

**COMMITTEE ON PUBLIC
UNDERTAKINGS**

(1982—83)

(SEVENTH LOK SABHA)

SIXTY-NINTH REPORT

**Action Taken by Government on the recommenda-
tions contained in the Forty-Fourth Report of
the Committee on Public Undertakings**

ON

BHARAT HEAVY ELECTRICALS LIMITED

**(MINISTRY OF INDUSTRY-DEPARTMENT OF
HEAVY INDUSTRY)**

Presented to Lok Sabha and

Laid in Rajya Sabha on

12 6 APR 1983

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**LOK SABHA SECRETARIAT
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(1982-83)**

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INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to submit the Report on their behalf, present this 69th Report on Action Taken by Government on the recommendations contained in the 44th Report of the Committee on Public Undertakings (Seventh Lok Sabha) on Bharat Heavy Electricals Ltd.

2. The 44th Report of the Committee on Public Undertakings was presented to Lok Sabha on 28 April, 1982. Replies of Government to all the recommendations contained in the Report were received in three batches on 1, 8 and 14 March, 1983. The replies of Government were considered by the Action Taken Sub-Committee of the Committee on Public Undertakings on 7 April, 1982. The Report was finally adopted by the Committee on Public Undertakings on 12 April, 1982.

3. An analysis of the Action Taken by Government on the recommendations contained in the 44th Report (1981-82) of the Committee is given in the Appendix.

NEW DELHI;
April 14, 1983

Chaitra 24, 1905 (Saka)

MADHUSUDAN VAIRALE,
Chairman,

Committee on Public Undertakings.

CHAPTER I

REPORT

The Report of the Committee deals with the action taken by Government on the recommendations contained in the Forty-fourth Report (Seventh Lok Sabha) of the Committee on Public Undertakings on Bharat Heavy Electricals Ltd. which was presented to Lok Sabha on 28 April, 1982.

2. Action Taken replies have been received from Government in respect of all the 31 recommendations contained in the Report. All the recommendations/observations of the Committee have been accepted by Government. The Committee will now deal with the action taken by Government on some of their recommendations.

A. Plan targets for BHEL

Recommendation Serial No. 2 (Para 2, Part II)

3. The Committee felt that the plan targets for (a) production in physical terms of equipment to match the projected additional capacity for power generation; (b) value added correlated to the sectoral rate of growth indicated in the plan; and (c) internal resources derived from the resources forecast of the plan should be fixed by the administrative Ministry in consultation with the Planning Commission. They had desired that, in future the plan target for capital investment and targets as derived from the plans for production, value added and generation of internal resources as well as the achievements should be brought out in the Annual Reports and Performance Budgets of the Administrative Ministry and the BHEL.

4. Government have stated in their reply that the power supply industry relies by and large on BHEL for supply of major equipment required for their expansion as well as spare parts for them. As such, manufacturing programme of BHEL would have to be dovetailed with the power programme. An overall view of these matter is taken by the Planning Commission during the annual plan discussions with the various State Electricity Boards and the Central Sector Corporations, where the representatives of BHEL are also present. Once the Power Plan for each State and the Central Sector has been finalised at the Annual Plan meetings in consultation with all concerned authorities including BHEL, there should not be any difficulty for BHEL to arrive at their annual targets, etc.

5. The Committee presume that the targets arrived at by the BHEL after the Planning Commission finalises the annual Power Plan could be regarded as plan targets agreed between the Planning Commission and the Ministry/BHEL. The Committee desire that the targets so arrived at for production, value added and generation of internal resources as well as the achievements should be clearly and distinctly brought out in the Annual Reports and the Performance Budgets of the Administrative Ministry and the BHEL in future.

B. Evolving a satisfactory method of assessing the performance of BHEL

Recommendation Serial No. 6 (Para 6, Part II)

6. The Committee had desired that a satisfactory method of assessing the performance of the BHEL in regard to production of power equipments should be evolved in consultation with the CEA and the Planning Commission.

7. Government have stated in their reply that at present, Government judges the performance of BHEL on the basis of production both in physical and monetary terms *vis-a-vis* the targets laid down. However, as suggested discussions are being held with CEA and Planning Commission to examine whether any other better method could be evolved for assessing the performance of BHEL.

8. The Committee desire that the matter should be examined expeditiously with a view to evolving satisfactory method of assessing the performance of the BHEL in regard to production of power equipments. The Committee would like to know the outcome early as it is crucial to evaluation of its production performance.

C. Performance testing of SSTP, Trichy

Recommendation Serial No. 10 (Para 10, Part II)

9. The Committee had *inter-alia* observed that performance testing of the plant had not been done within the period of guarantee due to non-availability of power. They had desired that it should be ensured that there was no defect in the plant.

10. Government's reply is silent on this recommendation. The Committee trust that there was no defect in the SSTP, Trichy which was accepted without performance testing within the guarantee period.

D. Utilisation of indigenous capacity

Recommendation Serial No. 14, (Para 14, Part II)

11. The Committee *inter-alia* took note of BHEL's view that imports of compressors had been allowed for fertilizer projects on the advice of consultants although BHEL compressors would have served the purpose and the Secretary, Heavy Industry's view that precaution to ensure better utilisation of indigenous capability had not been taken from the very beginning. The Committee had desired in this context that the matter should be taken up with the concerned departments like Department of Fertilizers to avoid at least in future import of equipments which could be supplied by BHEL. The Committee had also urged that as far as possible multiplicity of designs should not be inducted into the country and that there should be a measure of standardisation.

12. Government have stated in their reply that in the matter of import of compressors where the capacity of BHEL is under-utilised, further efforts are being made to persuade the Department of Fertilizers to disallow imports and to introduce a measure of standardisation.

13. The Committee would await the action taken by the Department of Fertilizers to avoid import of compressors and to introduce a measure of standardisation.

E. Need for installing capacitors

Recommendation Serial No. 17 (Para 17, Part II)

14. Taking note of the fact that the demand for capacitors does not match the capacity for their production available in the country, the Committee had desired that the State Governments should be persuaded to enforce the Indian Electricity Act and Rules making it obligatory for the users to improve the power factor by installing capacitors. The Committee felt that this would be in the national interest of avoiding power losses and incidentally this would also make for better utilisation of capacity for production of capacitors.

