

**COMMITTEE ON PUBLIC
UNDERTAKINGS
(1971-72)**

(FIFTH LOK SABHA)

FIFTH REPORT

**Action taken by Government on the recommendations
contained in the Twelfth Report of the Committee
on Public Undertakings (Fourth Lok Sabha)**

Heavy Electricals (India) Ltd.

**MINISTRY OF INDUSTRIAL DEVELOPMENT,
INTERNAL TRADE AND COMPANY AFFAIRS
(DEPARTMENT OF INDUSTRIAL
DEVELOPMENT)**



**LOK SABHA SECRETARIAT
NEW DELHI**

*September 1971/Bhadra, 1893 [Saka]
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C O R R I G E N D A

FIFTH REPORT OF THE COMMITTEE ON PUBLIC
UNDERTAKINGS (1971-72) ON THE ACTION TAKEN
BY GOVERNMENT ON THE RECOMMENDATIONS CON-
~~TAINED~~ IN THE TWELFTH REPORT OF THE COMMITTEE
ON PUBLIC UNDERTAKINGS (FOURTH LOK SABHA)
ON HEAVY ELECTRICALS (INDIA) LTD.

<u>Page</u>	<u>Line</u>	
(viii)	8	<u>For "of" read "on"</u>
1	11	<u>For "auditors" read "auditors"</u>
3	4 (from bottom)	<u>For "or" read "of"</u>
6	7	<u>Delete "("</u>
10	30	<u>For "(" read ", "</u>
11	5	<u>Delete ", " after 'are'</u>
11	last	<u>For "-" read "."</u>
13	23	<u>For "tagets" read "targets"</u>
14	7	<u>For "foreman" read "foremen"</u>
14	17	<u>For "take" read "make"</u>
14	27	<u>For "UAP, -" read "UAR, "</u>
14	34	<u>Delete "a" after "fair"</u>
17	-	<u>After line 19 insert " Ministry of Industrial Development and Company Affairs (Department of Industrial Development) O.M. No.24-4/68-HECHE dated 10th February, 1969/"</u>
20	8	<u>For "Committees" read "Committee's"</u>
23	3	<u>For "inmalpractices" read "in malpractices"</u>
23	18	<u>For "person" read "persons"</u>
33	20	<u>insert ", " after 'materials'</u>

<u>Page</u>	<u>Line</u>	
38	1	For "Messi's" read "Messrs"
39	14	For "tit" read "suit"
39	43	For "tated" read "stated"
39	20	For ", " read " ."
41	18	For "assumptional" read "assumptions"
43	22	For "Plant Test" read "Test Plant"
45	3	For "back" read "bleak"
45	13	For "or" read "of"
45	6 (from bottom)	For "projecting" read "projections"
47	27	For "representative" read "representatives"
50	1	For "in" read "is"
60	4	after '15.6.68' read "For expansion schemes"
62	18	For "EI" read "AET"
63	3	For "£7.500" read "£7,500"

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COMMITTEE ON PUBLIC UNDERTAKINGS

(1971-72)

CHAIRMAN

1. Shri M. B. Rana

MEMBERS

2. Shri K. Baladhandayutham
3. Shri Dinen Bhattacharya
4. Shri G. Bhuvarahan
5. Shri Khemchandbhai Chavda
- *6. Shrimati Subhadra Joshi
7. Dr. Kailas
8. Shri S. N. Misra
9. Shri Amrit Nahata
10. Shri P. Parthasarathy
11. Shri Syed Ahmed
12. Shri Narayana Kalliyana Krishnan
13. Choudhary A. Mohammad
14. Shri Dahyabhai V. Patel
15. Shri Kota Punnaiah

SECRETARIAT

Shri Sameer C. Mookerjee—*Deputy Secretary*

Shri M. N. Kaul—*Under Secretary.*

*Elected w.e.f. 11-8-1971 in the Vacancy caused on the resignation of Dr. V. K. R. Varadaraja Rao, M.P. on 29-7-71.

**STUDY GROUP VII ON ACTION TAKEN REPORTS AND
GENERAL MATTERS**

1. **Shri M. B. Rana—*Chairman***
2. **Shri P. Parthasarathy**
3. **Shri S. N. Misra**
4. **Shri Dahyabhai V. Patel**
5. **Shri Syed Ahmed**
6. **Dr. Kailas**
- *7. **Dr. V. K. R. Varadaraja Rao**

***Resigned from the Committee on Public Undertakings with effect from 29th July, 1971.**

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to submit the Report on their behalf, present this Report on the Action Taken by Government on the recommendations contained in Twelfth Report of the Committee on Public Undertakings (Fourth Lok Sabha) on Heavy Electricals (India) Ltd.

The Twelfth Report of the Committee on Public Undertakings was presented to the Lok Sabha on the 19th April, 1968. Government furnished their replies indicating the action taken on the recommendations contained in the Report on the 10th February, 1969. Further replies were received on the 3rd May, 9th June, 31st July, 12th December and 15th December, 1969. The replies of Government to the recommendations contained in the aforesaid Report were considered and approved by the Committee on Public Undertakings (1970-71) on 24th January, 1970 and the 11th November, 1970. The report, however, could not be presented to the 4th Lok Sabha due to its dissolution on 27-12-1970. This Report was again considered and adopted by the Committee on Public Undertakings (1971-72) on 14-9-71 and the Chairman was authorised to finalise the Report on the basis of the decisions of the Committee.

3. The Report has been divided into the following five Chapters:

- (i) Report
- (ii) Recommendations that have been accepted by Government.
- (iii) Recommendations which the Committee do not desire to pursue in view of the Government replies.
- (iv) Recommendations in respect of which replies of Government have not been accepted by the Committee.
- (v) Recommendations in respect of which final replies of Government are still awaited.

4. An analysis of the action taken by Government on the recommendations contained in the Twelfth Report of the Committee is given in Appendix III. It would be observed, therefrom that out of

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all recommendations made in the Report 64 per cent have been accepted by Government. The Committee do not desire to pursue 33 per cent of the recommendations in view of Government's replies. Replies of Government in respect of 2 recommendations (3 per cent) have not been accepted by the Committee.

M. B. RANA,
Chairman,

Committee of Public Undertakings.

NEW DELHI;
September 16, 1971.
Bhadra 25, 1893 (S)

CHAPTER I

REPORT

- A. *Inclusion of a clause in the agreement with foreign consultants making provision for examination of the accounts/documents of the consultants by Government or its nominee before making payments to them for agency work.*

Recommendation No. 5

In their recommendation in para 39 of the Twelfth Report (Fourth Lok Sabha), the Committee expressed their unhappiness over the agreement according to the provisions of which, payments, apparently, were made on certificate of auditors of the Consultants. The Committee pointed out that by agreeing to such a provision, the Undertaking, virtually bound itself to accept such a certificate as final in regard to the fairness of the remuneration for the services rendered under the agreement. The Committee recommended that Government should have insisted on an examination of the accounts/documents of the consultants by Government or its nominee in order to satisfy itself about the fairness and reasonableness of payments made to them for agency work.

In reply, the Ministry stated that according to the stipulation made by the consortium of Bankers only one firm should deal with the entire purchase financed out of their loan and that to their knowledge, reputed firms do not allow examination of their accounts by third parties. The Committee was not convinced by the argument and desired to know whether such provision for the payment to Consultants on a certificate given by their own auditors existed in all such agreements entered into with foreign collaborators by other Public Undertakings also or whether they were peculiar to the agreement in question. Accordingly, the Ministry of Industrial Development, Internal Trade and Company Affairs as also the Bureau of Public Enterprises, Ministry of Finance were requested to furnish the required information to the Committee. The Bureau of Public Enterprises addressed a few selected Public Enterprises for ascertaining the factual position with regard to the provision for the certification of payments being made to foreign Collaborators. Analysis of the replies received from these enterprises showed that in most of the cases, payments were spelt out in the contract itself, and there was no contingency envisaged for any cer-

tification as such of the payment due to the foreign Collaborators. In cases like Bharat Earth Movers Ltd., where such certification was contemplated, the certificates were to be given by independent auditors, and there was no provision for the scrutiny of the figures by the concerned Public Enterprise or its nominees. In the case of Hindustan Teleprinters Ltd., royalty paid by the company to the collaborators was based on the value of teleprinters manufactured, as per the output figures furnished by the Company. In this case also, the value had to be certified only by the auditors of Hindustan Teleprinters Ltd. and not those of the Collaborators.

The Committee, therefore, are fully convinced that in the case of HEIL, provision should have been made in the agreement with the firm for the checking by HEIL or Government nominee at least of those accounts of the Consultants which deal with the remuneration for the services rendered under the agreement in order to satisfy about the fairness and reasonableness of their claims before making payments to them for agency work. The Committee further feel that HEIL or the Government should not be considered as a third party for checking those accounts with which they are concerned under the agreement.

B. Proper screening of cost to the AEI (including reasonable provision for overheads) and maintenance of separate figures for them.

Recommendation No. 6

In their recommendations in para 41 of the Twelfth Report (Fourth Lok Sabha), the Committee expressed their surprise that neither the Government nor the Company had the means to check the claims of the Consultants, nor did they feel the necessity of doing it.

In reply, the Ministry have stated that as there was a pressing need for an early finalisation of the agreement with AEI and because the integrity of the firm was considered to be of the highest standing in the UK, the Government considered it expedient not to press the matter further for the provision of maintaining separate figures for cost to be paid to the AEI for services performed by them.

The Committee are not satisfied with the explanation and feel that a definite provision should have been made for appropriate means to check the claims of the consultants.

CHAPTER II
RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY
GOVERNMENT

Recommendation (Serial No. 8)

It will be seen that right from the beginning neither the Government nor the Company were aware of the total amount which will have to be paid to the Consultants. Even now Government are not sure as to what would be the total amount which would ultimately be paid to the Consultants as the divergence between the Government's and HE(I)L's estimates about the total payment that will have to be made to the Consultants is over one crore of rupees. From the rough figures which have been given to the Committee, the total figure is going to be over 10 per cent of the estimated cost of the project. The Committee consider it high. The Committee hope that for the rest of the Consultancy period utmost economy would be exercised in availing of the services of the Consultants so that payments to them could be reduced to the minimum. (Para 49).

Reply of Government

It may be seen from the various sub-clauses of clause XVI of the main Consultancy Agreement that apart from the amounts expressly incorporated as remuneration under clause XVI-(a) the charges for other services provided by the Consultants under sub-clauses (b) to (g) are variable depending upon the needs from time to time. Only against clause (e) the ceiling amount has been indicated. However, firm overall figures could not be determined in advance in view of the nature and scope of this project. For example, the number of specialists depend on the technical advice and assistance that may be necessary for the manufacture of various types of products from year to year. Similarly the extent of purchasing work depends on the output programme and the foreign exchange available for import of the components|raw materials and the volume or orders received by HEIL for various machines to be made.

As per approximate estimate produced before the committee the payments to the Consultants upto the time of expiry of their agreement was estimated at Rs. 6.03 crores. This sum is exclusive of

the income-tax liability of HEIL on the salaries etc. payable to the specialists, which is estimated at Rs. 200 lakhs approximately. The apparent divergence between HEIL and Government's estimates of the total payments is due to the element of Income-Tax amounting to Rs. 2 crores. The actual divergence is Rs. 2 crores and not Rs. 1 crore as mentioned in the committee's recommendation (c.f.) paras 45 and 47 where both the figures have been given. It is regretted that this point was not explained during evidence.

The Committee's recommendations regarding economy to be exercised in availing of the services of the Consultants for the rest of the period are being implemented and strict instructions have been issued for compliance by all concerned.

[Ministry of Industrial Development & Company Affairs (Deptt. of Industrial Development) O.M. No. 24-4|68-HECHE dated 10th February, 1969.]

Recommendation (Serial No. 9)

After going through all the Agreements, the Committee have come to the conclusion that some provisions in the agreements overlap and some clauses of the subsidiary agreements seem to be repugnant to the provisions of the main agreement. Also, as Audit have pointed out some of the provisions included in the final agreement were at variance with the original proposals. It appears that various provisions in the agreements are being so construed that payments are being made to the consultants without any scrutiny or check by the undertaking. If to the estimated amount of Rs. 8 crores of fees likely to be paid to the Consultants is added the profit which they might have earned by sale of plant and machinery manufactured and supplied to the undertaking, the amount the consultants would realise from HEIL would be appreciably much more than the etimated figure of Rs. 8 crores. The Committee would, therefore, recommend that Government should appoint a Departmental Committee with legal and financial experts to go into the implications of the various provisions of the agreements and the payments which have been made to the Consultants under these agreements. The payment of £6,000 to the consultants for reimbursement to one of the subsidiary Consultants and subsequent payment of £20,000 for reimbursement to the other subsidiary Consultant should also be looked into. The Departmental Committee should also examine as to what extent the working of these Agreements has been in accordance with the expectations entertained at the time of the signing of the main agreement. (Paras 52 & 53.)

