NINETY-FOURTH REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS (1983-84)

(SEVENTH LOK SABHA)

HMT LTD. (EXCLUDING TRACTORS DIVISION)

MINISTRY OF INDUSTRY— DEPARTMENT OF HEAVY INDUSTRY

Presented to Lok Sabha on 26th April, 1984

Laid in Rajya Sabha on 26th April, 1984

LOK SABHA SECRETARIAT
NEW DELHI

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(SEVENTH LOK SABHA)

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(1983-84)

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STUDY GROUP I ON H.M.T. LTD., REHABILITATION INDUSTRIES CORPORATION LTD. AND DURGAPUR STEEL PLANT

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2. Shri Krishna Chandra Halder—*Alternate Convener*
3. Shri K. A. Rajan
4. Shri B. D. Singh
5. Smt. Gurbrinder Kaur Brar

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Ninety-fourth Report on H.M.T. Ltd. (excluding Tractors Division).

2. The Committee took evidence of the representatives of H.M.T. Ltd. on 6 January, 1984 and of Ministry of Industry (Department of Heavy Industry) on 25 and 27 January, 1984.

3. The Committee considered and adopted the Report at their sitting held on 19 April, 1984.

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

NEW DELHI,
24 April, 1984
4 Vaisakha, 1906 (Saka)

MADHUSUDAN VAIRALE,
Chairman,
Committee on Public Undertakings.

CHAPTER I

HISTORICAL BACKGROUND

H.M.T. was set up in 1953 with the objective of producing a limited range of machine tools required for building industrial infrastructure for the country with the production capacity of Rs. 5 crores per annum with the growing demand for machine tools, the Company launched a plan for diversification and expansion which resulted in setting up of new units at Bangalore, Pinjore, Kalamassery and Hyderabad. The Machine Tool Corporation of India was amalgamated with the Company from April 1, 1975. The Company in all its six machine tool factories now produces a wide range of machine tools. The product-mix for each factory has been so fixed that each Unit specialises in one or two family of machines, thus ensuring greater efficiency and productivity.

1.2 Watches were taken up as an additional product in the early 60s as an extension of HMT's precision manufacturing capabilities and the Company has set up five watch factories at various places in the country. Faced with a recession in the machine tool business in the 60s, the Company besides extending its range of machine tools, diversified into non-machine tool items like tractors, printing machines, presses, lamps etc.

1.3 Since the Company had diversified its activities by taking up the manufacture of items other than machine tools and also as the name 'HMT' had acquired popularity over a period of years, the name of the Company was changed from "HINDUSTAN MACHINE TOOLS LIMITED" to "HMT LIMITED", with effect from 12th September, 1978.

1.4 The organisational structure of HMT was changed in 1978 to form Business Groups, in accordance with the principle of Management by Business Groups now functioning :—

(i) Machine Tools ;

(ii) Watches ;

(iii) Agricultural Machinery ; and

(iv) General Engineering Products.

Each Group is accountable for results in all its functional areas, namely, production, Finance, Marketing, Personnel and R&D.

1.5 The Company has at present 11 manufacturing units and 17 Product Divisions spread across 9 different States in the Country as shown below :

Manufacturing Unit	Product Division	State
1. HMT I & II	1. Machine Tool Division 2. Die Casting Division	Karnataka
2. HMT III	3. Machine Tool Division 4. Agricultural Machinery Div.	Haryana
3. HMT IV	5. Machine Tool Division 6. Printing Machinery Div.	Kerala
4. HMT V	7. Machine Tool Division 8. Press Division 9. Lamp Division	Andhra Pradesh
5. HMT VI	10. Machine Tool Division	Rajasthan
6. Horological Machinery Unit	11. Machine Tool Division	Karnataka
7. Watch Factory I & II	12. Watch Unit	Karnataka
8. Watch Factory III	13. Watch Unit	Jammu & Kashmir
9. Watch Factory IV	14. Watch Unit	Karnataka
10. Watch Factory V (under implementation)	15. Watch Unit	Uttar Pradesh
11. Dairy Machinery Units	16. Dairy Machinery Unit 17. Miniature Battery Project (Under implementation)	Maharashtra Assam

CHAPTER II

PRODUCTION MANAGEMENT

(a) *Overall Production Performance*

2.1 The following table indicates the Corporate Plan targets and the achievements there against of production of the Company during the last five years :

Production	1978-79	1979-80	1980-81	1981-82	1982-83
					(Rs. Crores)
Corporate Plan	163.47	192.37	216.58	253.00	285.90
Actuals	165.87	182.53	187.40	263.09	280.31
Achievement (%)	101.00	95.00	87.00	104.00	98.00

2.2 The following statement shows the division-wise value of production during the last six years :

Division	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83
					(Rs. in crores)	
Machine Tools	44.14	54.90	64.80	62.34	96.69	112.37
Watches	50.20	73.09	70.09	80.15	94.21	100.01
Tractors	23.07	32.12	39.19	39.25	58.71	53.28
General Eng. production	2.30	5.76	8.45	5.66	13.48	14.65
	119.71	165.87	182.53	187.40	263.09	280.31

Market Share

2.3 One of the objectives laid down by the Company in the Second Corporate Plan was to be leader in each of its major business activities. It had also been specified that each product line should grow atleast to the extent of retaining its market share for the production line in the country. The Committee enquired about the market share of the Company in each Business Group. The Managing Director gave the following figures in this connection :

Products	%age of market share				
	1978	1979	1980	1981	1982
Machine tools (A & B categories)	48	38	34	32	39
Watches	69	56	57	66	63
Tractors (figures for financial year)	14.9	13.6	11.8	13.8	15
G.L.S. Lamps (figures for financial year)	8	8	6	10	9

2.4 Asked about the reasons for substantial decline in the market share in the case of machine tools, the Managing Director stated that in 1973 Kirloskar were on strike and, therefore, the industry figure went down. In view of this, the HMT's percentage looks better. The Company's share in 1977 was, however, 42 per cent.

Capacity utilisation

2.5 The overall capacity utilisation percentage of the Company during the last five years was stated to be as follows :

1978-79	100
1979-80	95
1980-81	85
1981-82	104
1982-83	98

2.6 It had been stated that the low capacity utilisation in the Company had been in the areas of tractors and general engineering products. In the case of tractors it was due to restrictions on the credit facilities to the farmers by the commercial banks resulting in a sudden drop in sales and consequent drop in production. In the case of general engineering products besides disturbed industrial relations, market constraints had affected capacity utilisation in a few product divisions namely, presses, horological machinery and diary machinery.

2.7 As regards reasons for low demand for presses, the M.D. stated in evidence that the demand for presses was mainly from Defence, tractor and automobile industry. It was estimated that on the overall, there would be adequate demand for presses. Last year market was also affected as import of some presses was allowed. Two major orders which they lost were from Hindustan Motors, and from Guest Keen Williams. One of the reasons for it was that they got it at a very low price and it was difficult for HMT to produce presses at that price.

2.8 In this connection, the Secretary of the Ministry stated in his evidence that in this case of metal forming presses, for many years the production in the automotive industry was more or less stagnant. But during the last two years as a result of steps taken by them the automative sector was expanding and as a result the demand for presses would be quite heavy and the problem of demand would not be there. The automative sector manufacturers had also been told to place orders for machine tools on indigenous manufacturers well in advance as imports would not be allowed on the plea of delay in supply by the indigenous manufacturers. As regards the reasons for allowing import of certain presses, the Secretary stated that 'it was mainly due to delivery factor'.

2.9 As regards Horological machinery, the Committee were informed that the Company had diversified production and taken up manufacture of more sophisticated watch making machines needed for their Ranibagh factory which they had to import earlier. There was, therefore, enough work now for the Horological Machinery Divison.

Growth rate

2.10 The Second Corporate Plan of the Company for 1978-79 to 1982-83 projected an average compound growth rate of 16% per annum, excluding output of new projects like precision instruments project, dairy machinery project, flour scent tubes project, etc. The Committee enquired about the actual growth in production in physical terms. They were informed that in the case case of machine tools, the production in terms of standard machines had gone up from 4022 in 1977-78 to 6687 in 1982-83 which worked out to an average componnd growth rate of 11%. In the case of watches, the number had gone up from 23 51 lakhs to 42.28 lakhs which meant an average compound growth rate of 13%.

2.11 The Third Corporate Plan of the Company for the period 1982-83 to 1986-87, drawn up in August, 1982, aims to take the total production of the Company from the 1981-82 base of Rs. 263 crores to Rs. 523 crores in the year 1986-87. The Business Group wise total growth envisaged is 215% for Machine Tools 139% for watches, 249% for tractors and 226% for other products. The increase in growth over 5-year period when converted to an yearly percentage increase comes to 15% in machine tools, 7% in watches, 20% in tractors and 18% for other products.