15. Government have stated in their reply that Committee's recommendation has been conveyed to Ministry of Energy (Department of Power) for further examination and appropriate action.

16. It would have been helpful if the action taken by the Ministry of Energy (Department of Power) in the matter had been ascertained and conveyed to the Committee. The Committee would now await from the Ministry of Energy the action taken to persuade the

State Governments to enforce the Indian Electricity Act and Rules making it obligatory for the users to improve the power factor by installing capacitors.

F. Amending Project Import Regulations

Recommendation Serial No. 19 (Para 19, Part II)

17. The Committee had made the following recommendation:

"Till 1977-78 thermal sets, hydro sets and traction equipments were in the monopolistic range of BHEL products. However, after liberalisation of import policy in April, 1978, the power generation equipments are stated to have been included in the list of items allowed for global tendering. As a result BHEL has lost some business. Further in non-IDA global tenders, the BHEL is reported to have suffered on account of customs levies on imported raw materials and components which made its products uncompetitive compared to its foreign competitors. However, according to the customs tariff, imports of components and raw materials for specific projects are eligible for lower flat rate of duty of 50 per cent *ad valorem* subject to the condition that the imports are recommended by the DGTD and attested by the licensing authorities. The difficulties in ensuring this are stated to have been taken up with the Ministry of Finance. The Committee recommend that the question of amending Project Import Regulations should be considered early."

18. Government have stated in their reply that the Department of Heavy Industry and BHEL have already taken up the matter with the Ministry of Finance and are following it up.

19. The Committee feel that it would have been helpful if the action taken by the Ministry of Finance in the matter has been ascertained and conveyed to them. They would now await from that Ministry the action taken to amend the conditions for the concessional rates of customs duty suitably.

G. Standing high level Committee for Coal

Recommendation Serial No. 25 (Para 25, Part II)

20. The Committee had recommended, *inter-alia*, that there should be a standing high level Committee consisting of Chairmen

of CEA, BHEL, Railways, IL, Kota, Coal India etc. to periodically meet and identify problems in regard to coal for timely corrective steps.

21. Government have stated in their reply that the supply of coal to power stations was monitored at various levels in Coal India and Government. The standing linkage Committee comprising of the representatives of Ministry of Energy (Department of Coal), Ministry of Railways, Central Electricity Authority, Planning Commission etc. also reviews this matter periodically. Therefore, the institution of the proposed high level Committee is not considered necessary.

22. What the Committee envisaged was not a Committee for only monitoring the movement of coal to power plants for which the institutional arrangement in the form of Standing Linkage Committee already existed. The Committee had recommended that there should be a standing high level committee consisting of Chairmen of CEA, BHEL, IL, Kota, Coal India etc. which could also go into the problems connected with the quality of coal available to suggest corrective steps including possible modifications in boilers and equipment to match and respond to the availability of the coal. The Committee trust that this aspect of the matter will now be considered.

H. Claims pending with the customers for export job

Recommendation Serial No. 28 (Para 28, Part II)

23. The Committee noted that there were 6 major turnkey projects taken up by BHEL abroad costing Rs. 3 crores and above each completed during the 5 year period ending 1980-81. They further noted that there was aggregate loss of Rs. 22.84 crores in these projects, all except one of which having incurred losses. The Committee awaited the outcome of the efforts of BHEL to pursue its claim with their clients.

24. Government have stated in their reply that an assessment on the status of claims pending with the customers for export job is being made.

25. The Committee regret that even many years after the completion of the turn key projects abroad the assessment of the status of claims pending with the customers has not been completed so far. The Committee urge that this should be done early and the dues recovered at the earliest. The Committee would await a report in this regard.

I. *Accounting policies of BHEL*

Recommendation, Serial No. 29 (Para 29, Part II)

26. Taking note of the various shortcomings in the accounting policies of BHEL the Committee had desired that the accounting policies, prior period adjustments, provision of taxation etc. should be gone into in consultation with the C&AG so that a uniform pattern of bringing out the annual accounts could be adopted in a manner that a correct comparative picture of the operation of the Company would emerge from year to year.

27. Government have stated in their reply that the exhibition of prior period expenditure, the losses of subsidiaries, tax provision and profit was in accordance with accepted accounting practices. BHEL have re-examined the Accounting Policies and have proposed certain amendments/amplifications in consultation with their statutory auditors. The policies were discussed in an inter-Departmental meeting held in the Ministry of Industry on 8-10-1982 which was attended by a representative of Bureau of Public Enterprises and Statutory Auditors of BHEL amongst others. That accounting policies finalised at the meeting have been forwarded to the C&AG for his comments/concurrence. C&AG's reply is awaited.*

28. The Committee would urge that the matter should be finalised early and the changes decided upon reported to them.

*At the time of factual verification, the Department of Heavy Industry informed that CAG's reply has since been received and is under examination. BHEL intimated that the latest position is that the CAG has vetted BHEL's revised accounting policy and the accounts for 1982-83 and onward will be finalised in accordance with the revised accounting policy.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation, Serial No. 1 (Para 1, Part II)

The Bharat Heavy Electricals Ltd., occupies a crucial position in the energy sector of our economy. The Company has been making profit. But the profit is not the only index of its efficiency. However, the profit has declined steadily during the period 1976—81. Almost all the major projects commissioned during the period 1974—81 have fared badly. The capacity utilisation is poor in respect of a number of products. The Company is reportedly facing demand constraints as well as production constraints. The exports sales have on the whole resulted in losses. There have been heavy slippages in delivery of equipments for power plants. The performance of a number of power plants installed with BHEL equipments is not satisfactory. There is considerable net foreign exchange outgo as a result of operation of the Company. There is scope for better indigenisation of production and augmenting exports to minimise the foreign exchange outgo. The Committee's conclusions and recommendations arising out of the examination of these issues are set out in the following paragraphs.

Reply of Government

No Comments.