Reply of Government

Recommendation of the Committee has been accepted. A Committee is being set up consisting of (1) the Chairman and Managing Director (2) Financial Adviser and Chief Accounts Officer, (3) a legal officer, all from HEIL, Bhopal, and (4) the Deputy Secretary in charge of the subject in the Ministry of Industrial Development.

[Ministry of Industrial Development, Internal Trade and Company Affairs (Deptt. of Industrial Development) O.M. No. 24-4/68-HE&M dated 9th June, 1969.]

Recommendation (Serial No. 10)

The Committee hope that future agreements to be entered into with foreign parties for the establishments of projects in the public sector will receive the utmost care and attention of Government. In this connection, the Committee would suggest that Government should also examine the creation of a permanent agency in the Government to advise in the negotiations with foreign parties regarding agreements to be entered into with them for setting up projects in the public sector. (Para 54).

Reply of Government

This aspect has been considered recently in the context of a Private Member's Bill in the Lok Sabha also which sought to provide that all agreements to be entered into by the Public Enterprises involving value above a certain limit, should be scrutinised and approved by Finance Ministry. It was, however, noted that even at present it has been stipulated that the powers to approve the agreements involving foreign collaborations proposed to be entered into by the Public Enterprises and also purchases and contracts of a major nature involving substantial capital outlays which are in excess of the powers delegated to them vest with the Government. The steps to be taken to streamline the procedure for scrutiny of agreements in respect of the Public Enterprises are under consideration.

[Ministry of Finance (Bureau of Public Enterprises) DO No. 9(111) | 69-BPE(GM) dated 12th Dec., 1969.]

Recommendation (Serial No. 14)

The Committee consider that although the Government and the undertaking had no experience of setting up such a project, the AEI,

at any rate had the requisite experience and knowledge of setting up such a factory and knew what formed the essential and basic parts of a project report. (Para 72).

Reply of Government

Noted.

[Ministry of Industrial Development & Company Affairs (Deptt. of Industrial (Development) O.M. No. 24-4|68-HECHE dated 10th February, 1969.]

Recommendation (Serial No. 18)

It would be seen that only 21 per cent of the plant and machinery was obtained from the indigenous sources. The Committee would recommend that efforts should be made to procure more of these plant and machinery for the public undertakings from the indigenous sources, in the context of national efforts required towards import substitution and self-reliance in the industrial field and the scarcity of foreign exchange. (Para 84).

Reply of Government

In the early years of this project, few special purpose machine tools and equipment were available in India. Our efforts at India-nization of capital equipment are reflected in the procurement for the expansion schemes which were sanctioned from 1965 to 1967. It may be seen from the table (at Appendix I) that the value of items being procured indigenously constitutes 63 per cent of the total value of orders placed for the various expansion projects.

Mention has to be made of the special efforts that are being made by us to maximise indigenous content by procuring the designs of certain proprietary equipment and fabricate as many items as possible indigenously within the country.

[Ministry of Industrial Development & Company Affairs (Deptt. of Industrial Development) O.M. No. 24-4|68-HECHE dated 10th February, 1969.]

Recommendation (Serial No. 20)

The Committee are glad that over the years HEIL have been able to reduce the import content of the components of its various equipments. It is, however, essential that HEIL gets its components at reasonable price, which should be lower than that of the imported components and also should be of high quality. It appears that

the indigenous suppliers are neither able to maintain quality of components nor are able to sell them at reasonable price. Also, these components have to be procured by HEIL from far off places. In view of this the Committee would recommend that HEIL should assist in the establishment and promotion of industries to support the plant. (Para 92).

Reply of Government

The Committee's recommendations have been noted for implementation. In fact efforts are being made to build up the ancillary industry in and around Bhopal to serve HEIL better and to a greater extent. The process is gradual, but would be successful in the long term.

[Ministry of Industrial Development & Company Affairs (Deptt. of Industrial Development) O.M. No. 24-4,68-HECHE dated 10th February, 1969.]

Recommendation (Serial Nos. 21 & 22)

That only 2 per cent of its requirements of components could be procured from the ancillary industries shows that they required further encouragement to develop especially when the quality of the items obtained from them is in accordance with the specification laid down by HEIL. Since there is wide scope for import substitution it is essential that HEIL should assist in the promotion of these industries technically and financially, if need be.

It is apparent that the project report had envisaged that all the manufacturing work pertaining to various equipments would be done within the factory premises and accordingly facilities have been created for manufacture of all the components within the factory. The Committee consider that at the time of preparation of project reports or at the time of their approval, it should also be scrutinised to see what items could be manufactured by ancillary industries rather than within the factory premises. In the case of HEIL, obviously, it has not been done. The Committee would not like an undertaking to manufacture ordinary components within its premises which could with advantage be framed out to ancillary industries. They hope that the capacity of HEIL would be utilised more for the sophisticated and heavy electrical equipments for which it is designed rather than utilise its resources and capacity for the manufacture of items, which could with some help, be manufactured by ancillary industries, with comparatively lesser investment. (Paras 95 & 98).

Reply of Government

The value of orders placed on the ancillary industries around HEIL was only 2 per cent in terms of the total raw materials and components purchased till the time the reply was sent to the Committee last. It may be mentioned here that certain components and fabricated materials are being procured from industries situated elsewhere within the country such as around Bombay, Delhi etc. This should also be treated as a part of one contribution of ancillary industries. If this is also taken into account, the total contribution of the ancillary industries will be much higher. Hence a better way of showing the contribution of the local ancillary industries would be to compare it with the total value of indigenous raw materials and components purchased leaving out certain essential raw materials like steel, copper etc. which obviously are not within the scope of small industries. Expressed this way, the percentage of orders placed during 1967-68 on ancillary industries around Bhopal would be 11 per cent of the total orders for small materials and components in the whole of India.

Since six more units of ancillary industries have been set up in and near HEIL bringing the total number to 25, more and more components are being offered to the ancillary industries progressively. The Committee's recommendations in this respect will be borne in mind.

[Ministry of Industrial Development & Company Affairs (Deptt. of Industrial Development) O.M. No. 24-4/68-HECHE dated 10th February, 1969.]

Recommendation (Serial No. 23)

Whatever might have been the procedural difficulties, the fact remains that the Company has suffered a loss of over Rs. 28 lakhs. For an undertaking which has been incurring heavy losses over the years it is too big an amount. That between 1961 and 1963 nothing was done by the Company to secure the concession shows a certain degree of indifference on the part of the Company after initiating action in the matter. (Para 104)

Reply of Government

Noted.

[Ministry of Industrial Development & Company Affairs (Deptt. of Industrial Development) O.M. No. 24-4/68-HECHE dated 10th February, 1969.]

Recommendation (Serial Nos. 24 & 25)

It is seen that the undertaking had to import some of its raw materials which were available, indigenously, because indigenous production was not sufficient to meet their requirements. The Committee would expect that all the requirements of steel of the public undertaking would normally be met by the steel plants, by including in their production programme the types of steel required by them. It is learnt that the stainless steel plates required by HEIL are generally above $\frac{1}{2}$ " thickness (*viz.* 13 mm to 75 mm) while, the present plan to produce this item in the country is upto 12 mm only. In the circumstances unless the Indian steel mills take up rolling of heavier plates also, HEIL will have to continue to resort to imports. It is an anomalous situation to which the Committee hope, Government would give serious thought, and have this item, which is a drain on the foreign exchange resources, manufactured within the country.

It is learnt that projects are coming up in the public sector for manufacturing Aluminium. HEIL's demand of this metal would be sizeable. The Committee hope that the type of Aluminium which HEIL required would be included in the manufacturing programme of these projects because the existing plants in the private sector are unable to meet the requirements of HEIL (Paras 110 & 111).

Reply of Government

The observations of the Committee have been noted and have been sent to Department of Iron and Steel and Department of Mines and Metals for necessary action.

[Ministry of Industrial Development, Internal Trade & Company Affairs (Deptt. of Industrial Development) O.M. No. 24-4/68-HE&M dated 3rd May, 1969].

Recommendation (Serial No. 26)

It is estimated that India can hardly meet 5-10 per cent of the demand of the industrial consumers from its own production. In view of the above and the fact that the prospects of becoming self-sufficient in copper in the near future are remote, the Committee recommend that the Government should consider implementing the following suggestion made by the undertaking.

Till we are self-sufficient in producing indigenous copper it is doubtful whether we will be able to do without imports specially

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in view of the requirements of Heavy Electrical Industry and the need of stepping up industrialisation in the country. In view of the above, it is suggested that Government may channelise the import of copper in such a way that at the time the copper is cheap in the international market India buys in large quantity, (Para 112)

Reply of Government

The observations of the Committee have been noted and have been sent to Ministry of Foreign Trade and Supply for necessary action

[Ministry of Industrial Development, Internal Trade & Company Affairs (Deptt. of Industrial Development) O.M. No. 24-4|68-HE&M dated 3rd May, 1969.]

Recommendation (Serial No. 27)

Leaving aside the external causes the Committee are not convinced of the other reasons attributed for the shortfall in production; because these reasons could have been foreseen at the time of fixing of targets. Unfortunately there is no yardstick now in the light of which the performance of the Undertaking in regard to production could be judged. The figures given in the Project Report cannot be the basis now for such an assessment as the product-mix as originally laid down in it has undergone considerable change. The Committee would recommend that the Undertaking should prepare and lay down targets in a realistic manner, and once those targets are laid down, every effort should be made to achieve them. (Para 125)

Reply of Government

The Committee's recommendation for fixing up realistic production targets are noted for observance. New techniques such as PERT (Operational Research & Linear Programmes) are being introduced to keep close watch on performance and remove bottlenecks and critical hold-up items.

[Ministry of Industrial Development & Company Affairs (Deptt. of Industrial Development) O.M. No. 24-4|68-HECHE dated 10th February, 1969.]

Recommendation (Serial No. 29)

The Committee feel that it should have been ensured at the outset by inclusion of firm provisions in the agreements, that as far as supply of components was concerned, the Consultants would supply these according to the time schedule agreed to between the

Undertaking and the Consultants. There are stipulations in the agreements regarding components and other production materials in regard to which the services of Consultants would be availed of. There are also provisions regarding the rate of payments which will have to be made for those services but, surprisingly, there are, no provisions to safeguard the interests of the Company in case of default by the Consultants. (Para 131)

Reply of Government

Observations of the Committee have been noted and also circularised to other sections of the Ministry and BPE.

[Ministry of Industrial Development, Internal Trade & Company Affairs (Deptt. of Industrial Development) O.M. No. 24-4|68-HE&M dated 9th June, 1969.]

Recommendation (Serial No. 30)

The Committee learn that in the case of the projects of the Bharat Heavy Electricals Ltd., which were originally part of HEIL there are separate agreements containing clear and unequivocal terms regarding the supply of spares and components by the Consultants. Perhaps, for the project at Bhopal, those who carried out the negotiations at the initial stage did not or could not foresee difficulties on this account and so the Undertaking is faced with this problem now. (Para 132)

Reply of Government

Noted.

[Ministry of Industrial Development & Company Affairs (Deptt. of Industrial Development) O.M. No. 24-4|68-HECHE dated 10th February, 1969.]

Recommendation (Serial No. 31)

From the reports of the Consultants and the evidence tendered before the Committee it will be seen that there are numerous internal causes which have contributed to low production. The Management, after this long experience, should be able to foresee and anticipate the difficulties so that the areas likely to provide a bottleneck for production are located and remedial action taken in time. (Para 139)

Reply of Government

The internal causes which have contributed to low production are being attended to. However, there are one or two causes which are beyond reasonable control of the management such as labour unrest due to inter-union and intra-union rivalries and lower increase in the rate of labour productivity than anticipated. In the case of products started more recently the problems of the learning period will exist for some more time. Also, in view of many items that are custom built, the problems vary widely.

[Ministry of Industrial Development & Company Affairs (Department of Industrial Development) O.M. No. 24-4/68-HECHE dated 10th February, 1969.]

Recommendation (Serial Nos. 32 & 33)

The Committee feel that one of the major causes which could be attributed to the fall in production was the purchasing procedure followed by HEIL. The Committee are glad to learn that now the position in the Purchasing Department had improved and the average time taken to convert a requisition into a purchase order had come down. However, the latest report of the Consultants says, "while there has been some improvement in the operations of the Purchase Department, there is still a too great tendency to consider purchasing as an end in itself, rather than as essential service to the manufacturing departments." Thus it appears that the Purchase Department requires further improvement.

The Chairman of the Company stated during evidence that in his present capacity he was able to function just like a person in private sector with least constraints. In view of this, there should not be any difficulty in removing any procedural difficulty. During evidence, the Committee also gathered the impression that there were still some Governmental rules and regulations which the purchase department had to follow in making purchases, and these stood in the way of arranging quick purchases. The Committee cannot reconcile to a situation in which there is shortfall in production because the undertaking cannot overcome procedural difficulties in the system of procurement of production material. They recommend that the purchase procedure should be rationalised and simplified so that delays at various stages are avoided. (Paras 140, 141 and 142)

Reply of Government

The management is already seized of the necessity for improvement in the Purchase Department and for streamlining the purchase procedures. A purchase procedure detailing various functions has been introduced. Operation of the same is under constant review and further improvements that become necessary in the process of such review will be introduced. A small cell has been created exclusively to co-ordinate the work of Manufacturing and Purchase Department, and take special efforts to obtain such of the materials which may cause production hold up. A purchase division has been established in Bombay and a good part of the numerically large small value purchases is being transferred to Bombay.

