C. P. U. No. 507

COMMITTEE ON PUBLIC UNDERTAKINGS (1982-83)

(SEVENTH LOK SABHA)

SIXTY-EIGHTH REPORT

ON

SCOOTERS INDIA LIMITED

(MINISTRY OF INDUSTRY, DEPARTMENT OF HEAVY INDUSTRY)

Presented to Lok Sabha on 29 APR 1983

Laid in Rajya Sabha on 29 APR 1983

LOK SABHA SECRETARIAT

NEW DELHI

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88	3.32	2	costing	casting
91	4.10	6	33.26	32.36

CONTENTS

1193 LS—1

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(1982-83)

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COMPOSITION OF STUDY GROUP I OF COMMITTEE ON PUBLIC UNDERTAKINGS ON SCOOTERS INDIA LTD., HINDUSTAN ANTIBIOTICS LTD., LIFE INSURANCE CORPORATION OF INDIA, UNITED INDIA INSURANCE CO. LTD. AND PRODUCTIVITY IN PUBLIC UNDERTAKINGS

1. Shri Kamaluddin Ahmed—*Convener*
2. Shri Krishan Chandra Halder—*Alternate Convener*
3. Shri Bhogendra Jha
4. Shri Ajit Kumar Mehta
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 Sixty-Eighth Report on Scooters India Ltd.

2. The Committee's examination of the working of the Company was mainly based on the Report of the Comptroller and Auditor General of India, 1982, Union Government (Commercial) Part III.

3. The Committee took evidence of the representatives of Scooters India, Ltd. on 6, 7, 24 and 25 January, 1983 and of Ministry of Industry (Department of Heavy Industry) on 2 and 3 February, 1983.

4. The Committee considered and adopted the Report at their sitting held on 13 April, 1983.

5. The Committee wish to express their thanks to the Ministry of Industry (Department of Heavy Industry) and Scooters India 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.

6. The Committee also place on record their appreciation of the assistance rendered by the Comptroller and Auditor General of India.

NEW DELHI;
21st *April*, 1983.
1 *Vaisakha*, 1905 (*Saka*).

MADHUSUDAN VAIRALE,
Chairman,
Committee of Public Undertakings.

CHAPTER I

PROJECT PLANNING

A. Introduction

With a view to filling up the gap between demand and supply of scooters in the country, Government decided, in principle, in October 1969 to set up a public sector unit for manufacture of scooters with indigenous know-how and without involving any foreign collaboration. However, owing to non-availability of indigenously developed design and mass production technology for the planned level of production of one lakh scooters annually, tenders were invited in 1970 from foreign parties for collaboration in the proposed project. Out of the two offers received, the offer of M/s. Piaggio of Italy was considered serious and worthwhile.

1.2 In the meantime, while considering the applications of M/s. Automobile Products of India Limited (API) for expansion of their undertaking with an additional capacity of 1,00,000 Lambretta two wheeler scooters by importing the manufacturing facilities of M/s. Innocenti S. G. Milano, Italy (Innocenti), their erstwhile collaborators, and for manufacture of 24,000 Lambretta three wheelers, the Government of India decided in July 1971 to accelerate the setting up of a public sector unit. Accordingly, discussions were held with API and Innocenti to explore the possibility of jointly implementing the scheme submitted by API. It was agreed in September 1971 to set up a joint sector undertaking for manufacture of 1,00,000 two wheelers, with Government of India holding 51 per cent and API and Innocenti 49 per cent shares in the equity capital of the new company.

1.3 The agreement for collaboration on the above lines was finally signed on 16th June, 1972 between Government of India, API, Innocenti and Innocenti Lambretta SPA who had since taken over the scooters operations of Innocenti. To give effect to this agreement, Scooters India Limited was incorporated on 7th September, 1972 as a Company under the Companies Act, 1956. The contemplated participation in the equity capital of the Company by API and Innocenti ultimately did not materialise as discussed in subsequent paragraphs.

B. Capital Investment Decisions

Purchase of Plant and Equipment

(i) *Two Wheeler Project*

1.4 As a sequel to negotiations with API and Innocenti, an inspecting team of technical and financial experts of Government of India and API was deputed to Italy in October 1971 to evaluate the life and condition of the plant offered by Innocenti and to determine the reasonable price of the equipment and also the additional machinery that may be needed for replacement, adjustment and balancing facilities to achieve the level of production of 1,00,000 scooters annually.

1.5 The services of an appraiser in London were also availed of for the purpose. The report of the inspecting team and the independent appraiser submitted (October 1971) to Government indicated the following:—

—The equipment offered was in reasonably good condition and on an average the economic life of the plant and machinery offered would extend to the production of 5 lakh scooters equivalent to around 7-8 years of production.

—While life of the special purpose machines was over 8 years, the life of the general purpose machines was 4 years and above.

The total price $ 2.00 million demanded by Innocenti was reasonable.

—The production capacity of the individual equipment and tooling for particular operations (classified under good condition) was suitable for production of more than 1,00,000 scooters per annum; however, the direct production shop would require balancing equipment of Rs. 95.50 lakhs. Besides, various supporting facilities of Rs. 126 lakhs considered essential for the commencement of production were not included in the offer.

—Considering the technological involvement, ultimate cost of production and the aspect of quality product, a provision was required to be made for shell moulding foundry alongwith forge and heat treatment shop estimated to cost about Rs. 66 lakhs.

—Shifting of the equipment to India would cost about US \$ 0.5 million upto the port of embarkation and Rs. 9 million thereafter.

1.6 In view of the positive report of the experts, Government approved the purchase of the plant including auxiliaries at a cost of \$ 2 million and incurring expenditure of \$ 0.5 million and Rs. 9 million on dismantling packing, transport etc., on the following considerations:

(i) Lower total fixed investment, foreign exchange element and production cost as compared to the procurement of new plant and machinery as per details given below:—

Item	Plant With entirely new equipment (1,00,000 two wheelers per annum)	Plant offered by Innocenti (1,00,000 two wheelers per annum)
	(Rs. in crores)	(Rs. in crores)
(a) Total fixed investment	15·91	10·90
(b) Foreign exchange element (included in total fixed investment)	6·56	2·90
(c) Working capital requirement	5·00	5·00
(d) Production cost per scooter (Rs.)	2,022	1,969
(e) Ex-factory price at assumed level of 12·5 per cent gross return on total fixed investment (Rs.)	2,321	2,225

(ii) Generation of additional resources of about Rs. 4.80 crores on the sale of 5,00,000 scooters at Rs. 2,321 in a period of 7-8 years, when the equipment offered by Innocenti would, on an average, have reached the level of its economic life. This would enable greater flexibility in replacement programme, phased modernisation, faster expansion and diversification.

(iii) Profit of about Rs. 2.00 crores due to commencement of production earlier by about 2 years with the old plant of Innocenti.

(iv) Saving in foreign exchange as payment was to be made by adjustment of Rs. 0.40 million towards the equity of the Company and the balance of $ 1.60 million was payable out of the export earnings over a period of 7 years; the first payment starting after a period of 2 years.

(ii) *Three Wheeler Project*

1.7 A proposal was made by Innocenti in January 1973 for sale of the world rights to manufacture three wheeler Lambros, technical documentations and the plant and equipment having a capacity to manufacture 30,000 Lambros per annum. Accordingly, the Company approached (January 1973) Government of India for approval to extend its manufacturing activities to cover the production of 30,000 three wheelers per annum and for purchase from Innocenti technical documentation, equipment, toolings etc., at a cost not exceeding 185 million lire (Rs. 25 lakhs) on the following considerations :

(a) Likely popularity of the three wheeler as a light transport vehicle with a pay load of 600 kgs.

(b) Greater export potential in the developed countries in Europe.

(c) Considerable economies in the initial investment and the cost of production by integrating the three wheeler and the two wheeler production.

(d) Attractive price of the technical documentation and equipment.

(e) Minimum additional investment for the three wheeler by resorting to more intensive use of the plant and equipment available for the two wheeler production.

(f) The additional investment of Rs. 47.00 lakhs would result in the Plant being able to add on a product line valued at about Rs. 16.50 crores and additional profit of about Rs. 1.50 crores per annum.

1.8 The above proposal was agreed to (9th March 1973) by Government of India subject to the following conditions:—

(a) The cost of the plant and machinery including technical documentation and world rights not to exceed Rs. 25 lakhs (185 million lire)

(b) Total capital cost for setting up the plant would be approximately Rs. 72 lakhs including foreign exchange element of Rs. 35 lakhs.

(c) Profitability of the integrated scooter project to be re-calculated and the Detailed Project Report already prepared to be suitably modified and submitted to Government for approval.

1.9 The acceptance of the offer was conveyed to Innocenti in April 1973 by the Company. In regard to re-calculation of profitability of the integrated project and modification of the Detailed Project Report, the Ministry of Heavy Industry informed Audit (November 1982) as follows:—

"SIL has stated that a project report (capital investment plan) for the integrated scooter project with profitability analysis was prepared and approved by the Board of Directors in March 1973 and submitted to Government of India. Based on this, an invpstment of Rs. 1,190 lakhs was approved by Government."

E. Project Estimates

1.10 The estimates of Rs. 1190 lakhs as approved by Government in March 1974 was further revised to Rs. 1,270 lakhs by the Company in November 1974, which was approved by Government in September 1975. A further sum of Rs. 75.00 lakhs was sanctioned by Government in April 1976 for the Foundry Project thereby increasing the estimate to Rs. 1,345.00 lakhs. As against it the actual expenditure upto 31st March, 1982 was Rs. 1409 lakhs. In addition Rs. 582.39 lakhs were spent on replacement and renewals and Rs. 195.58 lakhs on various supporting and enabling facilities for which no provision was made in the estimates.

1.11 The Committee pointed out that one of the factors which had weighed with Government for establishment of the project with the plant offered by Innocenti vis-a-vis a new plant, was lesser fixed capital investment. However, the actual investment (Rs 21.87 crores till March, 1982) was far in excess of the anticipated cost of Rs. 15.91 crores for two-wheeler plant with entirely new equipment. The Committee enquired about the basis on which it was estimated that the plant to produce 1 lakh scooters per annum with entirely new equipment would cost Rs. 15.91 crores. It was stated in a note furnished by the Ministry that the offer of M/s. Piaggio was discussed in the Ministry and the representatives of the Company had indicated that the capital cost of the project may be around Rs. 13.00 crores inclusive of an investment of Rs. 10.50 crores on plant, equipment, tools, dies, jigs, fixtures etc. In addition, they had asked for a technical fee of Rs. 96 lakhs. The content of break up of facilities for the amount of Rs. 15.91 crores quoted by PIAGGIO was not available. The scope of manufacture under Piaggio's proposals had not been indicated with reference to what was to be produced in house and what was to be bought out. It was, therefore, not possible to compare the cost of Innocenti's plant with that of Piaggio and to assume that the capacities were similar. An assessment had to be made facility by facility, machine by machine. Also, the range of production of Piaggio's plant was different.

1.12 The Committee enquired about the main consideration for going in for an old plant and importing machinery costing Rs. 402.80 lakhs. The Secretary, Department of Heavy Industry, during evidence stated:

"The studies showed that the second-hand plant was available at a price which was reasonable and it should be made use of. In most of the cases, especially in the automative sector, you import the components initially. In the first year, there may be 70 per cent or 80 per cent dependence. Slowly, you come down and start manufacturing on your own. Ultimately reaching a level of 5 per cent or 10 per cent dependence. In the case of Innocenti, the advantage in the second-hand plant was that since it was a plant being transplanted straight-away, it was possible to manufacture everything yourself. It means that there will not be any foreign exchange out-flow for import of components. This was one of the main considerations."

1.13 The Committee enquired whether the Cabinet was informed of the fact that the cost of project in case of old plant from M/s. Innocenti would be more than that of a plant with new equipment because of manufacture of more components in the factory itself. The witness stated:

"I have not come across any thing like that....The knowledge was available that there was an offer. But the proposal for second hand plant as was approved by the Cabinet, was justified on the basis of its own merits that this will cost so much and it will be able to produce so much."

1.14 The Committee enquired about the percentage of components for two-wheelers, value-wise, produced in plant and those procured from outside sources. The Company furnished the following information:

	Power Packs	Vechicles
(i) Components produced in plant	37%	33%
(ii) Components procured outside sources:		
(a) Bought out finished	54%	61%
(b) Bought out Semifinished	9%	6%

1.15 The Committee enquired about the reasons for large increase in expenditure over the estimates, the Company informed in a written reply that upto March, 1982, an expenditure of Rs. 582.39 lakhs had been incurred on replacement and renewals of some of the tools, dies and fixtures and some of the items of plant and machinery. This included Rs. 313.99 lakhs on replacement of tools, dies and fixtures as these were received from M/s. Innocenti in very bad condition and required replacement. Similarly, even though it was known that some of the Innocenti machines were in bad condition no provision was made in the original estimates for replacement and renewals. The machinery which were in bad condition were likely to hold up the production because of their undependable. Out of 670 equipments received from M/s. Innocenti, 44 machines were replaced upto March, 1982 involving an expenditure of Rs. 268.46 lakhs.

1.16 As regards the expenditure incurred on supporting facilities, the Managing Director stated in evidence:

"We had to provide certain supportive and enabling facilities as for example, tool regrinding, which is not contemplated in the project, inspection facilities and setting up of ancillary units on which we had to incur some expenditure. Then we had to incur some expenditure on painting facilities with a view to bring down the cost of painting. Then we had to incur some expenditure on our marketing and for the various outlets we have set up."

1.17 Asked as to why no provision was made for supporting facilities in the Capital Investment Plan, the Managing Director replied:

> "....We were guided by the API. They had been advising us; they did prepare a report and we would have been guided by their suggestion. Their location is at Bombay where many facilities are available in the nearby areas. At Lucknow these facilities were not available and therefore, perhaps with experience it becomes necessary to provide these facilities."

1.18 The Committee enquired as to why no provision was made for replacement and renewals in the Capital Investment Plan. The Ministry stated in a note that it was within the knowledge of Government that some of the machines of the Second Hand Plant proposed to be imported from M/s. Innocenti of Italy would require replacement. This aspect was kept in view while working out the financial rate of return. Scooters India Limited expected to earn profits from the 2nd year of commencement of production. It was expected that the annual profit would be about Rs. 5 crores before taxation from 1977-78. The company worked out the rate of return on investment taking into account the life of the 2nd hand plant at 9 years (with Rs. 12 crores investment) and 20 years by adding another Rs. 8 crores worth machinery at the end of the 9 year period. The rates worked out to 44 per cent and 32.6 per cent respectively. Planning Commission (PAD) had assessed the rate of return of 37.8 per cent assuming that the additional investment of Rs. 8 crores would be made in the 7th year and taking the total life of the project would be 16 years.

1.19 The replacement cost as assessed by the company was expected to be between Rs. 1 to 1.5 crores every year from the 2nd or 3rd year of operation. This amount could be conveniently met from the internal generation of funds of the company. In view of this no provision towards expenditure on renewals/replacements was made at the time the capital estimates of the project were worked out.

D. Condition of Plant and Machinery

1.20 It was estimated at the time of purchase of old plant and machinery that the equipment offered was in reasonably good condition and on an average economic life of the plant would extend to the production of 5 lakh scooters equivalent to 7-8 years of production. The total production of the scooters up to 1981-82 has been 2 lakh scooters only.

1.21 The Committee pointed out that large expenditure had been incurred on renewals and replacement of plant and machinery much ahead of the economic life of the plant assessed at the time of its purchase. Asked whether it did not indicate that originally no proper assessment of the condition of plant and machinery had been made, the Managing Director SIL stated, during evidence:

> "The study which has been done by the consultants, by the technical team, was to look into the general condition of the machines and to see whether the cost which has been recommended is fair or not. When you evaluate the machine, it is not detailed inspection machine by machine. They will look to the condition of the machine. They do not, therefore, say what is going to be the life of the machine. They say 'these machines are good' or 'these machines are bad'. It was a general study. They have not said that the life of the machine is 5 years or 10 years. That kind of study was not made. It is a broad assessment that these machines have a life of 8 years."

1.22 The Committee wanted to know whether the replacements and renewals were taken in accordance with the programme of schedule envisaged at the time of the purchase of old plant and machinery. The Managing Director stated:—

> "There is no schedule as to which machines have to be replaced when, we consult some organisations and confirm whether these machines require replacement. The other machinery is repaired. Over the next five years we will replace 85 Innocenti machines."

1.23 During the course of examination of the Ministry, the Committee enquired as to why the plant and machinery purchased was not subjected to a detailed examination to see that the machinery was capable of running and giving a reasonably adequate service for a period of 8 years. The Secretary stated:—

> "The (Expert) Committee had been asked to go into everything. The Committee in its report says broadly and briefly that all Special Purpose machines in this Plant

are in good condition because naturality when one goes for a Plant of this type, the most important thing is the Special Purpose machines which are very specific to this industry.

....The second part of the question is the General Purpose machines. A foreign consultant who was also engaged to go into this, said that some of them are not in good condition.

The third part is dies and other things like press, tools etc. In any case, they have a very limited life generally. In a large number of plants whether it is the body of a car or a scooter, if you manufacture one lakh press parts out of a die, then the die needs replacement. So it is for a plant of one lakh scooter. It has adopted an accounting practice of charging the cost to capital expenditure. I know there are factories which put expenditure on dies on the revenue account, not even on the capital account. It looks the capital cost of project has gone up after producing over one lakh. They have to be changed. It is those dies which were junk."

1.24 From a statement furnished to the Committee it was noted that 38 machines were replaced in 1975-76, 3 in 1976-77, 2 in 1979-80 and 1 in 1980-81. The Committee pointed out that the machines had been replaced long before the expiry of 8 years, the Secretary stated:—

"The assessment was that it will have to be replaced because they are not in good condition. The assessment brought out this fact....I do not think that every machine has got a minimum life of 8 years. Every machine in the project does not have the life of 8 years."