[Ministry of Industry, (Department of Heavy Industry) O.M. No. 4
(2)/82—HEM dated 28 February, 1983]

Recommendation, Serial No. 2 (Para 2, Part II)

The Company draws up its annual budget fixing targets for production, value added and generation of internal resources. Even though the plan document does not indicate these targets, the Committee feel that the plan target for (a) production in physical terms of equipment to match the projected additional capacity for power generation; (b) value added correlated to the sectoral rate of growth indicated in the plan and (c) internal resources derived from the resources forecast of the plan should be fixed by the administrative Ministry in consultation with the Planning Commission. In future,

the plan target for capital investment and targets as derived from the plans for production, value added and generation of internal resources as well as the achievements should be brought out in the Annual Reports and Performance Budgets of the Administrative Ministry and BHEL.

Reply of Government

The power supply industry relies by and target on BHEL for supply of major equipment required for their expansion as well as spare parts for them. As such, manufacturing programme of BHEL would have to be dovetailed with the power programme, which in turn is dependent on the availability of resources, the likely, growth in demand for power and growth in other sectors. An overall view of all these matters is taken by the Planning Commission during the annual plan discussions with the various State Electricity Boards and the Central Sector Corporations, where the representatives of BHEL are also present.

Once the Power Plan for each State and the Central Sector has been finalised at the Annual Plan meetings in consultation with all concerned authorities including BHEL, there should not be any difficulty for BHEL to arrive at their annual targets, etc. Since the detailed exercises conducted by the Planning Commission are adequate, Government do not think that any other specific mechanism needs to be introduced for ensuring proper interfacing between BHEL and other sectors.

[Ministry of Industry (Department of Heavy Industry) O.M. No. 4 (2)/82-HEM dated 28 February, 1983]

Comments of the Committee

(Please see Paragraph 5 of Chapter 1 of the Report.)

Recommendation Serial No. 3 (Para 3, Part II)

During the years 1979—81 there was a shortfall of Rs. 20 crores in capital investment and in generation of internal resources. The shortfall in capital investment was attributed to a variety of factors including delay in ordering the machine tools and equipment and procedural delays. The shortfall in generation of internal resources has been attributed to reduction of profits which was caused, among, other things, by import of steel at high cost and accumulation of outstanding dues from customers. In the opinion of the Committee the shortfall could have been avoided to some extent with better care. Incidentally the price formula of the BICP is stated

to be unrelated to imported steel price. The Committee feel that the BICP ought to take into account the higher cost of import of inputs wherever import becomes necessary.

Reply of Government

Due to the unusual features during the period in question there were shortfalls in capital investment and generation of internal resources of BHEL. In spite of best efforts it may not always be possible for the company to anticipate all the factors beyond its control leading to the shortfalls. The suggestion for better care in future has been noted.

2. The question of provision for escalation for increases in costs of imported inputs, has been considered in consultation with the BICP who have assured that this would be considered as and when a study on the matter is referred to them in future. They have also conveyed that provision of appropriate escalation clauses for inputs and input costs is normally considered by the Bureau as may be warranted by the circumstances of each study.

3. As regards the settlement of outstanding dues from customers, Government is seized of the matter and efforts are being made to liquidate the dues.

[Ministry of Industry (Department of Heavy Industry) O.M. No. 4(9)/82—HEM dated 14 March 1983]

Recommendation, Serial No. 4 (Para 4, part II)

The Ministry of Energy is reported to have fixed targets for the commissioning of additional installed capacity for power generation from year to year assigning the share of the BHEL therein. The national target and the BHEL's share have been progressively scaled down during the period 1978—81 and even then the achievement of the BHEL was poor in as much as it was only about 2/3rd of the share assigned to it. The Committee have, however, been informed by the BHEL as per schedule. According to the BHEL there were achievement and that there was hardly any case where the commissioning was held up solely on account of non-supply of equipment by the BHEL as per schedule. According to the BHEL there were only 4 cases where the delayed supply could be one of the factors contributing to delay in commissioning. The Ministry of Energy did not, however, agree with the contention of the BHEL. According to that Ministry, while there were delays on the part of the power plant authorities there were also delays on the part of the equipment suppliers, including BHEL which delayed the commis-

sioning of several projects. The thermal projects which could not be commissioned during the last 5 years due to delayed supply of BHEL equipments were stated to be 2 scheduled to be commissioned in 1976-77, 3 in 1977-78, 8 in 1978-79, 7 in 1979-80 and 2 in 1980-81.

Reply of Government

Observation noted.

[Ministry of Industry (Department of Heavy Industry) O.M. No. 4(2)/82—HEM dated 28 February, 1983]

Recommendation, Serial No. 5 (Para 5, Part II)

The Committee received an impression that in the past there was no effective coordination among all concerned to see that the national plans in regard to creation of additional capacity for power generation were translated into reality. They have been informed that recently at the instance of the Planning Commission harmonograms have been drawn up with the participation of CEA, customers and the BHEL and a system of monitoring production based on these introduced for bringing about effective coordination in implementation of power projects. The Committee hopes that BHEL would take care to see that it fulfils its comments in future taking note of its past failures.

Reply of Government

BHEL has already taken action by initiating close dialogues with CEA and customers and in consultation with the Planning Commission, drawn up harmonograms for the various thermal projects. These are being monitored regularly to see that all inputs to the power stations are available in the right sequence and in time. This concept will gradually be extended to other areas such as Hydro Power Stations also.

[Ministry of Industry (Department of Heavy Industry) O.M. No. 4(2)/82—HEM dated 28 February, 1983]

Recommendation, Serial No. 6 (Para 6, Part II)

The BHEL has contended that the present system of reviewing its performance on the basis of figures of commissioning of power projects was not just. In support of this contention figures of megawat-wise production of power equipment during 1978-81 were given to the Committee and these figures looked impressive. The Committee desire that satisfactory method of assessing the

performance of the BHEL in regard to production of power equipments should be evolved in consultation with the CEA and the Planning Commission.