[Ministry of Industrial Development & Company Affairs (Department of Industrial Development) O.M. No. 24-4/68-HECHE dated 10th February, 1969.]

Recommendation (Serial No. 34)

Some of the steps introduced by the Undertaking to ensure fulfilment of annual targets are: standardisation, production incentives, suggestion scheme, application of net work techniques and improvement in procedures. The Committee hope that these steps would bear fruit but other factors which have hitherto been hampering achievement of production targets were the difficulty in the indigenous development of materials and components and inadequacy of experienced supervisory staff. The Undertaking should also take concrete steps to overcome these difficulties as speedily as possible. (Paras 143 and 144).

Reply of Government

The following steps have been taken:—

A special cell known as Import Substitution Cell has been formed with a view to developing and establishing indigenous sources of supply for raw materials and components which are being imported. Since our products involve many special materials conforming to very rigid specifications, the process of establishing for the first time, the indigenous sources of supply to the correct specifications tak much longer time Significant progress has already been achieved in this respect.

Regarding senior supervisory staff, most of them have either been trained in U.K. or locally at the factory. In the established divisions, they have already acquired a reasonable level of know-how, experience and supervisory skill, whereas in the new divisions they are yet to acquire the requisite on-the-job experience. In the junior supervisory level, a longer period of learning is involved as most of the foreman and junior supervisors have come straight from college and are exposed to this modern industry for the first time.

[Ministry of Industrial Development & Company Affairs (Department of Industrial Development) O.M. No. 24-4|68-HECHE dated 10th February, 1969.]

Recommendation (Serial No. 36)

Finding market for the Company's products at present is no less important than the utilisation of its installed capacity. In the present circumstances even if the installed capacity could be utilised, there will not be market to sell the products. The Undertaking, therefore, shall have to take energetic efforts to explore markets abroad for its established products like Switchgear and Transformers. (Para. 155).

Reply of Government

As for finding the market within the country for the company's products, our efforts have now been greatly intensified.

Though there is a restriction on export territory till November, 1970 in our collaboration agreement, the consultants have been persuaded to permit us to offer our equipment to some Middle East and Far East countries. During March 1968, the Chairman of the Company visited UAP, —Kuwait, Lebanon, Iraq and Iran and met the various prospective customers. An Export Sales Division has recently been set up specifically to intensify our export efforts. Quotations to the value of about Rs. 4 to 5 crores have already been made to foreign customers. It may be gratifying to note that the first export order has been received from U.A.R. for some industrial motors and controlgear recently and more are expected. With persistent efforts, we are hopeful of building up a fair amount of export in the next few years. However, it has to be recognised, that in view of severe competition, exports will not result in any profits as such, but help earning foreign exchange.

[Ministry of Industrial Development & Company Affairs (Department of Industrial Development) O.M. No. 24-4|68-HECHE dated 10th February, 1969.]

Recommendation (Serial No. 37)

It appears to the Committee that had the designs and the specifications been given to HEIL in time, perhaps, they would have manufactured and supplied the equipment to the Railways in time. It seems that the indecision on the part of railways delayed the timely action being taken by the undertaking to manufacture these equipments. (Para 160).

Reply of Government

Noted. The observations of the Committee have been conveyed to Ministry of Railways (Railway Board).

[Ministry of Industrial Development & Company Affairs (Department of Industrial Development) O.M. No. 24-4/68-HE & M dated 3rd May, 1969.]

Recommendation (Serial No. 38)

That after the receipt of designs and specifications the factors which delayed it further were non-availability of foreign exchange and tools and equipments from the suppliers of HEIL is very unfortunate. The Committee realise that there are difficulties in the allocation of foreign exchange but at the same time there is no wisdom in not making it available in time since delay only leads to import of whole equipment which is costlier and retards the development of the know-how in the country. (Para 161).

Reply of Government

Noted.

[Ministry of Industrial Development & Company Affairs (Department of Industrial Development) O.M. No. 24-4/68-HECHE dated 10th February, 1969.]

Recommendation (Serial No. 40)

The Undertaking should place an embargo except on a marginal basis, on all further expansions till the resources already established are made fully productive. Whatever might have been the plans, production programmes and the sanctions, the undertaking should concentrate on utilising the present installed capacity rather than augment it. (Para 169).

Reply of Government

This recommendation of the Committee is, in fact, being strictly followed for sometime past. Except for the Steam Turbine Project

and the expansions in respect of capacitors power and traction transformers and traction motors no new or expansion project is proposed to be undertaken in the next few years. Efforts are being made for the maximum utilisation of existing capacity.

[Ministry of Industrial Development & Company Affairs (Department of Industrial Development) O.M. No. 24-4|68-HECHE dated 10th February, 1969.]

Recommendation (Serial No. 41)

The Committee would recommend that whenever expansion of a project during construction stage or otherwise is undertaken it is absolutely necessary that the undertaking and the Government should thoroughly examine the profitability of the expansion scheme as well as its repercussion on the execution of the entire project, particularly, its effect on the economics of it. In the case of HEIL some of the expansions had been undertaken merely on the basis of the expected savings in foreign exchange. The Committee are surprised, that in the case of Steam Turbine Project, whose revised estimated cost is about Rs. 17 crores, no profitability figures had been worked out in the supplementary Project Report which covered this scheme. The Committee hope that in future whenever expansions are to be undertaken Government would not proceed on such meagre data but provide a yard-stick with which to measure the achievements of the undertaking. (Para 171).

Reply of Government

The Revised Steam Turbine Project Report under submission to the Government includes a note on the profitability also. The Committee's suggestions are also noted for further guidance.

[Ministry of Industrial Development & Company Affairs (Department of Industrial Development) O.M. No. 24-4|68-HECHE dated 10th February, 1969.]

Recommendation (Serial No. 42)

The Committee would also stress that in public undertakings like HEIL where continuous expansions are taking place profitability and economy of the working of the plant should be tested from time to time. The cost of production of the established items should be worked out separately. An appropriate percentage of the overhead accounts should notionally be attributed to the working of the plants where these established items are being produced. The profitability

of the working of the project should then be examined. Unless this is done, the Committee feel that the project management will not be on their toes. (Para No. 172).

Reply of Government

Established product lines:

The cost of production for each product is being prepared order-wise and compared with the sale price in order to test the profitability of the individual products. At the end of the year, the cost of production of each of the group of products as a whole is also analysed. Such an analysis has been published in the Annual Report for the year 1966-67.

Expansion of entirely new product lines:

As regards expansions covering new product lines, it is possible to work out the product cost separately and compare them with any anticipated figures. This will also be done.

Expansion of existing product lines:

Wherever expansions have been undertaken on existing product lines, every effort is being made to implement the Committee's recommendations in this respect.

Recommendation (Serial No. 43)

The Committee notice that on the Board of Directors of the Company are two members, one of whom is serving on 28 and the other on 15 other Corporations/Companies/Bodies. There is no doubt of the advantage in associating with a public undertaking person having wide and varied experience in business. The Committee, however, feel that by and large holding of Directorship in a large number of companies may not enable a person to find sufficient time to attend to the business of an undertaking and to make effective contribution in its progress. They would, therefore, recommend that at the time of making nominations on the Board of Directors, Government should bear in mind that only such persons as are able to devote sufficient time to the affairs of the undertakings are appointed. (Para 174).

Reply of Government

The observations have been noted.

[Ministry of Industrial Development, Internal Trade & Company Affairs (Deptt. of Industrial Development) O.M. No. 24-4/68-HE&M dated 3rd May, 1969.]

Recommendation (Serial No. 44)

The Committee consider the constitution of a standing Sub-Committee of the Board a good arrangement but it is hoped that only urgent matters which cannot await the convening of a meeting of the Board would be considered by the Sub-Committee. The Committee notice that at present the Sub-Committee is constituted of only the official members of the Board. The Committee would recommend that a non-official member of the Board should be associated with the Sub-Committee. (Para 176).

Reply of Government

The Sub-Committee deals only with urgent matters which, in the view of the Chairman, would normally need consideration at the Board level. The minutes of the Sub-Committee meeting are placed before the next meeting of the Board. A non-official member of the Board has also been associated with the Sub-Committee.

[Ministry of Industrial Development, Internal Trade & Company Affairs (Deptt. of Industrial Development) O.M. No. 24-4/68-HE&M dated 7th June, 1969.]

Recommendation (Serial No. 45)

The Committee also notice that at present one member on the Board is from the UP Electricity Board. Since, for most of its products State Electricity Boards are the customers, the Committee would recommend that representatives of Electricity Boards of the States should be nominated in rotation. (Para 177).

Reply of Government

The Directors on the Board of HEIL are appointed by the GOI and in actual practice representative (normally chairmen) of Electricity Boards of the States have been nominated by the Government on the Board of the HEIL by rotation. Shri V. P. Appadurai, Chairman of Madras State Electricity Board was the first Director appointed on 18-3-1963 and after him, Shri Lakshmandev, Chairman of the U.P. State Electricity Board became Director from 25-11-1965 to 29-9-1967. Presently, Shri S.T. Raja, Chairman of the Gujarat Electricity Board has been appointed as a Director of the HEIL w.e.f. 29-9-1967. Besides, a senior member of the CW & PC also holds the directorship as a regular feature.

[Ministry of Industrial Development & Company Affairs (Department of Industrial Development) O.M. No. 24-4/68-HECHE dated 10th February, 1969.]

Recommendation (Serial Nos. 46 & 47)

The Committee feel that up till now the undertaking had been carrying more staff on its strength than required. It has not been possible for the Committee to assess the monetary loss to the undertaking on this account, but judge from the fact that the loss which the undertaking had to suffer on account of surplus trainees alone would be more than Rs. 14 lakhs, the total loss on account of over-staffing in the project as a whole be quite substantial.

The Committee feel that the assessment of the requirements of staff which has been made in the original project report and the supplementary project report cannot be very helpful to the undertaking now in determining the staff strength because frequent expansions of the original schemes and the new lines of production have rendered many assumptions of the project report, unrealistic in the present circumstances. The Committee would, therefore, recommend that the undertaking should make reassessment of staff requirements strictly in accordance with the anticipated manufacturing programme. The Committee expect that it would also be possible to economise on administrative and establishment charges. (Paras 189 & 190).

Reply of Government

The following steps have been taken:—

Restrictions were imposed in 1963 on recruitment of non-technical and clerical cadres. Since then only a very small number has been taken, that too, in unavoidable cases with the special approval of the GM or the Chairman. Applications of Ministerial staff are also forwarded freely so that they could find jobs outside, thereby reducing the number in the cadre. As a result, and by deploying the excess to new product departments which have since been established, the position is normal since early 1967.

A manpower planning cell has been set up with a view to working out manpower requirements on a rational basis and to forecast the requirements on the basis of production targets, after making due allowances for improvement in productivity and other allied factors.

A firm of Management Consultants has been appointed to rationalise the procedures in certain departments and work out the staff requirements on the basis of established norms. The intake of men to meet turn-over and wastage and to meet special needs

such as for research and development for expansion projects etc. will be carefully regulated so that the past experience of excess men will never again repeat itself.

[Ministry of Industrial Development & Company Affairs (Department of Industrial Development) O.M. No. 24-4|68-HECHE dated 10th February, 1969.]

Recommendation (Serial Nos. 48 & 49)

The Committees findings reveal that accelerated promotions have not been given only to the specialists or technical categories but also to non-technical personnel. The Committee feel that rapid promotions given to certain persons and denied to others, bring about discontent amongst the employees, which is not conducive to smooth running of a factory. The Committee would, therefore, recommend that the Company's promotion policy should be so framed that there is no room for favoured treatment.

The Committee would also recommend that the present rules in this regard may be revised to include specific provisions whereby such accelerated promotions are not given without cogent reasons. As at present the rules framed are too general to ensure such a policy. (Paras 194 and 195).

Reply of Government

A set of rules governing the promotion policy is being framed for submission to the Company's Board. Adequate precautions against accelerated promotions will be ensured when these are implemented. Minimum service in individual grades is being prescribed as a criterion for eligibility for promotion. The case of highly equipped and trained technical specialists calls for special dispensation on merit basis as otherwise there is danger of losing such men. They are hard to replace and they have a high market value in the private sector in India and abroad.

[Ministry of Industrial Development & Company Affairs (Department of Industrial Development) O.M. No. 24-4|68-HECHE dated 10th February, 1969.]

Recommendation (Serial No. 50)

Labour unrest and strained labour-management relations are a problem with which many public undertakings are afflicted. HEIL has also suffered from this malice. The Committee cannot too strongly stress that for an undertaking like HEIL which is not able

to achieve its production targets ever since it has gone into production and is incurring heavy losses over the years, cordial relations between the workers and the management are of paramount importance. That maintenance of good labour relations is necessary for sustained high level of production needs no emphasis. The Committee would urge both the employees and the employers to recognize their mutual rights and duties towards this national undertaking and help it in showing better results in future. The Committee hope that the demands of the workers which have been referred to other authorities would be decided speedily. (Para 199).