2.12 The Committee pointed out the the value of production in 1982-83 being Rs. 280.31 crores as against Rs. 263.09 crores in 1981-82, the actual growth rate achieved by the Company during 1982-83, the first year of the Third Corporate Plan, was only 6.5%, Asked about the reasons for it, the Managing Director of the Company stated in his evidence that in the year 1982-83, the value of production of machine tools was Rs. 112.37 crores as compared to Rs. 97 crores in 1981-82 and thus the growth was 15 per cent as against the corporate plan figure of 16 per cent. In the case of watches the production went up from Rs. 94 crores to Rs. 100 crores ; the growth rate was thus 6% against the corporate plan figure of 8%. In the case of tractors, instead of a growth of 20%, it dropped by 11%. The drop in tractor production was on account of severe credit restrictions imposed by commercial banks for the purchase of tractors. In the case of other products, there had been no significant increase.

2.13 The Committee were also informed by HMT that the following steps were being taken to achieve the growth rate as envisaged in the Corporate Plan :

1. **Machine Tools :**

Replacement of old machines with new high technology machines. Diversification of the product range by adding new products.

Diversification of the product range of Printing Machinery Division.

2. **Watches :**

Establishment of a new Watch Factory at Ranibagh, Uttar Pradesh with a capacity of 2 million watch component sets per year.

Expansion of the Watch Factory at Srinagar to a capacity of 5 lakhs per year.

Replacement of machines in Watch Factory I & II. Bangalore.

Establishing production of components of analog watches like specialised watch cases, miniature batteries, stepper motors etc.

3. **Other Products ;**

The Lamp Chains have been taken up for overhauling.

The furnace relining has also been taken up.

The production of Mercury Vapour Lamps is being established.

Diversification Schemes

2.14 The progress of various diversification schemes included in the sixth Five Year Plan was as follows :

(Rs. in crores)

	Revised cost	VIth Plan Outlay	Expenditure up to 1982-83	Total estimated expenditure up to end of Plan period 1984-85
1. Machine Tool Diversification	30.59	14.59	0.59	2.89
2. Watch diversification expansion including watch factory, Ranibagh	66.68	13.23	0.27	30.19
3. Tractor diversification expansion	13.20	1.00	0.8	0.38
4. Dairy machinery diversification	1.15	1.15	—	—
5. Bearings diversification	10.00	4.00	1.90	1.90

2 15 Asked about the reasons for generally slow progress in various diversification schemes, the Committee were informed that the Company's total VIth Plan expenditure on various Plan schemes was going to be substantially higher (Rs. 133 crores) than the outlay originally envisaged (Rs. 113 crores), However, so far as the diversification schemes were concerned, the following were some of the reasons for slow progress :

1. Higher priority given for implementation of renewals and replacement programmes particularly in the machine tool sector ;

2. Need for conserving resources for financing the Ranibagh Watch Project (Rs. 44.71 crores) for which no provision had been envisaged in the earlier sixth plan outlay

3. In the case of tractors, Dairy Machinery and Bearings, slackness in demand had led to reconsideration of the diversification schemes, pending reassessment of the situation.

2.16 HMT Ltd. which was set up in 1953 with the objective of producing a range of machine tools has grown into a multi-product Company. The value of production has gone up from Rs. 119.71 crores in 1977-78 to Rs. 280.31 crores in 1982-83 as against the target of Rs. 285.90 crores. The Second Corporate Plan (1978-83) envisaged an average compound growth rate of 16 per cent. The actual growth rate in physical terms for certain products has, however, been lower than expected. Further, the Company could not retain its market share for various products as envisaged in the Plan. The Committee desire that the reasons for shortfall in achievement of objectives and targets set in the second Corporate Plan be analysed with a view to taking corrective measures for the future.

2.17 The Third Corporate Plan of the Company envisages increase in the value of production from Rs. 263 crores in 1981-82 to Rs. 523 crores in 1986-87. The overall growth rate in the first year i.e. in 1982-83 was, however, barely 6.5% and that too at current prices. The Committee would strongly urge the need for concerted efforts and taking of suitable remedial measures to accelerate the growth rate to achieve the targets set in the Third Corporate Plan.

2.18 The Committee note that as against Sixth Plan outlay of Rs. 14.59 crores for machine tools diversification the expenditure likely to be incurred on this account upto the end of the Plan period is hardly Rs. 2.89 crores. One of the reasons for it was financing of Ranibagh Watch Project for which no provision had been made in the Sixth Plan outlay. While the Committee welcome the setting up of additional watch unit, they are of the view that the Government should have allowed additional funds for watch factory instead of slowing down the programme for machine tools diversification. The need to diversify the product range of machine tools to meet the situation arising out of changing pattern of demand cannot be over emphasised. The Committee desire that funds required for Machine Tools Diversification Schemes should be made available to the Company early and implementation of various diversification schemes be expedited.

2.19 In the case of several items, the production was affected due to market constraints. Further, the production of Press Division was affected due to imports allowed in some cases on account of higher cost of production and longer delivery time by HMT. This calls for taking up of effective measures for cost

control and reduction of delivery time besides adoption of aggressive marketing strategy to boost up sales. The Committee would like the Government to pay special attention to these aspects and give necessary guidance to the Company in this regard.

(*b*) *Diversification into non-machine tool business*

2.20 The Committee enquired about the reasons for HMT taking up manufacture of watches and other products instead of concentrating on machine tools which was the main objective of the Company. The Managing Director of the Company stated in evidence :

"The machine tool business is an area where there are cyclic changes in the demand pattern and the machine tool industry is the first to be affected when there is a slackness in demand of the engineering goods itself. Therefore, we have diversified not only in the machine tool area, but in other business also, so that if the demand pattern is not in the same cycle, they can cancel each other's negative effects, and the Company has greater stability."

2 21 In reply to another question he added :

"The agreement for manufacturing of watches was signed by the Government of India with the Citizen Watch Company of Japan and it was given to HMT for implementation. At that time, there were very few companies with the requisite skill in management to implement the project. HMT was able to set up a watch industry in the country. During 1966-69, the watch industry helped us to some extent to stabilise our operation. This, in fact, became in a way our basic policy so as to diversify to other area of the demand. The production of watches involves the use of machine tools. We have set up a separate division to make the machine tools for the watch industry. So, this, in fact, complements with each other."

2.22 The Committee noted that while HMT was diversifying its activities to fields other than machine tools, there were imports of machine tools on a large scale in the country. The Indian machine tools industry catered to only 76% of the total consumption in the country. In order to have the position clarified, the Committee enquired about the value of imports of machine tools and why the production of these items could not be taken up by HMT. The Secretary of the Ministry stated in evidence :

"There is today a substantial import of machine tools and, in fact, during the last five years, the import of machine tool has been increasing. It was a little less than Rs. 40 crores in 1978, Rs. 100 crores in 1980, about the same amount in 1981 and Rs. 145 crores in 1982. We do not have the figures for 1983. But it is not going to be less than the figure for 1982.

On the one hand, the total demand has increased. The total turn-over of machine tool industry has been increasing. But import content, as a percentage of total demand, has also been increasing because of the special tools machines like computerised numercially controlled machines which have been developed and which are not only more productive but offer much better accuracies. For that purpose, we have been able to persuade the industry to go in for this range of manufacture. HMT is also getting into CNC machine. They have also got into making this type of machine by their own Research & Development effort."

2.23 Asked whether the imports had taken place on account of inability to produce what is required or because it was more economical to import than to manufacture, the Secretary stated :

"One part is, we have to develop the capability. On the basis of our studies we have tried to identify the areas where we should develop the capabilities, and until we develop the capabilities and we are able to manufacture, we have to import. The second part is, even if we can develop the capability, we would not like to do the entire range because it will not be economical. The variety is very large. One has to do the selection in what areas our requirements would be larger and, therefore, we should develop the capability in those and that will be economical."

2.24 The Committee find that the Company has over the years taken up the production of various non-machine tools items like watches, lamps, tractors, presses dairy machinery etc. The total value of production of items other than machine tools worked out on an average to 64% of total production during the last 5 years. The Company is stated to have diversified its activities into areas other than machine tools to take care of cyclic changes in the demand pattern in the machine tools industry. Nevertheless, having regard to the fact that the main objective of the setting up of the Company was the production of machine tools and there was growing demand for them, the Committee are of the view that greater attention should have been paid to the production of machine tools. The indigenous machine tool industry still caters to only 76% of total demand. There have been substantial imports of machine tools during the last five years. The value of imports had gone up from a little less than Rs. 40 crores in 1978 to about Rs. 145 crores in 1982. The Committee, therefore, emphasise that HMT should increasingly concentrate on its primary function of development and production of machine tools involving higher

precision and advanced technology. It should at the same time draw up a suitable programme for farming out the production of simpler machines to other Units especially in backward areas.