1.25 The Committee enquired whether there was any machinery which has not been utilised. They were informed that out of 670 machines 143 machines were not in use. Out of these, 34 machines had not even been installed. SIL also stated in a note after evidence that these machines were not being utilised mainly because:—

(i) Certain models (such as Lambreta TV-175 for the US market, three-wheeler with handle bar, etc.) produced by Innocenti are not being manufactured by SIL;

(ii) process and design changes have rendered some equipment surplus;

(iii) certain items produced inplant by Innocenti are being procured by SIL from outside sources.

E. Determination of Capacities

1.26 The capacity of the plant and machinery purchased from Innocenti was originally assessed as 1,00,000 two wheelers and 30,000 three wheelers per annum subject to addition of certain balancing facilities. The expenditure incurred upto 31-3-82 on installing the balancing facilities amounted to Rs. 4.02 crores as against of provision of Rs. 3.5 crores in the original estimates. In addition, an expenditure of Rs. 195.58 lakhs had been incurred on supporting facilities in tool room, tool regrinding and inspection areas. The Company has, however, been varying its installed capacity from time to time.

1.27 The capital investment plan approved by Government in March, 1974 envisaged production of one lakh two-wheelers and 30,000 three wheelers by 1977-78. In November, 1977, the Company intimated Government that since many of the machines were of 1952—54 vintage, the capacity of the plant could be taken as 80,000 two-wheelers and three wheelers. Again, in July 1978, it was clarified to Government that "while the capacity for powerpacks is one lakh per year, the capacity for the complete two-wheeler vehicle is 60,000 based on two shift production and the capacity of three wheelers is 6,000 per year."

1.28 In the Annual Reports of the company for the years 1976-77 and 1977-78 to 1981-82, the installed capacity of the two wheelers had been indicated as 60,000 and 80,000 respectively. Similarly, in the Annual Report of the Company for the years 1977-78 to 1981-82, the installed capacity of three wheelers had been indicated as 6,000 per annum.

1.29 Later in February, 1982, the Company informed Government that according to a detailed machine by machine study made by the Company (August, 1981) and approved by the Board in December, 1981, the following capacities were achievable in the existing plant, with marginal balancing facilities involving an investment of Rs. 1.75 crores.

Two wheeler scooters	60,000
Two wheeler power packs	20,000
Three wheelers	2,500

1.30 Further, during the meeting with the Audit Board on 27th November, 1982 the representatives of the Ministry informed that a further detailed study of the plant capacity has been carried out after February, 1982* and based on the existing manufacturing programme of components, the installed capacity has been assessed as follows:—

Two wheelers . . .	45,000
Two wheelers power Packs	15,000
Three wheelers	2,000

1.31 During the course of evidence, the Committee enquired whether there was failure to assess correctly the capacities at the time of purchase of the old plant and machinery or there were some subsequent developments necessitating deration of original capacities, the Managing Director, SIL stated:

> "As far as the capacity of one lakh is concerned, this was the capacity assessed for special purpose machines and even today what we find is that out of the production machines which we have for the two wheelers more than 50 per cent machines have one lakh capacity. About 50 per cent (machines) have less than one lakh capacity. There are machines which have a capacity of 1.4 and 1.5 lakhs. There are machines which have a capacity of 35,000 to 45,000. What has happened was that we have not really taken action for balancing this capacity because at no time were we in a position to substantially increase our production because of marketing constraints."

1.32 Asked about the reasons for variations in the capacity from time to time the Managing Director replied, "I do not think we did a detailed machine by machine capacity study. We made such a study in 1981. We did not do so prior to it." To a question whether the company never bothered to determine the capacity, the Managing Director stated, " The need was not felt." Asked whether the Company got approval of Government for the derated capacity, the Managing Director stated:

> "We have approached the Government. We prepared a paper and our Board has approved. We have gone to the Government. Any reduction in the capacity requires Government approval. We have not heard anything."

*At the time of factual verification, the SL intimated that only one capacity study was done in August/Septem- ber, 1981. This study had revealed that the existing capacity was 45,000- two wheelers,15,000 two wheeler power packs and 2,000 three wheelers. The capacity could go upto 6.0000 two wheelers, 20,000 two wheelers power packs and 2,500 three wheelers by providing marginal balancing facilities involving an expenditure of Rs. 1.75 crores.

1.33 The Committee enquired whether the Ministry accepted the original assessment of capacity. The Secretary Department of Heavy Industry stated, "Assessment was that of the Committee of Specialists, not of the Company. That assessment was accepted. And it was a result of accepting that assessment that a decision was taken to take over the whole project and set up a factory there."

1.34 The Committee were also informed by the Ministry in a written reply after the evidence that while acquiring this second hand plant, it was not as if a specific and balanced installed capacity to totally manufacture 1,00,000 two wheelers and 30,000 three wheelers was acquired. This is borne out by the very fact that although the plant was reported to be having a capacity of manufacturing 1 lakh scooters per annum, the actual production of the plant in the works of M/s. Innocenti in 1967, 1968, 1969 and 1970 was only 83,885, 82121, 62209 and 53948 respectively. The concept of capacity has therefore to be linked to the capacity of each and every component line of the plant. its state of repair, machine availability, machining time and the make and buy policy. A study of the capacity of the specific items acquired from Innocenti on this basis was not available. What was mentioned as capacity was, only an indicative figure relevant only in the context of Innocenti's operations at a certain point of time.

1.35 M/s. Ingersoll Engineers Ltd. who were appointed as technical consultants also estimated that an investment of Rs. 15.60 crores would be needed to achieve a production of 1,00,000 vehicles and 20,000 power packs per annum. This also supports the view that the capacity of the plant as acquired from M/s. Innocenti was not 1,00,000 scooters per annum.

1.36 In reply to a question whether Government have approved the present capacity as determined by the Company, the Secretary stated in evidence:

> "Definitely it is more than what they are doing. There is a possibility of increase without new investment. That being the situation, what actually is the ultimate optimal capacity and what type of matching investments are required, I think that is a bigger issue on which we have not finally decided."

F. Non-use of the Brand name Lambretta

1.37 The agreements with Innocenti for the sale of old equipment for two wheeler and three wheeler projects conferred an exclusive world right on the Company for using the brand names of "Lambretta" and "Lambro". However, the Company, has not used these brand names for the domestic market.

1.38 The Management informed Audit (July 1982) that the name "Lambretta" was not used because the product marketed earlier by API under this name had a bad image and adoption of an Indian name was in line with the thinking of the Government at that time.

1.39 On the other hand immediately after finalisation of the deal with Innocenti, API, who were using the name "Lambretta" named their product as "Lamby" which bears a close similarity to the name "Lambretta". Thus, although the right of using the name "Lembretta" vested with the Company, the benefit thereof is being derived by API by using the word 'Lamby' which gives an impression that they are successors to "Lambretta".

1.40 The Management informed Audit (July 1982) that the Company had taken action against API's using the brand name of 'Lamby' by filing cancellation proceedings in early 1979 and that the matter was pending with the Trade Mark Tribunal.

1.41 During the evidence of the Company, the Committee enquired about the reasons for purchasing the old plant and equipment and technical documentation from Innocenti if the product manufactured by M/s. API with their collaboration had a bad image. Managing Director, SIL stated as follows:—

> "Lambretta has always been a highly reputed vehicle internationally. The API was making an old model. What we were making was the new model. There was already a firm selling Lambretta and if we had come in the market with the same name as the competitor, there would have been a lot of confusion. We were partly responsible for saying, "Lambretta is an old model; it is not a good model." We came out with a new name. The name "Lambretta" is not used in the country now from 1976 onwards. Initially, when we came out in the market, there was Lambretta in the market. In Punjab and other places, we had to decry Lambretta vehicle and we were saying, 'Here is Vijay Super'. This is the latest vehicle."

He further added;

"Even today in the South, we have done a market study. We are finding that in certain pockets, particularly in the South, people still prefer the name "Lambretta" and we are thinking of selling 'Vijay Super' under the name of Lambretta. The name choice, the colour choice, everything differs from one part of the country to another. We want to put darker colours and call it "Lambretta" in the South."

1.42 The Committee pointed out that at the initial stage the Company did not prefer the brand name "Lambretta". However, after a gap of about 7 years, the Company has introduced a new model "Lambretta Cento". Asked about the reasons for it, the Managing Director stated as follows:—

"This is a point that we examined in depth last year. We consulted our dealers. There was a view "Don't call it Lambretta". Call it "Vijay Samrat" or some other name. But then when we went out and checked with various people, the consensus was "Let us call it Lambretta". It will give a feeling that it is an imported vehicle. This vehicle we have developed in the last three years. We are saying that it has an Italian technology, it has the basic technology. We have done lot of work. To catch the fancy of the people, we are giving it the name "Lambretta".

1.43 Scooters India Ltd. was incorporated in September 1972 with the main object of filling up the gap between the demand and supply of Scooters in the country. The Company set up its project at Lucknow for the manufacture of one lakh two-wheelers per annum with the old plant and machinery purchased from M/s. Innocenti of Italy though earlier tenders were invited by Government in 1970 from foreign parties for collaboration in a new plant and offer of M/s. Piaggio of Italy (manufacturers of Vespa Scooters) was considered serious and worthwhile. In 1973, the Company also acquired to old plant and machinery of M/s. Innocenti for production of 30,000 three-wheelers per anum. The Committee's

examination has revealed sereval diquieting features in regard to the manner in which the proposal to purchase the old plant and machinery was processed and investment decision taken.

1.44 One of the factors on which the purchase of old plant and machinery for two-wheelers was sought to be justified was lower initial fixed investment of Rs. 10.90 crores as against Rs. 15.91 crores in the case of new plant and machinery. Capital investment on the project with old plant was grossly under-estimated. The actual expenditure upto the end of 1981-82 (Rs. 21.87 crores) was almost double of that assessed at the time of taking investment decision (Rs. 11.90 crores inclusive of three wheeler plant). Increase in investment has been mainly on supporting facilities (Rs. 1.96 crores) and renewal and replacement of machines (Rs. 5.82 crores). The expert Committee which had evaluated the life and condition of the old plant had considered provision of supporting facilities to the extent of Rs. 1.26 crores as essential for the commencement of production. No provision for it was, however, made in the capital estimates. Similarly it was within the knowledge of Government at the time of taking investment decision that some of the machnes of the second hand plant would require replacement. The replacement cost as assessed by the Company was expected to be between Rs. 1 crore to Rs. 1.25 crores every year from the 2nd or 3rd year of operation. However, no provision towards expenditure on renewals and rplacement was made in the capital estimates of the project on the assumption that this amount could be met from internal resources. The expenditure on balancing machines had also gone upto Rs. 4.02 crores as against provision of Rs. 3.50 crores in the investment plan.

1.45 At the time of taking investment decision in 1974 the Company had worked out rate of return as 44 per cent (Rs. 5 crores per annum) on capital investment of Rs. 12 crores, on the basis of the production capacity as originally assessed. While there was gross under estimation of capital cost, the production capacity was found to be much less than what was assumed by the Company. As pointed out subsequently in this Report, the Company has actually suffered a loss of Rs. 32.36 crores during 1974—82. The Committee feel that it is most unfortunate that Government decided to instal an old plant purchased from Italy to produce Scooters to fill up gap between demand and supply in the country without making any detailed comparative study and analysis of purchase of the old plnat vis-a-vis a new plant. It is amazing that the representatives of the

Ministry and the Company had tried to justify the decision. The Committe desire that the failure of officials leading to the gross under-estimation of capital cost and over-estimation of capacity and profitability of the project should be gone into thoroughly.

1.46 Even now the Company is not able to make a firm assessment of its installed capacity. Capacity reassessed in 1977 was revised in 1978 and 1981. The capacity as the plant as reassessed is less than half of that originally estimated i.e. 60,000 (including power packs) for two-wheelers and 2000 for three-wheelers as against the originally assessed capacity of 1 lakh and 30,000 respectively, in spite of the fact that only 33 per cent components for vehicles are produced in the factory. However, according to the Ministry the capacity could be more. The Committee expect the Ministry and the Company to make a realistic review of its production capacity and financial requirements to s ustain production ata level that would make the unit viable.

CHAPTER II

PROJECT IMPLEMENTATION

A. Detailed Project Report

In 1972 Government requested M/s. API to prepare a Detailed Project Report (DPR) for two wheeler project. The terms and conditions were not settled in advance. The DPR was prepared in 12 volumes but only 2 volumes were submitted to Government. While forwarding the DPR, API claimed a fee of Rs. 40 lakhs which was subsequently reduced to Rs. 30 lakhs. Government, however, informed API that the cost of preparing the DPR was a matter for SIL to decide. The Company felt that the information and data contained in DPR though useful for setting up the manufacture of scooters could not be considered complete owing to non-inclusion of information on certain aspects e.g.

(i) the manufacture of J-Series Scooters;

(ii) detailed layout of machine tools in the main plant, and the layout of services; and

(iii) the ordering specifications for the various balancing equipment and machine tools.

API agreed to carry out the modifications etc. in the DPR. It was also agreed that a sum of Rs. 15 lakhs would be paid to API for this work in three instalments. While two instalments were paid, the last instalment was not released as certain items of work were not completed by API. The latter field a suit in August, 1978 for non-payment of this amount. The case was still pending before the Court.

2.2 During the course of evidence of the representatives of the Company, the Committee enquired whether the volumes of DPR were modified by API and submitted to the Company. The Managing Director stated that "we had received two volumes. I must confess that I am not able to lay my hands on the copies of DPR.".

2.3 To a query whether these DPRs should not be in possession of the Company, the Managing Director stated "It should be. Even now I am hoping that I can get them."

2.4 The Committee enquired whether the Ministry received all the 12 volumes of DPR. The Secretary of the Ministry stated "not as a formal documents. It has not been submitted." He added that the Company did not get the DPR in its entirety from API. It tried to work out internally the details to the extent that API did not give.

2.5 The Committee enquired whether DPR was finalised and approved by Government, the M.D. replied:

> "DPR as such has not been considered. We have not received any approval on the basis of the DPR........ My understanding is that the DPR volume I which had been prepared by them had contained the broad picture of viability. It was virtually a feasibility study and based on that capital investment plan was prepared."

2.6 When pointed out that the performance of the Company suffered in the absence of the DPR, the Secretary replied "I also agree........ DPR must be prepared."

B. Technical Collaboration

2.7 In terms of the agreement with Innocenti, the payment of $2 million for the purchase of plant and equipment was to be made by adjustment of $ 0.40 million towards the equity of the Company and the balance of $ 1.60 million was payable out of the export earnings over a period of 7 years. In respect of the payments to be spread over a period of 7 years, the vendors insisted upon a guarantee which could be discounted in Italy. As no bank in Italy was willing to discount a guarantee payable over a period of 7 years, the vendors agreed to accept a cash payment of $ 1.45 million in lieu of the payment of $ 1.703 million ($ 1.6 million increased to $ 1.703 million due to devaluation of dollar). The cash payment of $ 1.45 million was approved by Government on 15th March, 1972. In the meantime, Innocenti went into voluntary liquidation. No shares, therefore, could be issued to the vendors. The vendors, however, agreed for cash payment of $ 0.4 million in order to compensate the Company for delay on their part in supplying certain technical and other documents.

2.8 Similarly, when API, on being asked in January 1973 for subscription to the share capital, declined (July 1973) to do so on the grounds that the Company had:

(i) not accepted API as technical collaborators; and

(ii) decided to take over the three wheeler project which was to be taken up by API in terms of an understanding between API and the Government of India.

2.9 The Ministry, however, informed the Audit in November 1982 that the Company did not envisage any technical collaboration with API.

2.10 Asked about the reasons for not engaging API as technical collaborator, the Managing Director stated:

"API had been having certain discussions with the Government where they had proposed that they should be entrusted with the task of preparation of the DPR and should also become technical consultants to Scooters India Ltd. The Government mentioned to them that this was a matter to be decided by the Company........ The Company felt that this technical consultancy was not essential because the type of consultancy which they were prepared to give as was on general aspects of the Company and not on the technical details of that component and other things. This was too high a price for us to pay. We told them that we did not require this technical consultancy. API had planned that the money they would get on technical consultancy from Scooters India Ltd. they will invest back in equity. Since they were not getting this money from the Scooters India Ltd., they refused to participate in the equity."

2.11 In this connection, Secretary, Department of Heavy Industry, stated:

"The API could not be engaged as a consultant because it is not that anybody who is manufacturing something is knowledgeable enough about the products. The most important thing which the collaborators will provide is the know-why of the product and not know-how. This know-why was not available with API."

2.12 The Committee enquired whether there was any understanding between Government and API in regard to the take over of the three-wheeler project by M/s. API from M/s. Innocenti. The Secretary stated:

"There was no such agreement. Some sort of an understanding, it seems, as I judge it, was there that Innocenti and API will become joint venture partners in the two-wheeler plant in which the Government will have the majority share and in that situation API will purchase second-hand plant for three-wheeler project from Innocenti. But since the first thing did not happen, the Government decided that second-hand plant of three-wheelers also which was a smaller thing will be taken by the Government and put as a part of the main plant."

2.13 Asked about the reasons for not having any technical consultant at the time of setting up of the plant the Secretary At that time, what was needed was that in place of Innocenti which replied:

"The drawings as they were available with Innocenti were coming and it was also thought—that Innocenti would continue to give technical advice and that they would even be joint venture partners. But that joint venture partnership did not take place because they went into liquidation. At that time, what was needed was that in place of Innocenti which would have worked as a partner as well as a consultant, somebody else should have been brought. That is one of the failures which was there in my view."

2.14 Asked whether the absence of technical collaboration was largely responsible for the failure of the Company, the Secretary stated:

"That is what made the product not acceptable in the market. It had drawbacks, which led to trouble for 3-4 years. The Company had to remove those defects one by one; the morale went down and the productivity went down."