Reply of Government

The major reason for labour unrest in HEIL has been the inter-union and intra-union rivalries. Regarding the question of settling the outstanding demands, it may be added that at the time of submitting the written replies to the Committee, 5 demands were outstanding. The management's decision on all these demands have been communicated to the representatives of the workers and since then there has been no labour unrest on these issues. It will, however, be agreed that labour problems are a continuing process and every effort is being made to foster good relations with labour for better achievement.

[Ministry of Industrial Development & Company Affairs (Department of Industrial Development) O.M. No. 24-4|68-HECHE dated 10th February, 1969.]

Recommendation (Serial No. 51)

The Committee consider the expenditure on township *viz.* 19 per cent of the cost of the project as much on the high side—more so when the returns from the township is hardly enough to meet the expenses on its maintenance leaving aside the charges towards interest and depreciation amounting to approximately Rs. 35 lakhs per year uncovered. The Committee feel that the expenditure on township would be a constant drag on the economic working of this Project. It is apparent that expenditure on township is being incurred without taking any account of its repercussion on the project. The Committee would stress that utmost economy should be observed in this direction. (Para 203).

Reply of Government

The present sanctioned cost of the township is Rs. 10.06 crores against the total sanctioned project cost of Rs. 74.52 crores which includes the township and the expansion schemes. The Committee has observed in their recommendation No. 12 that this figure of Rs. 74.52 crores is likely to go up to Rs. 80 crores. The percentage on township cost for the total cost of the project would, therefore, work out to about 13 per cent. For the present no significant increase in the township cost beyond the limits sanctioned is expected, but one cannot over-rule the need for constructing some additional quarters in future in view of the acute shortage of housing in the area and the unions are clamouring for more quarters as only 60 per cent is being met.

Ways and means to reduce the maintenance cost of the township are under constant examination by the Management, e.g. the periodicity of the white washing buildings has been reduced from once in a year to once in two years and slush from the Gas Generating Plant is utilised for white washing. Also the recent enforcement of revision of entitlement for houses will bring in some additional revenue.

Government have issued instructions to exhibit the expenditure and income from the township separately in the profit and loss account and this is being given effect to from 1967-68 onwards. This would highlight the results of the working of the township so that a repercussion on the operating results of the project could be apparent.

[Ministry of Industrial Development & Company Affairs (Department of Industrial Development) O.M. No. 24-4/68-HECHE dated 10th February, 1969.]

Recommendation (Serial No. 53)

The Committee hope that effective steps would be taken to minimise the loss of revenue on account of pilferage and leakage of electricity. (Para 207).

Reply of Government

The following special remedial measures have been taken during 1967-68 by the Company for reducing the losses:--

- 1.1. A better type of meter board with cutout has been provided, which makes the tapering more difficult.

1.2. The checking of the electrical installations in the residential quarters has been intensified. Disciplinary action is taken against the occupants indulging in malpractices. Wherever it is found difficult to establish the case, the recovery is made on assessed consumption, which ensures recovery of the lost revenue to a substantial extent.

1.3. The number of meter readers, meter inspectors and meter testers has been increased to cope with the increase in the frequency of the inspections.

1.4. Supply connection is being provided, first in the meter and taken to the cutout as against the earlier practice of providing supply connection first to the cutout and then to the meter, in order to reduce the pilferage of electricity.

1.5. Check meters are provided on poles in the areas where pilferage is suspected in order to compare the consumption recorded on the check meter with that recorded in the meters of the quarters connected through this check meter.

2. Steps are being taken to take legal action against person who are found to pilfer electricity.

3. The effectiveness of the steps taken will be clear from the following table showing the loss and its percentage to the total township consumption:—

	1964- 65	1965- 66	1966- 67	1967- 68
Loss on account of unauthorised use of electrical energy in lakhs of rupees	2.66	0.94	0.97	0.56
Loss expressed as a percentage of total township consumption.	20.2%	9.0%	8.5%	4.4%

[Ministry of Industrial Development & Company Affairs (Department of Industrial Development) O.M. No. 24-4/68-HECHE dated 10th February, 1969.]

Recommendation (Serial No. 55)

The Committee would recommend that the estimate should be prepared realistically in as detailed a manner as possible covering all the items for expenditure to give a clear idea of the total outlay on a Project. (Para 215).

Reply of Government

Noted. This will be done in the case of new Project Estimates, if any, which may be prepared by the Company.

[Ministry of Industrial Development & Company Affairs (Department of Industrial Development) O.M. No. 24-4/68-HECHE dated 10th February, 1969.]

Recommendation (Serial No. 56)

It is seen that bulk of the outstandings of the undertaking are mostly against Government Department, State Electricity Boards and Government undertakings. HEIL as mentioned earlier is faced with difficulty in regard to funds for its working capital needs. A fortiori it is essential that prompt recovery of all dues should be made. The Committee are not happy to learn that procedural difficulties stood in the way of recovery of dues from the Government Departments and State Undertakings. They hope that energetic steps would henceforth, be taken to make the recoveries. (Para 229).

Reply of Government

The procedural difficulties like those mentioned in para 227 of the report presumably relate to those at the customers' end and not of HEIL. However, as a result of continuous efforts made by HEIL, the outstandings have been greatly reduced as explained below:—

The total sales made for the period from July, 60 to March, 66 amount to Rs. 4,347 lakhs out of which the amount outstanding as on 31st March, 1968 is Rs. 381 lakhs. Out of the amount outstanding, a sum of Rs. 161 lakhs has since been realised leaving a balance of Rs. 220 lakhs as on 14th May, 1968. Of this, the unrealised bills pertaining to the year 66-67 and before, amount to Rs. 66 lakhs, and continuous efforts are being made to realise this amount. The following steps have been taken to minimise the outstandings:—

- (i) Frequent visits are made by our commercial Engineers for chasing pending bills and straightening out procedural formalities. There is an intensive drive for collection of arrears.
- (ii) A system of giving rebate for prompt payment has been introduced for final settlement.
- (iii) A clause for charging interest on overdue payments is also incorporated in the invoices and included in our

conditions of sale as a deterrent. However, in the interest of maintaining good business relations, it is not practicable to operate this clause.

(iv) To preclude the possibility of customer claiming non-receipt of bills as a reason for delay, a counterfoil has been introduced in the invoices which is sent back to HEIL after being duly countersigned by the customer indicating the registration number.

(v) From time to time our Chairman addresses personal letters to the Heads of the other organisations requesting their intervention in clearing pending bills, and this has been very effective.

[Ministry of Industrial Development & Company Affairs (Department of Industrial Development) O.M. No. 24-4/68-HECHE dated 10th February, 1969.]

Recommendation (Serial No. 59)

It is learnt that the cost of production of each of the end products has not been worked out in the Detailed Project Report. In the absence of any norms it is difficult for the Committee to judge the reasonableness of these costs. The Committee consider that unless estimates of cost as would prevail an attainment of normal production are made out to find a norm for judging the reasonableness of the cost of production, no rational pricing policy can be evolved. The Committee would, therefore, recommend that the undertaking should work out such costs of production in respect of each of its products. (Para 247).

Reply of Government

In this connection a reference is invited to the company's reply to recommendation No. 13. It is a fact that the Project report does not contain the cost of production and operational results for each of the end products.

However, as suggested by the committee, action is being taken to work out to the extent possible cost of production of the individual products as would prevail at the optimum working levels and at present day price levels. It may be appreciated that when comparing at a particular point of time in future due allowances should be made for price changes etc. affecting each element of cost. It is felt that this exercise is better done from year to year

on the basis of forward planning so that norms will be fixed from year to year which is likely to be more realistic than with the norms at the optimum levels.

[Ministry of Industrial Development & Company Affairs (Department of Industrial Development) O.M. No. 24-4|68-HECHE dated 10th February, 1969.]

Recommendation (Serial No. 60)

From the instance of the Capacitor, and according to the calculation that in respect of Steam Turbines the price to customer is about 126 per cent of the landed cost of completely imported machines whatever might be the justification from the point of view of the company for these apparently high prices, it can realise the high prices from its customers only because of the restrictive effect of exchange control. HEIL for some of its products, will be trading in monopoly conditions. It is, therefore, necessary that consumer's interest is also protected. The Committee have a feeling that the high prices of equipment of HEIL are due to high operational costs of the factory as will be seen from the Committee's findings in this Report and what company Auditors have said about the direct labour cost involved in production for the year 1965-66. The Committee recommend that the undertaking should reduce its operations cost as much as possible, otherwise, even after reaching full production, the prices of its products will continue to rule high. (Para 249).

Reply of Government

Establishment of norms of production, subject to the order book position, together with the cost at which the same should be produced, are being attempted. In the case of monopoly products, no norms are available in the Project Report, nor this information is available from either within or outside the country. Moreover, the monopoly items happen to be products with a long development period and only in the course of the next few years, their production will get stabilised.

However, the question of introducing economies in all areas with a view to reduction of losses is already engaging the attention of the company and the Board of Directors and active measures are being taken to this end.

[Ministry of Industrial Development & Company Affairs (Department of Industrial Development) O.M. No. 24-4|68-HECHE dated 10th February, 1969.]

Recommendation (Serial No. 63)

The Committee realise that in any new industry the initial years during which development of production is taking place are bound to be period of high production costs. The Committee are constrained to observe that some of the reasons which have contributed to the mounting loss were not such which the management could not have controlled by better planning of its production and personnel management. The Committee's findings have revealed that over the years the undertaking had been carrying higher inventory, surplus staff, surplus plant and machinery etc. All these have cumulatively added to the cost of production. The Committee feel that the most potent cause of the large build-up of losses by HEIL is its exceedingly poor utilisation of resources. Another reason is that capital expenditure on new schemes and expansion has been undertaken before giving a chance to the previously invested capital to become productive. The Committee have made some observations and recommendations touching on each of these aspects and hope that the undertaking will, by husbanding its resources and better planning, would be able to reduce its losses appreciably. (Para 263).

Reply of Government

HEIL agree that no new expansion should be undertaken but should concentrate on the product lines already established. The Committee's advice will be followed.

[Ministry of Industrial Development & Company Affairs (Deptt. of Industrial Development) O.M. No. 24-4/68-HECHE dated 10th February, 1969.]

Recommendation (Serial No. 64)

The Committee cannot but depreciate the licensing of other units for production of items which HEIL is also designed to produce especially when licensing of such units has the effect of creating surplus capacity in the country. In the case of Switchgear, production is in excess of demand. The Committee recommend that whenever fresh licenses for establishment of new factories for production of items of equipment which HEIL or other undertakings in the private or public sector produce are granted it should be invariably ensured that excess capacity is not created. (Para 264).

Reply of Government

The Committee's recommendations are noted for future guidance.

[Ministry of Industrial Development & Company Affairs (Deptt. of Industrial Development) O.M. No. 24-4/68-HECHE dated 10th February, 1969.]

Recommendation (Serial No. 65)

The Committee would like to highlight one aspect which at the present stage affects the undertaking vitally. A number of Committees had preceded the setting up of this undertaking to determine the need for an Electrical Factory and the product-mix that was to be produced therein. Several project reports were prepared and even after taking the decision to proceed with one of the project reports the scope of the project was enlarged and product-mix diversified to include new items. As late as 1965 another Technical Committee was appointed to determine the requirements of electrical equipments in the country. In spite of several investigations, demand projections are not assured. In respect of some of the equipments there is surplus capacity in the country whereas for some other products the undertaking does not have enough orders. It is a peculiar situation about which the Committee feel concerned. (Para. 267).

Reply of Government

Reply to recommendation No. 12 may please be seen.

[Ministry of Industrial Development & Company Affairs (Deptt. of Industrial Development) O.M. No. 24-4/68-HECHE dated 10th February, 1969.]

Recommendation (Serial No. 66)

The Committee during evidence of the representatives of the Ministry of Industrial Development and Company Affairs and the Undertaking had desired certain information to be furnished to the Committee in writing within ten days. Complete information was, however, not furnished to the Committee till the time of finalisation of this report. The Committee cannot but deprecate the delay. (Para. 268).

Reply of Government

Noted. The material had to be compiled in consultation with Heavy Electrical (India) Ltd. and after referring to old records. This inevitably took considerable time. However, the delay is regretted.

[Ministry of Industrial Development, Internal Trade and Company Affairs (Deptt. of Industrial Development) O.M. No. 24-4/68 HE & M dated 3rd May, 1969.]

CHAPTER III

RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF GOVERNMENT'S REPLIES

Recommendation (Serial No. 1)

The Committee desired to be informed of the payments made to the AEI under various clauses of the Agreements, as the information could not be gathered from the written replies though the Chairman of the Company promised during evidence to compile the figures and furnish them to the Committee later on. The argument that the amounts were negligible and hence no accounts of these payments were kept separately is not convincing. In terms of sub-clause (e) of Clause XVI the payment could be upto Rs. 12 lakhs of rupees and under sub-clause (g) Rs. 11.64 lakhs have been paid to the Consultants. The Committee consider that whenever public undertakings engage foreign consultants, it is necessary that proper accounts of the payments made to the Consultants under various clauses of the Agreements are maintained. (Para 18).