Reply of Government

BHEL manufactures and supplies equipment based on orders received from various customers in Power and other industrial Sectors. Commissioning of these equipments depends on several other factors in addition to supply of equipment. It would, therefore, not be correct to measure the performance of BHEL on the basis of figures of commissioning of power projects. The timely supply of equipment could be a fair measure of the performance of BHEL. At present, Government judges the performance of BHEL on the basis of production both in physical and monetary terms vis-a-vis the targets laid down. However, as suggested discussions are being held with CEA and Planning Commission to examine whether any other better method could be evolved for assisting the performance of BHEL.

[Ministry of Industry (Department of Heavy Industry) O.M. No. 4(2)/82-HEM dated 28 February, 1983.]

Comments of the Committee

(Please see paragraph 8 of Chapter I of the Report)

Recommendation Serial No. 7 (Para 7, Part II)

There were projects costing Rs. 5 crores or more each commissioned during the period 1974—81. There was considerable cost overrun in the case of 3 projects. There was, however, no time overrun. Despite significant cost overrun the projects were expected to be viable. However, there were heavy losses on 3 of these projects during 1978—81 namely, (i) Transformer factory, Jhansi (loss of Rs. 11.43 crores against anticipated profit of Rs. 4 crores); (ii) CFFP, Hardwar (loss of Rs. 9.28 crores against anticipated profit of Rs. 20.06 crores); and (iii) SSTP, Trichy (loss of Rs. 23.51 crores against anticipated loss of Rs. 2.17 crores). The profits on Boiler Plant, Phase-II Project, Trichy were not as good as anticipated. The Committee expect the BHEL to improve its projects formulation, implementation and operation.

Reply of Government

In regard to the 3 new major projects namely CFFP, Jhansi, SSTP, a high level Corporate Committee headed by CMD has been constituted to review the operations regularly and to ensure that break-even is achieved at the earliest. The investment group in

the Corporate Office is being strengthened to examine project proposals more critically and assess the impact of changes in the various assumptions and update the assumptions so that the new investments reach breakeven as planned.*

[Ministry of Industry (Department of Heavy Industry) O.M. No. 4(2)/82-HEM dated 28 February, 1983]

Recommendations Serial No. 8 (Para 8, Part II)

The poor performance of the Transformer factory, Jhansi is primarily on account of under-utilisation of capacity, which is caused by stiff competition, higher cost of production and lower price obtained than anticipated. The demand pattern is also not in accordance with what was anticipated. Further the technology obtained from AEI, U.K. in 1956 has become outdated and the competitors have gone in for better technology. The Committee suggest that updating of technology should be attended to with a sense of urgency and attempts should be made to break-even on this project soon.

Reply of Government

Considerable progress has already been made in identifying possible collaborators to update the technology for transformers. It is anticipated that the proposal will be sent to Government within about 2-3 months.

Detailed plans including product-mix, marketing and cost reduction have already been drawn up to make the Jhansi unit viable. These are being closely monitored at the highest level by the Corporate Committee.

[Ministry of Industry (Deptt. of Heavy Industry) O.M. No. 4(2)/82-HEM Dated 28 February, 1983.]

Recommendations Serial No. 9 (Para 9, part II)

In CFFP, Hardwar also production is much below DPR anticipations and it is also less than what was budgeted for annually. Here again the change in demand pattern is stated to be one of the reasons. The tapering of the demand for generation sets like 110 MW and 120 MW is stated to be faster than expected. There is also reportedly difficulty in technology absorption in the field of intricate alloy steel casting and forging for thermal and hydro sets. On account of the poor performance of this project, BHEL had to purchase locally and import castings and forgings to the extent of Rs. 43 crores in one year alone (1980-81). The Committee desire that the

*At the time of factual verification BHEL intimated that the latest position is that both Transformers Factory at Jhansi and C F F P at Hardwar have turned the corner and earned profits for the Year 1982-83

problems should be overcome early and the project made viable by also exploring the possibilities of marketing the products outside BHEL.

Reply of Government

Detailed plans including technology absorption and new market exploration have already been drawn up to make the unit viable at the earliest. These are being monitored at the highest level by the Corporate Committee.

It may also be mentioned that the purchases from outside source during 80-81 was only Rs. 30 crores and not Rs. 43 crores* Most of this purchase falls outside the range of CFFP.

[Ministry of Industry (Department of Heavy Industry) O.M. No. 4(2)/82-HEM dated 28 February, 1983]

Recommendation Serial No. 10 (Para 10, Part II)

The production in SSTP, Tiruchy also is much below target. Further, the capacity for production of 40,000 tonnes is yet to be fully established. The cost of inputs seems to have been underestimated in the DIR projections and there appeared to have been no reliable market survey before the project was taken up. The technological absorption is also reported to be taking longer time than anticipated. However, the Committee have been assured that the losses were expected to come down and that the BHEL have started intensifying demand study since April 1981. The Committee trust that the project will turn the corner early. Surprisingly, performance testing of the plant had not been done within the period of guarantee due to non-availability of power. It should be ensured that there is no defect in the plant. On two occasions during the year 1980 power interruption had caused damages to the rotary hearth of the plant. The Committee suggest that the desirability of installing a generator should be examined and suitable action taken early to avoid recurrence of this phenomenon.

Reply of Government

Detailed plans (including extensive market survey) have already been drawn up to achieve viability at the earliest. The progress is being reviewed at the highest level by the Corporate Committee.

* The Committee had been informed earlier by BHEL in a note and by the Chairman and Managing Director, BHEL during evidence that the total value of purchase of casting and forgings during 1980-81 was Rs. 43 crores.

The question of installing a captive power unit at SSTP is also being examined.

[Ministry of Industry (Department of Heavy Industry) O.M. No. 4(2)/82-HEM dated 28 February, 1983]

Comments of the Committee

(Please see paragraph 10 of Chapter I of the Report).

Recommendation Serial No. 11 (Para 11, Part II)

Incidentally, the Committee noticed that in 5 cases the project approval by Government took more than one year. These are (1) Hydro sets expansion, Bhopal (2) SSTP, Trichy; (3) Boiler Auxiliary Plant, Ranipet, (4) R&D Project, Hyderabad and (5) Bowl Mills, Hyderabad. The Committee are of the view that normally it should not take more than six months to clear a project proposal even allowing for time for the various scrutinising agencies. They hope that delays in project approval would be avoided in future.