C. Lamp Division

2.25 The Company has set up a plant at Hyderabad for manufacturing lamps, lamp making machines and flourescent lamps in collaboration with Hungarian firm Tungsram. The capacity utilisation in Lamp Division had come down from 92% in 1981-82 to 74% in 1982-83. The Committee enquired about the reasons for the company going in for the production of lamps which did not fit in with the basic concept of the setting up of the company. The Managing Director of the Company stated in evidence :

> "If we go back to the history of the Company, after 1966-69 recession, we had certain major units located at different geographical centres, that is, in Bangalore, Pinjore, Kalamassery and Hyderabad. Instead of trying to insulate the whole Company from the effects of variations in the demand, our effort was to make such geographical location as stable as possible. Accordingly, we went in for diversification in the machine tools factory at Bangalore ; at Pinjore, we went in for tractors ; at Kalamassery, we went in for printing machines and at Hyderabad, we went in for lamps. That is how the Lamps Division was established at Hyderabad."

2.26 When pointed out that HMT was supposed to make available the components to other units making bulbs, the M.D. stated that they had extra capacities for that purpose and were in a position to supply components.

In reply to another question the witness stated :

> "We have longer perspectives. This is an area where there would be a lot of growth. If we consider the growing future demand, this is a small venture. It is not a very big factory which, I hope, India will need in years to come. Then, this diversification has to be looked from a wider future perspective. There will be a huge potential in the long run. The second aspect is that there is no other manufacturer of lamp chain in the country."

2.27 As regards the reasons for low capacity utilisation of this unit, the M.D. stated :

> "There are two furnaces—lead glass furnace and the magnesia furnace. The life of these furnaces' lining should last for 4-5 years but during 1980-81 because of the strike we had to shut down these furnaces and this

contributed to some extent in the deterioration of the condition of the refractories and it became manifest when the furnace was re-started. Already we have re-lined our lead glass furnace and at the moment magnesia furnace has been shut down for re-lining. For re-lining we have to do lot of advance preparation and it results in decrease in production. We expect in the next six months to complete the over-hauling of the chain and with that the Lamp-Division will be put back on rails".

2.28 The Committee enquired from the Secretary of the Ministry whether the approval of the Government was obtained by the Company for the manufacture of lamps and if so, on what considerations was this approved. The witness stated :

"Although it is a fact that there are a number of units making lamps in India, none of them was wanting to get into making of lamp-making machinery. Generally, in many cases, the international organisations which are manufacturers of lamps have also gone into lamp machinery *e.g.* Philips. They are one of the largest manufacturers of lamp chain, which is the basic machinery. But they were reluctant to go into this manufacture in India. So, most of the parties used to depend on imports.

At that point of time, it was suggested that since in one of the units of the HMT in Hyderabad, meant for special purpose machine tools, there is some surplus capacity and since basically lamp chain is a mechanical device, it could be akin to machine tools, and so HMT should get into it. That was one part of the machine. Another was the vacuum chain in the lamp. So, HMT was asked to get into those areas. Certainly, one could say this is not an area which was thought of at the initiative of the HMT itself. In certain ministerial discussions it came up and this suggestion was made. For HMT, Hungarian collaboration was available. So, HMT prepared a proposal. Having decided to set up a lamp chain machinery making unit, it is always desirable to demonstrate the capability of that. So, they went into lamp making units. That is why in this case HMT prepared a self-contained integrated proposal for manufacturing lamp making machinery as well as manufacturing lamps."

2.29 The Committee pointed out that the installed capacity of the Unit for production of Lamp making machinery (lamp chains) was 8 per annum and enquired about the number of machines actually produced. The following figures were furnished in this regard :

Year	No. of Chains
1979-80	3
1980-81	1
1981-82	4
1982-83	—
	8

2.30 In reply to a question as to what were the projections in regard to market demand for such chains in the proposal submitted by HMT to Government, the Committee were informed that the production of Lamp Making Machinery was taken up by HMT in order to gain a qualitative advantage in the technology of Lamp and Lamp Making Machinery. No investments were made towards the manufacturing facilities required for this, nor was any know-how fee paid to the Collaborators. In view of this, no specific projections of demand were made.

2.31 As regards the reasons for unsatisfactory performance of the Unit, the Secretary of the Ministry stated in evidence that on account of the trouble in this particular collaboration HMT could not demonstrate the results. Elaborating the difficulties experienced in the Collaboration agreement with the Hungarian Company for this unit, he added :

> "The machines manufactured by the HMT based on that collaboration were to produce 2000 lamps per hour. But they were able to produce only 1600 lamps per hour and the rate of rejections was also higher. So, this led to some teething troubles. About a year and half ago, when the Minister of Industry went to Hungary, as the Co-Chairman of the Indo-Hungarian Joint Economic Commission, we took up with the Hungarian Government as this was one of their organisations which had joined hands in collaboration with us and told them that the units were not producing the desired results. Fortunately, today I am in a position to say that as a result of this follow-up action, some specialists did arrive here from Hungary and modified those machines and, about a month ago, out of the machines which are working in Hyderabad, one machine was rectified and re-conditioned. It has started giving the rated output, that is, 2000 lamps per hour. We are confident that within the next few months, all the other machines will be rectified and they will start producing at the rate of 2000 lamps per hour. Our anticipation is that in 1984-85, this unit should not be making any losses. We are fairly confident about it after seeing the

result of one machine which has been modified and reconditioned......The number of lamps produced with the existing investment will increase, the machines will work at the rated capacity and the unit will make profit. It will be able to sell more machines and the pressure on imports will also be reduced."

2.32 Asked about the working results of the unit during the last five years, the following figures were furnished to the Committee :

Year	Rs. in lakhs Profit (+) Loss (—)
1978—79	(—) 87
1979—80	(+) 12
1980—81	(—) 300
1981—82	(+) 12
1982—83	(—) 461

2.33. It was noticed that one of the reasons for losses was higher consumption of materials than the norms fixed as is evident from the following figures for 1982-83 :

Item Particulars	(Values in Rupees) 1982—83	
	Budgeted norms per 1000 Nos.	Actual per 1000 Nos.
I. CONSUMPTION		
A. *GLS Lamps* :		
(i) Raw Materials and components	1453	1956
(ii) Stores and spare parts packing materials etc.	410	445
B. *F.L. Lamps* :		
(i) Raw Materials and Components	6630	13911
(ii) Stores and Spare parts, Packing Materials etc.	1877	4201

2.34 The high consumption was attributed to the fact that the production was not stabilised and the workers were not fully trained in all areas.

2.35 Asked whether there were any complaints in regard to the quality of the bulbs produced, it was stated by HMT that in a mass production consumer goods like bulbs, some complaints were received through dealers/retailers as well as directly from the customers. The complaints generally were of the nature of shorter life, caps coming off, breaking of holder pins, fusing out, etc. The customer complaints cell of the Lamps Division analysed such complaints on a continual basis and took necessary corrective action to eliminate such defects.

2.36 The Committee enquired about the steps taken for quality control. The M.D. stated in evidence:

> "We have worked out this on the total quantities of lamps sold. For 1980-81, the percentage of defective lamps comes to 1%, in 1981-82 to 1.3% and for 1982-83, it comes to 1.2%. We have taken certain corrective steps. We have brought out a new lamp with 250V rating so that with the overlapping fluctuation, the filament does not go easily. Then, we have gone to the tightening plan under the Indian Standards. We have also introduced certain quality assurance procedures like quality rating systems, quality auditing and have also brought out certain technological improvements where it was necessary."

2.37 As regards the cost of production, the following figures were furnished by HMT in regard to budgeted norm and the actuals during 1980-81 to 1982-83:

(Value in Rs.)

Particulars	1980-81		1981-82		1982-83	
	Budgeted Norms per 1000 Nos.	Actual per 1000 Nos.	Budgeted Norms per 1000 Nos.	Actual per 1000 Nos.	Budgeted Norms per 1000 Nos.	Actual per 1000 Nos
GLS LAMPS						
Variable Cost	1267	2502	1592	1812	1779	2347
Fixed Cost	485	1174	462	761	398	854
Total Cost	1752	3676	2054	2573	2177	3012

FLUORESCENT LAMPS

Variable Cost	6340	16079	6794	11898	8416	17066
Fixed Cost	3388	28821	3293	6302	2877	8335
Total Cost	9728	44900	10087	18200	11293	25401

2.38. In reply to a question about the reasons for the actual cost being more than the budgeted norms, the Company have informed that budgeted costs are fixed taking into consideration the ideal working conditions like full capacity utilisation, optimum working efficiency, and past performance. However, the variations under actual working conditions would have its own impact on actual cost of production.