Reply of Government

In the original reply of the Company it was stated that no separate record had been maintained to book payments against sub-clause XVI(e), XVI(f) and XVI(g) of the Technical Consultants' Agreement. This reply would apply only to these three clauses, and the payments against the remaining clauses were given individually. This reply indicated above, was given in view of the fact that the payments under these sub-clauses even though available in the detailed records had not been segregated and recorded in a register to enable the figures being furnished straightway. By the very nature of clauses (e) & (f), it was known to us that they were not operated and it is now borne out by actual figures. However, in the past evidence information furnished by the Company the details as below has been furnished to the Committee:—

<i>Sub-Clause No.</i>	<i>Payment figures</i>
XVI(e)	No payment has been made so far, as this sub-clause was not operated.
XVI(f)	No payment has been made so far as this sub-clause was substituted by Clause No. 12 of the Purchasing Agency Agreement.

XVI(g) Rs. 11,63,876.53 have been paid during 1967-68 towards cost of testing/inspection charges relating to the period 1963-64 to 1965-66 (upto 8/66). As separate accounts of payments made to the Consultants under the various clauses of the Agreements are available with the Company, it does not appear to be correct to say that proper records had not been maintained.

[Ministry of Industrial Development & Company Affairs (Deptt. of Industrial Development) O.M. No. 24-4/68-HECHE dated 10th February, 1969.]

Recommendation (Serial No. 2 and 3)

The Committee consider that the provisions in the subsidiary agreements regarding payments to be made by HEIL or the Government to the AEI for reimbursement to the subsidiary consultants have no basis in the provisions of the main consultancy Agreement entered into with the AEI; more so, as the Consultants had given an undertaking in their letter dated the 19th June, 1955 that the lumpsum payments to them would not be exceeded on account of their having to engage subsidiary consultants.

The Committee regret the further payments made to the AEI after they had been adversely commented upon by a Parliamentary Committee specially without referring the matter to the Parliamentary Committee. The Committee hope that Government would examine the issue expeditiously; particularly, the possibility of recovery of the amounts already paid to the AEI for reimbursement to the subsidiary Consultants. The question of recovery of the amounts from the persons who authorised such payments may also be explored. (Paras 29 and 30).

Reply of Government

Recommendations 2 and 3 of the Committee may be taken together.

It may be pointed out that there were two Subsidiary Agreements concluded by the A.E.I., one with the B.I.C.C. and the other with M/s. English Electric Co. The payments made to B.I.C.C. were objected to earlier by the Public Accounts Committee and were also commented upon by the Estimates Committee. On the suggestion of the Estimates Committee, the matter was investigated by the Central Vigilance Commission also. As pointed out by the Government before the Public Accounts Committee, the conclusion of the Agreement was preceded by various stages of negotiations on the terms and conditions and the non-incorporation in the Agreement

of any proposal made earlier should not necessarily be held out as a case of failure on the part of the Government to secure the terms involved in such a proposal. Negotiations and agreements in respect of foreign collaboration proposals have necessarily to be considered in their final form and it would be difficult if every stage of the negotiation is considered to be irrevocable. A.E.I.'s letter of 19th June, 1955 was issued prior to the signing of the Technical Consultancy Agreement in November, 1955 and can only be viewed as one stage in the negotiations, leading to the Technical Consultancy Agreement. This is evidenced by the fact that the Technical Consultancy Agreement contained certain major deviations from the letter of the 19th June, 1955:

	In letter of 19th June	In Technical Consultant's Agreement
Lumpsum fee	£3,50,000 (free of tax)	£4,00,000 (subject to tax)
Royalty payable	3%	2½%
Consultant for Hydro turbines	M/s. Boving & Co. M/s. John Brown & Co. M/s. Markhan & Co.	No. reference to any particular consultant but M/s. E.E. Co. subsequently selected.
Terms for water turbine collaboration	2 payments of £75,000 each plus 5% service charge.	£20,000 plus 3% royalty (finalized after main T.C.A.)

3. Payments under the Subsidiary Consultancy Agreement were agreed to by the Government of India subsequent to November, 1955. The propriety of the payments was examined by Government in consultation with Ministry of Law before they were authorised. The legal view was that the lumpsum payments envisaged under the Subsidiary Agreement should be construed as separate and independent from the payments provided for in the main agreement with the consultants. With regard to the contractual liability of the Government of India in respect of the subsidiary agreements, the legal opinion was that sub-clause (c) of the remuneration clauses of the subsidiary consultant's agreements implied direct contractual relationships between the Government of India or the HEIL, Bhopal and the subsidiary consultants. It will thus be seen that whatever payments were made to the subsidiary consultants were in conformity with the decision taken in regard to the contractual liability of the Government of India or the HEIL relating to the subsidiary agreements.

4. So far as the payment to English Electric Company is concerned, the factual position is not that it was made in spite of PAC's objection regarding the payment to B.I.C.C. The Subsidiary Agreement with the English Electric Company was signed on 13th June, 1957 and under general authorisation by Government, the payments were made as follows:—

Date	Amount
19-10-57	£ 5,000
6-10-60	7,500
24-8-63	3,750
17-12-65	3,750
	<hr/> 20,000 <hr/>

More importantly, the Subsidiary Agreement with the English Electric Company stands on a different footing from that with the B.I.C.C. as the main Agreement with A.E.I. had specifically mentioned that the terms of Agreement in respect of manufacture of hydraulic turbines shall be decided by Government in consultation with the consultants. Clause 2 of the main Agreement with AEI contains the following proviso:—

“Provided also that in respect of manufacture of hydraulic turbines and of insulating materials, the Government shall decide in consultation with the consultants what firms shall be selected for subsidiary technical assistance and on what terms in the same manner as for the manufacture of static capacitors”. Hence it would not be correct to hold that a payment to the sub-consultants was subsumed in the main Agreement itself. The HEIL did take up this subject with the Assistant Managing Director of the AEI and his stand is also the same. A copy of his reply is attached (Appendix II).

It will, therefore, be seen that no excess payments have been made to the foreign company as explained above. The reply given by the A.E.I. when the subject was taken up with them is also relevant. Inasmuch as the payments were made in consultation with the Law Ministry after

examining all the aspects of the case, the question of recovery of payments from the persons who authorised them does not arise. In this connection attention is also invited to the following conclusions of the Vigilance Commission:

“Considering the quantum of payments in the context of the stakes involved in the course of negotiations, no question of *mala fides* seems to be involved, warranting any further probe into the matter”.

[Ministry of Industrial Development Internal Trade & Company Affairs (Deptt. of Industrial Development) O.M. No. 24-4/68-HE&M, dated 3rd May, 1968.]

Recommendation (Serial No. 4)

The Committee consider that some of the provisions of the purchasing, Agency Agreement cannot be considered as conducive to the best interests of the undertaking. From the information furnished, it will be noticed that payments had been made to the consultants under this agreement for plant and machinery valued over £12,00,000 which either they or their subsidiaries manufactured and supplied to HEIL. In other words consultants have acted both as agents and suppliers of the equipment. The Committee are not happy at this arrangement. (Para 37).

Reply of Government

It is necessary to keep in mind the various aspects involved in the setting up of a plant of the size and complexity of the Heavy Electrical Plant, Bhopal to appreciate the circumstances in which the consultants also acted as Agents as well as Suppliers of the equipment. Because of the association of the AEI as consultants, many of the machines suggested by them would naturally be designed to their specifications to suit the processes and tests evolved by them. Such items of plant and machinery would be of a proprietary nature to the AEI and have necessarily to be got from them.

As regards the question why AEI should act not only as consultants and suppliers but also as purchasing agents, it may be pointed out that machinery worth 4 million pounds had to be purchased from various agencies and purchase of such magnitude and value entails a number of functions like preparation of enquiries, the issue of tenders, the scrutiny of tenders, familiarity with purchasing arrangements etc. which HEIL at its infant stage

could not have undertaken. Even if it had undertaken such functions, it would necessarily have had to incur expenditure for them.

The question may also be raised as to why even if AEI had acted as purchasing agent it was necessary to include in the scope of the purchasing agency agreement orders eventually to be placed with AEI. Even in respect of such orders all the essential processes like listing of equipment, preparation of tenders, etc. would have had to be done and for that a special agency would have had to be employed and expenditure incurred. Besides it must be remembered that for the purchase of the equipment and machinery including those from AEI, credit had to be obtained from the United Kingdom in view of the tight foreign exchange position then prevailing. When the credit terms were negotiated, it was stipulated by the British Bankers, who were going to finance the purchases, that they could not arrange for financing of hundreds of individual suppliers and that they could only provide credit to one British firm who would consolidate all the buying. It was in this context that purchasing agents were considered necessary and, in the circumstances, the consultants' role of purchasing agents were combined in the same organisation. Moreover, as regards those equipments which had to be bought from AEI themselves, HEIL would have had, in any case to buy them only on prices quoted by AEI.

[Ministry of Industrial Development Internal Trade & Company Affairs (Deptt. of Industrial Development) O.M. No. 24-4/68—HE & M dated 31st July, 1969.]

Recommendation (Serial No. 7)

The Committee feel concerned that purchases of over £15 lakhs in value were made through the AEI on single tender basis. It is surprising to note that though Audit pointed out the defect in the year 1964, the representatives of the undertaking were unable to explain why purchases were made without calling tenders. They have only now offered to investigate and submit their findings. The Committee would also stress that where there are Audit objections these should be attended to promptly as otherwise their utility is lost. (Para. 44).

Reply of Government

This recommendation is the result of para VII 3(c) of the Audit Report (Comemrcial) 1964. The contents of this para in the Audit Report are reproduced below:

“In terms of Clause 4(d) of the Agreement tenders for purchases were to be invited from at least six suppliers

including one manufacturer outside the United Kingdom. A test check of 762 purchase orders valued at £35,96,490 however, revealed that 358 purchase orders of the value of £15,14,058 were decided on single tender basis."

It has been presumed by Audit in this paragraph that it was compulsory for the Company to invite tenders from at least six suppliers including one manufacturer outside U.K. before any purchase could be made from A.E.I. Clause 4(d) of the Agreement, however, reads as follows:—

"Except where otherwise agreed, tenders for each item shall, where possible, be invited from six suppliers one of which shall be a supplier manufacturing outside the U.K.

It would appear that Audit had raised the objection without taking into account the clauses "Except where otherwise agreed" and "where possible" occurring in the Agreement. In view of this it would be incorrect to presume that any single tender purchase *per se* contravenes the provisions of the Agreement. It is mentioned in this connection that the Company's Board of Directors had in their 23rd meeting held on 24th July, 1959 authorised the purchase committee consisting of Shri T. Swaminathan, ICS, Minister (Economic) High Commission of India, London, Shri Pandey, Accounts Officer in the High Commission and Shri D. P. Guzdar, OSD, HEL, London to take decision on all matters connected with the Purchase Agency Agreement including the purchases on single tender basis. All the single tender purchases referred to by Audit have been scrutinised by this committee and orders were placed in each and every case only after the committee had satisfied itself about the necessity of purchase on single tender basis. As we have to follow the exclusive designs of AEI, a large number of test plant and process equipment which were evolved and built by AEI or by their licensees, had necessarily to be bought from them as often no other manufacturer would be interested in supplying such an item, which may not be in common in demand.

The committee's observations regarding the prompt attention to the Audit objections are noted.

Besides, a specific reference was made to London Audit requesting details of all the 358 cases so that detailed replies can be given. They have, however, replied now stating that their office has not kept a detailed list of such cases. They further added that the exact identity of the cases mentioned in the Report may not be of special

significance and suggested that the investigations of the reasons for making purchases on single tender basis may cover all purchases made on such basis and need not be confined to only cases selected for test check by them.

A reply covering the principle and procedure adopted for deciding cases of single tender purchases has already been given which applies to all cases.

[Ministry of Industrial Development & Company Affairs (Deptt. of Industrial Development) O.M. No. 24-4/68-HECHE dated 10th February, 1969.]

Recommendation (Serial No. 11)

The Committee regret that full details regarding expenditure on London Office was not made available. It is, however, learnt that for seven months from September, 1958 to March, 1959, the expenditure was £3,500. The Committee feel that the work of HEIL at London has come down considerably and as such it does not warrant a separate organisation for this undertaking exclusively in London. The Committee also learn that another undertaking *viz.* Hindustan Steel Ltd. is maintaining an office in London for performing similar functions. The Committee feel that the work in London for both these organisations has dwindled considerably and there is no necessity of maintaining separate offices with large number of personnel, and incurring huge expenditure yearly. Both the organisations are running separate offices while purchases for them are on the decline. The Committee feel that the work can be handled by India Purchase Mission, London without engaging additional staff. If necessary, a man from each organisation can be attached to India Purchase Mission to look after their interests. The Committee expect that considerable economy can be effected by this arrangement. (Para 59).

