on jobs and idle time. The entire strength had to be booked in jobs and made a party for incentive bonus calculations. After acquiring a good production planning system for the Paper Machinery Division with the signing of the Foreign Collaboration Agreement for Paper Machinery Manufacture, an attempt was made by the Management for introducing the method of booking time on jobs and idle time. But this could not be implemented on account of resistance from workers.

As regards overtime, Messrs. Jessop & Co. Ltd. have explained that there has been a long outstanding practice in the company of providing certain amount of overtime to categories of employees like sweepers, drivers and maintenance staff and other non-productive groups. But according to the Company they have reduced the overtime expenses to a great extent since 1978. The Company consider that overtime cannot be further reduced without reorganisation of shifts etc. to which the employees have been resisting. However, a new revised incentive scheme has been introduced by the Management in the Road Roller Division where time put in by all productive and non-productive employees is proportionately linked to final out-turn. The Company propose to introduce such a scheme in their Wagon and Coach Division soon. The Company further consider that it may not be possible for them to introduce this system in certain other areas due to tailormade nature of each job, where incentive bonus scheme on tonnage basis may have to continue."

12. The Committee are surprised at the helplessness of the Company in introducing any comprehensive scheme for increasing productivity and reducing overtime. Optimum utilisation of manpower is a must for the survival of the units as a viable entity. The workers should be made to realize this in their own interest and scientific control|incentive system introduced covering all sectors of the workers without undue delay.

D. Role Administrative Department-Recommendation (Serial No. 7)

13. The Committee had pointed out that the performance reviews by the Department of Heavy Industry and the followup action on the directives given in such review meetings were not effective enough as had been conceded by the Secretary. At no time did the Department review the employment and productivity of the Company specifically. The performance reviews thus beacme a mere ritual and the quality of supervision by the Department had been admittedly weak. The followup action on the advice given to the Company in March 1980 to prepare a comprehensive plan to improve the affairs and financial operations was delayed and such a plan had yet to evolve in a satisfactory way. The Committee had regretted that despite such glaring slackness in financial and management control in the company, the Administrative Department had not played its role effectively.

14. In their reply the Government have stated that the Management Information System had recently been streamlined in the Department of Heavy Industry. The new system would enable the Government to keep a close watch on the performance of the Public Sector Enterprises and take appropriate remedial action in time.

15. It should be the responsibility of the Administrative Department to inter alia **monitor closely the implementation of various measures taken up in pursuance of the recommendations of the Committee contained in their Tewenty-ninth Report until the expected results are achieved and the Company become a viable entity taking such further steps as may be warranted. The Committee trust that the Department will take note of this and take appropriate action.**

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation (Sl. No. 1)

Jessop & Co. Ltd., a sick company in the private sector converted as a Government Company in April 1973 following the takeover of its management under the IDR Act, 1951 in May, 1958, has incurred heavy losses again in recent years after making some profits during the period 1974—77. The cumulative losses at the end of March 1980 stood at Rs. 35.95 crores which have wiped out the paid-up capital of Rs. 25.99 crores. The overheads of the company are very high in as much as these have accounted for 46 to 51 percent of the cost of production during the last three years. An interfirm comparison has shown that besides salaries and wages, the interest element of cost is the highest in Jessop & Company. The cost of production has been consistently higher than the realisable value of production. The value of production ranged from Rs. 28 crores to Rs. 39 crores as against the break-even level of Rs. 60 crores. The Committee were started to hear from the Managing Director of the company that the productivity of labour was about a tenth of what it was in private sector. Despite considerable reduction of labour strength since the takeover of the company there is stated to be still overstaffing to the extent of 2,000 in certain categories out of the total workforce of about 8,000. The working capital requirement of the company has been more than 60 percent of the cost of production and the working capital is mostly financed through cash credit from banks entailing high interest liability. Thus the company suffers from a combination of maladies.

