

BHARAT EARTH MOVERS LIMITED

**Ministry of Defence
(Department of Defence Production and Supplies)**

COMMITTEE ON PUBLIC UNDERTAKINGS 1990-91

FIRST REPORT

NINTH LOK SABHA

**LOK SABHA SECRETARIAT
NEW DELHI**

FIRST REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS (1990-91)

(NINTH LOK SABHA)

BHARAT EARTH MOVERS LIMITED

(MINISTRY OF DEFENCE —
DEPARTMENT OF DEFENCE
PRODUCTION AND SUPPLIES)

[Action taken by Government on the recommendations
contained in the 45th Report of the Committee on Public
Undertakings (Eighth Lok Sabha)]



Presented to Lok Sabha on 7 SEP 1990

Laid in Rajya Sabha on 7 SEP 1990

LOK SABHA SECRETARIAT
NEW DELHI

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(1990-91)

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*Ceased to be a member consequent upon his resignation from Rajya Sabha w.e.f. 14.6.1990.

INTRODUCTION

1. the Chairman, Committee on Public Undertakings having been authorised by the Committee to submit the Report on their behalf, present this Ist Report on Action Taken by Government on the recommendations contained in the 45th Report of the Committee on Public Undertakings (Eighth Lok Sabha) on Bharat Earth Movers Limited.

2. The 45th Report of the Committee on Public Undertakings was presented to Lok Sabha on 28th April, 1988. Replies of Government to all the recommendations contained in the Report were received by 20th July, 1989. The Committee considered and adopted this draft Report at their sitting held on 11th June, 1990.

3. An analysis of the action taken by Government on the recommendations contained in the 45th Report (1987-88) of the Committee is given in Appendix II.

NEW DELHI;

23 July, 1990

Shravana 1, 1912 (S)

BASUDEB ACHARIA

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-fifth Report (Eighth Lok Sabha) of the Committee on Public Undertakings on Bharat Earth Movers Ltd. which was presented to Lok Sabha on 28 April, 1988.

2. Action Taken Notes have been received from Government in respect of all the 24 recommendations contained in the Report. These have been categorised as follows:—

(i) *Recommendations/observations that have been accepted by Government*

Sl. Nos. 1, 2, 6, 8, 10, 11, 13 to 21 & 24

(ii) *Recommendations/observations which the Committee do not desire to pursue in view of Government's replies*

Sl. Nos. 5, 7 & 12.

(iii) *Recommendations/observations in respect of which replies of Government have not been accepted by the Committee*

Sl. Nos. 3, 4, 9, & 22-23

(iv) *Recommendations/observations in respect of which final replies of Government are still awaited*

Sl. No. Nil

3. The Committee are constrained to point out that after presentation of Forty-fifth Report (Eighth Lok Sabha) in April 1988, it took the Ministry of Defence (Department of Defence Production & Supplies) about 15 months in furnishing action taken replies duly vetted by Audit. The action taken replies were required to be submitted by 28 October, 1988. The last reply was furnished to the Committee only on 20 July, 1989 after repeated reminders. The Committee deprecate this inordinate delay in furnishing the action taken replies and the casual manner in which the Ministry have treated the recommendations of the Committee. Surely, the Committee expect greater attention of the Ministry in accepting and implementing their recommendations. The Committee, therefore hope that the Ministry will take due care in future and furnish action taken replies within the stipulated time.

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

A. *Non-adherence to the Corporate Plan regarding manufacture of Heavy vehicles, 40 ton. pipe layers, hydraulic cranes and 120 MT rear drump trucks.*

(Recommendation Serial No. 3 & 4)

5. In their 45th Report (Eighth Lok Sabha) the Committee noted that production schedule as incorporated in the Corporate plan for the introduction of heavy vehicles during 1978-79, 40 ton. pipe layers during 1979-80, hydraulic cranes by October, 1979 and 120 MT rear drump trucks by 1985 were not adhered to and these machines were not introduced during 1986-87. The Committee did not accept the views of the Ministry that the main reason for their non-introduction was market demand not picking up as anticipated and felt that the company should have worked out systematic and aggressive marketing strategy. In regard to manufacture of 40 ton. pipe layers which was due for introduction in the year 1979-80 the Company spent Rs. 22.48 lakhs on development works by March '85 as orders from Oil, Gas field areas and Coal Sector were expected on the basis of market survey. Subsequently the demand did not pick up as anticipated resulting in deferring of introduction of 40 ton. pipe layers from 1979-80 to 1986-87 and only 2 numbers were produced during 1986-87. When enquired whether any specific commitment was obtained from ONGC for placing orders on BEML for 40 ton. pipe layers the CMD(BEML) during evidence stated:—

“No. They did not give...We do not have any such document to prove.”