Reply of Government

In November, 1967, the case was considered in great detail in consultation with the India Supply Mission and the Department of Supply and the conclusion was that the London Office of Heavy Electricals (India) Limited should be allowed to continue as at present upto the end of 1970 when the Collaboration Agreement with

Messi's Associated Electrical Industries Limited, U.K. would terminate. The main considerations which weighed with the Government in coming to this decision were as under:—

- (i) The work to be handled by the London Office was much too substantial to be given to any other organisation for whom it would, in any case, not be the primary job-responsibility;
- (ii) The purchases of components and spares for Heavy Electricals (India) Limited would continue to be quite sizeable even though the total value of purchases would be substantially reduced because purchases of capital equipment for the plant were almost over;
- (iii) The Collaboration Agreement between Heavy Electricals (India) Limited and Messrs Associated Electrical Industries Ltd. of the U.K. would continue to be in force upto 1970 and according to this agreement, AEI are responsible for inspection of all purchases made in U.K. In case of transfer of work to India Supply Mission this advantage would be lost to the company; and
- (iv) The amount of saving which would be achieved by transferring the London Office work to the India Supply Mission was not as much as was originally anticipated as the India Supply Mission would require considerable addition to staff to cope with the extra work that would devolve on them, if they were to take over purchases handled in the London Office of Heavy Electricals (India) Limited.

These considerations referred to above have not changed and, in the circumstances, the original decision to continue the London Office upto November, 1970 is proposed to be adhered to.

As regards the Hindustan Steel Ltd. a copy of the recommendation has been sent to the Ministry of Steel and Heavy Engineering for consideration.

[Ministry of Industrial Development, Internal Trade & Company Affairs (Deptt. of Industrial Development) O.M. No. 24-4|68-HE & M, dated 9th June, 1969.]

Recommendation (Serial No. 12)

It is seen that the original project report of the Consultants had been changed from time to time either to meet the likely increase

in the demand for the products or modified in view of the prevailing financial stringency. The conclusion is inescapable that when the Government decided to proceed with this project it had no precise idea of the items to be produced, their specifications, dimensions, quantity or cost. It does not speak well either of the various committees or the persons who constituted those committees which were appointed at the initial stages to assess the country's requirements of electrical equipments on the basis of which this project was conceived. The result of wrong assessments was that the Government had to ask for three Projects Reports from several foreign parties which seen in retrospect, did not serve much useful purpose as even the one which was eventually accepted and on the basis of which this project was initiated had to be modified frequently to suit changing circumstances. *The latest revised estimates of the project which the Government have sanctioned is Rs. 5,847 lakhs for an annual output of Rs. 3,365 lakhs. During evidence, the Additional Secretary of the Ministry of Industrial Development also stated that by 1970 the estimated cost of the project would go up to Rs. 80 crores. This is a clear case of wrong assessment of demand, inadequate planning and frequent revisions of project reports, (Para 66).*

Reply of Government

The recommendation made above is apt to give the impression that the original project sanctioned by Govt. for Rs. 58.47 crores would go up to Rs. 80 crores. Actually, in addition to the sanctioned cost of Rs. 5847 lakhs for an annual output of Rs. 3365 lakhs, Govt. have sanctioned subsequently further projects for the manufacture of Steam Turbine and also certain expansion schemes to meet the needs of the country totalling up to Rs. 74.52 crores as on date. It is this figure of Rs. 74.52 crores which the then Additional Secretary stated is likely to go up to Rs. 80 crores, mainly on account of unavoidable increases due to devaluation, change in the rates of custom duty, optimization of facilities etc.

Regarding the questions of correct assessment of the demand for heavy electrical equipment it has to be realised that since the scope of the project was drawn up in 1956, there has been a phenomenal growth in the Indian power system as well as in world technology that larger sizes of equipment and machines as well as greater sophistication in design and techniques had to be catered for. This, in fact, is borne out by para 267 of the Committee's report wherein

reference has been made to the Technical Committee of 1965 and its demand projections.

[Ministry of Industrial Development & Company Affairs (Department of Industrial Development) O.M. No. 24-4/68-HECHE, dated 10th February, 1969.]

Recommendation (Serial No. 13)

The Committee are not convinced by the arguments advanced for not covering the cost and profit calculations of individual end products in the Project Report. Firstly, when it was stipulated in the Agreement, it should have been ensured that such information was incorporated in the Project Report. Secondly, without having a clear idea about the estimated cost of individual products, the overall figures of profit, losses and the cost can only be a mere guess. That these aspects were not included in the Project Report is manifestly in violation of the provisions of the Agreement. In the absence of any such assessment at the outset, the Committee are at a loss to understand as to how the undertaking or the Government judge whether the production of individual items was profitable or not. (Para 71).

Reply of Government

Noted.

It is difficult at this stage to offer any comments against the remarks regarding not covering the cost and profit calculations of individual products in the Project Report. It can only be added that because of the subsequent changes in the scope, the product mix and the price levels, such calculations even if they had been given, would have proved of little value. On the question as to how the Undertaking or the Government judge whether the production of individual items was profitable or not, an extract from the 11th Annual Report of the Company is reproduced below:—

“HEIL is in fact a complex of eight factories, each manufacturing a distinctive group of products. In order therefore to assess the overall working results equitably it is essential to bring out the contribution thereof from each of these distinct groups. For the first time during 1966-67, an assessment of the results of each of these product groups, has been attempted and the results thereof are appended to this report (Page 28). It may be observed that in respect of the established products like

Switchgear, Transformer and Capacitors, it has been possible to recover all our costs (excluding (i) net expenses on Township (ii) interest payments and (iii) losses due to devaluation which could not be allocated product-wise) and also to make some profits”.

Even so, the Committee's suggestion has considerable merit and it would be of advantage if profitability etc. of separate products were assessed at the DPR stage.

[Ministry of Industrial Development & Company Affairs (Department of Industrial Development) O.M. No. 24-4/68-HECHE, dated 10th February, 1969.]

Recommendation (Serial No. 15)

The Committee noted with regret the observations of the representatives of the Ministry and the undertaking that the projections in the project report do not hold good to any great extent due to the fact that the scope, product-mix and the time schedule have been materially altered. That the actual execution of the project should be so much at variance with the assumption made in the project report, even during the course of construction of project is a reflection of those who conceived and decided to implement this project on unprocessed data, inconclusive project report, and over-lapping agreements with the Consultants. (Para 73).

Reply of Government

Attention is invited to para 2 of Government's reply to Recommendation No. 12. The points made therein are reiterated.

[Ministry of Industrial Development, Internal Trade & Company Affairs (Deptt. of Industrial Development) O.M. No. 24-4/68—HE & M, dated 3rd May, 1969.]

Recommendation (Serial No. 16)

The Committee learnt that it is not only HEIL but other projects also in the public sector e.g. Heavy Engineering Corporation Ltd. and Bharat Heavy Electricals Ltd. which have suffered on account of non-availability of steel in time and in required quantities. Since delay in the construction of the project, inevitably, adds to the cost

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of the project, it is absolutely essential that the projects are completed according to the schedule initially laid down. In view of this, while sanctioning such big projects, Government should ensure by advance planning that the projects get the required type and quantity of steel for construction in time. (Para 80).

Reply of Government

The Public Enterprises under construction can and normally use the good offices of the concerned administrative Ministry and also Ministry of Steel & Heavy Engineering whenever serious bottlenecks are anticipated in the supply of steel/steel products, which would adversely affect the construction schedule. The supplies of steel to the Public sector projects are given a high priority next only to the requirements of Defence establishments and exports industries. In any case, pursuant to the recommendations of the Administrative Reforms Commission in their Report on "Public Sector Undertakings", Government have decided that for all projects involving investment of Rs. 1 crore and above, after the approval of the project, a complete master plan of construction should be drawn up with the help of network techniques like PERT and CPM, which would ensure that procurement of materials particularly scarce materials such as steel, cement, is properly planned in advance. With this, it is hoped that no avoidable bottleneck arises in the construction programmes of the projects.

[Ministry of Finance (Bureau of Public Enterprises) D.O. No. 9(III)/69—BPE(GM) dated 15th December, 1969.]

Recommendation (Serial No. 17)

The Committee also feel that when there are only five or six big firms in the country which can undertake fabrication work, the undertakings especially those which comprise manufacturing industry should undertake departmental fabrication whenever these big firms cannot cope with the load of fabrication work. (Para 81).

Reply of Government

Certain Public Enterprises like Heavy Engineering Corporation Ltd., Triveni Structurals Ltd., Bharat Heavy Electricals Ltd., etc. have already developed capacity for fabrication work. In view of this and the fact that in private sector also a number of firms taking up fabrication work have recently been set up, the position has materially changed in this regard from what it was when the Bhopal factory was set up. In fact, at present the situation is that some of these agencies are having surplus capacity for fabrication. In the

circumstances it may not be desirable to insist that the Public Enterprises should undertake fabrication departmentally for which they would have to set up a separate organisation. Certain amount of fabrication and rectification work in any case is done at site by the undertakings departmentally.

[Ministry of Finance (Bureau of Public Enterprises) D.O. No. 9(III)/69—BPE(GM) dated 12th December, 1969.]

Recommendation (Serial No. 19)

In the case of Heavy Rotating Test Plant the consultants themselves were asked to supply the Test Plant. The AEI are Technical Consultants for the Project. It was expected that when orders were placed on them for equipment, they would supply it in time. That HEIL did not know the reasons as to why the delivery of the plant was delayed shows that the attitude of the authorities was one of complacency towards the obligations of the consultants. The Committee feel that at the time of signing the main Consultancy Agreement the Government should have ensured that there were firm and unequivocal stipulations, coupled with penalty clauses, in the Agreement to ensure that orders placed on them were honoured and the equipment supplied in time. (Para. 87).

Reply of Government

The order for the Heavy Rotating Plant Test was placed in February, 1963 and the equipment was supplied by the end of 1966. After placement of the order, import substitution of certain items was suggested by the Company and the Consultants did not agree to the processing adopted in the country in some cases. The finalisation of this matter took some time and this was responsible for part of the delay in the supply of equipment.

The non-delivery of the equipment was taken up by the Company on several occasions at all levels, including personal discussions during the six-monthly visits of a top executive of AEI to India. In spite of this vigorous follow up of the matter, the AEI expressed that the delay in shipment was due to extreme pressure of work and limited number of staff handling the above specialised equipment at their end. It is, therefore, submitted that the company had put in all efforts to expedite.

[Ministry of Industrial Development & Company Affairs (Deptt. of Industrial Development) O.M. No. 24-4/68-HECHE, dated 10th February, 1969.]

Recommendation (Serial No. 28)

The Committee do not consider that delay in operation of the Purchasing Agency Agreement should have stood in the way of the undertaking ordering machine tools and raw materials. The signing of the Purchasing Agency Agreement had not precluded the operation of the provisions of the main consultancy agreement. In terms of clause III (iv), the Consultants were to "state the delivery requirements of all plant, machinery and equipment and production materials in accordance with the general programme, progress the delivery of such items as are ordered by them on behalf of the Government, and carry out similar duties for equipment ordered by the Government, if requested to do so, . . ." and clause XVI(b) prescribes the method of payment for it. The Committee, therefore, are not convinced by the plea that the orders for the production material could not be placed on account of delay in operation of the Purchasing Agency Agreement. In case of delay, the provisions of the main agreement could have been invoked. (Para. 127).

Reply of Government

Because of the then stringent foreign exchange position and the necessity to arrange the required funds and agreement had to be entered into with a Consortium of Bankers in U.K. The Purchasing Agency Agreement was one of the conditions for operating this credit provided by the said consortium. The delay in the execution of the Purchasing Agency Agreement consequently affected the placement of orders. It may, therefore, be appreciated that the delivery requirements etc. mentioned in the original Agreement could not be effective in the absence of the necessary foreign exchange. By the compulsion of these circumstances, the provisions in the main Agreement were unavoidably vitiated.

[Ministry of Industrial Development and Company Affairs (Deptt. of Industrial Development) O.M. No. 24-4/68—HECHE, dated 10th February, 1969.]

Recommendation (Serial No. 35)

The undertaking is faced with a paradoxical situation. On the one hand its production targets are not being achieved while on the other, it has not got sufficient orders to reach rated capacity, in spite of the fact that at present there is complete ban on the import of equipment which HEIL is producing and there are very few

competitors for some of its products. This situation would, inevitably, affect the earning capacity of the project. The prospect for the undertaking, in this respect would seem to be back as the Governmental expenditure on power generation is going down and consequently the order position for HEIL would further deteriorate. (Para. 153).

Reply of Government

It has been stated that there is complete ban on the import of equipment which HEIL is producing and there are very few competitors for some of its products. The present position is that except for the generating plant, traction equipment and very large motors, competition exists in respect of transformers, switchgear and medium range or motors.