2.39 Increase in actual cost of production as compared to budgeted norm was due to the following reasons :

1. Increase in material cost.
2. Increase in cost of fuel and gases as compared to the budgeted costs.
3. Infrastructural imbalances like power cuts, etc.
4. Non availability of materials in time.
5. Variations in level of efficiency of workers.
6. Unrest and long drawn strike during 1980-81.

The above reasons had cumulative effect in increasing the actual cost of production during the period 1980-81 to 1982-83.

2.40 The production performance in regard to some of the diversified products has not been satisfactory. In the case of Lamp Division, no specific projections of demand were made for lamp making machinery before establishing the project. The total production during the last five years (1978—83) was only 8 machines which is the annual licensed capacity. The capacity utilisation for production of lamps also was only 74% in 1982-83. There was higher consumption of material than the norms fixed, heavy rejections, and quality complaints like shorter life, caps coming off, breaking of holder pins, fusing out, etc. The cost of production was abnormally high, being more than double the budgeted norms for flourescent lamp in 1982-83. The unit had suffered a total loss of Rs. 8.24 crores during the last five years. The Committee view with concern the poor performance of this particular unit. They are of the view that the Company should not have gone in for the production of lamps, an area quite different from its main line of

production viz. machine tools. The production management and cost control in the unit left much to be desired. Although the unit had gone into production six years ago, it was not until recently that modifications required in the machinery to achieve the rated production had been carried out. The Committee would stress the need for improving the quality of the products and upgrading the technology for the manufacture of lamps as well as lamp making machinery. Further, keeping in view the need for conserving energy, the production of energy efficient lamps which have higher market potential should be stepped up. The Committee also hope that as assured by the Secretary, the Unit would become viable from 1984-85.

(d) Dairy Machinery Unit

2.41 The Company has set up at Aurangabad, the project for manufacturing a select range of dairy machinery. A collaboration agreement was signed with FLM of East Germany in January, 1980. The total project cost is Rs. 487.5 lakhs. The products of the Dairy machinery Unit are Milk separators, Milk Chiller Deep Chiller, Milk Pasteuriser, Cream Pasteuriser, Butter Making machine, Butter packing machine, Milk Pumps and Heat Exchangers. The value of production in 1982-83 was Rs. 182 lakhs only as against a target of Rs. 276 lakhs. The production of factory is stated to have suffered on account of lack of demand. The total turnover had come down from Rs. 129.18 lakhs in 1981-82 to Rs. 72.74 lakhs in 1982-83. Asked about the reasons for lack of demand, the MD stated in evidence :

"In 1977 based on the then projections, the demand of the dairy machinery was placed at about Rs. 19 crores. But, we reduced the demand projection and created the capacity of only Rs. 465 lakhs of dairy machines. The actuals are now even lower than that. We made a very big correction in building capacity but even that has gone wrong."

2.42 Asked whether there was no proper market survey done before creating the production capacity in the unit, the Secretary of the Ministry stated in evidence :

"The whole thing is based on the assessment of the Department of Agriculture. In fact, NDDB where the initiators of this idea. Since they were going into operation flood programme in milk their expectation was that there was going to be lot more milk and they went ahead to set up a new organisation called IDMMC under the NDDB. They had decided to go in for collaboration. But it was at a late stage that they thought that they would not be the right people to manufacture machinery. It was at that stage that they started searching for other organisation. So, they approached the Government and Government accepted this view that this should be transferred to a machine building Company like HMT. Their demand projection about the machinery was that in five years it would be about Rs. 200 crores and existing capabilities in the country were of the order o meeting the demand worth Rs. 50 crores. It means that the balance Rs. 150 crores worth of machinery in five years will have to be procured for which the existing capabilities are not there in the country. This new factory was meant to meet 50 per cent of their requirements, which mean Rs. 75 crores in five years. It is a matter of record that requirement of that order of Rs. 75 crores in five years has not come up. We are worried about this unit. It has gone into production in 1981-82 in a very small scale. It is a very well designed unit ; the facilities are good. the lay-out and the manpower which is put over there in position is very good. It is a much smaller unit with an investment of Rs. 2 crores or a little less. Since orders in this area are not coming up, we are thinking what else we can manufacture in this unit by using these facilities, with no new investment except marginally. I personally feel tnat it should be possible to find out some product. That is one approach.

Secondly, re-designing of the product is needed. Europeans take butter, which is not salted. East Germany, who is the collaborator in this case does not make machinery which can mix salt with butter. Indians, who have got used to table butter as a breakfast item, take salted butter. We found that the machinery manufactured by Germans has a little problem in developing salted butter, because when we mix salt, the water content of the butter changes. Immediately after the start of the manufacture of these items, these problems came to notice. It should be possible for R&D people of HMT to get over it. We are also in contact with the original manufacturers. I think these are the types of problems, which it should be possible to surmount.

Then, instead of keeping the unit as one for butter making machine, we are trying to supplement the unit by having a small group of persons, which becomes a product systems group. For those who want to set up small dairies, this Group will do the turnkey job. With this little diversification to meet the requirements, it should be possible to put these units in a healthy position."

2.43 The Committee were also informed that the Dairy machine unit had incurred a loss of Rs. 8 lakhs in 1980-81 and Rs. 32 lakhs in 1982-83. It made only a marginal profit of Rs. 2 lakhs in 1981-82.

2.44 In reply to a question, the Committee were informed that in Dairy machinery, the share of the Company was approximately 25% of the total industry. The Company faced competition by indigenous and foreign firms for DMU range of products.

2.45 The Committee find that the dairy machinery unit has not been performing well. The value of production of the unit in 1982-83 was only 66% of the target fixed and it suffered a loss of Rs. 32 lakhs during the year. The plant is stated to have been set up based on the assessment of demand for dairy machinery made by the Department of Agriculture which did not materialise. This points to the need for having cross-check of the market demand by the Company before establishing any unit to avoid creation of surplus capacities. They would like the Department of Agriculture to go into the assessment of the demand for this type of machinery and the reasons which falsified the estimation.

2.46 However, considering the fact that the Company's market share in dairy machinery was only 25%, there would appear to be sufficient scope for improvement in the performance of this Division provided steps are taken for product diversification and the marketing organisation is strengthened to meet the challenge from other producers. The Committee also support the idea of taking up of turn-key jobs for setting up of small dairies. A clear cut action programme covering both short term and long term measures to put the Dairy Machinery Division on a viable footing should be drawn up and its implementation monitored regularly.

(*e*) *Production of Precision measuring instruments*

2.47 A large portion of precision measuring instruments are imported from Switzerland, U.K., Japan and East European countries. The Government requested HMT in March, 1975 to examine the feasibility of setting up facilities for manufacture of precision measuring instruments. The Fifth Five-Year Plan included a scheme for setting up a precision instruments Plant at an estimated cost of Rs. 4 48 crores. An outlay of Rs. 1.10 crores was also made in the Plan. The scheme was, however, not taken up by the Company. The Committee enquired about the reasons for not setting up the project. The Secretary of the Ministry stated in evidence that there were a few manufacturers in the world who had monopolised the manufacture of such instruments and they were most reluctant to transfer the technology to anybody. One of the leading manufacturers was TESA of Switzerland. After a fairly lengthy dialogue, the HMT was able to get their understanding for a collaboration. The collaboration was approved and the agreement was negotiated and it was approved by the Government in June, 1979 more than 4½ years ago but in spite of that, this collaborator was going slow and instead of saying 'no' was not trying to do anything. Then again they had to start the search. Recently, however, they had been able to have a break-through and a collaboration agreement with one East German firm 'Carl Zeiss' had been negotiated and approved by Government. Now the Company had to prepare the feasibility report for the investment decision and in the next six months or so the investment decision was expected to be taken.