(Paragraph—1)

Reply of Government

M/s. Batliboi & Co. Ltd., Chartered Accountants, who were appointed in 1981 to examine the working of the Company in detail and suggest a suitable capital reorganisation scheme and other steps considered necessary to overcome the present difficult situation of Jessop & Co. Ltd. have since submitted their Report and have stated that the main reasons for the past losses may be attributed to unprofitable contracts and orders accepted by the Company, huge interest burden, very low productivity, absence of adequate control over cost, idle capacity, material cost being high, want of adequate working capital, absence of adequate supervision, lack of proper inventory control and absence of scientific costing system etc. M/s. Jessop & Company Limited are taking all possible action to control the overhead expenditure by exercising economy on the quantum of inputs, encouraging employees to retire voluntarily to reduce the surplus strength, stopping induction of any fresh employees as well as taking measures to step up production to the maximum extent possible, so that the percentage of their overhead expenses to cost of production can be brought down from the present level of 50 per cent. However, due to inflationary trends in the country, the cost of power and fuel, consumable stores, other overheads and maintenance cost are going up and these are beyond the scope of effective control by the Management. The low productivity is generally due to management's inability to provide all the required inputs in time and in correct sequence. The productivity becomes very low when the ratio of tonnage out-turn to number of people employed in the company is calculated.

Attempts are constantly being made to improve productivity through dialogue with the unions.

As regards high percentage of working capital to the cost of production pointed out by the COPU, M/s. Jessop & Co. Ltd. have explained that as most of the products of the company other than rolling stock and road construction equipment are having long production cycles, the working capital requirement is comparatively higher. However, steps are being taken by the Company to reduce the working capital level by taking prompt action for identification and disposal of surplus and slow moving items of inventory and realisation of outstanding debts.

[Ministry of Industry, Deptt. of Heavy Industry O.M. No. 6(18)/82 H.M. IV dated 26-7-82]

Recommendation (Serial No. 2)

The actual losses incurred by the company were much higher than the budgeted losses. The Committee received an impression that the Department of Heavy Industry did not critically scrutinise the deficit revenue budgets which required prior approval of Government and fix the budgetary support in terms of working capital accommodation realistically but instead went on recouping the losses. However, lately for the year 1981-82 some provision was made for the working capital requirement. The Committee desire that the tendency on the part of the public undertakings to underestimate their losses should be curbed. The present system of funding the public undertakings which are incurring losses by giving them loans and over-burdening them again with interest is admittedly unsatisfactory. The Committee would await the result of the review of the system by the Ministry in order to remove the financial constraints of public Undertakings.

(Paragraph—2)

Reply of Government

Similar recommendations were made by the Expert Committee on Public Enterprises which made a detailed study of five public sector undertakings in the eastern region including Jessop & Co. The Expert Committee felt that the grant of budgetary support through loans was no remedy for overcoming ways and means position. The interest on loans adds to the burden of the companies and pushes up the production cost on account of additional incidence of interest and consequently leads to further loss to the companies. The Expert Committee recommended *inter-alia*(a) waiver of recovery of interest on all Govt. loans outstanding as on 31-3-81 from 1-4-81 to 31.3.85 (b) the cash loss the companies would incur during 1981-82 should be financed by Government through non-plan loans and interest recovery on such loans should be waived till 31-3-85 (c) the working capital needs of the company should be fully met at the beginning of the year through non-plan loan and recovery of loan and interest thereon waived till 31-3-85. Government orders have issued on the accepted recommendations of the Expert Committee.

[Ministry of Industry, Department of Heavy Industry O.M. No. 6(18) 82-HM.-IV dated the 26th July, 1982.]

Further information called for

Kindly furnish a copy each of the Government orders on the accepted recommendations of the Expert Committee as are relevant to the subject matter of the recommendation of the Committee on Public Undertakings.

[LSS OM No. 111/2(1)-PU/82 dated 5-8-82]

Further reply of Government

On the basis of the accepted recommendations of the Fazal Committee, the Government has granted financial relief to the Company vide letter No. 6(87)/81-H.M. IV dated 2nd July 1982 (reproduced below). In addition, Government have also agreed to provide Working Capital requirement of the company to the extent of deficiency from the Banking Sector as non-plan loan and waiver of interest thereon till 31-3-85. On this basis, Government have so far released Rs. 2,52.00,000 as Working Capital loan during 1982-83 and interest on this loan has been waived till 31st March, 1985.

Ministry of Industry (Department of Heavy Industry) letter No. 6(87)/81-HM-IV dated the 2nd July, 1982. addressed to the Chairman and Managing Director, & Jessop &, Co. Ltd., Calcutta Re: Financial Relief to Messrs. Jessop & Co. Ltd.,, Calcutta, on the basis of recommendations of the Expert Committee on Public Enterprises (ECOPE).