Orders to the extent of targetted capacity have been procured for all products except Switchgear. In the case of Switchgear, difficulties are anticipated during current and next few years for adequate orders for the 220 and 132 KV Air blast breakers, 66 KV and 11 KV bulk oil units. This situation is due mostly to excess capacity created in the country generally for all types of Switchgear and the tendency of the manufacturers to go beyond licensed capacity and range. Attention is also invited to the Committee's own observation in Para 264 in this respect. This has been aggravated by the current recession.

[Ministry of Industrial Development and Company Affairs (Deptt. of Industrial Development) O.M. No. 24-4/68—HECHE, dated 10th February, 1969.]

Recommendation (Serial No. 39)

The Committee understand that the expansions which are under way or which will be taken up later on are being resorted to with a view to improving the earning capacity of the project. The project, as originally conceived, was not going to be an economic proposition and these expansions were a compulsive necessity in order to make the project viable. Apart from the fact that these expansions have delayed the completion of the project, the Committee feel concerned about some of the demand projecting going wrong. Already there is a fall in the order position of some of its equipment including the steam turbines). The revised estimate of this expansion scheme (steam turbines) is about Rs. 17 crores. The actual expenditure incurred on this project upto 31st March, 1967 was Rs. 321.65 lakhs and for the balance commitments have already

been made. It is however, learnt that those who had placed orders on this project seem to be backing out. Generally, for most of its products, State Electricity Boards are the customers and since most of these Boards do not have enough funds at their disposal, the Committee are apprehensive about the future prospects. In fact, this project was proceeded with only on the basis of the expected demand of electrical equipments in the country and the savings on foreign exchange the economic aspect was either not thoroughly examined, or it was given secondary importance. It will be seen that for all the expansions and diversifications of its productmix there now seems to be some uncertainty about the demand. Added to this the undertaking itself is not sure that the expansions would improve the profitability of the project because it is, according to them, based on "too many assumptions". (Paras 167 and 168).

Reply of Government

In this connection it is pointed out that the expansions which are under way are not resorted to merely with a view to improving the earning capacity of the original project. Every one of the expansions proposed and sanctioned has arisen out of a definite need. The Steam turbine project was taken up based on the projected demands for thermal generating equipment made from time to time by high power committees appointed by the Government. The Traction Transformer Expansion Project was taken up to meet the actual needs of the 25 KV freight locomotives to be manufactured by the Chittaranjan Locomotive Works of Indian Railways. The Traction Motor Expansion Project was taken up at the first request of the Indian Railways.

The Capacitor Expansion Project was taken up not only because of the increasing demand for this product, but also because of a change in the type i.e. from mineral oil to Aroclor dielectric which is more economical to produce.

The Power Transformer Expansion Project was taken up based on the categorical advice of the Tariff Commission of the Government of India and other organisations, that HEIL, Bhopal should expand its Transformer production facilities from 3000 MVA to 6000 MVA per annum providing the facilities for very large sizes and very high voltages i.e., 220 KV and 400 KV.

In all the above expansions, maximum advantage is being taken of the existing facilities. Equipment and other facilities are being added only in such areas which will contribute to enhanced output.

Consequently, the input to output ratio and the profitability after expansions is expected to turn out much better, but this is an incidental advantage and not the basic objective in going in for expansion.

[Ministry of Industrial Development and Company Affairs (Deptt. of Industrial Development) O.M. No. 24-4|68—HECHE, dated the 10th February, 1969.]

Recommendation (Serial No. 52)

The Committee realise that most of the public undertakings are located in out of the way and inaccessible places and therefore, the provision of a township is essential. But, at the same time, many projects cannot bear the heavy burden of expenditure on this account because ultimately the finished output has to bear its cost. Obviously, the cost of township will have to be borne by the products of the company, in terms of increased prices. The Committee, therefore, suggest that Government should examine the economic and administrative aspects of setting up a Housing Corporation for the public sector projects and take an early decision in this regard. (Para 204).

Reply of Government

The Administrative Reforms Commission in their Report on "Public Sector Undertakings" had made certain recommendations in this regard. The Commission's specific recommendation in this area was that township and connected facilities should form a separate unit of administration managed by a Committee consisting of the officers concerned with the public undertaking and a few representative elected by the staff and workers living in the township from among themselves. This recommendation has been accepted by Government. Even with regard to the capital outlay, it has been laid down by Government that the net amount invested on township and residential quarters should be notionally treated as being financed from capital loans for the purpose of determining the total recurring expenditure on the maintenance of township. Moreover, the total recurring expenses on the maintenance of township is to be shown separately on the debit side of the P & L Account. Details of the expenses and income on township are also to be shown in a separate schedule, in order to facilitate the determination of the annual net recurring expenses on the township

borne by the projects. These measures are intended to ensure adequate control of the expenditure on this account. Guidelines issued by the Bureau in August, 1969, in this regard also lay down *inter alia* that the annual expenditure on the overall maintenance and administration of the township excluding depreciation and interest charges should not exceed the annual income from the township including rent receipts.

As regards formation of a separate Housing Corporation, it is felt that such a step would dilute the authority and responsibility of the project administration without effecting any substantial economy either in construction cost or in the maintenance of the colonies and townships.

[Ministry of Finance (Bureau of Public Enterprises) D.O. No. 9 (II) |69—BPE (GM), dated 12th Dec., 1969.]

Recommendation (Serial No. 54)

It is seen that the project cost of about Rs. 35 crores as per Project Report has risen to Rs. 62 crores. Thus the Project cost has risen by about 77 per cent. The increased cost can partly be explained by the various expansions which have been undertaken during the course of construction since the estimates as given in the Project Report were approved. It will also be seen that amongst the items which have necessitated major revisions are the Administrative charges and Interest charges—the former accounting for an increase by about 1½ crores *i.e.* 100 per cent increase, and the latter over Rs. 90 lakhs which had not been shown in the original estimates. The Committee are surprised that such a heavy increase should have occurred in a short period on account of administrative charges. Similarly, the Committee feel that the 'Interest charges' are not an item which could have been entirely unforeseen at the time of framing the original estimates. (Para 214).

Reply of Government

I. Increase of the Project cost

It is felt that the Project cost of Rs. 35 crores as given in the original Project Report cannot be taken as the basis for comparison

with the present cost of the Project as no provision was made in the Project Report for certain major items of cost which are as follows:—

Customs duty	Rs. 90 lakhs
Cost of credit arrangements and remuneration to Purchasing agents	Rs. 113 lakhs
Township	Rs. 900 lakhs
Interest on capital during construction	Rs. 90 lakhs
TOTAL	Rs. 1193 lakhs

If these items are included the comparable cost of the Project would come to about Rs. 47 crores.

In view of the above it would be logical to compare the present Project cost with the first sanction of Rs. 49.30 crores in December, 1962. The reasons for the increase since that date have been already given in para 211 of the Report.

2. Administrative charges

The term 'administrative charges' is rightly classifiable as 'incidental expenditure during construction' and so does not represent charges on establishment or other allied administration expenditure. The Government sanction shown in column 6 of the statement under para 210 of the Committee's Report included only a sum of Rs. 144.14 lakhs as administrative charges which comprised of Rs. 84.14 lakhs provided in the Project Report towards Architect's fees and Rs. 60 lakhs as administration charges for township. The following charges which should really form part of the 'administrative charges' (incidental expenditure during construction) were therefore omitted in the estimates sanctioned in September, 1963:—

Charges on the consultants during the construction period included for the first time	Rs. 38.32 lakhs
Repairs and maintenance charges during the period of construction/erection charged to capital	Rs. 27.93 lakhs
Salaries and allowances of staff engaged in construction/erection work (shown under erection charges in the Project Report)	Rs. 59.51 lakhs
Increase against items corresponding to architect and surveyors fees, due to increase in the cost of buildings as a result of inclusion of training hostels etc.	Rs. 12.24 lakhs
TOTAL.	Rs. 138.00 lakhs

Thus what appears as 100 per cent increase in the combined effect of showing under administrative charges, items not pertaining to it and also the non-inclusion of certain charges in the estimates sanctioned in 1963.

3. Interest charges

In the Project Report of the Consultants interest on capital during construction was considered the revenue item and hence taken under operating results, not under capital cost. The capital cost of Project shown therein viz. Rs. 35 crores did not therefore include any interest element. On the same basis the company also did not make any provision for interest charges in the Project Estimates put up to the Government in November, 1960. Again while issuing the sanction for the above estimates in December, 1962 the basis adopted in the Project Report to charge interest to revenue was followed by Government also. It was only in 1964 that the company included this item under capital cost since under customary accounting practice it is permissible to capitalise interest during construction. The revised sanction included this item.

[Ministry of Industrial Development, Internal Trade and Company Affairs (Deptt. of Industrial Development) OM. No. No. 24-4/68—HE&M dated 9th June, 1969.]

Recommendation (Serial No. 57)

The Committee feel that as the actual production from year to year has fallen short of targets, it is likely that overstocking had taken place in the absence of corresponding restriction in the procurement programme. For instance, the Committee are not convinced of the justification of accumulating of Rs. 31.48 lakhs of slow moving stores when its annual rates of consumption was only 20 per cent. Some specific cases of surplus and sub-standard stock of goods had also come to the notice of the Committee, e.g. paints and varnishes valued about Rs. 8 lakhs had accumulated for which efforts were made to dispose of. It is also learnt that up till 1965 the maximum and minimum stock holding limits for common stock items had not been determined. That the stock of stores and spares and raw materials was equivalent to only 14.4 months' consumption in 1966-67 in comparison to 17.7 months' in 1965-66 and 22.3 months in 1964-65 although production is rising shows that up till now the undertaking was carrying excessive inventory. (Para 235).

Reply of Government

It has been observed by the Committee that no restriction is placed on procurement inspite of shortfalls in production. It is true that there had been shortfalls in production, but however, while planning for inventory, it is the consumption of the subsequent year which is taken into consideration because the inventory being carried at the end of a particular year is only to cater to the requirements of the following year. This fact is significant to our undertaking as production has not yet been fully established and is undergoing rapid increases year after year.

Any material which could not be consumed in a year due to short fall in production during the year is taken into account in planning for the procurement of the following year.

The following table gives the position of the inventory of raw materials, components, stores and spares expressed in terms of number of months' consumption in the following year.

As on date	Inventory		Consumption	Inventory in No. of month's consumption, in the following year
	value Rs. in lakhs	Year	Value Rs. in lakhs	
31-3-65	754	65-66	592	15.3
31-3-66	873	66-67	979	10.7
31-3-67	1182	67-68	1465*	9.7 *Provision pending finalisation audit.

It can be seen from the table that the situation has been improving year after year: It is expected that when the production stabilises at the ultimate capacity, the consumption in any two successive years remaining almost at the same level, the inventory reckoned as number of month's consumption in the preceding year or the following year will be about the same.

In respect of slow moving and surplus stores, we are trying our best to present their occurrence by the employment of scientific material management techniques. In the past, they did accumulate because of the difficulties in exactly forecasting the material requirements in the absence of any past experience to take guidance from. The pattern of market demand has been upset by the effect

of sudden recession and slowing down of power projects and this has contributed to some extent towards excess inventory. However, in future, such risks of over ordering will not be there, as we have by now come to know the detailed material requirements and the market demand for our products.

Regarding fixing up of stock levels for common stock items, it could not be done earlier than 1965 due to want of information regarding the pattern of consumption of some of the smaller products. When the factory was in the initial stages of production, new products are added to the lines of manufacture every year. As levels of production are stepped up year by year, the consumption pattern of even common stock items could not be visualised with any amount of certainty and hence the task of fixing levels for them could not be undertaken earlier.

[Ministry of Industrial Development & Company Affairs (Department of Industrial Development) O.M. No. 24-4/68-HECHE dated 10th February, 1969.]

Recommendation (Serial No. 58)

The Committee would, therefore, recommend that as high inventories block capital, and increase the operational cost of the project, minimum and maximum stock holding limits should be fixed as far as practicable after having regard to production cycle, time taken for importation of components, normal requirements of indigenous materials, based on current level of production etc. It looks anomalous that for 1964-65, sales were Rs. 600.14 lakhs and inventory Rs. 1,229.50 lakhs; similarly, for 1965-66 sales were Rs. 770.39 lakhs and inventory Rs. 1,585.36 lakhs, and for 1966-67, sales were Rs. 1,134.22 lakhs and inventory Rs. 2,485.68 lakhs. The Committee learnt that the inventory turn over ratio in private industry ranges generally from 1:3 to 1:6 (e.g., GE and Westinghouse of America and ASEA of Sweden are all operating with a ratio of between 1:4.5 and 1:5.5). The Committee hope that with need for imported components going down, it would be possible for HEIL to manage with lower inventory level. (Para 236).

Reply of Government

The Committee has observed that the inventory turn over ratio in private industry generally ranges between 1:3 to 1:6. While we appreciate the desirability of improving this ratio from the present level, the following facts pertaining to HEIL should not be over-

looked in arriving at an optimum ratio between inventory and turn over.