2.48 **A large portion of precision measuring instruments are imported at present. Although the Fifth Five-Year Plan included a scheme for setting up a precision instruments Plant at an estimated cost of Rs. 4.48 crores and a provision of Rs. 1.10 crores was also made for it, the scheme could not be taken up by the Company for want of a suitable collaborator. It is only recently that a collaboration agreement with an East German firm had been approved by Government and the investment decision was likely to be taken in the next six months or so. It is unfortunate that it had not been possible for Government to find a suitable collaborator for the setting up of the Unit all these years. They would like the Government to ensure that at least now the project is set up soon to reduce the import of precision instruments. The Committee also hope that with the setting up of this unit, the country would gain the capability in this highly sophisticated field of precision technology.**

(*f*) *Printing Press*

2.49 The Printing Machinery Division of the Company at Kalamassery commenced production in 1972-73. The unit has been producing letter presses and off-set presses of the single colour type. In line with the development of printing industry the Company has introduced multi-colour sheet-fed off-set-machinery of size 520 × 720 mm with technology arrangement with M/s. Koening & Bauer A.G. The total turnover in 1982-83 was Rs. 547.00 lakhs. The Committee enquired whether any attention has been paid to the manufacture of off set machinery for printing of newspapers to meet the demand for those machines. It was explained in a note furnished to the Committee that newspapers are normally published in two sizes viz., Broad Sheet Size 578 × 914 mm. and Tabloid Size 578 × 457mm. Newspapers published in Broad sheet size having more than 4 pages and Tabloid size having more than 8 pages and with a circulation of over 20,000 copies will have to be printed on Web Offset Printing Machine as :-

(a) Only 2 to 3 hours will be available for printing.

(b) After printing, further operations like creasing, folding and trimming to be carried out. Web Offset Machines can give an output of over 40,000 copies per hour with printing, creasing, folding and trimming done in line.

2.50 The maximum output on Sheetfed Offset Printing Machine will be around 6000 to 6500 sheets per hour and only one sheet (4 pages) can be printed at a time on one machine. The subsequent operations like creasing, folding and trimming will have to be done separately. Hence, it is not feasible to print normal Newspapers on Sheet fed Offset Printing Machines like HMT's.

2.51 The following Product Development Plan were however under scrutiny :

(a) Single Colour Sheetfed, Offset Printing Machine of Smaller size.

(b) Multicolour Sheetfed Offset Printing Machine with perfecting facility.

(c) Web Offset Printing Machines suitable for printing of Newspaper, Magazines.

2.52 The Printing Press Division of the Company had been producing letter presses and off set presses of single colour type. It had also introduced multi-colour sheet-fed off-set machinery. The presses of the Company were, however, not suitable for printing of newspapers published in broad sheet size having more than four pages. A production development plan covering *inter alia* production of web off-set printing machines suitable for printing of newspapers, magazines and multi-colour sheet fed off-set printing Machines with perfecting facility were, however, stated to be under scrutiny. The Committee desire that the decision on the development plan be expedited and production facilities for multi-colour off-set machines for printing in various sizes with perfecting facilities be set up soon to reduce imports.

CHAPTER III

COST OF PRODUCTION

3.1 One of the goals set by the Company in Second Corporate Plan was that each business unit should grow at least to the extent of compensating for increasing costs through value added. It is, however; seen that the percentage of employees costs to value added had gone up from 37% in 1981-82 to 39% in 1982-83. Further, the percentage of administrative expenses to cost of production had also gone up from 3.12% in 1980-81 to 8.25% in 1982-83 and were substantially higher than the budget estimates of 6.26 per cent.

3.2 Asked about the reasons for increase in employees cost, the MD stated in evidence :

> "This percentage has gone up because from Ist August, 1982, the salary of officers and supervisors was increased. Similarly, from Ist January, 1983 there is a wage increase for the workers. If we hypothetically eliminate this from the comparison, the percentage of employee's cost to the total cost will come down to 36.9. If we see the period of ten years we will find that this figure used to be 52 in 1974-75 ; it was 44 in 1975-76; it was 46 in 1976-77; it was 48 in 1977-78; it was 43 in 1978-79; it was 38 in 1979-80 it was 40 in 1980-81 ; it was 37 in 1981-82 and it was 39 in 1982-83. It will be seen that these are not actually going out of control."

3.3 In regard to increase in administrative expenses as compared to budget estimates, the Committee were informed that these had gone up on account of increase in power and fuel expenses by Rs. 165 lakhs due to increase in petroleum product price and increased usage of Diesel Generating sets in manufacturing units due to power cuts imposed during the year, increase in assembly charges of watches by Rs. 175 lakhs due to addition of 12 assembly ancillary units, increase in sales promotion expenses by Rs. 70 lakhs due to increase in media rates for advertisements and increase in printing and stationery expenses by Rs. 29 lakhs due to increase in paper cost. The expenditure on advertisement and publicity had gone up from Rs. 1.49 crores in 1980-81 to Rs. 2.16 crores in 1982-83.

3.4 Asked as to how power and fuel and advertisement expenses have been treated as administrative expenses, the Company informed that these have been given under 'Administrative Expenses' in the 'Cost of Production' categorisation in the performance budget of the Ministry of Industry, Department of

Heavy Industry, which provides for segregation in five main heads viz., raw materials and components, salaries and wages, administrative expenses, depreciation and miscellaneous expenses, in the absence of a specific head.

3.5 However, power is considered as conversion costs for cost accounting purposes and grouped under 'Other Expenses' in HMT's financial accounts.

3 6 One of the factors affecting cost of production was high percentage of production hours lost. As per annual Report for 1982-83, as against 222.50 lakhs available hours, the production hours lost were 105.81 lakhs or 48% of the available hours. On enquiring by the Committee, the MD stated in evidence that hours lost on account of absenteeism were 18% of the available hours.

3.7 Subsequently, the following details were furnished by the Company in regard to production hours lost in 1982-83 :

	Hours lost (in thousands)	Percentage
Absenteeism	40,69	18
Machine Downtime	7,37	3
Power cut interruptions	2,31	1
Industrial Relations	57	—
Others	22,80	11
Production hours	73,74	33
Available	2,23,99	100

3.8 In regard to break up the 11% of production hours lost on account of other reasons, the following details were furnished by HMT :

		Approximate Percentage
1.	Waiting time during sequential production operations	6.5
2.	Preventive maintenance	1.5
3.	Time awaiting tooling-up	1.2
4.	Miscellaneous (inspection, welfare, etc.)	1.5

3.9 The production hours lost on account of absenteeism had gone up from 16% in 1981-82 to 18% in 1982-83. This was explained as due to increase in L.T.C. facility being utilised by the employees during the latter part of the four-year LTC block period.

3.10 The Committee enquired about the steps being taken by the management to contain the increase in employees and administrative costs. They were informed that the increase in these costs are proposed to be met by higher production and increased productivity which would be achieved by (i) replacement of old machines; (ii) change in product mix (iii) reducing absenteeism and (iv) value engineering.

3.11. One of the goals set by the Company in the Second Corporate Plan was that each business unit should grow at least to the extent of compensating for increasing operational costs through additional value-added. The Committee, however, find that the percentage of employees costs to value added had gone up from 37% in 1981-82 to 39% in 1982-83. There was heavy loss of production hours to the extent of 33% of the total available hours. One of the main causes for it was high absenteeism accounting for about 55% of the production hours lost. Waiting time during sequential production operations was another factor causing 20% of the loss. The Committee cannot over-emphasise the need for controlling various factors contributing to heavy loss of production hours.

3.12 The percentage of administrative expenses to cost of production in 1982-83 was 8.25 as against the budget estimates of 6.26. The increase in administrative expenses as compared to the budget estimates, as shown in performance budget of the Ministry, was stated to have been on account of increase in power and fuel expenses, assembly charges for watches, sales promotion expenses and printing and stationery etc. Admittedly, some of these expenses could not be considered as administrative expenses. The Committee desire that classification of various expenses be rationalised and instructions issued to all the Public Undertakings to ensure uniformity in regard to presentation of unit cost data in the Performance Budgets. This could be done in consultation with BPE.

3.13 The Committee find that the expenditure in advertisements and publicity had gone up from Rs. 1.49 crores in 1980-81 to Rs. 2.16 crores in 1982-83. The Committee are not averse to publicity that may be warranted on commercial considerations. It should, however, be ensured that the expenditure incurred on publicity really serves the purpose in view. For instance, big advertisements about

tractors in English Press are of no use to the farmers who are the main users of the tractors. It shall be more proper to insert such advertisements in vernacular papers. The Committee, therefore, desire that the Company should have a more rational policy in regard to advertisements and publicity media. There should be careful selection of media of publicity to ensure that the message reaches the target group.