I am directed to state that on the basis of the recommendations of the Expert Committee on Public Enterprises (ECOPE), it has been decided to grant the following financial reliefs to your undertakings:—

A. The recovery of interest on Government loans amounting to Rs. 45.73 crores outstanding as on 31-3-81 will be waived w.e.f. 1-4-81 till 31.3.85.

B. The cash losses which the company incurred during 1981-82 will be financed by Govt., through a non-plan loan and interest thereon will be waived till 31-3-85.

C. There will be moratorium on repayment of instalments of Govt., loan due on borrowings mentioned under A and B above until 31-3-85.

2. Formal sanction for waiver of interest amounts due during 1981-82 and 1982-83 will be issued after necessary provisions have been made and passed by way of supplementary grant for interest subsidy.

3. I am further to state that the above reliefs are granted to M/s. Jessop & Co., to help them achieve breakeven in 1982-83 and making of profits thereafter. These reliefs are subject to the condition that the revised projections of the production and profitability furnished by the Company and reproduced below are achieved.

(Rs. in crores)

1982-83		1983-84		1984-85	
Out-put	Operating Results	Output	Operating Results	Output	Operating Results
55.34	+0.10 (Profit)	65.24	+0.62 (Profit)	72.00	+3.48 (Profit)

4. This issues with the concurrence of IFW *vide* their U.O. *No.* 16-49/82-Fin. V dt. the 2nd July, 1982.

5. The receipt of this letter may please be acknowledged.

[Ministry of Industry, Department of Heavy Industry O.M. No. 6(18)/82-HM IV dated the 13th August, 1982].

Recommendation (Serial No. 4)

The strength of the various categories of employees of the company has not been fixed on any scientific basis. For all practical purposes the actual strength has been taken as sanctioned strength. The Committee would commend an independent study of the position. The management of the Company seems to be top heavy, even though its management staff is only about 7 per cent of the total employees' strength as against the average of 12.3 per cent as revealed by a study of public undertakings by the BPE. The Committee wish to point out in this connection that the lower percentage in the case of Jessop and Co. is illusory in view of the admitted surplus and the grossly under-employed work-force.

(Paragraph—4)

Reply of Government

Messrs. Jessop & Co. Ltd., have confirmed that the strength of various categories of employees of the Company has not so far been fixed on any scientific basis. This is due to the fact that the mixture of employees that existed before the takeover of the Company for their product times at that time could not be abruptly changed after the takeover. The Company has stated that this imbalance will continue for sometime more until natural wastage takes a corrective action.

As regards the comments of the Committee on the ratio of Management Staff to total strength, M/s. Jessop & Co. Ltd. have indicated that even if the surplus strength of 2000 employees is ignored, the ratio of Management Staff to total strength works out to only 9 per cent against the average 12.3 per cent as revealed by the study of Bureau of Public Enterprises.

[Ministry of Industry, Department of Heavy Industry, O.M. No. 6 (18)/82-HM. IV dated 26th July 1982].

Comments of the Committee

Shri G. S. Bhasir—*Senior Financial Committee Officer.*

Recommendation (Serial No. 6)

In the opinion of the Committee the existing labour force could be productively employed to a large extent provided regular flow of properly matched inputs and closer supervision of production could be ensured. In the early 60's when the company had a much bigger force there were profits. The present problem is, therefore, clearly one of managerial inefficiency, which ought to be curbed. In this connection the Committee also desire that the possibility of company developing its own ancillary units should be explored for assured supply of materials.

(Paragraph—6)

Reply of Government

Admittedly, there is scope for employing existing labour force more productively with regular flow of matching input and closer supervision of production. But earlier Jessop were engaged mainly in fabrication of simple types of structurals and fabrication work like manufacture of wagons, building structurals and bridge girders, gates for barrages, standard type EOT cranes etc. which required large number of unskilled and semi-skilled labour requiring lot of rivetting work. At present the product profile of Jessop has changed considerably. The company is now engaged mainly in fabrication of much complicated type of structurals involving more skilled workmen and more weldings jobs such as fabrication of BHEL condensors, oil Rig Structurals, special type of cranes like Deck Cranes container cranes, long wall mining equipment, manufacture of road rollers, tractors, vibratory rollers, paper machinery etc. There is an imbalance in the skill of the workmen and Jessop's requirements. Though efforts have been made by the Company to retrain and utilise unskilled surplus labour, there is a limit to their utilisation. The company, however, expect that with the increase in production and taking up of manufacture of wagons again, surplus labour will be utilised by them.