Reply of Government

Recommendation noted. Instructions have also been issued by the Plan Finance Division on 31-3-1982 to all concerned stressing the need for clearance of the project proposals within a stipulated period.

[Ministry of Industry (Department of Heavy Industry) O.M. No. 4(2)/82-HEM dated 28 February, 1983]

Recommendation Serial No. 12 (Para 12, Part II)

The Value of production of BHEL as a whole ranged from Rs. 474 crores to Rs. 816 crores during 1976—81. The targets for production are set by the Company on the basis of the expected demand and not on the basis of available production capacity. There is considerable under-utilisation of the capacity. This is in the area of thermal sets of lower rating, hydro sets, nuclear steam generation equipment, industrial electrical machines, compressors, capacitors, energy meters etc. Lack of demand, technological problems and difficulty in matching the pattern of demand with production capability are stated to be the main reasons for the underutilisation. The Committee have, however, been informed that in regard to thermal sets with the adoption of modular concept, BHEL would be favourably placed in the years to come. The Committee desire that the possibility of exporting the products facing domestic demand constraints should be explored and optimal utilisation of the capacity ensured.

Reply of Government

BHEL is making every attempt to fully utilise the available capacity. Where demand constraints pose problems, attempts are being made to use the facilities for other products. Simultaneously, the Exports Division has identified specific areas abroad where efforts should be concentrated and is exploring possibility of export of these products.

[Ministry of Industry (Department of Heavy Industry) O.M. No. 4
(2)/82-HEM dated 28 February, 1983]

Recommendation Serial No. 13 (Para 13, Part II)

The BHEL's products cover broadly 22 groups and 5 of these reportedly face production constraints and 7 face demand constraints. Production constraints are stated to be largely in the nature of power cuts, non availability of wagons, special steel, imported components and insulating materials and delay in receipt of sub contract items. Some of these factors are controllable. In this connection the Committee note that the wagon position as well as the indigenous availability of steel have shown improvement lately. The Committee recommend that capacity for indigenous production of insulating materials should be established as early as possible.

Reply of Government

BHEL has been making efforts to remove this production constraint by developing indigenous sources. Action has been taken for encouraging indigenisation of insulating material to the extent possible. Specifically BHEL has entered into a collaboration with MITCO a Bihar Government undertaking for providing know-how for manufacture of insulating material. Development orders for Mica paper products have also been placed on existing manufacturer in the private sector and efforts are also being made to promote ancillarisation at Goindwal. The requirement, specification etc. have already been given to the suppliers. The production facilities of insulating materials at Bhopal are also being geared up. It is expected that with these efforts the hold up in the field of insulating materials could be avoided.

[Ministry of Industry (Deptt. of Heavy Industry) O.M. No. 4(2)/82-HEM Dated 28 February, 1983.]

Recommendation Serial No. 14 (Para 14, Part II)

As regards demand constraints the products such as oil rigs, compressors, switchgears, billets & blooms, seamless tubes, meters

and capacitors have been mentioned to the Committee. According to the BHEL, imports of compressors have been allowed for fertilizer projects on the advice of consultants although BHEL compressors would have served the purpose. The Secretary, Heavy Industry, was of the view that precaution to ensure better utilisation of indigenous capability has not been taken from the very beginning. The Committee desire that the matter should be taken up with the concerned departments like Department of Fertilizers to avoid at least in future import of equipments which could be supplied by BHEL. In this connection the Committee would urge that as far as possible multiplicity of designs should not be inducted into the country and that there should be a measure of standardisation.

Reply of Government

In the matter of import of compressors where the capacity of BHEL is under-utilised, further efforts are being made to persuade the Department of Fertilizers to disallow imports and to introduce a measure of standardisation.

[Ministry of Industry (Department of Heavy Industry) O.M. No. 4 (2)/82-HEM dated 28 February, 1983]

Comments of the Committee

(Please see paragraph 13 of Chapter I of the Report).

Recommendation Serial No. 15 (Para 15, Part II)

Demand constraints in regard to switch-gear are on account of outdated technology of BHEL and the competition it faces. However, the Committee note that the BHEL is going in for collaboration with M/s. Siemens of West Germany for SF-6 circuit breakers, which is an area where technological upgradation has been keenly felt. The Committee hope that the BHEL product would become competitive soon.

Reply of Government

The transfer of technology from M/s. Siemens for SF-6 circuit breakers has already been initiated. It is envisaged that with the introduction of this technology BHEL's product will soon become more competitive.

[Ministry of Industry (Department of Heavy Industry) O.M. No. 4 (2)/82-HEM dated 28 February, 1983]

Recommendation Serial No. 16 (Para 16, Part II)

Although it was expected that 60 per cent production of the large-size forged blooms would be sold outside, it did not materialise.

Further, price-wise the product does not seem to be competitive. The internal use of the blooms produced is also less on account of the change in the product profile of BHEL. The Committee, however, note the attempts being made to explore sale to steel plants, defence department etc. Optimal capacity utilisation should be achieved early.

Reply of Government

BHEL has been exploring sale to the steel plants, defence departments etc. It is anticipated that with the creation of new markets the capacity utilisation will improve.

[Ministry of Industry (Department of Heavy Industry) O.M. No. 4
(2)/82-HEM dated 28 February, 1983]

Recommendation Serial No. 17 (Para 17, Part II)

The capacitors are used for power factor correction in electrical transmission and distribution networks and systems and for better voltage regulation thereby reducing power loss to the minimum. However, the demand does not match the capacity for production available in the country. In this connection, the Committee desire that the State Government should be persuaded to enforce the Indian Electricity Act and Rules making it obligatory for the users to improve the power factor by installing capacitors. This would be in the national interest of avoiding power losses and incidentally this would also make for better utilisation of the capacity for production of capacitors.

Reply of Government

Committee's recommendation has been conveyed to Ministry of Energy (Department of Power) for further examination and appropriate action.

[Ministry of Industry (Department of Heavy Industry) O.M. No. 4(9)/82-HEM dated 14 March, 1983.]