2.15 A number of quality problems were faced soon after the introduction of two wheeler scooter in 1975-76 and complaints on quality had a depressing effect on market demand. The Company engaged a number of technical consultants from time to time since

January, 1977 for various purposes. The purpose for which various consultants were engaged and the total expenditure incurred thereon are detailed below:—

Name of Consultants	Purpose	Period	Expenditure (Rs. in lakhs)
1. Mr. Bianchi (former engineer of Innocenti) and Mr. Cassola of Italy	Mr. Bianchi was engaged to advise for increasing production and product market acceptability and Mr. Cassola was engaged to review implementation of Mr. Bianchi's suggestion and to further improve the quality of scooters.	20-1-1977 to 28-2-1977 and 2-2-1978 to 7-3-1978	1·24
2. Japanese Experts	Deputed by the International Management Corporation Committee to study the technical problems in the production area.	11-10-1977 to 6-12-1977	0·2
3. Ingersoll Manufacturing Consultants of U.K.	To make an indepth study of the difficulties faced in qualitative and quantitative aspects of production and to achieve break-even level.	2-12-1978 to November 1980	66·88
4. Temple Wall Limited of U.K.	Appointed on the advice of Ingersoll Maufacturing Consultants for effecting design improvement with regard to suspension system and exhaust system to increase the performance and market acceptability of the product.	Report was submitted by Temple Wall in May 1980 whereas no report was received from Bassani Manufacturing, USA.	1·54
5. Bassani Manufacturing U.S.A.			0·682
		Total expenditure	70·56

2.16 During discussions with the Ministry on inadequate development in India of the expertise required to undertake detailed design and production engineering studies on two stroke engines, the Ministry introduced the Company to Ingersoll Mannfacturing Consultants of U.K. On the basis of details of works handled by Ingersoll, the Company considered them as experienced technical consultants. The firm was appointed as consultants in July, 1978 to undertake an indepth study in regard to the difficulties faced by the Company both in regard to the qualitative and quantitative aspects of production and to achieve break-even level. The firm was assigned the following specific tasks:—

1. Piston and cylinder wear.
2. Vibration problems.
3. Quality and reliability of production.
4. Financial Planning
5. Sales and Marketing.

The consultants started the work in December, 1978 and submitted reports in parts in March 1979 and June 1980.

According to Audit, the defects pointed out in March 1977 by M/s. Bianchi foreign consultants were removed by the time an improved version of vehicle namely Vijay Super, was introduced in September 1977. By the time the Reports of M|s. Ingersoll were received between March 1979 and June 1980, the production of 'Vijay Super' had stabilised and it had also won market acceptability as no complaints were received. Further the basis of selection of the consultants and fixation of their fee could not be ascertained in audit.

2.17 Asked about the basis of selection of M/s. Ingersoll as Consultant, Secretary of the Ministry stated:

"The starting point of a contract with the Ingersoll Engineers is that one of the Directors of that Company in December, 1977 approached the Department of Heavy Industry giving their credentials and suggesting that they might be able to help. This is a worldwide organisation specialising mainly in the production engineering. But their association has been more with automative sector. Because of that, although they deal with the management concept of production engineering, they have knowledge, if not themselves, in all cases how to do it by associating others in solving the design problems or the quality problems. In fact, this Company has been used even in the recent years by some of our Government and private sector organisations also in the field of production engineering. There is no doubt about their credentials or the strength of this Company as consultants all over the world.

When the Scooters India Ltd. was struggling and the Company of this type on the scene offered their services, a dialogue started that it might be worthwhile that some identifications were done as to what were the problems with the product and the productivity. Those things formed part of their terms and conditions. They visited this country in February, 1978 and their appointment was done sometime in 1978."

2.18 When enquired whether the appointment was made with the approval of Government, the Secretary stated:

"Certainly. In fact, we have a scheme in the Government of India called the Technological Development Fund under which anybody, whether a public sector company or a private sector company import know-how and consultancy of capital goods, not for increasing production capability but increasing productivity or improving the quality of the product modernisation. It was under this scheme, that clearance was given to Scooters India also to appoint Ingersoll Engineers as management consultants."

2.19 To a question was it necessary to appoint M/s. Ingersoll, the Secretary stated:

"It was necessary. Consultancy was done at a very late stage."

2.20 The Committee pointed out that after the appointment of M/s. Ingersoll, two other consultants viz. Temple Wall Ltd. of U.K. and Bassani Manufacturing, U.S.A. were appointed on the recommendation of Ingersoll Engineers. Asked about the justification for that, the Secretary stated:

"Those two cases were very specific. Some problems needed more specialised type of advice from a Body which has specialised on the research of that area.

Those people gave that solution for that problem. One was vibration and the other was exhaust. They said that there was no such consultant who can give you a panacea for all problems."

2.21 To a query whether M/s. Ingersoll were not competent to advise on vibration and exhaust problems, Secretary replied in the negative.

2.22 Asked about the recommendations/suggestions made by M/s. Ingersoll for improvement in quality of the scooters which had been implemented, the Managing Director stated in evidnce:

"There are large areas where they had suggested to us certain things. For example, they suggested that the flex-honing operation should be carried out on the cylinder to improve oil retention. We found it useful. Then they suggested that the cylinder should be coated with silicon carbide. We did not implement it because we did not find it suitable. Then they suggested that chrome-plated top piston ring should be introduced to reduce cylinder/piston ring wear. This has been implemented and because of this, a definite reduction in the wear has been achieved. Another suggestion is that holes should be added in piston walls for improving lubrication. Like this, they have made suggestions. Out of these, three or four were found useful and some of them were not found worthwhile."

2.23 The Audit report also pointed out that the object of achieving the break-even level as contemplated by the Government while approving the appointment of consultants (M/s. Ingersoll) had not been realised. Asked about the reason for it, the Managing Director stated that according to the recovery plan which they had submitted to Government they would achieve break-even on production of about 65,000 scooters by 1985.

2.24 To a question that in spite of implementing all those recommendations made by M/s. Ingersoll the Company have not been able to reach the break-even point, Secretary replied, "during 1977-78, production was 16,314. They gave the advice on productivity after appointment in 1978-79. That was the year in which 16,000 became 23,027. Next year it reached 33204".

2.25 Asked further why the growth in production could not be maintained afterwards, the Secretary stated:

"They have run into financial problems. Last year, some solutions have been found for that. Their inventories had become very high. These people have identified certain areas. Our own managerial competency was not adequate to remove all those constraints.

C. Commencement of Production

(i) *Two-wheeler*

2.26 According to Audit, one of the factors that weighed in the acceptance of the offer of Innocenti was that the time required for commencement of production would be 24 months of taking the decision as against 42 months required for erection of a new plant. While the decision to purchase the old plant was taken in November 1971 actual production commenced in February 1975.

2.27 During the course of evidence of the representatives of the Ministry, the Committee asked the reasons for the delay in commencement of production. The Secretary of the Ministry stated:

> "Even in that case (new plant) it would not have been 42 months from the day we thought, it should be done. Till the Company had been incorporated and had signed an agreement with the new collaborator, it is only from that day it would have been 42 months. That day could not have been earlier than September 1972 when the Company was formed; whereas in this case, the actual position is that instead of 42 months, the trial production started in 25 months and the commercial production in 29 months."

(ii) *Three-wheeler vehicles*

2.28 According to the project report prepared by the Management in February—April 1974 the production of three-wheelers was to commence from the year 1975-76. The production, however, actually started from November 1977. The following reasons were communicated by the Company to Audit for delay in commencement of production:—

(i) Most of the machines were not having adequate spare parts and it took almost a year or so to arrange them.

(ii) The production of three-wheelers was taken up in 1977-78 after thoroughly checking the quality of the vehicle.

2.29 The Company developed a prototype scooter-150 cc (Vijai Deluxe) and sent it to Vehicle Research and Development Establishment (VRDE), Ahmednagar, in November 1974 for technical trials. Certain technical defects were reported by VRDE to Government (after trial run upto about 7,000 kms.) who in turn intimated these defects to the Company in February 1975 and simultaneously authorised the Company to go ahead with commercial sale of the scooter after removing these defects.

2.30 Subsequently, in October 1975, the VRDE reported on the basis of a trial run conducted in July 1975 as follows:—

(i) There were no major defects during trials and endurance test.

(ii) The scooter gave starting trouble and its piston rings were worn out after a run of 10,242 kms.

(iii) The above defects were not rectified and the performance of the scooter in this regard was unsatisfactory.

2.31 During the meeting with the Audit Board on 27th November 1982, the representatives of the Ministry of Industry (Department of Heavy Industry) informed the Audit Board that the defects mentioned above were removed by the time the new model 'Vijai Super' was introuced in September 1977.

2.32 The Committee enquired about the reasons for not removing the defects before commencement of commercial production. The Managing Director, SIL stated in evidence:—

> "We did remove the defects which were brought to our notice. In October 1975, after receipt of a test report on Vijay Scooter, we had contacted M/s. Escorts Ltd. for the modifications in piston and piston ring in consultation with their collaborator, M|s. Goetzewerke of West Germany. On the basis of suggestions received from M|s. Escorts, the following changes were made in the piston:
>
> 1. The ringgroove diameter was reduced.
> 2. The reduction in top land diameter was changed to eliminate the possibility of seizure.
>
> All these changes were implemented by the end of July 1976."

D. Actual Production

2.33 The tables below indicate the capacity, targets and actual production for the period from 1975-76 to 1981-82 in respect of two wheelers and from 1977-78 to 1981-82 in respect of three-wheelers:—

(i) *Two-wheelers*

(Figures in numbers)

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
Original assessed capacity	1,00,000	1,00,000	1,00,000	1,00,000	1,00,000	1,00,000	1,00,000
Original targets							
Power Packs	..	25,000	68,000	22,000	21,000	16,500	16,500
Vechicles	60,000	40,000	60,000	27,000	41,000	42,000	48,000
Revised targets							
Power Packs	..	25,000	18,350	22,000	16,500	18,000	14,500
Vehicles	30,720	40,000	30,800	31,500	40,000	40,000	40,500
Actual production							
Power Packs	1,253	11,173	11,408	15,773	12,079	12,540	10,278
Vehicles	16,024	25,617	16,314	23,027	33,304	35,502	31,769
Percentage of actul production to original assessed capacity	17·2%	36·7%	27·7%	38·8%	45·3%	48%	42%
Percentage of actual production to original targets	28·7%	56·6%	21·6%	79%	73%	82%	65%
Percentage of actual production to revised targets	56%	56%	56%	72·6%	80·3%	82%	76·3%

(ii) *Three-wheelers*

(Figures in numbers)

	1977-78	1978-79	1979-80	1980-81	1981-82
Original assessed capacity	30,000	30,000	30,000	30,000	30,000
Original targets					
Power Packs	Nil	2 400	Nil	Nil	Nil
Vehicles	5,000	1,400	3,000	1,500	2,500
Revised targets					
Power Packs	1,600	2,100	Nil	Nil	Nil
Vehicles	500	1,300	1,000	2,000	1,400
Actual Production					
Power Packs	347	373	Nil	10	23
Vehicles	34	102	284	530	711
Percentage of actual production to original assessed capacity	1·26%	1·58%	0·95%	1·80%	2·45%
Percentage of actual production to original targets	76.2%	12·5%	9·46%	36%	29·4%
Percentage of actual production to revised targets	18%	13·9%	28·4%	26·5%	52·4%

2.34 The table below also indicates the Company's share in the country's total production of two-wheelers and three-wheelers during the years 1977 to 1981.

(i) *Two-Wheelers*

	1977	1978	1979	1980	1981
Total production in the country .	160295	168034	152061	211526	201786
Company's share in the total production (in percentage) .	10·29	11·30	21·36	17·11	16·04

(ii) *Three-wheelers*

	1977	1978	1979	1980	1981
Total production in the country .	18317	19151	17089	26519	24833
Company's share in the total production (in percentage)	0·09	0·22	2·23	1·95	2·81

2.35 The following reasons were advanced by the Company for under utilisation of the capacity:—

(a) Stock-outs of materials, from time to time owing to poor liquidity position;

(b) Non-supply of critical materials in the required quantity or in time by single source suppliers;

(c) Frequent break-downs of critical machines;

(d) Power cuts and interruption in power supply.

2.36 During the course of evidence of the Company, the Managing Director elaborating further the reasons for poor production performance, stated as follows:—

"The main point is that we have been short of funds more or less right from the beginning. When we started production, I would say that we got off on the wrong foot. We faced certain quality problems. At that time our production came down. It is only after 2-3 years that we could go again into the market with a better product and in the interregnum the set back we received broke over back.' Right from 1976 we have been facing financial problems......We have assured the Government that if the fianacial constraints are overcome, we will show better results and in January 1982 we got some money from the Government and from April we started improving our production."

2.37 The Committee enquired whether Government did not meet Company's financial requirements. The Managing Director replied:

"As far as the provision of funds is concerned, we had approached the Government for two types of funds one for the plan loans for meeting our capital expenditure and another for non-plan loans for our working capital expenditure.

As far as the working capital is concerned, normally the Government's approach is that the working capital should be met through the banks and the Government is not obliged to find the working capital required by a company. But even then, they have been giving us money. For instance, in 1977-78, we went to them for Rs. 100 lakhs and they gave us Rs. 100 lakhs. Again, we asked for another Rs. 20 lakhs. In 1978-79, we asked for Rs. 320 lakhs and they gave us Rs. 300 lakhs. In 1979-80, we asked for Rs. 380 lakhs and they gave us Rs. 380 lakhs. After 1979-80, there was break because the then Finance Minister had said that no more money would be paid to Scootors India Ltd. After March, 1980, for a period of 1½ years we did not get any money from the Government towards working capital and we got into trouble. Even prior to that, as I see it, larger funds were required by us. But apparently we did not approach the Government for larger funds. Why we did not, I cannot say."

2.38 The Committee enquired whether considering the fact that the Company was getting required money from Government even for working capital except in 1980-81 did it not indicate that the Company was not being managed efficiently. The Managing Director stated:

"I accept that the Company has not been running efficiently. Because of this, we have been needing funds and we have been running short of funds."

2.39 With reference to frequent breakdowns of critical machines affecting production, the Committee enquired whether the Company had any system of planned preventive maintenance. The Managing Director stated:—

"The planned preventive maintenance system for new machines is that within such a period inspection will be done and minor repairs will be done. For the old machines, we have the condition based maintenance system. Depending on the condition of the machine, action in regrd to preventive maintenance is taken."

2.40 To a question whether the low production could be attributed to management failure, the M. D. replied:

"Partly, yes, Sir. The production was low and it could partly be attributed to managerial failure."

Investment in ancillaries

2.41 According to Audit Report, one of the reasons for shortfall in production was non-availability of components. This has to be viewed in the light of the fact that Company had invested Rs. 40.49 lakhs in ancillaries for ensuring supply of components of approved quality at reasonable rates.

2.42 Asked why the ancillaries were not meeting the requirements of the Company, the Managing Director stated in evidence:—

" . . . We have about 32 of them. The manufacturers tag us on what we are producing. Suppose we produce 130 scooters, then they will produce components only for those 130 scooters. We can never ask for more of these components. This is one of the reasons for the production going down."

2.43 In reply to a query the Managing Director stated that Investment made for providing some of the facilities like D. G. sets, a small tool room and other infrastructural facilities. He added:

"All these shou'd have been correctly done by the State Government and it is their responsibility also. But the responsibility has fallen on them to provide the necessary facilities. . . We are fighting with them saying that they should have provided these facilities under the terms of agreement and they should bear a portion. Whether we will succeed or not, I don't know."

2.44 Asked about the difficulties in getting components from other sources, Managing Director stated:—

"With a number of suppliers we had difficulties in getting the components because of our inability to pay them. When a firm defaults in payment, it becomes very difficult to convince the party about the supplies. They would also like to supply us in bits and pieces because they are not sure whether they would get payment in time. For some of the items we had a single source supplier . . . in case of any default in supplies, our production invariably suffers. This combination of single source of supplier and lack of prompt payments had affected our production."

Investment in the equity capital of State Undertakings

2.45 The Company formed a new Company with the U.P. State Industrial Development Corporation Ltd. named U.P. Instruments Ltd. in 1975. The Company's total investment in UTIL was Rs. 30.62 lakhs as on 31-3-82. The facilities available in the unit were to be utilised for the manufacture of speedometer and magentos required for 2 wheeler and 3 wheeler vehicles. However, one of the reasons attributed to shortfall in production of 2 wheelers and 3 wheelers during some years was stated to be non-availability of inadequate supply of magnetos.

2.46 Similarly SIL along with UPSIDC established a new company U.P. Tyres and Tubes Ltd. in 1976 for manufacture of 5 lakhs sets of 2 wheelers and 3 wheelers tyres and tubes per annum and invested an amount of Rs. 48.19 lakhs up to 31-3-82 which were partly met by obtaining a loan of Rs. 17.90 lakhs from UPSIDC entailing payment of interest @ 14 per cent. However, as against the Company's requirement of about 2 lakh tyres and tubes during 1980-81 and 1981-82, the actual supply was to the extent of 43,780 tubes and 35,201 tyres only.

2.47 During the evidence, the Committee enquired whether the investment in two State undertakings really, served the purpose for which this investment was intended, the Managing Director, SIL stated:

> ". . . Whatever we got from UPIL has been worth of it because in the initial stages they used to do a lot of job work for us. They made magnetos and they did a lot of odd work for us. As far as UPTT is concerned, we could have met our requirements from other sources, but at that time when we made this investment, the feeling was that there was a shortage of tyres and therefore a unit nearby would be helpful. Even today on each tyre we are saving Rs. 2. Because this factory is in a nearby area, we save on freight and other things."

2.48 Asked about the financial return on investment made in these undertakings, the M.D. replied that financial return has not been except in case of UPTT, they saved money on transport charges.

2.49 The Committee enquired about the measures taken by the Company to increase productivity, removal of production bottlenecks, increase production volume to the optimum level and upgrade the quality of product. The Company stated in a note furnished after the evidence that they have taken the following measures:—

I. *Increase Productivity*

(i) Improvement in material supply.

(ii) Better Plant Maintenance.

(iii) Closer supervision and control.

(iv) Modernisation of production methods.

(v) Rejections control.

II. *Removal of Production Bottlenecks*

(i) Identification and Removal of Capacity Bottlenecks.