So far as profitability is concerned, it may be stated that in sixties the labour was cheaper and the order book position was better. In the meantime, the equipments have also aged considerably and there has been chronic power shortage in the region. Steps are, however, being taken to remove some of the constraints like (i) working capital by way of budgetary support by Government and (ii) obsolete machinery by way of modernisation etc. in a phased manner. Captive power plants have been installed.

As regards creating captive ancillary units, the Company consider that in the absence of steady product flow, such a venture would be uneconomical. The Company are, therefore utilising the existing ancillary units to the maximum extent possible.

[Ministry of Industry, Department of Heavy Industry, O.M. No. 6(18)/82-HM. IV dated 26-7-82].

Recommendation (Serial No. 7)

That the performance reviews by the Department of Heavy Industry and the follow-up action on the directive given in such review meetings were not effective enough had been conceded by the Secretary. At no time did the Department review the Employment and productivity of the company specifically. The performance reviews have thus become a mere ritual and the quality of supervision by the Department has been admittedly weak. The followup action on the advice given to the company in March 1980 to prepare a comprehensive plan to improve the affairs and financial operations was delayed and such a plan has yet to evolve in a satisfactory way. The Committee regret that despite such glaring slackness in financial and management control in the company, the Administrative Department has not played its role effectively. The Committee trust that at least after this Report some serious steps would be taken to make the company a viable unit.

(Paragraph—7)

Reply of Government

Management Information System has recently been streamlined in the Department of Heavy Industry. The new system would enable the Government to keep a close watch on the performance of the Public Sector Enterprises and to take appropriate remedial action in time.

[Ministry of Industry, Department of Heavy Industry, O.M. No. 6(18)/82-HM. IV dated 26-7-82].

Comments of the Committee

Attempts are constantly being made to improve productivity through

pointed out by the COPU, Ms. Jessop & Co. Ltd. have explained that as

CHAPTER III

RECOMMENDATION WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF GOVERNMENT'S REPLY

Recommendation (Serial No. 8)

An idea seems to have emerged recently that all the similar Calcutta based central public enterprises should be viewed as one for the purpose of organising production and achieving a reasonable load of productivity. The Committee recommend that the desirability of putting all the engineering enterprises in Calcutta controlled by the Department of Heavy Industry under a holding company for necessary co-ordinated approach should be seriously examined by Government.

(Paragraph—8)

Reply of Government

The recommendation of the Committee has been further examined in the Department. A similar recommendation was also made by the Expert Committee on Public Enterprises (ECOPE) headed by Shri Mohd. Fazal, Member, Planning Commission, which studied the working of the Central Public Enterprises based in and around Calcutta (names given below). The ECOPE had recommended to set up an Apex Coordination Body comprising the Chief Executives of the following five companies studied by it:—

1. Heavy Engineering Corporation, Ranchi.
2. Mining and Allied Machinery Corporation, Durgapur.
3. Jessop & Co. Ltd., Calcutta.
4. Burn Standard Co. Ltd., Calcutta.
5. Braithwaite & Co. Ltd., Calcutta.

The above recommendation was examined and the Deptt. of Heavy Industry had reservations about the cohesive functioning of such an organisation because of the following reasons:—

(a) These organisations had conflicting commercial interests and to reconcile the same would be difficult.

(b) It would be desirable to have a measure of competition, interse, and within the public sector organisations covering similar production profile.

(c) The question of avoiding price war between these PSUs and to rationalise the product-mix of these companies could be taken care of by Department of Heavy Industry itself.

The above views of Department of Heavy Industry were considered in a meeting of Secretaries' Committee which also agreed with these views. The Secretaries' Committee had also noted that the necessary coordination among these undertakings might be arranged by Department of Heavy Industry.

[Ministry of Industry, Department of Heavy Industry, O.M. No. 6(18)/82-HM. IV dated 26-7-82].