CHAPTER IV

WORKING RESULTS

4.1 The following table shows the working results of the Company during the last five years :

(Net profit before tax Rs. in lakhs)

	1978-79	1979-80	1980-81	1981-82	1982-83
Machine tools	240	589	264	1412	1907
Watches	1330	1698	1908	1893	2311
Tractors	(—) 135	74	97	273	28
Lamps	(—) 87	12	(—) 300	12	(—) 461
Dairy Machinery	—	—	(—) 8	2	(—) 32
	1348	2373	1961	3592	3753
Return (Profit before interest and tax) on capital (average) employed %	16.61	22.44	17.88	24.60	22.47

4.2 It would be seen from the above table that the profit from watches was the highest as compared to other products and worked out on average to 70% of the total profits during the last five years. The Committee enquired in this connection the profit earned on imported SKD/CKD watches. The following figures were furnished by HMT in this connection :

Year	Profit from imported watches (SKD/CKD)	% of profit to total profit from watch Business Group
	(Rs. in lakhs)	
1978-79	947	71
1979-80	1561	92
1980-81	1209	63
1981-82	631	33
1982-83	720	31

4.3 The Public Accounts Committee in their 49th Report (1982-83) had suggested that the benefit of the concessional customs duty on import of watch components should be passed on to the customers by suitable reduction in the price of watches and HMT should be a pace setter in this regard. Asked about the action taken by the Company in this regard the MD stated :

"The Government of India has reduced the import duty on the watch components. The effect of this reduction in customs duty works out to Rs. 47 per set. We reduced the price by Rs. 40 per watch because we had already imported certain components and paid higher duty. This was a weighted figure because the end price of the watch cannot be different. We equated this and passed on the benefit over the whole thing at Rs. 40 per watch to take care of the supplies which we had earlier got at higher duty and the concession we got on the subsequent supplies. In fact, the benefit was passed on to the customer. However, more or less at the same time, the excise duty was increased from 1% to 10%. So, as far as the customer is concerned, he had to pay this increase in the excise duty."

4.4 The Committee also enquired about the percentage of profit to Sales and Capital employed for each business unit during the last three years. The figures furnished in this connection by HMT were as follows :

RETURN ON INVESTMENTS

	1980-81 %	1981-82 %	1982-83 %
1. Machine Tools	9.5	25.8	27.8
2. Watches	37.2	29.6	32.7
3. Tractors	12.1	18.2	9.4
4. Lamps	(—) 13.9	8.7	(—)18.4
5. Dairy Machinery	(—) 9.0	6.3	(—) 3·6

NET PROFIT TO SALES

		1980-81 %	1981-82 %	1982-83 %
1.	Machine Tools	4.2	15.3	15.7
2.	Watches	25.4	20.9	24.1
3.	Tractors	2.3	4·6	0.5
4.	Lamps	(—) 47.5	0.9	(—) 43.3
5.	Dairy Machinery	—	1.6	(—) 43.8

4.5 From a review of the Company's working results during the last five years, the Committee are glad to note that the Company has earned profits and the overall return on capital employed ranged from 16.6% to 24.60%. The Committee appreciate this achievement of the Company. They, however, find that the profits have been mainly on watches, accounting on an average for 70% of the total profits during the last five years and a major part of that came from imported SKD/CKD watches. The percentage of net profit to Sales as well as return on investment of watches was also much higher than on other products. The Committee would emphasise the need for complete indigenisation of watch production to avoid imports. They also desire that the question of reduction in prices of watches should be examined as watches can no longer be considered as an item of luxury and unless there is significant price advantage in regard to indigenous watches, smuggling can not be enscouraged more effectively.

4.6 In respect of products other than watches and machine tools, the Company was either incurring losses or had made only a marginal profit. The working results of various product, therefore, need to be kept under constant review with a view to taking timely corrective measures.

CHAPTER V

EXPORTS

5.1 The Second Corporate Plan provided that each business unit should export its products atleast to the extent of becoming a net exporter. It also aimed at reaching an export target of 20% of production. However, the total export earnings of the Company in 1982-83 amounted to only Rs. 4 59 crores or about 5% of the total turnover. As against it, the payments amounted to Rs. 27.19 crores. The Company thus remained a net importer. The Third Corporate Plan has set up a goal of exporting 25% of the HMT's turnover in value with each one of the business groups contributing to export. It has, however, been stated that this goal may not be fully realised in the Corporate Plan period of 1982-83 to 1986-87 with export figures reaching a maximum figure of 15% of HMT's turnover in 1986-87.

5.2 The Committee enquired about the reasons for slow growth in exports. The MD of the Company stated that in 1982-83 export of machine tools worked out to 13% whereas for watches it was 1.2% and for other products it was negligible. So far as machine tools were concerned they expected definitely to achieve the target of 15% set by them. But in the case of watches ; tractors and other products it might be difficult to expect that percentage. They therefore, expected that as a whole the Company should achieve exports which would be of the order of 8% to 10%.

5.3 Asked about the suggestions to improve exports performance, the M.D. stated :

> "It is being increasingly felt that the export cells of the respective embassies have to work more actively to Promote Indian exports. The resources which are there at the disposal of the EXIM Bank should be increased because, when we try to sell abroad, many times the competing countries are able to provide a lot of credit. We also need to have an increasing capacity of ECGC to cover risk exports. There are many areas where we can export, provided there is barter. Now the problem is, a particular country wants to tender, but the condition is we buy the products of that country. There are not enough individual or institutional arragement by which this could be done. The requisite mechanism should be there to handle barter trade, because it is going to increase in the coming years with the constraints and difficulties of the developing countries, which are the

potential customers for exports. The operations in our ports need to be improved. Even at the end of December we could not send our products both in Madras and Cochin ports. Many times the deliveries are time-bound and the orders lapse if the products are not exported in time. It is important to improve the port operations. There is also the disadvantage that we have in terms of the cost of shipping. There are certain countries to which lines of credit should be offered. We feel this kind of credit could be increased, as it will give impetus to Indian exports.

We are selling watches through duty-free shops but we do not get cash incentive for such sale like other exporters. We should be given the benefits which a normal exporter would get. Presently for the deemed exports the International Finance Corporation incentives are not extended to us. Perhaps, this could be extended.

There is another problem. In some countries we are not permitted to pay commission to an agent where there is line of credit. That will become an impediment because the line of credit will remain unutilized. In the payment of commission, the RBI branches should be authorised to clear the payments of such cases of commission where the figure is upto 15 per cent so that there is speedier inter-action."

5.4 The Committee enquired from the Ministry the steps being taken to remove the various constraints in increasing exports. The Secretary of the Ministry stated in evidence that the type of recession which the developed countries, particularly the engineering industries, had been facing in the last 2-3 years had totally upset their calculations for export in the engineering industries. Some of the countries had started offering prices which were practically cost of, the material and manpower. A country like ours with a capital scarce situation could not compete in that type of situation in the export market.

5.5 In regard to the suggestion made by the Managing Director for increasing resources of EXIM Bank for financing of exports the Secretary stated that in any situation where the export was profitable the EXIM Bank was prepared to finance exports. As to the problem of operations at ports he stated "I agree sometimes goods are held up and delay means loss of credibility." Then it is also rightly said that our freight rates are higher which makes our exports costlier. We are going into this question in greater detail. Government has constituted a committee headed by me and we will be finalising our report in two months from now and we will suggest some solutions."

5.6 The Committee find that performance of the Company in the matter of exports has not been very encouraging. The Second Corporate Plan (1978-83)

the terminal year of the Plan, the exports were only Rs. 14.50 crores or about 5% of the total production. The Third Corporate Plan (1982-87) scaled down the export targets and provided that the exports might reach a maximum of 15% of HMT's turnover in 1986-87. The Company was now not hopeful of reaching even this target and informed the Committee that the exports were expected to reach a figure of only 8-10% of the total turnover. The Committee desire that concerted efforts be made to boost exports to achieve at least the targets set in the Corporate Plan. This inter alia requires taking up of measures for effective cost control so that the Company is able to offer competitive prices for its products in the world markets. The various measures for improving export performance of the Company outlined in his evidence by M.D. before the Committee need careful consideration by the Government in various Ministries for removal of constraints and facilities as desired be made available as early as possible.

CHAPTER VI

GENERAL

(a) *Research and Development*

6.1 A normally accepted indicator of the efforts put in by a company in regard to R & D is the percentage of expenditure on R & D activities to annual sales turn over. The Second Corporation Plan provided for promotion of R & D by setting aside 2% of the sales turn over for this purpose. It was however noticed that except in Machine Tool Business Group, the expenditure on R&D had been much lower than this target as is evident from the following figures furnished to the Committee in regard to R&D expenditure on three products :

Year	%age of R& expenditure to annual sales turn over.		
	Machine tools	Watches	Lamps
1978-79	1.67	0.1	—
1979-80	4.05	0.17	0.38
1980-81	3.48	0.23	0.76
1981-82	2.36	0.37	0.43
1982-83	2.54	1.04	0.36

6.2. There was shortfall in expenditure even in respect of provision made in the Five Year Plans for R&D activities. Thus as against outlay of Rs. 100 lakhs for R&D in machine tools in the Fifth Five Year Plan the actual expenditure was only Rs. 24 lakhs. Similarly in the Sixth Plan as against an outlay of Rs. 12.76 crores the actual expenditure incurred upto 31.3.84 was Rs. 3.44 crores only.