(ii) Improving Quality of Materials.

(iii) Replacement and Overhaul of unreliable equipment.

III. *Increase production Volume up to Optimum Level*

(i) To improve material handling facilities and plant lay-out.

(ii) Inventory build up at adequate level.

(iii) Introduction of Management Information Service.

IV. Upgrade the Quality of Product

(i) To increase engine life.

(ii) To reduce bearing noise.

(iii) To improve quality of electrical items.

(iv) To prevent leakage of oil into brake drum.

(v) To reduce vibration.

(vi) To improve quality of shock absorbers.

(vii) Improving matching of Transmission gears.

2.50 The Committee enquired from the Ministry about the reasons for poor production performance of the Company. The Secretary, Department of Heavy Industry stated:—

"It is a cumulative effect which started with defects in the scooters where we took a long time to rectify things, in the absence of technical consultancy. In between that period, the financial position of the Company went down. When the defects got removed, a new struggle started with the supply of certain components or raw materials. They lost confidence. They would not give in. Although Government gave a lot of assistance at various stages but, really speakng, that is not the final solution because, after all, an assistance is given at a point of time when something has already gone wrong. That certainly is necessary and that was given but that is not the total. This type of cumulative effects went on till 1978."

2.51 In reply to an another question, the Secretary also admitted that there has been managerial failure in the Company.

2.52 Asked about the steps taken by the Ministry or directions issued to the Company from time to time to improve the production performance, the Secretary replied:—

"It was due to interaction of Ministry and the company that even in 1978 a foreign firm was appointed as consultant. That was at the instance of the Ministry. From that year production jumped up. The other instance where the Department of Heavy Industry came to their rescue was in regard to financial assistance which was quite considerable. Various discussions have been held in which the need for proper evaluation, development and implementation of management systems has been emphasised; we impressed upon them to have better quality control, better control of inventory, better checks and so on. Monitoring was done in a review meeting. We would like to point out that it is not so much executive action but it is a type of review pointing out these things and bringing these to the notice of the management for taking action."

He further added:—

". . . During the last two or three years particularly this year, the performance is improving . . . This year we hope our production will be about 50,000 pieces—will be 27 per cent higher than last year and if trend can be maintained and we have no reason that it should not be maintained, next year 60,000 is possible and with 60,000 we will certainly break even also."

2.53 Asked whether for achieving the target of 60,000 vehicles, the Company require any additional investment the Secretary stated "No, Sir, with the same investment we should be able to reach the figure of 60,000".

.. .. **E. Recovery Plan**

2.54 In order to increase the production and arrest the losses, the Company has submitted a Recovery Plan to Government in September, 1982. According to this plan, the company need capital investment of Rs. 1380 lakhs on renewal/replacement and Rs. 920 lakhs on balancing facilities during the next five years for raising the production to the level of 90,000 scooters per annum. Out of this total investment requirements of Rs. 23 crores, company has sought Rs. 1110 lakhs from Government for partially financing the investment in capital facilities and requirements of Rs. 1190 lakhs would be met from the Company's internal resources.

2.55 The Company has also sought the following financial reliefs in the Recovery Plan:—

(i) Government to provide non-plan loan of Rs. 242 lakhs to cover cash losses suffered during the year 1981-82 after excluding the interest due on Govevrnment loans and waive the recovery of interest payable on this loan up to March, 1985.

(ii) The interest payable on the loans outstanding as on 31-3-1981 may be waived from 1-4-81 to 31-3-1985 (The financial implication of this concession will be Rs. 1183 lakhs).

(iii) The requirement of paying interest on arrears of interest should be waived upto 31-3-1985 from the beginning. (The financial implication of this relief will be Rs. 828 lakhs as on 31-3-1985).

(iv) The penal interest should be waived upto 31-3-1985 from the beginning. (The financial implication of this relief will be Rs. 290 lakhs as on 31-3-1985).

(v) The Government may also formally allow moratorium on repayment of the outstanding loans upto 31-3-1985).

(vi) The Financial Institutions viz. IDBI & IFCI should also favourable consider waiver of interest on arrears of interest and of penal interest upto 31-3-1985 from the beginning.

(vii) During 1982-83 additional working capital of Rs. 600 lakhs should be provided—Banks to enhance the cash credit credit limit (Rs. 290 lakhs) and the Govvernment of India to provide Non-Plan Loan (Rs. 310 lakhs).

(viii) The cash credit limit should be further enhanced by the Banks in subsequent years to meet the working capital requirement.

2.56 With the above assistance, the Company proposes to achieve the growth rate of 14 per cent the production of two wheelers and raising the level of production of three wheelers upto 2500 as follows:—

Year	Vijai Super	Lambretta Cento	Two-wheeler power packs	Three wheelers
1982-83 .	40,000	5,000	15,000	1,000
1983-84 .	30,000	25,000	15,000	1,500
1984-85 . .	25,000	35,000	12,000	2,000
1985-86 .	25,000	45,000	5,000	2,500
1986-87	25,000	55,000		2,500
1987-88 . onwards . .	25,000	65,000		2,500

2.57 According to the Recovery Plan with the required financial relief the Company will start earning profits from 1982-83 itself and it will be possible for SIL to clear its accumulated losses by 1987-88.

Return on capital employed will be 11 per cent in 1982-83 and 1985-86 and 19 per cent in 1987-88. The Company wil be in position to pay dividends on equity capital from 1988-89 onwards.

2.58 It has also been stated that if the financial reliefs were not given, the Company will continue to incur losses upto 1984-85 and there may be marginal profit of Rs. 18 lakhs in 1985-86. It will not be possible for SIL to clear the accumulated losses even by March, 1992.

2.59 During the course of evidence of the Ministry of the Committee enquired about Government reaction to the Recovery Plan. The Secretary, Department of Heavy Industry stated—

> "Our view is that this recovery plan should not be gone into in isolation. It is connected with the stage of the scooter industry in this country, as it is evolved and as it is going to happen in this decade. It is going to reach a very highly competitive situation. The competition will be about price, the quality of the product and efficiency. For all this we have started dialogue. We want to enlarge the scope of recovery plan with that of the future size of the company, the future improvement of the product etc. I personally took a meeting in which various Government agencies like the Planning Commission etc. are there. There we are trying to look into financial restructuring with the purpose of making the company viable next year........ we are trying to look at it in two parts. One is the immediate objective of making the company viable next year. But simultaneously they have to study all types of scooters which are going to be manufactured in the country. Whenever high investment is not commensurate with the increase in productivity we should live with with the present equipment."

2.60 To a query as to how much time the Ministry will take to come to a final decision in this regard, the Secretary stated that they were having a dialogue with M/s Suzuki for technical assistance. Based on the study of the questionnaire prepared by Suzuki a team would come which would study the present facilities and the present design in detail. A more detailed meeting would be held there after within the next 4 to 6 months.

Asked whether this process could be speeded up, the Secretary, replied:

> "I do not think so. We have discussed this matter at the highest level on their (Suzuki) side and the response has

ben there. They have come here for a different purpose. Their Chairman has come here to sign the agreement for Maruti. The two or three specialists who were accompanying him visited Lucknow. Within three weeks after they returned to Japan, they sent the Questionnaire. Within two or three weeks after that we filled the Questionnaire and sent it back to them. So, from our side we are trying to do as fast as possible. But there has to be a certain minimum time for making a thorough study.'

F. Lambretta Cento

2.61 It has been stated by the Company in a written note that the company has recently commenced production of a 100 cc scooter, the lambretta cento. It was also stated to be most economical scooter in the Indian market having large demand and so far nearly 1 lakh booking were received.

2.62 Asked about the total expenditure incurred on development of Lambretta Cento, the Company stated in a note furnished after the evidence that total estimated expenditure on this account was Rs. 39.64 lakhs including Rs| 1.98 lakh incurred on manufacturing of prototypes.

2.63 According to the Company's production schedule they will produce 5000 Lambretta Cento scooters in 1982-83 and will reach a level of 65,000 in 1987-88.

2.64 The Committee enquired whether the new product will be able to compete with other products in the market. The Secretary of the Ministry stated:

"I think, with the products which are being talked of at present for commercial production in the country, Cento should be able to compete. But we have to be conscious of the new developments taking place somewhere else which also may come here. Of course, we have not been able to reach the stage of commercial agreement as yet, but the collaborator whom we have appointed for Maruti factory happens to be one of the biggest or the second biggest manufacturer in the world of two-wheelers; Suzuki motor-cycle is considered to be the best in the world; they are knowledgeable and they manufacture scooters also. We have had some dialogue with them informally on taking some assistance from them for two areas, one, to take both these designs and make certain charges which would render it more cost-effective, lower-weight, higher efficiency; and the second area is what type of facilities should be included if this factory is to be expanded. We have started that dialogue. we hope that we will get something out of it."

2.65 Production performance of the company presents a dismal picture. During the last three years, production of two wheelers (vehicles and power packs) was on an average 45 per cent of the originally assessed capacity (1 lakh). The production for two-wheelers (including power packs) in 1981-82 (42047) was even lower than that achieved in 1980-81 (48042) and 1979-80 (45383). As regards 3-Wheelers it was only 1.73 per cent of the capacity (30,000) during the same period. The Committee feel that such a disappointing performance was bound to be there as the project had been undertaken without the basic essentials. The Detailed Project Report was not available to the Company in its entirety. No technical consultants were appointed in the beginning and the Company went without sufficient expertise in a highly competitive sector in establishing production capacity and stabilising production. Consultancy Services were, however, obtained since 1977 when it was already too late. Its product 'Vijai' Scooter had lost the market by then damaging its image which resulted in low morale and productivity. The Secretary of the Ministry admitted in evidence that not to have consultants at the right stage was one of the failures. In this connection, the Committee note that M/s. Innocenti were expected to be partners in a joint venture with Government and to give technical advice. It is unfortunate that Government did not promptly advise the Company to look for another consultant when it became clear soon that M/s. Innocenti were not likely to be partners of the venture and technical consultants to the SIL. According to the Committee this was a serious lapse on the part of the Ministry which requires an explanation.

2.66 Belatedly from January, 1977 to November, 1980 five consultants were appointed, one after the other, and total expenditure of Rs. 70.56 lakhs was incurred on the services rendered by them. M/s. Ingersoll Manufacturing Consultants of U.K. approached the Ministry in December, 1977 and offered to help the Company. The Ministry introduced them to the Company. They were appointed in July, 1978 to make an indepth study of the difficulties faced in quantitative and qualitative aspects of production to achieve break-even level. They submitted their Report between March, 1979 and June, 1980. An amount of Rs. 66.88 lakhs was spent on this account. According to Audit the basis of selection of consultants and fixation of their fee could not be ascertained. Further by the time

Report of M/s. Ingersoll had become available production of the new product "Vijay Super" Scooter had stabilised and 'it had won market acceptability and there were no complaints'. The Committee regret that even after appointment of M|s. Ingersoll as Consultants at heavy cost the basic objective of achieving break even level of production has not been achieved. The Committee are not happy with the way M|s. Ingersoll were appointed as consultants. The method followed while appointing them and the basis on which their fees were fixed need explanation.

2.67 One of the reasons for shortfall in production was non-availability of components. The Committee find that with a view to ensuring supply of components of approved quality at reasonable rates the company encouraged setting up of ancilliary units and incurred an expenditure of Rs. 40.49 lakhs upto March, 1982 on providing infrastructural facilities to these units. The Company had also invested Rs. 78.8 lakhs in two joint ventures with U.P. State Industrial Development Corporation Ltd. for meeting the requirements of speedometers, magnetes, tyres and tubes. Inspite of these units the Company faced the problem of non-availability, or inadequate supply, of components including magnetes, tyres and tubes. The Committee feel that it was expected of the Company to work out the economics of establishing ancillaries and making investment in State Government Undertakings with reference to its own ways and means position and availability of components from already established sources of supply. The Committee regret that the Company could not have a regular and assured arrangements for the supply of components required by it to meet its production requirements, in spite of having made an investment of Rs. 119.29 lakhs in ancilliary units, etc. The Ministry should look into this aspect to find solution to the problem.

2.68 To increase its production and arrest losses the Company has drawn up a Recovery Plan and submitted to Government in September, 1982. The Plan envisages a capital investment of Rs. 23 crores on renewal|replacement and balancing facilities during the next five years. With the implementation of the plan the Company hopes to raise its production level to 90,000 scooters per annum by 1987-88, which would enable it to earn an operating profit of Rs. 18 lakhs in 1985-86. The Secretary of the Ministry stated in evidence that the Recovery Plan has to be considered keeping in view the stage of the Scooter Industry in the country and future size of the Company. The Scooter Industry is going to reach very highly competitive stage and competition will be in regard to price, quality of

the product and fuel efficiency. He said for all these a dialogue has been started and Government wanted to enlarge the scope of Recovery Plan having regard to the future size of the Company and the improvement of the product etc. He also informed the Committee that Government was having a dialogue with M/s. Suzuki for technical assistance. The Committee hope that the Ministry will examine pros and cons of the Recovery Plan in detail and take decision on additional investment after fully assuring itself that the company could be made viable.

2.69 The Committee are happy to be assured that with the introduction of 'Lambretta Cento' Scooter, which is stated to be most economical scooter in the Indian Market having large demand, the SIL should be able to compete in the market. The Committee, however, stress the need for an aggressive marketing strategy and for this purpose the marketing department should be qualitatively strengthened.

G. Diversification—Production and Supply of Power Packs

2.70 On the request of various State Governments to assist them in setting up of plants for the manufacture of 150CC DL model two wheelers in their respective States, the Company entered into agreements(called Licence Agreements) during 1973-74 and 1974-75 with the State Government Undetrakngs of Andhra Pradesh, Bihar, Kerala, West Bengal, Punjab, Karnataka and Tamil Nadu, called licencees for supply of engines and gear boxes (commonly known as power packs) and technical knowhow to them. The supply of power packs by the Company was much below the quantity required by the Licencees. Punjab Scooters Ltd. rescinded the contract in 1979-80 on the ground that the supplies made by SIL were not found upto the mark and had resulted in heavy rejections.

2.71 Asked about the justification of having entered into agreement for supply of power packs and know-how to state undertakings during 1973—75 when, even company's own machinery was still in the process of installation and it had not established its own production, the M.D. stated during evidence:—

> "We feel that it was premature for the company to have entered into these agreements for Power packs and we were not taken to have the arrangements. But State Governments put a lot of pressure on the Central Government to intervene in these activities."

2.72 As regards the less supply of power packs, the Ministry informed Audit (November 1982) as follows:—

> "....the licencees could not establish letters of credit for supplies as per their targets. Supplies were made to them to the extent funds were made available through letters of credit.". . . Rejections made by M/s Punjab

Scooters Limited were not acceptable to Scooters Limited . . . They were, therefore, asked to post their on Quality Standard. The licencees, however, did not send their representative to SIL."

2.73 The Committee enquired as to what extent non-supply of power packs by the Company contributed to the poor production and losses of State Undertakings. The M.D. replied—

"These licensee units face other problems apart from non-supply of power packs from us. They faced marketing problems, they had financial problems and they found difficulty in arranging supply of components."

2.74 To a question whether the Company agree that to some extent the poor quality of the power packs was responsible for the poor performance of the State Undertakings, M.D. stated:—

"I would say 'yes' quality was partly responsible but there were other factors also. There was lack of finance and there was lack of marketing expertise, etc.

2.75 The Company entered into 'Work and Labour' contracts with Bihar Scooters Limited, West Bengal Scooters Limited, Scooters Kerala Limited and Jammu & Kashmir Industries Development Corporation Limited in December 1978, May 1979, April, 1978 and April 1979 respectively. Under the "Work and Labour" contract licencees were to assemble the scooters from the Complete knock-down sets (CKD) including power packs supplied by the Company on a payment of Rs. 400 per scooter.

2.76 The table below indicates the number of CKD units supplied by the Company to the State licences:—

Year	Bihar Scooters Limited	West Bengal Ltd.	Scooters Kerala Limited	Jammu & Kashmir Industrial Development Corpn. Ltd. (Tawi) Scooters Ltd.
1978-79	Nil	Nil	575	Nil
1979-80	100	Nil	1,225	Nil
1980-81	Nil	251	750	150
1981-82	Nil	Nil	650	500

2.77 The Committee enquired about the justification for entering into 'Work and Labour' contracts with the licencees in the light of the fact that the capacity of the assembly shop of the Company remained underutilised. The M.D. stated:

> "Entering into the work and labour contracts was not justified on any economic considerations. Primarily some of the licencee units had been set up. They could not proceed with the arrangements on their own. They had employed certain workers. What we thought as if we give them CKD, they can keep some people employed. That was the primary consideration for which we went in for work and labour contracts. This was not economically in the interest of Scooters India."

2.78 It also came out during the evidence that there were not adequate facilities for testing the scooters assembled in contractors workshops, for roller testing for checking fuel consumption.

2.79 The Company also prepared and submitted to Government in March 1976 a Detailed project Report for creating a additional capacity of 2 lakh power packs per annum for supply to State licencees. This was later revised to 1.65 lakh, power packs per annum after detailed discussion with State licences, IDBI's officials and Government at an estimated cost of Rs. 9.25 crores. This was approved by the Board in November, 1976, and the CMD was advised to take necessary action to execute the project. As the Company had entered into certain advance commitments for supply of certain tool room and inspection equipment essential for manufacture of sophisticated diecasting dies and other fixtures provided for the project a sum of Rs. 94.36 lakhs was released by Government in 1976-77 as loan to clear the suppliers bills for these equipment. In July, 1977 project was further revised for 0.65 lakh power packs per annum at an estimated cost of Rs. 6.41 crores. Government of India decided in January, 1978 that in view of a fall in demand for scooters manufactured by the Company arising from several factors, including the technical performance of the vehicles, the proposed power pack project should be kept in abeynce. According to Audit even though the project was not approved by the Government, the Company had placed orders upto July 1977 for plant and machinery valued at Rs. 3.68 crores for this project. The equipment valued at Rs. 3.09 crores was received and installed till March, 1930.