CHAPTER IV

RECOMMENDATION IN RESPECT OF WHICH REPLY OF GOVERNMENT HAS NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation (Serial No. 5)

The Committee were surprised to learn that the system of ascertaining the idle time of labour specifying the reasons therefor was not being followed in the company and the workers could not be re-deployed productively owing to apprehension of disruption of industrial relations. In general the workers are reported to resist all measures to progress. Although according to the company all the public undertakings in Calcutta suffer from similar problems, it was refreshing to hear from the Secretary, Department of Heavy Industry, that these are largely managerial failures. As stated earlier the productively in Jessop & Co. is incredibly low. The workers reportedly put in hardly 3 hours of work per day. However, overtime allowance ranging from Rs. 59 lakhs to Rs. 129 lakhs was paid annually during the last 3 years conceding a demand by certain section of the workers to have minimum of overtime any how. Such a practice obviously should not be allowed to continue. The Committee further desire that some fresh incentive system should be evolved to link wages including DA and bonus to productivity and introduced in all the public undertakings.

(Paragraph-5)

Reply by Government

According to Jessop & Co. Ltd.. there is stiff resistance from the workers in the booking of time on jobs and idle time. The entire strength has to be booked in jobs and made a party for incentive bonus calculations. After acquiring a good production planning system for the Paper Machinery Division with the signing of the Foreign Collaboration Agreement for Paper Machinery manufacture an attempt was made by the Management for introducing the method of booking time on jobs and idle time. But this could not be implemented on account of resistance from workers.

As regards overtime, Messrs. Jessop and Co. Ltd., have explained that there has been a long outstanding practice in the Company of providing certain amount of overtime to categaries of employees like sweepers, drivers and maintenance staff and other non-productive groups. But according to the Company they have reduced the overtime expenses to a great extent since 1978. The Company consider that overtime cannot be further reduced without re-organisation of shifts etc. to which the employees have been resisting. However, a new revised incentive scheme has been introduced by the Management in the Road Roller Division where time put in by all productive and non-productivity employees is proportionately linked to final out-turn. The Company propose to introduce such a scheme in their Wagon and Coach Division soon. The Company further consider that it may not be possible for them to introduce this system in certain other areas due to tailormade nature of each job, where incentive bonus scheme on tonnage basis may have to continue.

[Ministry of Industry, Department of Heavy Industry, O.M. No. 6(18)/82-HM. IV dated 26-7-82].

Comments of the Committee

Please see paragraphs 10 to 12 of Chapter 1 of the Report.

CHAPTER V

RECOMMENDATION IN RESPECT OF WHICH FINAL REPLY OF GOVERNMENT IS STILL AWAITED.

Recommendation (Serial No. 3)

The working capital of the company is locked up largely in heavy inventories and trade credits and this has created tremendous liquidity problem. The huge inventory holding of the company (Rs. 38.26 crores at the end of March 1980) is by any standard unjustified. The works stock and raw materials alone accounted for more than a year's consumption for production. The book debts of the company represented about 60 percent of the sales. Surprisingly, no norms for inventory holding have been fixed so far. Although the BPE had taken up in August 1980 an indepth study of inventory control of the company, the study had not yet been completed. The Committee desire that this should be expedited and scientific inventory control introduced without delay. Further, the credit policy and recovery procedures of the company require a review to arrest such large accumulation of debts.

(Paragraph-3)

Reply of Government

BPE are still conducting the study. They are being regularly reminded to complete this study soon. When they complete their study, COPU will be informed about it.

Jessop & Co. Ltd., have, however, reported that although production is going up, due to various actions taken by them inventory of finished goods, raw materials and works stock and works in progress is showing a downward trend from 1981-82 as detailed below:—

Position as on	Rs. in lakhs
31-3-80	3826
31-3-81	3924
31-3-82	3750*
30-6-82 (Provisional)	3700

All possible actions are being taken by the company to improve the position further.

The observation made by the Committee on Public Undertakings that "the credit policy and recovery procedures of the company require a

* Please see at Page 18.

review to arrest such large accumulation of debts" has been considered in consultation with Jessop & Co. Ltd., and the Company have stated that the credit policies now being followed by it in general are as follows:—

(a) *Major orders of manufacture, supply and erection of Cranes, Gates, Paper Machineries, Mining Equipment etc.*

(i) Normally the company take an advance to the extent of 10 per cent to 30 per cent of the value of the contract from the customers along with the orders towards mobilisation expenses.