6.3 Asked about the reasons for R&D activities having not been given the due attention, the M.D. stated in his evidence that in the Fifth Five Year Plan, the expenditure was lower because they did not go ahead with some of the R&D laboratories but used the existing facilities within the factories. However, now with the increase in the volume of R&D facilities they had created separate facilities for machine tools, watches and tractors.

6.4 As regards outlay in the Sixth Plan, the witness stated that they expected to spend further an amount of Rs. 2.6 crores in 1983-84 and Rs. 4

crores in 1984-85, thereby giving a total of Rs. 10.04 crores as against total outlay of Rs. 12.76 crores.

6.5 In reply to a question, the M.D. added :

"We have planned specific development plans. We are hopeful that we can achieve considerable progress both in machine tools and watches and also in lamps. In tractors also we have set up R&D facilities and we have been successful in manufacturing them. We have made 15 tractors which have been fitted with fuel efficient engines."

6.6 In this connection, the Secretary of the Ministry stated :

"In the case of machine tool industry, luckily we have got a very good central body CMTI...It is one of the finest research centres which has been used by HMT as well as by the private industry and that expenditure is not reflected in the books of the HMT. Although provisions have been made for the R&D, yet I am of the view that there is still a need to intensify this activity. Of course, they should not duplicate the facility which is already available with the CMTI in Bangalore. Secondly, there should be a conscious effort to see that expenditure on it should not just be for the sake of spending only."

6.7 When pointed out that the expenditure on R&D on products other than Machine Tools was even lower than 1% of the sales, the Secretary stated :

"On the machine tool side, the developments which are taking place all over the world are very fast. In fact, during the last five or seven years, it is getting reflected even in our import of machine tools. The import is going up very high. And because of very highly productive electronic control and automation controls new machine tools are coming up. In this the cost of production of items gets reduced. If I can reduce the cost of production, certainly it would be more useful. That is why on our machine tools development we are now concentrating. On watch side, we have made a start on the basis of not a very old collaboration and the watch designs have not changed very much at present. There is only a slight change in dial pattern, etc. So the type of R&D expenditure required in that is going to be much less. But on tractors the emphasis is only on two areas. At present, there is no hope that the technology will change drastically. Two types of things can change—one is fuel efficiency of engine and the other reducing the weight of the tractor by trying to introduce new implements which are useful to the farmers, so that the need for R&D expenditure is rather limited. But it may not be comparable to that of machine tools."

6.8 The development of product lines for the future requires *inter alia* adequate attention to in-house R&D. The Committee, however, find that as against an outlay of Rs. 100 lakhs for R&D in machine tools, in the Fifth Five Year Plan, the actual expenditure was only 24 lakhs, In the Sixth Five Year Plan period also as against an outlay of Rs. 12.76 crores, the actual expenditure incurred up to 1982-83 was Rs. 3.44 crores. Even with the expected substantial increase in expenditure during the remaining two years of the Plan, the total expenditure is likely to be only Rs. 10.04 crores or about 79% of the total outlay. The expenditure on R and D in 1982-83 worked out to 2.54% of the sales in the case of machine tools, 1.04% for watches and 0.36% only for lamps. The Committee were informed that in the case of machine tool industry R and D activities were also being carried out in Central Machine Tools Institute. Although the amount of expenditure incurred on R and D may not necessarily be indicative of the achievements in the research and development in all cases, it goes without saying that there is need to intensify this activity with a view to developing new products and updating of the technologies. The Committee hope that adequate attention would be paid to R an D activities for all product-lines.

(*b*) *Performance Review Meetings*

6.9 As per instructions issued by BPE in 1975 quarterly performance review meetings were required to be held by the administrative Ministry with the Chief Executives of the Public Undertakings. Further instructions were issued by BPE in August, 1980 wherein it was emphasised that the system of holding quarterly performance review meetings with the Chief Executives of Public Enterprises should be made a regular feature in all the Ministries/Departments. These instructions were reiterated by the BPE in February, 1982 in the context of the year being declared as 'Productivity Year'. These meetings are to be attended by the Chief Executives of the enterprises, representatives of the Planning Commission and the BPE.

6.10 From the information furnished to the Committee they regret to note that in spite of the repeated instructions issued by the BPE, instead of holding performance review meetings every quarter the number of such meetings held by the Ministry in respect of HMT was only one in 1981 and two each in 1982 aad 1983. The Committee need hardly emphasise the importance of holding regularly quarterly performance review meetings as these meetings help to focus attention on key areas requiring action either by the enterprises or by the Government and also facilitate decisions on vital matters. They trust that in future the Ministry would discharge this responsibility diligently. The follow up

action on the points emerging out of each meeting should also be reviewed at the next meeting.

NEW DELHI ; MADHUSUDAN VAIRALE

24 April, 1984 *Chairman,*

4 Vaisakha, 1906 (S) *Committee on Public Undertakings.*

APPENDIX

Statement of Conclusions/Recommendations of the Committee on Public Undertakings contained in the Report

S.No.	Reference to para No. in the Report	Conclusions/Recommendations
1	2	3
1	2.16	HMT Ltd. which was set up in 1953 with the objective of producing a range of machine tools has grown into a multi-product Company. The value of production has gone up from Rs. 119.71 crores in 1977-78 to Rs. 280.31 crores in 1982-83 as against the target of Rs. 285.90 crores. The Second Corporate Plan (1978-83) envisaged an average compound growth rate of 16 per cent. The actual growth rate in physical terms for certain products has, however, been lower than expected. Further, the Company could not retain its market share for various products as envisaged in the Plan. The Committee desire that the reasons for shortfall in achievement of objectives and targets set in the Second Corporate Plan be analysed with a view to taking corrective measures for the future.
2	2.17	The Third Corporate Plan of the Company envisages increase in the value of production from Rs. 263 crores in 1981-82 to Rs. 523 crores in 1986-87. The overall growth rate in the first year i.e. in 1982-83 was, however, barely 6.5% and that too at current prices. The Committee would strongly urge the need for concerted efforts and taking of suitable remedial measures to accelerate the growth rate to achieve the targets set in the Third Corporate Plan.
3	2.18	The Committee note that as against Sixth Plan outlay of Rs. 14.59 crores for machine tools diversification the expenditure likely to be incurred on this account upto the end of the Plan period is hardly Rs. 2.89 crores. One

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		of the reasons for it was financing of Ranibagh Watch Project for which no provision had been made in the Sixth Plan outlay. While the Committee welcome the setting up of additional watch unit, they are of the view that the Government should have allowed additional funds for watch factory instead of slowing down the programme for machine tools diversification. The need to diversify the product range of machine tools to meet the situation arising out of changing pattern of demand cannot be over-emphasised. The Committee desire that funds required for Machine Tools Diversification Schemes should be made available to the Company early and implementation of various diversification schemes be expedited.
4	2.19	In the case of several items, the Production was affected due to market constraints. Further, the production of Press Division was affected due to imports allowed in some cases on account of higher cost of production and longer delivery time by HMT. This calls for taking up of effective measures for cost control and reduction of delivery time besides adoption of aggressive marketing strategy to boost up sales. The Committee would like the Government to pay special attention to these aspects and give necessary guidance to the Company in this regard.
5	2.24	The Committee find that the Company has over the years taken up the production of various non-machine tools items like watches, lamps, tractors, presses, dairy machinery etc. The total value of production of items other than machine tools worked out on an average to 64% of total production during the last 5 years. The Company is stated to have diversified its activities into areas other than machine tools to take care of cyclic changes in the demand pattern in the machine tool industry. Nevertheless, having regard to the fact that the main objective of the setting up of the Company was the production of machine tools and there was growing demand for them, the Committee are of the view that greater attention should have been paid to the production of machine tools. The indigenous machine tool industry