2.80 During the course of evidence of the Company, the Committee enquired about the reasons for placing orders for machinery valued at Rs. 3.68 crores without the approval of the project by Government. The M.D. stated as follows:—

"In 1976 the Company had envisaged to set up the power pack project but later in 1977 it was decided that this power pack project will be deferred. In November, 1977 the Company has gone to the Government and the Board of Directors and they were told that this power pack project had been deferred. It was also stated that there were certain investments which were essentially required and on this project—I will not call it a project—It was various individual activities which were even otherwise required by the company and on which we went on spending money with the approval of the competent authority. They were items like tool room. What we found is that the support which we were expecting from the various tool room were not either available or where they had requisite facilities, they were only for captive use. So we decided to augment our facilities. Then tool regrinding facilities which were not originally envisaged and then some inspection facilities and replacement facilities, etc. The Planning Commission also provided the requisite funds and they agreed to allocate funds to meet our requirements. Then we had non-plan expenditure of Rs. 7 lakhs, Rs. 15.5 lakhs and Rs. 84 lakhs and the bulk of the expenditure came in 1979-80. So this expenditure came after we told everyone concerned that this project was deferred but the expenditure was an essential and inescapable item of expenditure.

Asked whether all these machines were utilised, the M.D. stated: "Since these facilities were provided for essential requirements, they were being used."

2.81 The Committee enquired from the Ministry how the funds were released by Government without the sanction of the project. The Ministry replied in a note furnished after the evidence that the power pack project of Scooters India Ltd. was under active consideration of Government in the year 1976-77. Comments received from the various scrutining agencies were under examination for taking an investment decision. Certain funds were released by Government for essential investment in capital equipment which were even otherwise required as the Innocenti Plant/machinery were old and needed gradual replacement/balancing, and certain new facilities had to be developed like tool room tool regrinding, inspection etc. These funds were not released (except for a small amount of about Rs. 21 lakhs) against the pending power pack project as such even though some of the items on which investments were made were also used for manufacture of power packs supplied to the licences.

H. Taking up of New Products—(i) Mopeds

2.82 The Company also ventured in undertaking manufacture of new products even when its main product (two wheelers scooter) had not been established in the market owing to technical problems and the Company was also facing financial constraints. In June 1975 the Board of Directors decided to undertake production of mopeds with 50 cc. engine on the consideration that it was substantially less expensive than the scooter, and some of the machines for machining the engine cylinder, connecting rods etc. purchased from Innocenti could be used for this purpose.

2.83 A preliminary project report for setting up of facilities for the manufacture of moped with 50 cc engine was prepared and approved by the Board of Directors in December 1975. It was envisaged in the report that the engines would be manufactured in the main plant at Lucknow and the rest of the items at a place where most of them could be bought out as fully finished items. The premises of Ganesh Electrical Unit of Ganesh Flour Mills Limited, Delhi, were acquired on lease at Rs. 25,000 per month from 6th February 1976 for the manufacture of the vehicle 'Moped Vinai'.

2.84 In July 1977, the Board approved the shifting of the project from Delhi to Lucknow on the consideration that there was considerable delay in the setting up of facilities and building of an inventory of assembly of vehicles at Delhi. In April 1978 the Company approached the Government of India for approval to the above proposal which was agreed to by the latter in November 1978. The licence for manufacture of the moped was granted by Government in May 1979.

2.85 33 Prototypes of moped valuing Rs. 0.53 lakh were developed by the Company during 1977-78 and 1978-79 out of which 18 were sold for Rs. 0.28 lakh and the remaining 15 valuing Rs. 0.22 lakh, were lying with the Company (March 1981).

2.86 The Commercial production of moped could not, however, be commenced. The Management informed Audit (August 1982) as under:—

> ". . . the prototype vehicle faced problems of low starting torque and poor gradeability. These problems related to basic clutch design and attempts at improvement did not

succeed. In view of the technical problems faced on this moped and after considering the advice of Ingersoll Engineers to concentrate on production of Vijai Super and three wheeler, it was decided at that time to keep the project in abeyance. It was later decided that it would be advantageous to get designs of moped engines which represented the latest developments in Western technology and to indigenise these within a short period of time. With this object SI decided to enter into technical collaboration with Steyr-Daimler Puch AG of Australia, one of the world's leading manufacturers of mopeds. The project report is now awaiting Government's approval."

2.87 The toolings, patterns, raw material components etc. worth Rs. 18.09 lakhs procured by the Company for this project were lying unused.

The Management informed the Audit (August, 1982) as under:—

"As production of mopeds is likely to take some time and as there is also likely to be some design change it has been decided to utilise the moped inventory to the extent possible for the current production of scooters and three wheelers and dispose of the remaining items."

2.88 During the course of evidence, the Committee enquired about the justifications for going in for other models of vehicles even when the main product had not been established. The M. D. stated:

"I do not think there was any justification for going in for a new product."

He added:

"In this particular period we were taking action for improving our scooter. We should have conserved our resources for a particular product rather than diversify."

2.89 Asked about the present position in regard to approval of the moped project, M. D. stated that they have given up the idea of the moped project.

2.90 As regards the disposal of mopeds lying with the Company, the M. D. stated that they had four mopeds with them and rest about fifteen which were sent to Japan and U.S.A. for test and evaluation had been written off.

J-125 cc two wheeler Scooter

2.91 The Board of Directors was informed in July 1977 that the Company was likely to place J-125 cc two wheeler scooter in the market from October 1977.

2.92 The Government of India was, however, approached on 12th February, 1978 for sanction of a loan of Rs. 14.00 lakhs for the purchase/acquisition of indigenous and imported tools, jigs, fixtures etc. required for the manufacture of this model of scooter. This was sanctioned by the Government in March 1978.

2.93 In May, 1978 the Board of Directors was informed that development of J-125 vehicle was being held up for the following reasons:—

—Delay in the completion of jigs, fixtures and gauges etc. in the Company's own tool room.

—Non-availability/supply of cutting tools, drills, taps etc. already ordered.

2.94 However, keeping in view the need to concentrate on the production of two wheeler and three wheeler scooters and to build up adequate and safe inventory levels to reach higher levels of production of the said products, the Company, on the advice of Ingersoll Consultants decided to go slow on the development of J-series 125cc scooters at present.

The production of J-125 cc scooters has not commenced so far (October 1982).

2.95 The Company had an Inventory of Rs. 6.92 lakhs at the end of March 1980 as under:

	(Rupees in lakhs)
(i) Bought out finished components	4·32
(ii) Bought out semi-finished components	0·32
(iii) Work-in-progress	2·28
Total	6·92

2.96. The Ministry informed Audit (November 1982) that the inventory of J-125 cc scooters was being used in the production of a new model of J-100 cc scooters.

I. Lease-hold of an electrical Unit

2.97 The management of Ganesh Flour Mills Limited, Delhi (a private company having five units) was taken over by Government under Section 18 AA of the Industries (Development and Regulation) Act on 3rd November, 1972 for a period of 5 years and the Industrial Re-construction Corporation of India (IRCI) appointed as the Authorised Controller of the Undertaking. The four units engaged in the manufacture of food items were re-started by the IRCI and the fifth unit, engaged in the manufacture of fans was not-re-started as was not considered economically viable.

2.98. On 5th February, 1975 IRCI approached the Company to consider whether the electrical unit could be of any assistance to it as an ancillary unit. The proposal was considered by the Board of Directors in its meeting held in July 1975 and a sub-committee consisting of the Chairman and two Directors was set up to conduct an on-the-spot study of the facilities available in the unit.

2.99 On the recommendation of the sub-Committee, it was decided by the Board (August 1975) to take on lease the electrical unit alongwith the facilities for the manufacture of a new product namely moped.

2.100 A lease deed was executed by the Company with the Ganesh Flour Mills Limited on 6th February, 1976 for a period of 5 years commencing from 1st February, 1976 containing, *inter-alia*, the following terms and conditions:—

(i) Payment of monthly rental of Rs. 25,000 to the lessor.

(ii) Electric fans, semifinished fans, accessories and raw materials valued at Rs. 10.82 lakhs (subsequently reduced to Rs. 10.19 lakhs) lying at the premises to be purchased by the lessee.

(iii) The purchase price of the aforesaid items to be paid in three equal yearly instalments, the first such instalment to be paid by June 30, 1977 and the last by 30 June, 1979.

2.101 Subsequently it was decided to go in for manuftcture of fans, since the employees had also to be taken and the equipment were suitable for manufacture of fans. The actual production of fans during the years 1979-82 was much below the target set and the Unit also suffered a loss of Rs. 6.17 lakhs during 1981-82.

2.102 During the course of the evidence of the company, the Committee pointed out that the mangement was not able to look after their unit well and enquired about the reasons for taking another sick unit on lease. The Managing Director stated:—

"We need not have. I do not support the decision."

He added:

"Government were anxious that the unit should re-start and people should get work . . . We were also thinking of having moped unit and as such, we took it over."

2.103 Asked about the reasons for taking over the premises and equipment without proper consideration of its suitability for the manufacture of mopeds, the Managing Director stated that a Committee of Directors went and inspected the unit and found that it was suitable for assembly of the mopeds.

2.104 Asked about the total investment made in Electrical Unit, the Company informed in a note after the evidence as follows:—

"There was no plan of any capital investment except for marginal requirement to restart the unit. This requirement included construction of approach road, cycle shed, check post, etc. checking and commission of electricals and provision of some furniture and fixures. Later when the company was facing prolonged shortage of magnetos, it was decided to put up the facilities for the manufacture of magnetos and this unit at a cost of Rs. 3.61 lakhs. The total investment made by the Company in this unit is Rs. 43 lakhs including Rs. 37 lakhs towards working capital."

2.105 Detailed examination of the stores for Rs. 10.19 lakhs taken over from M/s. Ganesh Flour Mills indicated following:—

"(a) Un-matched inventory of major high value items such as stampings, regulators, components, coverings, etc.

(b) 40 to 50 per cent inventory of raw materials was meant for table fans, exhaust fans, air circulators and FHP motors which were suitable for the old, obsolete and uneconomical designs and, as such, the Company was left with no choice but to dispose of such items as scrap.

(c) Rubber components, insulating material, condensers had lost their shelf life because they had been lying un-utilised for the last 8 to 10 years.

The realisable value of materials worked out to Rs. 6.36 lakhs only.

2.106 The Committee enquired about the reasons for which material was taken without proper assessment, the Managing Director stated:—

"We took over the materials at book value. It is a commercial undertaking . . . Its book value should show assets at realisable value, we found part of the items were unusable."

2.107 Asked whether any quality and contents of stores was examined at the time of taking it over, Managing Director stated, "No, Not individual items."

2.108 In regard to the reasons for taking over of Electrical Unit, the Secretary of the Ministry stated in evidence:

"I would say that it was more a Government decision to persuade the company to take over this unit. Although the intention at that time seemed to be different that this unit might be useful for doing certain things for the company, but it remained confined to fans and magnetos for the scooters."

2.109 The Committee found that the Company without establishing the production of its major product entered into agreement with State Government undertakings, in 1973-74 for supply of power packs. Without awaiting the approval of the project by Government the Company placed orders for purchase of plant and machinery of the value of Rs. 3.68 crores required therefor. The Committee are surprised to find that Government released a sum of Rs. 21 lakhs for this project even before approving it. The supply of power packs by the Company to the State Government Undertakings was much below the quantities required by the licencees and these in some cases were also not found upto mark and resulted in heavy rejections. To the Committee it appears that the project for supply of power packs was undertaken without any foresight which resulted in the blocking of funds which were badly needed by the Company.

2.110 The Committee further find that the Company took up the manufacture of 125cc-2 Wheeler and also of Mopeds and fans by taking over the Electrical Unit of Ganesh Flour Mills. In these ventures the Company has invested Rs. 68 lakhs and has also suffered a loss of Rs. 6.17 lakhs in 1982 so far as fans are concerned. The Managing Director of the Company admitted in evidence that the Company was not justified in going in for new projects when it has not been able to establish production of its major product.

2.111 The Committee regret that the Company has been frittering away financial resources in a variety of side ventures without having a proper assessment about their financial viability and that the Ministry has obligingly advanced funds to the Company apparently without being fully satisfied of the justification. The Committee at this stage can only express a hope that Government will ensure that he Company whose physical and financial performance is very poor is not allowed to fritter away its energy and financial resources atleast in future. The Company ought to concentrate on its major item of production and leave no stone unturned to establish its acceptability with the public.

2.112 The Company entered into work and labour contract with State Licencees for assembling the scooters. The Committee have not been able to understand the rationale behind such contracts, when the Company has itself not been able to utilise its own installed capacity.

CHAPTER III

COST CONTROL

A. Cost of Production

3.1 The table below gives the product-wise standard cost, budgeted cost and actual cost of production for the last 3 years:—

(in Rupees)

	Particulars	1979-80	1980-81	1981-82
2-Wheeler vechicles .	.. Budgeted	4,426·40	4,745·17	5,385·32
	Standrad	4,262·34	4,989·02	5,492·85
	Actual (Variable & Fixed)	5,746·05	6,474·19	7,805·92 (Prov.)
2-Wheeler power packs .	. Budgeted	1,850·62	2,066·66	2,133·86
	Standrad	1,770·30	2,504·43	·2,241·99
	Actual (Variable & Fixed)	2,098·43	2,336·95	2,898·73 (Prov.)
3-Wheeler	. Budgeted	14,846·36	15,303·07	17,605·54
	Standrad	14,028·58	16,001·43	18,567·85
	Actual (Variable & Fixed)	21,115·51	22,458·15	28,601·15

Aport from the actual cost of production being higher that the budgeted/standard cost in respect of all the products of the Company, the cost of production was in far excess of the selling price of the products of the Company resulting in huge losses. During the years 1975—82, the loss per vehicle ranged from Rs. 997 to Rs. 2281 in case of two-wheelers and from Rs. 6893 to Rs. 26926 in case of three wheelers. The sale price of power packs for two wheelers and three wheelers was also lower than the cost of production in some of the years.

3.2 To a question as to what extent the company had been able to recover the various elements of cost viz. material, labour and overhead during the last three years, the company informed in written reply as follows:—

"The material and labour cost have been recovered fully during the last 3 years. However, the extent of recovery of overheads is as follows:—

Name of products	1979-80	1980-81	1981-82
Two-wheeler	53·36%	56·19%	50·32%
Two-wheeler power packs . .	77·06%	85·94%	82·87%
3-wheeler vehicle	19·33%	29·29%	41·88%

3.3 The unabsorbed fixed cost on the project owing to under-utilization of capacity was as follows:—

Year	(Rs. in lakhs)
1979-80 . .	245·55
1980-81	281·72
1981-82	405·85

3.4 Asked about the reasons for cost of production being more than the budgeted/standard cost/selling price, the Company has advanced the following reasons:

(i) Utilisation was below the attainable capacity on account of production and financial constraints.

(ii) Excess material consumption on account of higher level of rejections to achieve desired quality standards.

(iii) Heavy interest burden.

B. Norms of Consumption

3.5 An analysis of standard norms fixed and actual consumption of raw materials and high value BOSF components for the year 1981-82 showed that the actual consumption was more than the standard norms in most of the items used for production. The percentage of higher consumption was upto 2.81 per cent in case of raw materials and 7.4 per cent in case of high value components.

3.6 The Committee enquired about the reasons for high consumption of raw materials than the standard. The following reasons were advanced by the company in a written reply:

(i) Use of non-standard size due to non-availability of right size of sheets etc. which results in higher wastage.

(ii) Higher process rejection.

(iii) Wear and tear of some of the machines and tools originally purchased which require to be replaced.

C. Rejections

3.7 No norms of rejections of die casting components had been fixed by the Management. The Management informed the Audit in August, 1982 that rejections upto 12 percent in die-casting components were normal considering the type of components and precision required therein. The loss on rejections over and above 12 per cent considered to be normal works out to Rs. 5.10 lakhs during 1976-77 to 1981-82. Similarly, in the foundry no norms for rejections had been fixed, but the Company considered 6 per cent as standard rejection for ferrous casting for the purpose of arriving at the unit material cost of the component. The rejections were, however, much higher resulting in a loss of Rs. 44.46 lakhs during 1978-79 to 1981-82.

3.8 A comparison with the norms of rejections of the various components fixed by the Management in September, 1980 for machine shop revealed that the actual rejections were more than the norms (3 per cent) fixed. The loss on account of the rejections over and above the norms amounted to Rs. 5.30 lakhs in 1980-81 alone. No norms for loss of metal in process also had been fixed.

3.9 The Committee enquired about the reasons for higher rejections rate in Foundry and Machine-Shop. The Company intimated the following causes in a note furnished after the evidence:

(i) FOUNDRY

— Non-availability of quality input materials.

— Inadequate handling facilities

— Inadequacy in pattern equipment, process control equipment and checking gauges.

— Very high acceptance level.

(ii) MACHINE-SHOP

— Inaccuracy in Machine fixtures due to excessive wear.

—Poor quality of input materials.

— Splitting of operations/change in method to suit the indigenous material.

— Frequent setting due to change of tool material.

— Smaller batch quantity.

3.10. Asked about the constraints in lowering down the rejection rates, the Company informed in a written reply:

> "The rejections are only marginally higher than the norm. This is due to poor condition of dies which the Company has been unable to replace on account of financial constraints. Moreover, change in process like introduction of parashot and introduction of various control measures for machine parameters like injectrol and control would also bring down the rejections but this also requires additional financial investments."

D. Machine Utilisation

3.11 Till March, 1978. the Company had no system for ascertaining the extent of utilisation of machinery, idle time and analysis thereof so as to enable timely corrective action. It was only in April, 1978 that the Company started compiling the data relating to machine utilisation in respect of the key machines only. Out of the 23 cost centres analysis of machine utilisation was made only in 11 and 21 cost centres in 1978-79 and 1980-81 respectively. The analysis for the year 1979-80 was not done by the Management.