(ii) Payment terms are so arranged that the payment is received in stages e.g. on completion of drawings or related actions or against supplies so that money is not held up till the completion of the delivery.

(iii) Bill for erection portion is also raised on the basis of progress of work.

(iv) Final payments payable on completion of the warranty period are also collected wherever possible by submission of bank guarantee/indemnity bond as the case may be.

(b) *Structurals*

In the case of structural job, efforts are made to get the basic materials like steel from the purchaser and 100 per cent payment is received on delivery.

(c) *Supply contract for road rollers, tractors etc.*

In case of supply contracts deliveries are made against 100 per cent advance payment or negotiation of documents through Banks. However, in respect of items like road plant, tractors and dumpers sold through the Company's agent, payment is received after one month from the date of despatch which is now rigidly enforced.

(d) *Supply of EMU and MG Coaches to Railways*

For payment against rolling stock like EMU and MG coaches, advances from Railways are received against purchase of components. In addition, payment is also received in stages based on the progress of manufacture. Steel, wheel and axle sets, Electric Traction Equipment for EMU and batteries for MG coaches are also supplied free by the Railways.

(e) *Wagons to Railway*

Steel, wheel sets, roller bearing and couplers required for manufacture of wagons are supplied free by the Railway. The 90 per cent payment is received against inspection certificate on completion of the wagons and balance 10 per cent after delivery.

(f) *Exports*

All export orders are executed against L. C. In addition, advance is also taken whenever possible as in the case of supply of wagons to Vietnam from where an order of about Rs. 2 crores have been received recently.

In view of the above, the Govt. consider that payment terms are satisfactory unless a dispute arises with the customer regarding quality, delay in delivery etc.

Recovery of debts

As regards recovery of debts, Jessop and Co. Ltd., have stated that stricter follow-up and chasing, even by personal contracts, are now being made with the customers. In addition, all outstanding cases are reviewed by the management twice a month in a sales collection meeting and strategies are formulated for follow-up and collection. This has given good results. Old accumulated debts are given special attention by the Company in their collection drive. Amounts withheld by the parties on various grounds are being sorted out by mutual discussions, attending to the customers complaints/requirements if any, and completing the supplies.

According to Jessop & Co. Ltd., the out standing debts position is showing improvement since 1981-82 in spite of higher turnover which is clear from the figures given below:—

(Rs. lakhs)

Position as on	Outstanding debts
31-3-80	1914
31-3-81	2181
31-3-82	1825*
30-6-82 (Provisional)	1600

[Ministry of Industry, Department of Heavy Industry, O.M. No. 6(18)/ 82-HM-IV dated 26-7-82]

Comments of the Committee

Please see paragraphs 4 to 6 of Chapter 1 of the Report

NEW DELHI;
22 *October*, 1982.
30 *Asvina*, 1904 (*Saka*)

MADHUSUDAN VAIRALE,
Chairman,
Committee on Public Undertakings.

*At the time of factual verification Jessop & Co. intimated as follows:—

1. The value of inventory of finished goods, raw materials, works stock and work-in-progress as on 31st March, 1982 should be Rs. 3917 lakhs instead of Rs. 3750 lakhs.
2. The outstanding debts as on 31 March, 1982 should be Rs. 1746 lakhs instead of Rs. 1825 lakhs."

APPENDIX

(*Vide* para 3 of the Introduction)

Analysis of the action taken by Government on recommendations contained in the 29th Report of the Committee on Public Undertakings (Seventh Lok Sabha) on Jessop & Co. Ltd.—Employment and Overheads

I.	Total number of recommendations . . .	8
II.	Recommendations that have been accepted by the Government (*vide* recommendations at S. Nos. 1, 2, 4, 6 and 7)	5
	Percentage to total	62.5%
III.	Recommendation which the Committee do not desire to pursue in view of Government's reply (*vide* recommendation at S. No. 8)	1
	Percentage to total	12.5%
IV.	Recommendation in respect of which reply of Government has not been accepted by the Committee (*vide* recommendation at S. No. 5) . . .	1
	Percentage to total	12.5%
V.	Recommendation in respect of which final reply of Government is still awaited (*vide* recommendation at S. No. 3)	1
	Percentage to total	12.5%