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		still caters to only 76% of total demand. There have been substantial imports of machine tools during the last five years. The value of imports had gone up from a little less than Rs. 40 crores in 1978 to about Rs. 145 crores in 1982. The Committee, therefore, emphasise that HMT should increasingly concentrate on its primary function of development and production of machine tools involving higher precision and advanced technology. It should at the same time draw up a suitable programme for farming out the production of simple machines to other Units especially in backward areas.
6	2.40	The production performance in regard to some of the diversified products has not been satisfactory. In the case of Lamp Division, no specific projections of demand were made for lamp making machinery before establishing the project. The total production during the last five years (1978-83) was only 8 machines which is the annual licensed capacity. The capacity utilisation for production of lamps also was only 74% in 1982-83. There was higher consumption of material than the norms fixed, heavy rejections, and quality complaints like shorter life, caps coming off, breaking of holder pins, fusing out, etc. The cost of production was abnormally high, being more than double the budgeted norms for fluorescent lamps in 1982-83. The unit had suffered a total loss of Rs. 8.24 crores during the last five years. The Committee view with concern the poor performance of this particular unit. They are of the view that the Company should not have gone in for the production of lamps, an area quite different from its main line of production viz. machine tools. The production management and cost control in the unit left much to be desired. Although the unit had gone into production six years ago, it was not until recently that modifications required in the machinery to achieve the rated production had been carried out. The Committee would stress the need for improving the quality of the products and upgrading the technology for the manufacture of lamps as well as lamp making machinery. Further, keeping in view the

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		need for conserving energy, the production of energy efficient lamps which have higher market potential should be stepped up. The Committee also hope that as assured by the Secretary, the Unit would become viable from 1984-85.
7	2.45	The Committee find that the dairy machinery unit has not been performing well. The value of production of the unit in 1982-83 was only 66% of the target fixed and it suffered a loss of Rs. 32 lakhs during the year. The plant is stated to have been set up based on the assessment of demand for dairy machinery made by the Department of Agriculture which did not materialise. This points to the need for having cross-check of the market demand by the Company before establishing any unit to avoid creation of surplus capacities. They would like the Department of Agriculture to go into the assessment of the demand for this type of machinery and the reasons which falsified the estimation.
8	2.46	However, considering the fact that the Company's market share in dairy machinery was only 25%, there would appear to be sufficient scope for improvement in the performance of this Division provided steps are taken for product diversification and the marketing organisation is strengthened to meet the challenge from other producers. The Committee also support the idea of taking up of turn-key jobs for setting up of small dairies. A clear cut action programme covering both short term and long term measures to put the Dairy Machinery Division on a viable footing should be drawn up and its implementation monitored regularly.
9	2.48	A large portion of precision measuring instruments are imported at present. Although the Fifth Five-Year Plan included a scheme for setting up a precision instruments Plant at an estimated cost of Rs. 4.48 crores and a provision of Rs. 1.10 crores was also made for it, the scheme could not be taken up by the Company for want

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		of a suitable collaborator. It is only recently that a collaboration agreement with an East German firm had been approved by Government and the investment decision was likely to be taken in the next six months or so. It is unfortunate that it had not been possible for Government to find a suitable collaborator for the setting up of the Unit all these years. They would like the Government to ensure that at least now the project is set up soon to reduce the import of precision instruments. The Committee also hope that with the setting up of this unit, the country would gain the capability in this highly sophisticated field of precision technology.
10	2.52	The Printing Press Division of the Company had been producing letter presses and off set presses of single colour type. It had also introduced multi-colour sheet fed off-set machinery. The presses of the Company were, however, not suitable for printing of newspapers published in broad sheet size having more than four pages. A production development plan covering *inter alia* production of web off-set printing machines suitable for printing of newspapers, magazines and multi colour sheetfed off-set printing machines with perfecting facility were, however, stated to be under scrutiny. The Committee desire that the decision on the development plan be expedited and production facilities for multi-colour off-set machines for printing in various sizes with perfecting facilities be set up soon to reduce imports.
11	3.11	One of the goals set by the Company in the Second Corporate Plan was that each business unit should grow at least to the extent of compensating for increasing operational costs through additional value-added. The Committee, however, find that the percentage of employees costs to value added had gone up from 37% in 1981-82 to 39% in 1982-83. There was heavy loss of production hours to the extent of 33% of the total available hours. One of the main causes for it was high absenteeism accounting for about 55% of the production hours lost. Waiting time during sequential production operations was another factor

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		causing 20% of the loss. The Committee cannot over-emphasise the need for controlling various factors contributing to heavy loss of production hours.
12	3.12	The percentage of administrative expenses to cost of production in 1982-83 was 8.25 as against the budget estimates of 6.26. The increase in administrative expenses as compared to the budget estimates, as shown in performance budget of the Ministry, was stated to have been on account of increase in power and fuel expenses, assembly charges for watches, sales promotion expenses and printing & stationary etc. Admittedly, some of these expenses could not be considered as administrative expenses. The Committee desire that classification of various expenses be rationalised and instructions issued to all the Public Undertakings to ensure uniformity in regard to presentation of unit cost data in the Performance Budgets. This could be done in consultation with BPE.
13	3.13	The Committee find that the expenditure in advertisements and publicity had gone up from Rs. 1.49 crores in 1980-81 to Rs. 2.16 crores in 1982-83. The Committee are not averse to publicity that may be warranted on commercial considerations. It should, however, be ensured that the expenditure incurred on publicity really serves the purpose in view. For instance, big advertisements about tractors in English Press are of no use to the farmers who are the main users of the tractors. It shall be more proper to insert such advertisements in vernacular papers. The Committee, therefore, desire that the Company should have a more rational policy in regard to advertisements and publicity media, There should be careful selection of media of publicity to ensure that the message reaches the target group.
14	4.5	From a review of the Company's working results during the last five years, the Committee are glad to note that the Company has earned profits and the overall return on capital employed ranged from 16.6% to 24.60%. The Committee appreciate this achievement of the Company.

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		They, however, find that the profits have been mainly on watches, accounting on an average for 70% of the total profits during the last five years and a major part of that came from imported SKD/CKD watches. The percentage of net profit to Sales as well as return on investment on watches was also much higher than on other products. The Committee would emphasise the need for complete indigenisation of watch production to avoid imports. They also desire that the question of reduction in prices of watches should be examined as watches can no longer be considered as an item of luxury and unless there is significant price advantage in regard to indigenous watches, smuggling can not be discouraged more effectively.
15	4.6	In respect of products other than watches and machine tools, the Company was either incurring losses or had made only a marginal profit. The working results of various products, therefore, need to be kept under constant review with a view to taking timely corrective measures.
16	5.6	The Committee find that performance of the Company in the matter of exports has not been very encouraging. The Second Corporate Plan (978-83) aimed at reaching an export target of 20% of production. However, in 1982-83, the terminal year of the Plan, the exports were only Rs. 14.59 crores or about 5% of the total production. The Third Corporate Plan (1982-87) scaled down the export targets and provided that the exports might reach a maximum of 15% of HMT's turnover in 1986-87. The Company was now not hopeful of reaching even this target and informed the Committee that the exports were expected to reach a figure of only 8-10% of the total turnover. The Committee desire that concerted efforts be made to boost exports to achieve at least the targets set in the Corporate Plan. This *inter alia* requires taking up of measures for effective cost control so that the Company is able to offer competitive prices for its products in the world markets. The various measures for improving export performance of the Company, outlined

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		in his evidence by M.D. before the Committee need careful consideration by the Government in various Ministries for removal of constraints and facilities as desired be made available as early as possible.
17	6.8	The development of product lines for the future requires *inter alia* adequate attention to in-house R&D. The Committee, however, find that as against an outlay of Rs. 100 lakhs for R&D in machine tools, in the Fifth Five Year Plan, the actual expenditure was only 24 lakhs. In the Sixth Five Year Plan period also as against an outlay of Rs, 12.76 crores, the actual expenditure incurred upto 1982-83 was Rs. 3.44 crores. Even with the expected substantial increase in expenditure during the remaining two years of the Plan, the total expenditure is likely to be only Rs. 10.04 crores or about 79% of the total outlay. The expenditure on R&D in 1982-83 worked out to 2.54% of the sales in the case of machine tools, 1.04% for watches and 0.36% only for lamps. The Committee were informed that in the case of machine tool industry R&D activtties were also being carried out in Central Machine Tools Institute. Although the amount of expenditure incurred on R&D may not necessarily be indicative of the achievements in the research and development in all cases, it goes without saying that there is need to intensify this activity with a view to developing new products and updating of the technologies. The Committee hope that adequate attention would be paid to R&D activities for all product-lines.
18	6.10	From the information furnished to the Committee they regret to note that in spite of the repeated instructions issued by the BPE, instead of holding performance review meetings every quarter the number of such meetings held by the Ministry in respect of HMT was only one in 1981 and two each in 1982 and 1983. The Committee need hardly emphasise the importance of holding regularly quarterly performance review meetings as these meetings help to focus attention on key areas requiring action either by the enterprises or by the Government and also facilitate

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		decisions on vital matters. They trust that in future the Ministry would discharge this responsibility diligently. The follow up action on the points emerging out of each meeting should also be reviewed at the next meeting.