3.12 The followig data shows Machine Utilisation and idle hours analysis for the years 1980-81 and 1981-82:

	1980-81	1981-82
(i) Hours available	17,97,745	18,78,983
(ii) Hours utilised	10,20,110	10,72,486
(iii) Idle hours	7,77,635	8,06,497
(iv) Percentage of hours utilised to available hours . .	56·7	57·08

3.13 Lack of material, absence of operators and mechanical maintenance etc. were stated to be the main factors responsible for idle time of machines.

3.14 Asked about the reasons for non-procurement of materials as per the requirements, M.D., SIL stated during evidence that the non-procurement of materials was primarily due to financial stringency. The second reason had been that the forgings, etc. which they got from the market did not fully meet their requirements.

E. Labour Utilisation

3.15 According to the Audit, the system for ascertaining idle labour hours was introduced from September 1977 only.

A scrutiny of the records, however, revealed that neither available hours on various jobs (excluding forge shop, iron foundry and three wheeler) were ascertained nor reasons for idle hours analysed during 1977-78.

3.16 The following table indicates the extent of labour utilisation during 1978-79 to 1980-81.

Particulars	1978-79	1979-80	1980-81
1	2	3	4
(i) Total labour hours (in lakhs)	21.53	23.71	24.59
(ii) Total labour hours booked against jobs (in lakhs)	19.11	20.60	20.84
(iii) Total idle hours (in lakhs)	2.42	3.11	3.75
(iv) Peresntage of idle hours to total labour hours	11.2	13.2	15.2
Analysis of idle labour hours (in lakhs)			
(i) Non-availability of materials	0.96	1.15	0.58
(ii) Machine breakdown	0.24	0.47	0.74
(iii) Machine setting	0.49	0.51	0.58
(iv) Miscellaneous	0.73	0.98	1.85

F. Efficiency Analysis

3.17 According to the Audit, the Company had fixed (April 1976) the standard hours required for the production of different components at various stages after making allowance (adding 35 per cent) in the Innocenti operation sheet cycle time, to suit the Indian conditions. No comparative analysis of the standard hours vis-a-vis actual hours utilised has been made by the Company so as to ascertain the efficiency of labour.

3.18. A test check of the records by Audit in five shops during 1977-78 and 1978-79 revealed that the actual hours utilised were much in excess of the standard hours resulting in additional expenditure to the extent of Rs. 2.14 crores. The following reasons were advanced to the Audit by the Management (January 1981) for excess labour utilisation:

(i) Standards adopted on Innocenti timings did not prove to be realistic in Indian conditions.

(ii) Lack of requisite skill to watch the standards as fresh workers had to be recruited which took some time to train them.

(iii) Shortage of materials.

(iv) Worn out dies of Innocenti necessitation extra operations.

3.19 During the evidence the Committee enquired whether any comparative analysis was made of the standard hours vis-a-vis actual hours for production of different components so as to ascertain the efficiency of labour. The Managing Director, SIL stated:—

"We do not have any standard component-wise. We are not collecting any data about the man-hours utilised for production of individual components. But we do estimate for a vehicle as a whole, but not component-wise."

3.20 The Committee also enquired as to how did the man power productivity of the Company compare with the Scooters units in the private sector. The following figures were furnished in a note:—

Particulars	Unit	Bajaj Auto Ltd		Scooters India Ltd.		Automobile Products of India	
		1977-78	1978-79	1979-80	1980-81	1980	1981
A. Number of employees . . .	Nos.	5414	5772	3698	3727	3137	3346
B. Value added per employee .	(Rs. in thousands)	35	28	14	21	28	29

G. Inventory Control

3.21 The Company has fixed certain norms for various items of inventory. The following table indicates the comparative position of the standard vis-a-vis actual inventory at the end of March, 1982.

Description	In terms of value		In terms of month's consumption	
	Standard	Actual	Standard	Actual
	(Rs. in lakhs)			
(a) Raw material	381	517.70	2.5	4.15
(b) Stocks & spares	105	106.85	*	*
(c) Loose Tools & consumables	100	180.16	12.00	14.48
(d) Work-in-progress .	210	236.41	1.00	1.00
(e) Finished goods . .	60	137.31	0.25	0.58
(f) Goods-in-transit . . .	190	170.71	1.5	1.3
(g) Others . . .	..	15.71		..
	1046 00	1364 91		

* The value of stores shown above represent maintenance items hence excluded for working out consumption in terms of months.

3.22 During the course of evidence of the Company, the Committee enquired about the reasons for excess inventory over the standard. The Managing Director stated as follows:—

> "The reason why our inventory was higher in the past is to a certain extent, because we were carrying inventory for Moped, the Cento and certain tooling which was not required. The work in progress was also slightly high. Today when I send the CKDs to our labour contractor, that again becomes an extra inventory in our working, These are the factors resoponsible for our higher inventory."

3.23 According to the Audit, the Company had not fixed norms for maximum, minimum and re-ordering levels for inventories. Asked about the reasons for not laying down such norms, Managing Director stated:

> "When we come to the provisioning of maximum and minimum, I do not think that the provision can be made on the

basis of maximum and minimum. This type of arrangement is all right if we have to do for consumables and other 'C' Category items where we will fix a minimum level. But when we come to 'A' and 'B' category items, we have to fix our own norms as the basis of the stocks required. We have started giving monthly schedules to our supplier for the supplies to be made in the next two or three months and, on this basis, we are controlling the inventory now. That is for the raw materials. The minimum and maximum order level we have fixed for the cosumables, for example, greases and oils."

3.24 Asked since when it was being done, the witness replied, "During the last one year."

3.25 Raw materials, loose tools and consumables and other items of stock of the value of Rs. 192.00 lakhs were declared surplus and lying undisposed of at the end of March, 1981. The Ministry informed Audit (November, 1982) that action for disposal of surplus items was in hand.

3.26 The Committee enquired about the action taken for disposal of the surplus inventory. The Managing Director, SIL stated:

"We have identified all the non-moving items in our components and raw materials and we are taking action for their disposal. In the case of components, where they have a market value, we can sell them. But where they are non-standard, we cannot sell them. We have identified the tools into four categories, the standard, the non-standard, the slow-moving items and the redundant items. Redundant items we will dispose of at whatever price we get. We have to ensure reasonable price for surplus items. The standard items can be sold. The non-standard items have no market. We are trying to see whether API can buy them. We are examining whether they can be converted into other items."

H. Cost Audit Reports

3.27 The Cost Auditors also pointed out the following main deficiencies as a result of cost audit for the years 1976-77 to 1980-81:—

1. Non-maintenance of priced stores Ledger (1977-78, 1979-80 and 1980-81).
2. No proper job cards for capital jobs done in the Company have been maintained (1980-81).

3. Material/Labour variance analysis have not been done (1976-77, 1977-78, 1979-80 and 1980-81).

4. Actual component cost can not be determined (1977-78 to 1980-81).

5. Non-maintenance of account of scrap generated (1976-77, 1977-78, 1979-80 and 1980-81).

6. Unnecessary retention of slow-non-moving stores (1980-81).

7. Issue of material to outside converting processing parties in excess of requirement and non-reconciliation thereof (1980-81).

3.28 Asked about the action taken by the Company to remove the above laxities in cost control, the Company intimated the following action taken by them in a written reply:

(i) Priced Stores Ledger is being maintained. However, under the present system some of the transactions do not get accounted for in the ledger in time. Also the pricing is being done at a weighted average rate fixed at the beginning of the year and not on the basis of a moving average rate. Action is in hand to maintain the Priced Stores Ledger on the desired lines.

(ii) The Company is having work orders for jobs of capital nature undertaken by tool room and Fabrication Shop. The cost is worked out based on the material and labour hours actually utilised. The need for further improvement, if any, required in the current system will be discussed with the auditors.

(iii) Action is in hand to develop a system for a carrying out such analysis.

(iv) The Company has a system for determining the component cost based on Standards. Action is in hand to develop a system for determining the actual component cost.

(v) Scrap generated in the factory is kept in the Scrap Yard duly segregated. Adequate records for disposal of scrap are being maintained.

(vi) Company has taken steps to identify slow/non-moving stores and action is in hand for their disposal/utilisation.

(vii) Materials are issued invariably with reference to actual requirements. The comments of the auditor are apparently based on a few transactions where the materials are still lying with the parties as they are no longer manufacturing the finished components. The Company has recently reconciled the material accounts in most of the cases.

3.29 During the course of evidence of the Company, the Committee enquired as to how the laxities in cost control were allowed to persist year after year. The Managing Director stated, "Our costing system, I confess is not very efficient. We are taking steps to improve our cost control methods."

3.30 To a query as to when the Company would be able to remove deficiencies in cost control, the Managing Director stated:

> "We could have done something earlier. But it would have involved more intake of manpower. We are getting a computer in March this year. I expect that by June/July this year, it will be done."

3.31 In reply to a question whether by using computer, the Company would be able to save in cost, the Managing Director stated:

> "We will be more aware of what is happening. For example, we will know what is happening to the inventory which is very high and we can take remedial measures accordingly. If we can control inventory, we can bring down the costs."

3.32 The Committee find that the actual cost of production of the main products of the Company was more than the standard and budgeted cost. In 1981-82 the actual cost of production for two-wheelers was Rs. 7,806/- as against the budgeted cost of Rs. 5,385 and standard cost of Rs. 5493. Similarly in case of three-wheelers the actual cost of production was Rs. 28,601 as against the budgeted cost of Rs. 17,605 and standard cost of Rs. 18,568. The cost of production has also been far in excess of the selling price resulting in huge losses. During the years 1975-82, the loss per vehicle ranged from Rs. 997 to Rs. 2281 in case of two-wheelers and from Rs. 6893 to Rs. 26926 in case of three-wheelers. The Committee regret to note that besides low production there was laxity in cost control. The consumption of materials was higher than the standard fixes. Material variance analysis had, however, not been carried out in spite of the deficiency having been repeatedly pointed out by the cost auditors. The actual rejections were generally more than those consider-

ed normal by the Company. The loss on this account worked out to Rs. 44.46 lakhs in Iron Foundry during 1978-82 and Rs. 5.10 lakhs in die casting unit in 1976—82. The Committee desire that steps should be taken to reduce the rate of rejection by ensuring proper quality of inputs and facilities for production. Usage variance analysis in respect of materials should also be regularly carried out to identify the factors which result in higher consumption with a view to taking timely remedial measures. ..

3.33 There was abnormally low utilisation of man and machine hours. Percentage of idle hours to total labour hours was 11.2, 13.2 and 15.2 in 1978-79, 1979-80 and 1980-81 respectively. Similarly, percentage of machine hours utilised to available hours during the 1980-81 and 1981-82 was 56.7 and 57.8 respectively. The Company had fixed standard hours required for the production of different components which were 35 per cent higher than the Innocenti Operation Sheet Cycle Time. No comparative analysis of the standard hours vis-a-vis the actual hours utilised had, however, been made so as to ascertain the efficiency of labour. However, a test check by audit showed that the actual hours utilised were much in excess of the standard hours, resulting in additional expenditure to the extent of Rs. 2.14 crores in 5 shops only in 1977-78 and 1978-79. The value added per employee compared very unfavourably with other scooter manufacturing companies in India. The value added per employee in SIL was Rs. 14,000 in 1979-80 as against Rs. 28,000 in API in 1980 and Rs. 28,000 in Bajaj Auto Ltd. in 1978-79. There was high percentage of idle labour hours due to machine break-downs. Evidently the maintenance of plant and machinery has not been given the attention it deserved. The Committee would stress the need for regular preventive maintenance to minimise the machine break-downs. The low labour utilisation and productivity is obviously mainly on account of surplus labour which the Committee have dealt with elsewhere in this Report.

3.34 Non-availability of materials is stated to be another factor responsible for idle man and machine hours. The Committee, however, find that as on 31-3-1982 the inventory of raw material was actually excessive inasmuch as it was to the extent of 4.15 months, requirement as against the norm of 2.5 months. The Committee cannot help observing that there has been no proper control over the purchase of raw materials to match the actual require-

ment in a comprehensive manner. It is essential to ensure that these are procured in time as per the requirements to avoid man and machines/remaining idle and at the same time to ensure that there is no excessive inventory.

3.35 The Committee also take a serious view of the delay in rectifying the various deficiencies in the costing system pointed out by the cost auditors from time to time. They desire that immediate steps should be taken to implement the various suggestions made by the cost auditors to have better cost control.

I. Manpower Analysis

3.36 According to the Audit, Project Report prepared by the Company in March 1974 envisaged that total manpower requirement would be 2200 for production of 1,00,000 two-wheelers and 30,000 three-wheelers.

3.37 As against this, the actual manpower employed by the Company during 1976-77 to 1980-81 was as under:—

	Manpower envisaged in the project Report	1976-77	1977-78,	1978-79,	1979-80,	1980-81
(i) Managerial	25	39	41	42	44	40
(ii) Supervisory (Technical and non-technical)	(200) tech. (50) Non-Tech. 250	509	505	501	605	572
(iii) Clerical . .	25	172	192	217	228	245
(iv) Labour						
(a) Skilled . .	300	74	76	91	93	89
(b) Semi-skilled . .	1000	754	884	1,049	1,094	1,095
(c) Un-skilled	500	1,009	1,190	1,140	1,136	1,161
(v) Others (including casual staff/workers) . . .	100	789	447	347	335	398
	2200	3,346	3,335	3,387	3,535	3,600

3.38 During the course of evidence of the Company the Committee enquired whether any assessment of the actual requirement of manpower has been made and the extent of surplus manpower determined. The Managing Director stated as follows:—

> "We had already formed a Committee. A study was made in 1980 about our requirements and according to that study, the total manpower strength for a production of about 42000 two-wheelers and 15,000 additional power packs would be 3055. Our actual manpower strength as on 31st March, 1982 was 3534. This strength which we have worked out is based on certain assumptions which we feel are rather very conservative. If we take realistic estimates, then the strength required works out to 3340 and the actual manpower would be about 200 extra.

3.39 Asked about the views of the Ministry in regard to excess manpower, the Secretary stated:—

> "There is more manpower than there should be. I do not have the answer to reduce manpower. But there is a surplus certainly we are looking at it with regard to the future of the organisation."

3.40 The Company had stated that one of the reasons for actual strength of manpower more than the assessed was that absenteeism in the company was over 16 per cent and in certain months it was as much as 23 per cent as against the provision of 10 per cent. Asked about the reasons for high absenteeism, M.D. stated:

> "Regarding absenteeism I would not say that it is very high. It does go around 15 per cent or 16 per cent on an average in a year. But in our estimates, we have been assuming it as 10 per cent and in our industry what we are finding is that the absenteeism is particularly high in certain jobs. For example people who do assembly job, who rectify the defects, are in great demand in market for working as mechanics. There are the people who are more prone to absent themselves and therefore our Assembly Unit get disturbed... In the month of January, when our leave period start absenteeism becomes heavy because of various reasons. During the harvesting season, people go to the village. There are festivals and marriage season when the workers absent themselves. During these periods absenteeism is more."

Overtime Payments

3.41 Payment of over-time allowance made to the workers during the years 1977-78 to 1981-82 was as follows:

(Rupees in lakhs)

	1977-78	1978-79	1979-80	1980-81	1981-82
Casual Workers	0 31	0.36	0.34	0.38	0.11
Regular Workers	4 01	12.54	36 20	29.34	8.75
Total	4.32	12.90	36.54	29.72	8.86
Overtime hours (in lakhs) Total	1.39	3.57	4.97	4.98	1.27

3.42 According to Audit causewise analysis of huge payment of overtime had not been made by the Company. The following reasons were communicated to the Audit by the Management (December 1979) for overtime payment:

—Breakdown of the old machines purchased from Innocenti affecting production.

—Shortage of material due to financial constraints.

—Heavy absenteeism

—Rectification of defective material supplied by various parties.

3.43 Asked about the justification for payment of overtime allowance ranging from Rs. 4.32 lakhs to Rs. 36.54 lakhs during the years 1977—81, the Managing Director stated:—

"Overtime payment is very high. Sometimes when the components are in short-supply, there may not be work but when they become available immediately to pick up the production, the workers are put to work extra time. But we have been trying to curtail it to bring it down to the maximum possible exent."

Shortage of experienced personnel

3.44 In their Report in November, 1980, M/s. Ingersoll Engineers pointed out that achieving continued production growth and improved results required—

—United and determined management;

—Raising workforce performance from current modest levels;

—Added professional skills and formal training to upgrade skills of the present officers and workforce.

3.45. Asked about the action taken by the Management in this regard; the M. D. stated:

"Our effort has been that the organisation works as a cochesive team and everybody gets involved in decision making. We have also been taking disciplinary action against those whose performance has not been good but we admit that we have not been able to do anything about formal training of the workers, but as per our recovery plan we are hoping to introduce it shortly."

3.46. M|s Ingersoll recommended that experienced professionals should be inducted to strengthen the following functional areas:

(a) Production Planning and Control;

(b) Production Engineering;

(c) Design and Development;

(d) Quality Engineering;

(e) Service, Spare Parts and Market Research.

3.47 The Company had stated in a note that they have been trying to induct suitable persons but without any success so far. Other public sector undertakings had been requested to lend services of some officers.

3.48. The consultants also recommended that the functions of Production Engineering, Production Planning and Control and Maintenance should be combined under a single senior manager. As regards the Action Taken by the Company, in this regard, it had been stated in a note that as no suitable person could be found to head the task, SIL had reverted to their earlier distribution of responsibilities.

3.49. During the course of evidence the Committee enquired about the action taken to fill up the posts as suggested by the consultants. The M. D. SIL stated:

"We tried to get some people but we could not get. Very few people from good engineering companies like to come to Scooters India Ltd."

He further stated, "We have also advertised those posts but the response has been very poor."

3.50. Asked why people were reluctant to join the Company, the M. D. replied. "The Company has not been doing well when the Company has a poor image, people feel reluctant to join such an organisation."

3.51. To a query whether some of the posts were vacant, M. D. replied that for certain areas, they wanted people with better managerial aptitude.