Comments of the Committee

(Please see paragraph 16 of Chapter I of the Report)

Recommendation Serial No. 18 (Para 18, Part II)

According to the BHEL, the licensing policy of the Government has also to some extent caused demand constraints for its products. The Company has given various suggestions in order to avoid unhealthy competition and made for coordinated efforts to meet the needs of the Country. The Committee hope that these suggestions would be taken note of and such corrections to the Licensing Policy made as would make for optimum utilisation of resources.

Reply of Government

The suggestions of BHEL mentioned, are presumed to be the suggestions given by Chairman & Managing Director, BHEL as mentioned at para 36 of Part I (III) of the Report.

These suggestions of BHEL have been examined by this Department in consultation with the Department of Industrial Development. While approving capacities and granting industrial licences under the existing licensing policy, factors such as demand and supply of goods to be produced the capacities already available and

capacities likely to materialise in future, export prospects etc. are already being taken into account and no correction to the policy is considered necessary.

[Ministry of Industry (Department of Heavy Industry) O.M. No. 4(5)/82-HEM dated 5 March, 1983]

Recommendation Serial No. 19 (Para 19, Part II)

Till 1977-78 thermal sets, hydro sets and traction equipments were in the monopolistic range of BHEL products. However, after liberalisation of import policy in April, 1978, the power generation equipments are stated to have been included in the list of items allowed for global tendering. As a result BHEL has lost some business. Further, in non-IDA global tenders, the BHEL is reported to have suffered on account of customs levies on imported raw materials and components which made its products uncompetitive compared to its foreign competitors. However, according to the customs tariff, imports of components and raw materials for specific projects are eligible for lower flat rate of duty of 50 per cent. *ad valorem* subject to the condition that the imports are recommended by the DGTD and attested by the licensing authorities. The difficulties in ensuring this are stated to have been taken up with the Ministry of Finance. The Committee recommend that the question of amending Project Import Regulations should be considered early.

Reply of Government

The Department of Heavy Industry and BHEL have already taken up this matter with the Ministry of Finance and are following it up.

[Ministry of Industry (Department of Heavy Industry) O.M. No. 4 (2)/82-HEM dated 28 February, 1983]

Comments of the Committee

(Please see paragraph 19 of Chapter I of the Report)

Recommendation Serial No. 20 (Para 20, Part II)

The total purchases of raw materials and components, stores and spares of the BHEL ranged from Rs. 380 crores to Rs. 490 crores during 1978—81. The Committee feel that to the extent possible the purchases should be centralised in order to derive the bulking advantage.

Reply of Government

A Committee has been constituted which has identified certain items for centralised procurement and the matter is being reviewed from time to time.

[Ministry of Industry (Department of Heavy Industry) O.M. No. 4
(2)/82-HEM dated 28 February, 1983]

Recommendation Serial No. 21 (Para 21, Part II)

About 60 per cent of the total purchases of raw material and components came from abroad. In such a situation it cannot be claimed that satisfactory progress has been made in indigenising production. However, the Department of Heavy Industry have informed the Committee that in terms of cost of production the import content is only 22 per cent. Nevertheless, the Committee find that the annual net foreign exchange outgo as a result of the operation of the BHEL ranged from Rs. 129 crores to Rs. 177 crores, during 1977—81. In view of the increasing foreign exchange gap it is necessary to put through schemes for faster indigenisation of raw materials and components and augment exports of goods and services. Since there was no specific programme of indigenisation mentioned in the earlier DPRs, systematic plans should be drawn up in respect of all the old projects and implemented under a time bound programme. It should also be ensured that the anticipations of the later DPRs in respect of CFFP, SSTP etc. are realised according to the programme indicated.

Reply of Government

Detailed indigenisation programmes have been drawn up for each of the projects. Exclusive groups are also being set up in the Units/Corporate Office for monitoring the progress. Further efforts are also being coordinated with Corp. R&D to speed up the process of indigenisation. Policy constraints, removal of which may help the process are also being examined.

[Ministry of Industry (Department of Heavy Industry) O.M. No. 4
(2)/82-HEM dated 28 February, 1983]

Recommendation Serial No. 22 (Para 22, Part II)

The efficiency of an enterprise like BHEL cannot be assessed properly without regard to the degree of user satisfaction that it has given. The Committee, therefore, went into the performance of the BHEL in regard to timely delivery of equipment and the quality of

the equipments installed in the various power plants. Though there are signs of improvement, the performance cannot be regarded as satisfactory yet.

Reply of Government

BHEL have already initiated action to ensure timely, sequential delivery of equipment. The entire delivery programme forms a part of the harmonograms drawn up for each project. Slippages which are likely to affect commissioning are being monitored at the highest level in the Corporate Office.

Quality Circles are being introduced in all the plants. The idea of importance of quality is being emphasised to all the employees so that adequate care is taken at different stages. Certain other measures are also under examination for further improving the quality of equipments.

[Ministry of Industry (Department of Heavy Industry) O.M. No. 4
(2)/82-HEM dated 28 February, 1983]

Recommendation Serial No. 23 (Para 23, Part II)

From the details of user-wise sale of plant and equipment by Bhopal and Hyderabad units of BHEL costing Rs. 3 crores and above in each case, the Committee have noted that in a number of cases there were long delays in delivery and serious complaints regarding quality. The delays were more than one year in 10 cases. Not all the reasons attributed by the BHEL for the delay were unavoidable. The Committee desire that such delays should be avoided in future. Any capacity constraint in fulfilling this objective should be removed soon. Further, standardisation of the equipment specifications and layouts for improving delivery of equipment at sites should be completed without further loss of time. The Committee have already mentioned about the delay in commissioning of projects for which the BHEL was also responsible in as many as 22 cases during the last 5 years.

Reply of Government

As already explained Harmonograms have been drawn up for each thermal projects and the delivery is being monitored at the highest levels to ensure that there is no delay. Action has also been taken to remove the capacity constraints noticed. A critical watch

is being kept on all aspects to ensure that action can be initiated before any other capacity constraints cause delays. Periodic review meetings are held to monitor implementation of orders for Projects

Dialogues are underway with CEA and the customers to expedite standardisation of equipment specifications and layouts.