(i) Bulk of the manufacturing programme of HEIL is made up mostly of items with long manufacturing cycle. In respect of GE, ASEA or Westinghouse whose turn over ratios have been quoted for comparison, it has to be noted, that these firms have got as a part of their regular lines of manufacture a host of light engineering products of very short manufacturing cycle (such as bulbs, switches, domestic appliances etc.). These items have a very high turn over ratio and as such, the comparatively low turn over on their heavier range of products is adequately compensated. On the contrary, HEIL has undertaken to manufacture only the heavy electrical equipment which are inherently of long manufacturing cycle and thus result in low turn over ratio.

(ii) Our Consultants have informed us that they are carrying about 60 per cent inventory in their factories in the U.K. and that it may be necessary for us to carry an additional 10 per cent inventory in view of the need for some import and the difficult material procurement conditions in India. By this standard, the turn over ratio works out to 1:1.4.

(iii) We hope to progressively improve this ratio and achieve a better figure of turn over ratio when (a) we reach our ultimate level of production in about 3 or 4 years, (b) we have fully overcome all teething troubles in the shops even in respect of products taken up as the last line of manufacture and (c) we have also fully established and developed our suppliers for all items of raw materials and components.

[Ministry of Industrial Development & Company Affairs (Department of Industrial Development) O.M. No. 24-4/68-HECHE dated 10th February, 1969.]

Recommendation (Serial No. 61)

Whatever pricing policy the undertaking might adopt, whether it is cost-plus basis for the Railway Traction Equipment, or competitive price for the competitive range of products or reasonable prices for its monopoly goods, ultimately what is of essence is that the prices should compare favourably with the international prices and in any case should not be above the landed prices of similar equipment. (Para. 250).

Reply of Government

As far as comparison of our prices with international prices are concerned, the main problem will be to find out what the international prices are. It will obviously be misleading if we take the quotation made for export orders by manufacturers in other countries, since such quotations may be based on subsidy from their respective Governments or distress quotations to keep their factories loaded. Such comparisons, it may be pointed, would be found to be unfavourable in respect of capital goods manufactured in India even by the most efficient business houses. Besides, our costs are affected on account of imported materials and customs duty which may not apply to the same degree to the foreign competitors. In comparison of our prices with the international prices we should take into account the incidence of materials costs on which the company has little or no control. Even so, the prices of our equipment are not unduly high if comparison is made with equipment of same standard from British sources. It is generally found that the price differential between the indigenous and imported equipment depends more or less on the import content of the equipment. For Switchgear which has a very small import content our prices do compare favourably with landed cost and in many cases are a little less than those of the foreign manufacturers. For Water Turbines and Generators our prices are likely to be equal or even less than those of comparable foreign makes. Our Steam Turbines, Capacitors and Transformers, which carry a large import content, our prices are likely to be slightly higher. The reasons for the slightly higher prices are—

(i) We pay a much higher rate of duty on imported raw materials than what a completed equipment attracts. The difference in rate of duty in many cases is substantial enough to affect the selling prices considerably.

(ii) The facility which the foreign manufacturer has in procuring raw materials within the country and at economic rates helps him considerably to lower his costs. Unable to get into long term agreements with the suppliers of key raw materials, such as copper because of foreign exchange difficulties, an Indian manufacturer has to pay a much higher price for raw materials. In respect of manufactured components, which necessarily are obtained from a single foreign supplier, their prices are pitched high.

(iii) Many countries support export by subsidies and the foreign firms are in a position to offer special prices on export jobs. The

same equipment is priced at a much higher rate for their domestic consumption.

(iv) HEIL's production is more or less custom built which accounts for substantial design and development charges which cannot be spread out on a large number of units as in the case of standard equipment. During the initial stages, until a large number of basic designs are established, this is bound to inflate the costs appreciably. However, continuous efforts are being made to reduce the costs and import content of our equipment. Here again, the approach has to be a bit conservative as drastic changes to effect economy should not result in affecting adversely the quality and the reliability of our products. Supporting industries are not yet established in the country for the manufacture of sophisticated materials like special forgings, castings, etc. Once indigenous sources are established for these materials, the costs of our products will go down substantially.

[Ministry of Industrial Development & Company Affairs (Department of Industrial Development) O.M. No. 24-4/68-HECHE dated 10th February, 1969.]

Recommendation (Serial No. 62)

In this connection, the Committee realise that HEIL has some initial difficulties. Most of the products of the undertaking are highly specialised, sophisticated and also custom-built. For designing the first product, considerable amount has to be spent on developing design, although there may not be much demand for that product later. Similarly, there is expenditure on training and initial setting up of the production capacity. In such cases, should the customer pay the cost of designing, etc. in the shape of high price? This problem is not peculiar to HEIL but also to other public undertakings which have been set up with a view to producing things which were not earlier produced in the country. It is a national problem. The Committee recommend that the Government might give serious thought to this problem so that the consumers do not have to pay high price. (para 251).

Reply of Government

As regards the question of development of designs, such development may be of two types—(i) designs for products which may be repetitive in nature and (ii) designs for products which are custom-built for a particular customer to suit his individual requirements.

In the case of (i) above, the design costs would have to be treated as deferred revenue expenditure and recovered over a period. In the case of (ii) above, since the development in question is to meet the requirements of a particular customer, in all fairness, that customer should pay for the cost incurred in developing the particular design. This seems to be normal practice in foreign countries also.

[Ministry of Finance (Bureau of Public Enterprises) D.O. No. 9 (III)/69-BPE (GM), dated 12th December, 1969.]

CHAPTER IV

RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation (Serial No. 5)

The Committee are not happy over the agreement according to the provisions of which payments, apparently, are made on certificate of auditors of the Consultants. By agreeing to such a provision, the undertaking, virtually bound itself to accept such a certificate as final in regard to the fairness of the remuneration for the services rendered under the Agreement. The Committee consider that Government could and should have insisted on an examination of the accounts/documents of the consultants by Government or its nominee in order to satisfy itself about the fairness and reasonableness of payments made to them for agency work. (Para 39).

Reply of Government

The need to utilise the services of the AEI as purchasing agents arose in view of the need to comply with the stipulation made by the Consortium of Bankers that only one firm should deal with the entire purchase financed out of their loan. The AEI, being our consultants, was persuaded, in spite of their initial unwillingness, to accept the purchasing function.

To our knowledge, reputed firms do not allow examination of their accounts by third parties.

[Ministry of Industrial Development & Company Affairs (Deptt. of Industrial Development) O.M. No. 24-4/68—HECHE dated 10th February, 1969.]

Recommendation (Serial No. 6)

“Cost to the AEI (including a reasonable provision for overheads) of performing such services” is a crucial provision in this clause. It was essential that such charges should have been properly screened and separate figures maintained for them. The Committee are surprised that neither the Government nor the Company had the means to check the claims of the consultants, nor did they feel the necessity of doing it. (Para 41).

Reply of Government

This question was carefully gone into when the terms of the Agreement with AEI were being examined. It was felt necessary at one stage that in respect of the cost plus arrangement proposed in the Agreement, a ceiling or schedule of charges should be prescribed. This was discussed with the foreign collaborators, but it was not found practicable to arrive at a ceiling figure. In view of the vital nature of the agreement and the pressing need for its early finalisation, it was considered expedient not to press this matter further with the AEI. It was recognised that the integrity of this firm, which was of the highest standing in the U.K., must be relied upon. It needs also to be emphasised that the cost statements would be supported by a certificate from the company's auditors which was considered to be the best arrangement that could be arrived at, at the time of finalisation of the contract.

[Ministry of Industrial Development Internal Trade & Company
Affairs (Deptt. of Industrial Development) O.M. No. 24-4/68-
HE&M., dated 3rd May, 1969.]

CHAPTER V

**RECOMMENDATIONS IN RESPECT OF WHICH FINAL REPLIES
OF GOVERNMENT ARE STILL AWAITED**

NIL

M. B. RANA,
Chairman,

Committee on Public Undertakings.

NEW DELHI;
September 16, 1971

Bhadra 25, 1893 (Saka).

APPENDIX I

Vide recommendation at Serial No. 18 (para 84)

TABLE

Analysis of orders placed for Capital equipment till 15-6-68

Value in Rs. Lakhs

Name of the expansion Project	Date of first order placed for equipment	Value as erected	% of total value including customs duty on imported items	Indigenous items				Imported items			Remarks
				% of total value excluding customs duty on imported items.	Value as erected with customs duty	Value as erected excluding customs duty	% of total value including customs duty	% of total value excluding customs duty			
1	2	3	4	5	6	7	8	9	10		
Traction Transformer	6/66	9.40	52.5	61.4	7.76	6.31	47.5	38.6			
Traction Equipment/(Motors etc. Phase I)	8/56	10.43	70.9	76.3	4.31	3.50	29.1	23.7			

* Though the Committee has computed the indigenous content after taking into account the Indian Customs duty, it is considered more appropriate to exclude customs duty for this purpose as the quantum of duty is variable and beyond the control of the company, and it has no bearing on the indigenous content efforts.

Capacitor 8/66 4-12 26-1 39-9 11-66 9-49 73-9 60-1 One major item costing nearly 90% of total equipment value is the proprietary of a UK firm. Even in this case, the designs have been purchased and as many components as possible are being fabricated in India.

Power Transformer 9/66 21-68 60-3 67-7 14-27 11-04 39-7 32-3

Augmentation of Telephone facilities. 4/67 19-07 99-8 99-84 0-03 0-02 0-2 0-16

64-70 68-0 68-1 38-03 30-36 37-0 31-9

APPENDIX II

[Vide recommendations at serial Nos. 2 and 3 (paras 29 & 30)]

ASSOCIATED ELECTRICAL INDUSTRIES INTERNATIONAL LTD.

132. long Acre, London W.C. 2.

Mr. S. Swayambu,

24th May, 1968.

Chairman & Managing Director,

Heavy Electricals (India) Ltd.,

Piplani Post Office,

Bhopal, M.P.

Dear Mr. Swayambu,

I have your letter of the 16th May regarding certain correspondence which took place before the signing of the Technical Consultants Agreement in November 1955, and which the Parliamentary Committee on Public Undertakings seem to think affects the interpretation of the Agreement.

It appears that the Committee interprets the letter as saying that EI would pay the lump sums required by the hydraulic turbine collaborators and B.I.C.C. out of its own lump sum.

This is clearly a misinterpretation as is shown by examination of Article II, para 4 which states:—

“Provided also in respect of the manufacture of hydraulic turbines and of insulating materials the government shall decide in consultation with the consultants what firms shall be selected for subsidiary technical assistance and on what terms.....”

Since neither the collaborating Company nor the terms were known at the time the main agreement was signed, and were to be decided later by Government, the collaborators' remuneration cannot possibly have been considered as included in the remuneration already fixed for the Consultants.

What the letter of 19th June, 1955 actually means is that Boving and Co. and their associates would require as the price of their collaboration, two annual payments of £7,500 followed by a service charge of 5 per cent on output. On the other hand although AEI would be involved in extra work because of this collaboration, in acting as Main Consultants and Co-ordinating the work of Subsidiary Consultants they would undertake this extra work without requiring any increase in their own lump sum payment. The same applied to the B.I.C.C. collaboration.

You will note that the lump sum mentioned in the letter of 19th June, 1965, was £350,000 whereas that in the Agreement totals £400,000. This is because the £350,000 was to have been free of Indian Income Tax, but because Government had some legal difficulty in making such payments free of Indian Income Tax, it was later agreed that this lump sum would be increased to £400,000 but would be subject to Indian Income Tax except for reimbursements of expenses.

The letter of the 19th June, 1955 also mentions the AEI Service Charge as 3 per cent, whereas in the course of later negotiations this was reduced to 2½ per cent, also subject to Indian Income Tax.

Although there is no actual correspondence between AEI and Government on these points, they are clear from a perusal of successive drafts of the agreement, and from notes and internal correspondence between the members of AEI engaged in the negotiations.

I trust the above will enable you to formulate a suitable answer to the most unreasonable accusations being made by the Committee.

(Copy)

Yours sincerely,
Sd|- W. L. BEEBY.

APPENDIX III

(Vide para 5 of Introduction)

Analysis of the action taken by Government on the recommendations contained in the Twelfth Report of the Committee on Public Undertakings (Fourth Lok Sabha).

I.	Total number of Recommendations:—	66
II.	Recommendations that have been accepted by Government (<i>Vide</i> recommendations at serial Nos. 8, 9, 10, 14, 18, 20, 21, 22, 23, 24, 25, 26, 27, 29, 30, 31, 32, 33, 34, 36, 37, 38, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 53, 55, 56, 59, 60, 63, 64 & 66.	
	Number	42
	Percentage to total	64%
III.	Recommendations which the Committee do not desire to pursue in view of Government's replies (<i>Vide</i> recommendations at serial Nos. 1, 2, 3, 4, 7, 11, 12, 13, 15, 16, 17, 19, 28, 35, 39, 52, 54, 57, 58, 61, 62 & 65.	
	Number	22
	Percentage to total	33%
IV.	Recommendations in respect to which final replies of Government have not been accepted by the Committee (<i>Vide</i> recommendations at serial Nos. 5 & 6).	
	Number	2
	Percentage to total	3%