3.52. At review meeting of Public Sector Undertaking's by Minister (Industry) on 18th December, 1981 it was decided that HMT, BHEL would consider request from Scooters India Ltd. to depute some trained Managers to the Company in order to assist in tonning up its operations. The Committee enquired whether any request was made to these companies and if so what was the outcome. The M. D. stated "After 1981, we have talked to them, BHEL and HMT are agreeable to give us some people. But the process is necessarily bound to take some time."

3.53. The Committee were also informed that at present the General Manager (Production) was looking after finance. To a query whether it was a sound arrangement, the M. D. replied "It is not". Asked about the action taken to fill up the top finance post, the M. D. replied "We have approached all the recognised accounts services. We have approached the Government and we could not get. We approached BHEL, we could not get. HMT is examining our request..."

3.54. The Committee note that the Company in its Project Report prepared in 1974 had assessed its manpower requirement as 2200. But in 1976-77 the Company had under its employment 3346 persons which had been constantly increasing and on 31st March, 1982 their number had increased to 3534. In spite of the excessive manpower the Company had engaged casual staff/workers. Surprisingly, the Company had also been paying overtime allowance and during the last three years (1979-80 to 1981-82) overtime paid for was as much as Rs. 75.1 lakh. The Committee regret that when the Company's production w as much less than its assessed capacity it had been employing excessive manpower. During the period 1976—81 absenteeism in the Company, in certain months had ranged upto as high as 23 per cent. As pointed out earlier in this Report the labour utilisation and productivity are poor. Such a situation has arisen only on account of poor man management in the Company. The Committee regret that this vital aspect of management control has not attracted the attention of the Ministry. They hope immediate steps would be taken to make full use of the existing strength. They would also urge

that effective steps should be taken to reduce absenteeism and payment of overtime allowance. ..

3.55. From the Report of the Technical Consultants (M|s. Ingersoll) the Committee find that almost every functional department of the Company needs to be strengthened. The Managing Director of the Company admitted in evidence that failure of the Company was mostly due to management failure and he also expressed his helplessness to get experienced persons as they were reluctant to join the Company which had a poor image. The Committee feel that in such circumstances the Ministry should have extended a helping hand by arranging services of experienced officers from other undertakings under its administrative control. At a Review Meeting held by the Minister of Industry in December, 1981 it was decided that HMT and BHEL would consider requests from Scooters India Ltd. to depute some trained Managers to the Company in order to assist in tonning up its operations. The Committee regret that in spite of such an assurance no serious effort had been made by the Ministry to provide experienced managerial assistance to Scooters India Ltd. The Committee desire that the Ministry should attend to this forthwith.

J. System Deficiencies

3.56. According to the Audit Report, the following system deficiencies had been noted in the Company:

(i) Accounting Manual has not been finalised so far.

(ii) No manual outlining the scope and programme of the Internal Audit had been compiled.

(iii) The Committee on Public Undertakings in their 15th Report (4th Lok Sabha) had recommended that the functions of Internal Audit should include a critical review of the systems procedures and operations as a whole. The BPE while accepting the above recommendation had advised public enterprises in September 1968 to introduce such a system. No such review has, however, been conducted by the Internal Audit so far.

(iv) Internal Audit reports were prepared in respect of out stations unit only and no such reports were prepared in respect of any of the headquarters unit till 1977.

(v) Although the BPE have issued guidelines in March 1968 to the public sector undertakings for compiling a Budget Manual which should, *inter alia* prescribe the responsibility|cost centres in the organisation for the compilation of budget, neither any manual has been compiled nor responsibility|cost centres established by the Company.

3.57. Asked about the action taken to remove these deficiencies, the Company has stated in a post evidence reply as follows:—

(i) *Accounts Manual*: The financial accounts of the Company are maintained in conformity with the requirements of the Companies Act and other instructions issued from time to time by the Company Law Board. Further instructions issued by the Management for treatment of accounting transactions are also followed. The compilation of a self-contained manual incorporating the statutory provisions as stated above and subsidiary instructions is in hand.

(ii) *Internal Audit*: In the earlier years the activities of internal Audit were mainly limited to preaudit of all suppliers, contractors, personal and miscellaneous claims, physical stock taking of stores etc.

However, from April 1977 onwards Internal Audit has also been checking account records maintained at Head Office and issuing reports in this regard. Although regular review of systems and procedures has not been carried out by Internal Audit, it has been associated with the framing of rules and also examination of certain systems and procedures. Internal Audit has been reorganised. Activities like passing of bills and physical stock taking have been transferred to other areas.

In order to strengthen Internal Audit a firm of Chartered Accountant has been engaged. Internal Audit is now mainly engaged on conduct of propriety audit, review of systems and procedures and audit of outside units viz. Regional Sales Office and Fan Unit at Delhi. The preparation of Internal Audit manual is in hand.

(iii) *Budget Manual*: For preparation of the Capital as well as Revenue Budget Estimates, detailed instructions and guidelines together with specimen proformae are circulated by the Government and the Company is directed to adhere to these guidelines which is being followed. However, a manual as per BPE guidelines is under preparation."

3.58. The Committee regret to note various systems' deficiencies in the Company as pointed out by Audit. Not only were there no accounting and internal audit manuals, there was also no budget manual conforming to the guidelines issued by BPE in March 1968. The internal audit system was also not effective and needs to be strengthened to carry out a critical review of the systems, procedures and operations as a whole. The Committee stress that immediate steps should be taken to remove these deficiencies to have a better control over the working of the Company.

CHAPTER IV

FINANCIAL MANAGEMENT

A. Capital Structure

4.1 The paid up capital of the Company as on 31-3-82 was Rs. 524.83 lakhs. In addition to the share capital, Government from time to time granted loans to the Company. Besides, the Company has also issued debentures and obtained loans from financial institutions. The total loans stood at Rs. 4936.82 lakhs at the end of March 1982. An amount of Rs. 1759.14 lakhs on account of arrears of principal and interest was due to Government on 31-3-1982. The Company was unable to pay loan instalment in time thereby becoming liable to penal interest of Rs. 56.04 lakhs up to 31st March, 1981. The requests of the Company for waiver of penal interest made from time to time have not been accepted by Government.

4.2 As against the general policy laid down by the Ministry of Finance (Bureau of Public Enterprises) in September 1968 in regard to debt equity ratio, *viz.* ratio of 1 : 1 for debt equity, the debt equity ratio of the Company at the end of each of the last 5 years was as follows:—

31-3-1978	2.27:1
31-3-1979	3.03:1
31-3-1980	4.01:1
31-3-1981	4.25:1
31-3-1982	4.93:1

4.3 Asked about the reasons for unbalanced debt equity ratio of the Company, the Secretary, stated as follows:—

> "Debt equity ratio in this company is 5 : 1. This is rather an anomalous situation. This is making the organisation look more un-profitable. On account of the various problems in which the Company had the Financial problems, Government had to give loan. There is a lot of interest burden on account of those loans. The interest burden in the form of loans today has created ratio of 5 : 1. But when the Company was created, at that time it was 3 : 2 which was quite normal. Even today in the case of car manufacturing company that is the ratio which we have adopted."

4.4 In view of the adverse debt equity ratio, the Company had submitted in September/October 1980 the following proposals to Government for restructuring its capital:

1. Conversion of the outstanding loans of Rs. 18.70 crores into equity.

2. Grant of an interest holiday for a period of 8 years commencing from 1980-81.

3. Grant of a fresh loan of Rs. 5.40 crores to repay the outstanding penal interest of Rs. 32 lakhs as on 31st March, 1980.

4.5 Asked about the reaction of Government to these proposals, the Secretary, stated in evidence;

"For capital restructuring Government had constituted an Expert Committee at a fairly high/senior level. It was constituted some time in 1981 to go into the financial restructuring of a number of public sector organisations. It was thought at one stage that recommendation of that Committee will be made applicable to those companies which the Committee has not studied. It was headed by Shri Fazil, Member, Planning Commission. It studied five Calcutta based Companies. Later on we had discussion in the Planning Commission on this question how the recommendations relating to financial re-structuring of that Committee are made applicable to some other units including Scooters India Ltd. So, the Planning Commission took the decision that it cannot be so straightaway, because Company itself will have to be studied and commitments will also have to be studied before financial restructuring. Based on that discussion I had in the Planning Commission, the Planning Commission has constituted yet another Committee to go into some more organisations which included Scooters India Ltd. It is headed by Shri Satya Pal who was previously Adviser in the Government of India. We are waiting the report of that Committee.

B. Working Results

4.6 The Company has been incurring losses since inception. The cumulative loss as on 31st March, 1982 amounted to Rs. 3235.83 lakhs as against the paid-up capital of Rs. 524.83 lakhs. The following table indicates the year-wise losses suffered since inception:

(Rs. in lakhs)

Year	Net loss
1974-75	106.92
1975-76	327.63
1976-77	266 05
1977-78	357.18
1978-79	474.54
1979-80	445 42
1980-81	490.02
1981.82	768.07
TOTAL	3235.83

4.7 The losses have been attributed by the Company to the following reasons:

(i) The production was below the attainable capacity due to various constraints.

(ii) Extra expenditure was incurred on procurement of materials due to lack of financial resources.

(iii) High interest charges were incurred by the Company on accumulated cash losses and on outstanding interest payments.

4.8 The effect of the above factors on the losses incurred by the Company during each of the last three years was stated to be as follows:—

	1979-80	1980-81	1981-82
		(Rs. in lakhs)	
On account of shortfall in production	245.55	281.72	405.85
On account of increased production cost	65.16	71.21	75.91
On account of additional interest	149.46	210.92	254.81
	460.17	563.85	736.57

4.9 Asked about the steps taken by the Company to arrest the losses, the Company informed in a post evidence reply as follows:

> "In order to increase the production and arrest the losses, the Company has made a recovery plan based on raising the annual production of three wheelers to 2500 and a 14 per cent annual rise in the production of scooters. According to this plan the Company will start making profits from 1983-84 (excluding penal interest). Certain financial reliefs have been proposed in the recovery plan and if the same is granted the Company would start making profit from 1982-83 itself."

4.10 It is distressing to find that the Company has been incurring heavy losses as against the estimated annual profit of about Rs. 5 crores (before tax) from 1977-78 onwards. Its accumulated loss at the end of March 1982 had reached a staggering figure of Rs. 32.36 crores as against the paid up capital of Rs. 5.25 crores. The annual loss has gone up from Rs. 4.45 crores in 1979-80 to Rs. 7.68 crores in 1981-82. Poor production performance and laxity in cost control, as pointed out earlier in this Report, are mainly responsible for this state of affairs. The loans taken to meet the deficit on account of heavy losses have made the debt equity ratio of the Company unsound, as it was 5:1 as against the normal ratio of 1:1. The resultant heavy interest charges on the loans have pushed the Company into the red more and more. It is facing serious financial constraint. It was expected of Government to take timely initiative for the revival of the Company. The capital restructuring proposal submitted by the Company to Government about 2 ½ years back is still under consideration by a Committee constituted by the Planning Commission. A recovery plan submitted by the Company in September 1982 also awaits the approval of Government. The Committee hope that the Ministry will soon be able to take a final decision on the Company's proposal for restructuring of capital and the recovery plan.

C. Performance Review Meetings

4.11 According to instructions issued by BPE in July 1969 Performance Appraisal Meetings in respect of production enterprises were to be held not less than once in six months associating the representatives of BPE and Planning Commission. These were required to be held every quarter since 1975 as per instructions issued in March, 1975.

4.12 During the course of evidence of the Ministry the Committee enquired about the number of such meetings held in the case of SIL. The Secretary, Department of Heavy Industry, stated:

> "There are two types of review meetings one is based on the items on the agenda. There are also meetings held within the Planning Commission where they do scrutiny. In regard to our meetings, there are meetings in which BPE men are present, but certainly not in all meetings. In our anxiety to go into details, during the period of 18 months we held 8 meetings. Normally review meetings are not held with that much of frequency. Out of these 8 meetings, in many meetings they were not present."

4.13 The Committee also asked for the date of the performance appraisal meetings held during the years 1979-80, 1980-81 and 1981-82 associating the representatives of Planning Commission and BPE. In a written reply it was stated that 'the reviews have been held at the level of Joint Secretary and Secretary of the Deptt. of Heavy Industry and the Hon'ble Minister for Industry himself and have covered all the aspects relating to the working of the unit. Representatives of BPE and the Planning Commission have however, not been generally invited to attend these reviews. It was however noticed that the number of reviews held at various levels was two in 1979-80 and three each in 1980-81 and 1981-82.

4.14 A sick enterprise like SIL deserved more attention by the Ministry. The Committee, however, find that the number of performance review meetings held by the Ministry was only 2 in 1979-80 and 3 each in 1980-81 and 1981-82 as against 4 to be held as per the guidelines of BPE. The representatives of BPE and Planning Commission were also not generally invited to the performance review meetings. The Committee hope that at least in future the administrative Ministry would hold the performance appraisal meetings as per BPE guidelines, make a meaningful appraisal of the working of the Company and provide timely guidance.

CHAPTER

ORGANISATIONAL MATTERS

A. Appointment of Chairman

5.1 Since May 1981, Joint Secretary of the Administrative Ministry has been acting as Chairman of the Company. During the evidence of the Ministry, the Committee pointed out that they had been consistently holding the view that no officer of the Ministry should be made the Chairman and enquired the reasons for appointing Joint Secretary of the Ministry as Chairman of the Company. The Secretary stated:

> "The recommendation made by the Ministry to the Appointments Committee of the Cabinet was for appointment of Shri L. K. Joshi as Chairman and Managing Director. The appointment Committee decided that Mr. Joshi should be appointed only Mg. Director and for the time being a part-time Chairman should be appointed . . . The nearer people available were the people in the Ministry."

5.2 The Committee enquired about the action taken by Government for having alternative arrangement. The Secretary replied:

> "For the last 2 or 3 months we have held several discussions; some names have been picked up. One final name has been approved by the Ministry and it has gone before the Appointment Committee of the Cabinet."

5.3 The Committee are constrained to observe that in spite of their recommending repeatedly that no officer of the Ministry be made Chairman of a public Undertaking, a Joint Secretary of the Ministry has been appointed Chairman of the Company. The Committee are opposed to the idea of having an officer of the Ministry as the Chairman of an Undertaking under its control because they feel that such an arrangement is not conducive to assess the working and efficiency of the Company in the Ministry in an objective and an impartial manner. The Secretary of the Department of Heavy Industry, informed in evidence that recently steps had been taken to appoint another person as Chairman of the Company and the matter had gone to the Appointment Committee

of the Cabinet. The Committee hope that appointment of the Chairman will be finalised soon.

B. Delegation of Powers

5.4 After accepting the recommendations of the Committee on Public Undertakings contained in their Fifteenth Report (Fourth Lok Sabha, April 1968), the Bureau of Public Enterprises issued in May 1969, broad guidelines defining the main functions, responsibilities and powers of the financial heads of the public sector undertakings. The guidelines, *inter-alia*, provided that:

(a) whether there is no full time Finance Director the Financial Adviser should invariably be invited to be present at the meetings of the Board of Directors; and (b) the Board of Directors should lay down detailed powers and functions of the Financial Adviser, particularly in regard to matters which should be reserved:

(i) for concurrence of the Financial Adviser;

(ii) for consultation with the Financial Adviser; and

(iii) those on which Financial Adviser need not be consulted.

The Audit has pointed out that the guidelines issued by the Bureau of Public Enterprises have not been acted upon so far. The General Manager (Finance and Corporate Planning) who was head of the Finance Department was invited to attend only one out of forty-six meetings held prior to 3rd May 1979.

5.5 Asked about the reasons for not laying down functional responsibilities and powers of the financial adviser, the Company stated in a post evidence reply as follows:—

"Functional responsibilities of financial adviser in Public Sector, Undertakings has already been defined in Government Policy for the Management of Public Enterprises issued by Bureau of Public Enterprises. Financial responsibilities and power have, therefore, not been specified separately.

Besides, the then Chief Executive was an officer from Indian Audit and Accounts Service and was an expert in finance. He was himself dealing with important matters relating to finance.

Later General Manager (Commercial) of the Company who was redesignated as General Manager (Finance and

Corporate Planning) in May, 79 was made responsible for all financial functions of the Company. He was also made responsible to plan and advise in future expansion, product diversification etc."

5.6 As regards the reasons for not inviting the General Manager (Finance Corporate Planning) who was head of the Finance Division in Boards meetings prior to May, 1979 the Managing Director explained during evidence that prior to that, the Chief Executive himself was a renowned finance man and perhaps he thought that he would himself take charge of that.

5.7 The guidelines issued by BPE in May 1969 provided that Board of Directors should lay down detailed powers and functions of the Financial Adviser particularly in regard to matters which should be reserved for concurrence/consultation with the Financial Adviser and those on which F.A. need not be consulted. This has however, not been done so far. The head of the Finance Division was also not invited to the Board meetings prior to May 1979 as required under the guidelines. The post of General Manager Finance was also lying vacant and the G.M. (production) is looking after the finance as well. The Committee take a serious view of the laxity in Financial Control particularly in a sick undertaking like SIL. They desire that immediate action should be taken to appoint a suitable person to head the Finance Division and to implement the guidelines issued by BPE.

NEW DELHI;
April 21, 1983
Vaisakha 1, 1905 (*Saka*)

MADHUSUDAN VAIRALE,
Chairman,
Committee on Public Undertakings.