[Ministry of Industry (Department of Heavy Industry) O.M. No. 4
(2)/82-HEM dated 28 February, 1983]

Recommendation Serial No. 24 (Para 24, Part II)

The BHEL has come in for criticism mostly in regard to the functioning of its boilers and generating sets. The Committee have been informed by the Ministry of Energy that against the all-India average plant load factor for the thermal power system ranging from 44.7 per cent to 48.4 per cent during the years 1978—81 the plant load factor of BHEL make units was less than 25 per cent in 1980-81 in the case of 4 units of 200/210 MW group and 8 units of 110/120 MW group. Though according to the CMD, BHEL this did not indicate the poor performance of the BHEL equipments and the plant load factor of a unit depended on a variety of factors besides the BHEL equipment, the fact remains that admittedly the old Czech design of 110 MW sets gave trouble and there were also deficiencies in 200/210 MW sets, 13 of which were manufactured without field trials. A project renovation programme was taken up in September 1977 and this covered 31 thermal units at 14 stations and 8 hydro units at 3 stations. A sum of Rs. 16.46 crores have been spent on this programme during 1977—81. A number of units already renovated have not shown improvement. The problems relating to 110 MW sets have not been fully overcome yet. The Committee recommend that BHEL should keep continuous watch on the performance of its units by sending expert teams regularly in order to make such improvements as may be necessary thereby preserving its image better.

Reply of Government

A continuous watch is being kept on the performance of all BHEL sets and consultations are being held with the customers to ensure high performance of these sets, given all necessary inputs, such as specific quality of coal, adequately trained manpower etc.

[Ministry of Industry (Department of Heavy Industry) O.M. No. 4
(2)/82-HEM dated 28 February, 1983]

Recommendation Serial No. 26, (para 26, Part II)

The Committee agree to some extent that the performance of Power plants depended on system design, quality of coal, quality of maintenance and other management factors. This calls for an initiative from the Central Electricity Authority for a review in order to identify the factors that are responsible for poor performance of the various power plants in the country. In this connection the Committee note that the CEA has constituted inter-disciplinary teams to go into these aspects in details and initiate necessary remedial action. This should be completed early. Further there should be a standing high level committee consisting of Chairmen of CEA, BHEL, Railways IL, Kota, Coal India etc. to periodically meet and identify problems in regards to coal for timely corrective steps. Further in the opinion of the Committee it should be the responsibility of the BHEL to prove the performance of power plants and for this purpose the clients should be encouraged to entrust power plant construction on a turn-key basis to the BHEL.

Reply of Government

The Committee's recommendation that the inter-disciplinary teams constituted by CEA to examine performance of Power plants should complete the task early has been conveyed to the Ministry of Energy. Regarding Committee's recommendation that there should be a standing high level committee to meet periodically and identify the problems in regard to coal for timely corrective steps, it is submitted that the supply of coal to power stations is monitored at various levels in Coal India and the Government. The standing linkage Committee comprising the representatives of Ministry of Energy (Department of Coal), Ministry of Railways, Central Electricity Authority, Planning Commission etc. also reviews this matter periodically. Therefore, the institution of the proposed high level committee is not considered necessary. Government and BHEL have noted the Committee's recommendation that it should be the responsibility of BHEL to prove the performance reliability of Power plants and for this purpose the clients should be encouraged to entrust power plant construction on a turn-key basis. However, in the ultimate analysis the efficiency of a machine would depend on how the user handles it.

[Ministry of Industry (Department of Heavy Industry) O.M. No. 4
(9)/82-HEM dated 14 March, 1983]

Comments of the Committee

(Please see paragraph 22 of Chapter I of the Report)

Recommendation Serial No. 26, (Para 26, Part II)

The after-sale service seems to have been a neglected area of the BHEL's operations until recently. The Committee would urge that the repair shops should be set up in all regions without delay. The provisioning for spares should receive better attention. The overdue orders for spares should be liquidated without delay. In future demands for spares should be ascertained systematically and manufacture planned for timely delivery.

Reply of Government

The proposal for creating one regional repair shop at Varansi has been cleared by BHEL Board and for others the proposal is under finalisation. A detailed plan had already been drawn up to liquidate spares due in 1981-82 by December 1982. Attempts are being made to collect data and estimate demand for spares more realistically so that the manufacture can be planned accordingly. The customers are also being requested to assess their spares requirement and place orders on BHEL sufficiently in advance.

[Ministry of Industry (Department of Heavy Industry)
O.M. No. 4(2)/82-HEM dated 28 February, 1983].

Recommendation Serial No. 27 (para 27, Part II)

The overall profit of the BHEL (excluding prior period adjustment and tax provisions) came down gradually from Rs. 62.9 crores in 1976-77 to Rs. 37.5 crores in 1980-81. Four out of 9 divisions of the Company were incurring huge losses throughout the period 1976-81. The losses on these divisions (Jhansi, CFFP, SSTP and OPD) aggregated Rs. 70.6 crores. The Bhopal Division has shown considerable deterioration in regard to profitability and the profits came down from Rs. 18.7 crores in 1976-77 to Rs. 1.29 crores in 1979-80 (increased to Rs. 7.1 crores in 1980-81). Taking note of the observations contained in this Report, BHEL should evolve suitable strategy to arrest the deteriorating trend in profitability and stabilise the profits at a reasonable level to create sufficient internal resources for future needs. For this purpose it is necessary that new units are made viable, capacity utilisation improved and better marketing of the products ensured. The Committee would await the steps taken in this regard.

Reply of Government

As mentioned earlier, a high level Corporate Committee under the Chairmanship of the CMD has been constituted to review and monitor regularly the viability programmes of the new units. The

detailed plans for each of the unit have already been drawn and are under implementation. These include such areas as change of product-mix, creation of new market areas, technology absorption, cost reduction etc. With these units attaining even, the profitability of BHEL is expected to stabilise. The deteriorating trend in profitability has already been reversed and the profit before tax for year 1981-82 is Rs. 51.65 crores (approx.)

[Ministry of Industry (Department of Heavy Industry)
O.M. No. 4(2)/82-HEM dated 28 February, 1983].