APPENDIX

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

Sl. No.	Reference to Para No. the Report	Conclusions/Recommendations
1	2	3
1	1.43	Scooters India Ltd. was incorporated in September 1972 with the main object of filling the gap between the demand and supply of scooters in the country. The Company set up its project at Lucknow for the manufacture of one lakh two-wheelers per annum with the old plant and machinery purchased from M/s. Innocenti of Italy though earlier tenders were invited by Government in 1970 from foreign parties for collaboration in a new plant and offer of M/s. Piaggio of Italy (manufacturers of Vespa Scooters) was considered serious and worthwhile. In 1973, the Compny also acquired the old plant and machinery of M/s. Innocenti for production of 30,000 three-wheelers per annum. The Committee's examination has revealed several disquieting features in regard to the manner in which the proposal to purchase the old plant and machinery was processed and investment decision taken.
2	1.44	One of the factors on which the purchase of old plant and machinery for two-wheelers was sought to be justified was lower initial fixed investment of Rs. 10.90 crores as against Rs. 15.91 crores in the case of new plant and machinery. Capital investment on the project with old plant was grossly under-estimated. The actual expenditure upto the end of 1981-82 (Rs. 21.87 crores) was almost double of that assessed at

1	2	3
		the time of taking investment decision (Rs. 11.90 crores, inclusive of three wheeler plant). Increase in investment has been mainly on supporting facilities (Rs. 1.96 crores) and renewal and replacement of machines (Rs. 5.82 crores). The expert Committee which had evaluated the life and condition of the old plant had considered provision of supporting facilities to the extent of Rs. 1.26 crores as essential for the commencement of production. No provision for it was, however, made in the capital estimates. Similarly it was within the knowledge of Government at the time of taking investment decision that some of the machines of the second hand plant would require replacement. The replacement cost as assessed by the Company was expected to be between Rs. 1 crore to Rs. 1.25 crores every year from the 2nd or 3rd year of operation. However, no provision towards expenditure on renewals and replacement was made in the capital estimates of the project on the assumption that this amount could be met from internal resources. The expenditure on balancing machines had also gone up to Rs. 4.02 crores as against provision of Rs. 3.50 crores in the investment plan.
3	1.45	At the time of taking investment decision in 1974 the Company had worked out rate of return as 44 per cent (Rs. 5 crores per annum) on capital investment of Rs. 12 crores, on the basis of the production capacity as originally assessed. While there was gross under estimation of capital cost, the production capacity was found to be much less than what was assumed by the Company. As pointed out subsequently in this Report, the Company has actually suffered a loss of Rs. 32.36 crores during 1974—82. The Committee feel that it is most unfortunate that Government decided to instal an old plant purchased from Italy to produce

1	2	3
		Scooters to fill up gap between demand and supply in the country without making any detailed comparative study and analysis of purchase of the old plant vis-a-vis a new plant. It is amazing that the representatives of the Ministry and the Company had tried to justify the decision. The Committee desire that the failure of officials leading to the gross under-estimation of capital cost and over-estimation of capacity and profitability of the project should be gone into thoroughly.
4	1.46	Even now the Company is not able to make a firm assessment of its installed capacity. Capacity reassessed in 1977 was revised in 1978 and 1981. The capacity of the plant as re-assessed is less than half of that originally estimated i.e. 60,000 (including power packs) for two-wheelers and 2000 for three-wheelers as against the originally assessed capacity of 1 lakh and 30,000 respectively, in spite of the fact that only 33 per cent components for vehicles are produced in the factory. However, according to the Ministry the capacity could be more. The Committee expect the Ministry and the Company to make a realistic review of its production capacity and financial requirements to sustain production at a level that would make the unit viable.
5	2.65	Production performance of the company presents a dismal picture. During the last three years, production of two wheelers (vehicles and power packs) was on an average 45 per cent of the originally assessed capacity (1 lakh). The production for two-wheelers (including power packs) in 1981-82 (42047) was even lower than that achieved in 1980-81 (48042) and 1979-80 (45383). As regards 3-Wheelers it was only 1.73 per cent of the capacity (30,000) during the same period. The Committee feel that such a disap-

1	2	3
		pointing performance was bound to be there as the project had been undertaken without the basic essentials. The Detailed Project Report was not available to the Company in its entirety. No technical consultants were appointed in the beginning and the Company went without sufficient expertise in a highly competitive sector in establishing production capacity and stabilising production. Consultancy Services were, however, obtained since 1977 when it was already too late. Its product 'Vijai' Scooter had lost the market by then damaging its image which resulted in low morale and productivity. The Secretary of the Ministry admitted in evidence that not to have consultants at the right stage was one of the failures. In this connection, the Committee note that M/s. Innocenti were expected to be partners in a joint venture with Government and to give technical advice. It is unfortunate that Government did not promptly advise the Company to look for another consultant when it became clear soon that M/s. Innocenti were not likely to be partners of the venture and technical consultants to the SIL. According to the Committee this was a serious lapse on the part of the Ministry which requires an explanation.
6	2.66	Belatedly from January, 1977 to November, 1980 five consultants were appointed, one after the other, and total expenditure of Rs. 70.56 lakhs was incurred on the services rendered by them. M/s. Ingersoll Manufacturing Consultants of U.K. approached the Ministry in December, 1977 and offered to help the Company. The Ministry introduced them to the Company. They were appointed in July, 1978 to make an indepth study of the difficulties faced in quantitative and qualitative aspects of production to achieve break-even level. They

1	2	3
		submitted their Report between March, 1979 and June, 1980. An amount of Rs. 66.88 lakhs was spent on this account. According to Audit the basis of selection of consultants and fixation of their fee could not be ascertained. Further by the time Report of M/s. Ingersoll had become available production of the new product "Vijay Super" Scooter had stabilised and 'it had won market acceptability and there were no complaints'. "The Committee regret that even after appointment of M/s. Ingersoll as Consultants at heavy cost the basic objective of achieving break even level of production has not been achieved. The Committee are not happy with the way M/s. Ingersoll were appointed as Consultants. The method followed while appointing them and the basis on which their fees were fixed need explanation."
7	2.67	One of the reasons for shortfall in production was non-availability of components. The Committee find that with a view to ensuring supply of components of approved quality at reasonable rates the company encouraged setting up of ancilliary units and incurred an expenditure of Rs. 40.49 lakhs upto March, 1982 on providing infrastructural facilities to these units. The Company had also invested Rs. 78.8 lakhs in two joint ventures with U.P. State Industrial Development Corporation Ltd. for meeting the requirements of speedometers, magnets, tyres and tubes. Inspite of these units the Company faced the problem of non-availability, or inadequate supply, of components including magnetes, tyres and tubes. The Committee feel that it was expected of the Company to work out the economics of establishing ancillaries and making investment in State Government Undertakings with reference to its own ways and means position and availability of components from already established sources of supply. The

1	2	3
		Committee regret that the Company could not have a regular and assured arrangements for the supply of components required by it to meet its production requirements, in spite of having made an investment of Rs. 119.29 lakhs in ancilliary units, etc. The Ministry should look into this aspect to find solution to the problem.
8	2.68	To increase its production and arrest losses the Company has drawn up a Recovery Plan and submitted to Government in September, 1982. The Plan envisages a capital investment of Rs. 23 crores on renewal/replacement and balancing facilities during the next five years. With the implementation of the plan the Company hopes to raise its production level to 90,000 scooters per annum by 1987-88, which enable it to earn an operating profit of Rs. 18 lakhs in 1985-86. The Secretary of the Ministry stated in evidence that the Recovery Plan has to be considered keeping in view the stage of the Scooter Industry in the country and future size of the Company. The Scooter Industry is going to reach very highly competitive stage and competition will be in regard to price, quality of the product and fuel efficiency. He said for all these a dialogue has been started and Government wanted to enlarge the scope of Recovry Plan having regard to the future size of the Company and the improvement of the product etc. He also informed the Committee that Government was having a dialogue with M/s. Suzuki for technical assistance. The Committee hope that the Ministry will examine *pros and cons* of the Recovery Plan in detail and take decision on additional investment after fully assuring itself that the company could be made viable.
9	2.69	The Committee are happy to be assured that with the introduction of 'Lambretta Cento' Scooter, which is stated to be most economical scooter in the Indian Market having large demand, the SIL should be able to compete in the

1	2	3
		market. The Committee, however, stress the need for an aggressive marketing strategy and for this purpose the marketing department should be qualitatively strengthened.
10	2.109	The Company find that the Company without stabilising the production of its major product entered into agreement with State Government undertakings, in 1973-74 for supply of power packs. Without awaiting the approval of the project by Government the Company placed orders for purchase of plant and machinery of the value of Rs. 3.68 crores required therefor. The Committee are surprised to find that Government released a sum of Rs. 21 lakhs for this project even before approving it. The supply of power packs by the Company to the State Government Undertakings was much below the quantities required by the licencees and these in some cases were also not found upto the mark and resulted in heavy rejections. To the Committee it appears that the project for supply of power packs was undertaken without any foresight which resulted in the blocking of funds which were badly needed by the Company.
11	2.110	The Committee further find that the Company took up the manufacture of 125cc—2 Wheelers and also of Mopeds and fans by taking over the Electrical Unit of Ganesh Flour Mills. In these ventures the Company has invested Rs. 68 lakhs and has also suffered a loss of Rs. 6.17 lakhs in 1982 so far as fans are concerned. The Managing Director of the Company admitted in evidence that the Company was not justified in going in for new projects when it has not been able to establish production of its major product.
12	2.111	The Committee regret that the Company, has been frittering away financial resources in a variety of side ventures without having a proper assessment about their financial viability and that the Ministry has obligingly advanced funds to the Company apparently without being fully satisfied of the justification. The Commit-

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		tee at this stage can only express a hope that Government will ensure that the Company whose physical and financial performance is very poor is not allowed to fritter away its energy and financial resources atleast in future. The Company ought to concentrate on its major item of production and leave no stone unturned to establish its acceptability with the public.
13	2.112	The Company entered into work and labour contract with State Licencees for assembling the scooters. The Committee have not been able to understand the rationale behind such contracts, when the Company has itself not been able to utilise its own installed capacity. As admitted by the Managing Director in evidence, this arrangement was not economically in the interest of the Company. The Committee would like that these arrangements be reviewed.
14	3.32	The Committee find that the actual cost of production of the main products of the Company was more than the standard and budgeted cost. In 1981-82 the actual cost of production for two-wheelers was Rs. 7,806/- as against the budgeted cost of Rs. 5,385 and standard cost of Rs. 5493. Similarly in case of three-wheelers the actual cost of production was Rs. 28,601 as against the budgeted cost of Rs. 17,605 and standard cost of Rs. 18,568. The cost of production has also been far in excess of the selling price resulting in huge losses. During the year 1975-82, the loss per vehicle ranged from Rs. 997 to Rs. 2281 in case of two-wheelers and from Rs. 6893 to Rs. 26926 in case of three-wheelers. The Committee regret to note that besides low production there was laxity in cost control. The consumption of materials was higher than the standards fixed. Material variance analysis had, however, not been carried out inspite of the deficiency having been repeatedly pointed out by the cost auditors. The actual rejections were generally more than those considered normal by the Company. The loss on this account worked out to Rs. 44.46 lakhs

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		in Iron Foundry during 1978—82 and Rs. 5.10 lakhs in die costing upto in 1976—82. The Committee desire that steps should be taken to reduce the rate of rejection by ensuring proper quality of inputs and facilities for production. Usage Variance analysis in respect of materials should also be regularly carried out to identify the factors which result in higher consumption with a view to taking timely remedial measures.
15	3.33	There was abnormally low utilisation of man and machine hours. Percentage of idle hours to total labour hours was 11.2, 13.2 and 15.2 in 1978-79, 1979-80 and 1980-81 respectively. Similarly, percentage of machine hours utilised to available hours during the 1980-81 and 1981-82 was 56.7 and 57.8 respectively. The Company had fixed standard hours required for the production of different components which were 35 per cent higher than the Innocenti Operation Sheet Cycle Time. No comparative analysis of the standard hours *vis-a-vis* the actual hours utilised had, however, been made so as to ascertain the efficiency of labour. However, a test check by audit showed that the actual hours utilised were much in excess of the standard hours resulting in additional expenditure to the extent of Rs. 2.14 crores in 5 shops only in 1977-78 and 1978-79. The value added per employee compared very unfavourably with other scooter manufacturing companies in India. The value added per employee in SIL was Rs. 14,000 in 1979-80 as against Rs. 28,000 in API in 1980 and Rs. 28,000 in Bajaj Auto Ltd. in 1978-79. There was high percentage of idle labour hours due to machine break-downs. Evidently the maintenance of plant and machinery has not been given the attention it deserved. The Committee would stress the need for regular preventive maintenance to minimise the machine break-downs. The low labour utili-

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		sation and productivity is obviously mainly on account of surplus labour which the Committee have dealt with elsewhere in this Report.
16	3.34	Non-availability of materials is stated to be another factor responsible for idle man and machine hours. The Committee, however, find that as on 31-3-1982 the inventory of raw material was actually excessive inasmuch as it was to the extent of 4.15 month's requirement as against the norm of 2.5 months. The Committee cannot help observing that there has been no proper control over the purchase of raw materials to match the actual requirements in a comprehensive manner. It is essential to ensure that these are procured in time as per the requirements to avoid men and machines|remaining idle and at the same time to ensure that there is no excessive inventory.
17	3.35	The Committee also take a serious view of the delay in rectifying the various deficiencies in the costing system pointed out by the cost auditors from time to time. They desire that immediate steps should be taken to implement the various suggestions made by the cost auditors to have better cost control.
18	3.54	The Committee note that the Company in its Project Report prepared in 1974 had assessed its manpower requirement as 2200. But in 1976-77 the Company had under its employment 3346 persons which had been constantly increasing and on 31st March, 1982 their number had increased to 3534. In spite of the excessive manpower the Company had engaged casual staff/workers. Surprisingly, the Company had also been paying overtime allowance and during the last three years (1979-80 to 1981-82) overtime paid for was as much as Rs. 75.1 lakhs. The Committee regret that when the Company's production was much less than its assessed capacity it had been employing excessive manpower. During the period 1976—81 absenteeism in the

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		Company, in certain months had ranged upto as high as 23 per cent. As pointed out earlier in this Report the labour utilization and productivity are poor. Such a situation has arisen only on account of poor man management in the Company. The Committee regret that this vital aspect of management control has not attracted the attention of the Ministry. They hope immediate steps would be taken to make full use of the existing strength. They would also urge that effective steps should be taken to reduce absenteeism and payment of overtime allowance.
19	3.55	From the Report of the Technical Consultants (M/s. Ingersoll), the Committee find that almost every functional department of the Company needs to be strengthened. The Managing Director of the Company admitted in evidence that failure of the Company was mostly due to management failure and he also expressed his helplessness to get experienced persons as they were reluctant to join the Company which had a poor image. The Committee feel that in such circumstances the Ministry should have extended a helping hand by arranging services of experienced officers from other undertakings under its administrative control. At a Review Meeting held by the Minister of Industry in December, 1981 it was decided that HMT and BHEL would consider requests from Scooters India Ltd. to depute some trained Managers to the Company in order to assist in toning up its operations. The Committee regret that in spite of such an assurance no serious effort had been made by the Ministry to provide experienced managerial assistance to Scooters India Ltd. The Committee desire that the Ministry should attend to this forthwith
20	3.58	The Committee regret to note various systems' deficiencies in the Company as pointed out by Audit. Not only were there no accounting

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		and internal audit manuals, there was also no budget manual conforming to the guidelines issued by BPE in March 1968. The internal audit system was also not effective and needs to be strengthened to carry out a critical review of the systems, procedures and operations as a whole. The Committee stress that immediate steps should be taken to remove these deficiencies to have a better control over the working of the Company.
21	4.10	It is distressing to find that the Company has been incurring heavy losses as against the estimated annual profit of about Rs. 5 crores (before tax from 1977-78 onwards. Its accumulated loss at the end of March 1982 had reached a staggering figure of Rs. 33.26 crores as against the paid up capital of Rs. 5.25 crores. The annual loss has gone up from Rs. 4.45 crores in 1979-80 to Rs. 7.68 crores in 1981-82. Poor production performance and laxity in cost control, as pointed out earlier in this Report, are mainly responsible for this state of affairs. The loans taken to meet the deficit on account of heavy losses have made the debt equity ratio of the Company unsound, as it was 5:1 as against the normal ratio of 1 : 1. The resultant heavy interest charges on the loans have pushed the Company into the red more and more. It is facing serious financial constraint. It was expected of Government to take timely initiative for the revival of the Company. The capital restructuring proposal submitted by the Company to Government about 2½ years back is still under consideration by a Committee constituted by the Planning Commission. A recovery plan submitted by the Company in September 1982 also awaits the approval of Government. The Committee hope that the Ministry will soon be able to take a final decision on the Company's proposal for restructuring of capital and the recovery plan.

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22	4.14	A sick enterprise like SIL deserved more attention by the Ministry. The Committee, however, find that the number of performance review meetings held by the Ministry was only 2 in 1979-80 and 3 each in 1980-81 and 1981-82 as against 4 to be held as per the guidelines of BPE. The representatives of BPE and Planning Commission were also not generally invited to the performance review meetings. The Committee hope that at least in future the administrative Ministry would hold the performance appraisal meetings as per BPE guidelines, make a meaningful appraisal of the working of the Company and provide timely guidance.
23	5.3	The Committee are constrained to observe that in spite of their recommending repeatedly that no officer of the Ministry be made Chairman of a public Undertaking, a Joint Secretary of the Ministry has been appointed Chairman of the Company. The Committee are opposed to the idea of having an officer of the Ministry as the Chairman of an Undertaking under its control because they feel that such an arrangement is not conducive to assess the working and efficiency of the Company in the Ministry in an objective and an impartial manner. The Secretary of the Department of Heavy Industry, informed in evidence that recently steps had been taken to appoint another person as Chairman of the Company and the matter had gone to the Appointment Committee of the Cabinet. The Committee hope that appointment of the Chairman will be finalised soon.
24	5.7	The guidelines issued by BPE in May 1969 provided that Board of Directors should lay down detailed powers and functions of the Financial Adviser particularly in regard to matters which should be reserved for concurrence|consultation with the Financial Adviser and those on which F.A. need not be consulted. This has, however,

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		not been done so far. The head of the Finance Division was also not invited to the Board meetings prior to May 1979 as required under the guidelines. The post of General Manager Finance was also lying vacant and the G.M. (production) is looking after the finance as well. The Committee take a serious view of the laxity in Financial Control particularly in a sick undertaking like SIL. They desire that immediate action should be taken to appoint a suitable person to head the Finance Division and to implement the guidelines issued by BPE.