Recommendation Serial No. 28 (para 28, Part II)

There were 6 major turn-key projects taken up by BHEL abroad costing Rs. 3 crores and above each completed during the last 5 years. There was aggregate loss of Rs. 22.84 crores in these projects, all except one of which having incurred losses. The Committee would await the outcome of the efforts of BHEL to pursue its claim with their clients. In future care should be taken to see that at least no losses are incurred on exports.

Reply of Government

An assessment on the status of claims pending with the customers for export job is being made. The estimation and pricing for all export jobs is being carefully scrutinised to ensure that no losses are incurred in future.

[Ministry of Industry (Department of Heavy Industry)
O.M. No. 4(2)/82-HEM dated 28 February, 1983].

Comments of the Committee

(Please see paragraph 25 of Chapter I of the Report).

Recommendation Serial No. 29 (para 29, Part II)

The net profit of Rs. 37.52 crores for the year 1980-81 shown in the accounts did not depict the correct picture. This did not include an extraordinarily high prior period expenditure adjustment of Rs. 10.88 crores. It did not also include losses of the order of Rs. 10.11 crores on the erstwhile subsidiaries of the BHEL. Further though according to the Annual Report (1980-81) no tax provision was necessary in that year on account of tax benefit availed on the past losses of the subsidiaries, the Committee was informed that the tax liability was there to the extent of Rs. 4.25 crores on a taxable

profit of Rs. 7.13 crores and that no provision was made as the provision already available was adequate to cover this tax liability. There were a number of comments on the accounts for the year 1980-81 by the Comptroller and Auditor General of India under Section 619(4) of the Companies Act, 1956. The effect of the comments was that the profit was overstated to the extent of Rs. 20 crores. It appeared from the comments that the C & AG was not satisfied with the accounting policies of the Company in some respect. In view of all these, the Committee desire that the accounting policies, prior period adjustments, provision of taxation etc. should be gone into in consultation with the C & AG so that a uniform pattern of bringing out the annual accounts could be adopted in a manner that a correct comparative picture of the operation of the Company would emerge from year to year.

Reply of Government

The exhibition of prior period expenditure, the losses of subsidiaries tax provision and profit was in accordance with accepted accounting practices. BHEL have re-examined the Accounting Policies and have proposed certain amendments/amplifications in consultation with their statutory auditors. The policies were discussed in an inter-Departmental meeting held in the Ministry of Industry on 8-10-1982 which was attended by a representative of Bureau of Public Enterprises and Statutory Auditors of BHEL amongst others. That accounting policies finalised at the meeting have been forwarded to the CAG for his comments/concurrence. CAG's reply is awaited*

[Ministry of Industry (Department of Heavy Industry)
O.M. No. 4(2)/82-HEM dated 28 February, 1983].

Comments of the Committee

(Please see paragraph 28 of Chapter I of the Report).

Recommendation Serial No. 30 (para 30, part II)

The working capital of BHEL which was Rs. 253.51 crores at the end of March 1979 had increased to Rs. 390.31 crores at the end of March 1981. The working capital was locked up in inventories and book debts. The inventory holding as at the end of March 1981 was of the order of Rs. 670.09 crores and the volume of book

*At the time factual verification, the Department of Heavy Industry informed that CAG's reply has since been received and is under examination. BHEL intimated that the latest position is that the CAG has vetted BHEL's revised accounting policy and the accounts for 1982-83 and onward will be finalised in accordance with the revised accounting policy.

debts was Rs. 305.61 crores. The inventory holding is admittedly higher than what it should be. The years 1978—81 were stated to be bad years in respect of receivables. The Committee would urge that steps should be taken to avoid accumulation of inventory and book debts in future.

Reply of Government

The question of payment of outstanding dues of BHEL has been taken up at the highest level. In certain cases Minister of Industry, Steel and Mines has also written to Chief Ministers of the various States for expeditious clearance of the outstanding dues. Further, recently the Committee of Secretaries considered the question of outstanding payments to BHEL. In accordance with these decisions the outstanding amounts against the various State Electricity Boards as on 30th September, 1982 have been segregated into two parts and the Government is considering allocation of additional funds to the States as advance Plan assistance in order to enable State Electricity Boards to discharge BHEL dues relating to the period upto March, 1982.

As regards inventories, Corporate Office is monitoring the status on a continuing basis. It has also been decided to:

- (a) Keep control on all high value funds commitments.
- (b) Give credit to production only on despatch.
- (c) Attempt centralised control for purchase of high value items.

[Ministry of Industry (Department of Heavy Industry)
O.M. No. 4(2)/82-HEM dated 28 February, 1983].

Recommendation Serial No. 31 (Para 31, Part II)

The Committee are of the view that the performance of the BHEL would have been better had it been kept under close review by the Board as well as the administrative Department. In this connection the Committee note that there were only 4 meetings taken by the Department of Heavy Industry to review the performance during the 4-year period 1977—81. However, they have been assured that there will be effective monitoring and appraisal in future on the basis of the new format for management reporting evolved recently. The Committee suggest that the reviews by the Board and the administrative Department should cover reliable

inter-firm comparison with a view to identifying the areas where improvement is possible. Incidentally, the Committee suggest that the question of restructuring of the BHEL in order to make it efficient and competitive should also be kept under constant review.

.... **Reply of Government**

Recommendations noted.

[Ministry of Industry (Department of Heavy Industry)
O.M. No. 4(2)/82-HEM dated 28 February, 1983].

NEW DELHI;
April 14, 1983.

Chaitra 24, 1905 (Saka)

MADHUSUDAN VAIRALE,
Chairman,
Committee on Public Undertakings.

APPENDIX

(Vide Para 3 of Introduction)

Analysis of action taken by Government on the recommendations contained in the 4th Report of the Committee on Public Undertakings (Seventh Lok Sabha).

I.	Total number of recommendations made	31
II.	Recommendations that have been accepted by the Government	33
	Percentage to total	100%
III.	Recommendations which the Committee do not desire to pursue in view of Government's reply	NIL
	Percentage to total	NIL
IV.	Recommendations in respect of which replies of Government have been accepted by the Committee	NIL
	Percentage to total	NIL
V.	Recommendations in respect of which final replies of Government are still awaited	NIL
	Percentage to total	NIL