The Committee accordingly came to the conclusion that there was no reasonable basis for assessing the demand for pipe layers at the time of drawing of Corporate Plan and felt that in the absence of any specific commitment from ONGC and Coal Sector there was no justification for incurring expenditure on the development work to the tune of Rs. 22.48 lakhs.

6. In reply the Ministry have stated that business environment is dynamic and changes takes place continuously over time and the planning process has to be responsive by being flexible, adaptable and continuous. An introduction of the new item during the plan period is envisaged on the basis of certain assumption of market behaviour and if the market demand for a product does not materialise as anticipated it would not be prudent to introduce the product only because its production was planned.

7. The Ministry have further stated that based on the reports of the Coal & Steel Sectors and keeping in view the projected output and the rate of growth in the preceding plan periods, BEML had visualised the requirement of Hydraulic Cranes and the Corporate Plan contemplated detailed market survey before coming to a definite conclusion on the need for this equipment in these sectors and taking up its production. As the detailed market survey revealed inadequate and unsustainable demand for the equipment the Company was left with no option except to defer the introduction of this equipment.

8. The heavy vehicles were meant to act as prime movers for the Army's tank transporting trailers. The delay in production was because of the number and specifications of vehicles required by Army could not be determined. The prototype was however developed as per GSQR in 1984 and given to the Army for trials. After completion of various tests, the Army authorities have not recommended the introduction of vehicles developed by BEML and further as Tatra Vehicles were already in use with the Army, the Company has entered into a collaboration agreement with M/s. Omnipol of Czechoslovakia for the licenced manufacture of Tatra Vehicles and the production of this vehicle has commenced from 1987-88.

9. Regarding introduction of 40 ton pipe layers the Ministry have argued that in a highly competitive market in which BEML is operating, it is not commercially prudent to await formal commitment before including a product in their production and R&D plans and an approach towards firm commitments might lead to a delayed entry into the field thereby losing a market potential to others. Although factors such as the possibility of foreign party selected for undertaking pipe laying work being allowed to import their own equipment was not anticipated at the time of assessment of likely demand for pipe layers, it was known for certain that there was a requirement for considerable amount of pipe laying work within the country. An over-cautious approach would be detrimental to the Company's long term interests as a commercial enterprise specially as BEML operates in a highly competitive environment. Though the development action taken by the Company could only be deployed in the manufacture and marketing of 2 number 40 ton. pipe layers, the Company's R&D engineers have gained valuable experience and confidence and that this is being utilised in undertaking other development projects like the development of higher capacity pipe layers (upto 90 tonnes capacity).

10. The Committee do not consider the reply of the Government as convincing. Corporate Plans approved by the Board of Directors envisaged *inter-alia* an action plan giving year-wise details of targets from 1976-77 to 1980-81 and broad projections in the subsequent 5 year periods ending 1985-86 and 1990-91, which included undertaking the manufacture of several new equipments to be introduced from 1977 to 1985. As the Corporate Plan is drawn by experts and approved after in depth study and prolonged deliberations by the Board of Directors it is but natural that the execution of the Projects should follow broadly the corporate strategies and objectives outlined in the Corporate Plan and, of course, give due allowance for the minor deviations and adjustments which are unavoidable. The Committee would, therefore, like to know whether the project for the production of Hydraulic Cranes was shelved due to lack of demand and belated introduction of 120 tonnes dumpers has been successful and the

production in this unit has been able to command a ready market. The Committee may also be apprised whether infrastructure created for the production of heavy vehicles (prototype of GSQR) which did not meet the specification laid down by the army authorities has been put to use for the production of Tatra Vehicles. The Committee are happy to note that the expertise and confidence gained by Company's R&D engineers for the manufacture of 40 ton pipe layers is being utilised in undertaking the development of higher capacity pipe layer (Upto 90 tonnes capacity) and would like to be apprised of the progress made regarding production and sale of upto 90 tonnes pipe layers and the surplus generated by this unit.

B. Purchase of M/s. Vignyan Industries Limited
(Recommendation Sl. No. 9)

11. The Committee had noted that in the context of inadequacy of existing indigenous source for supply of castings and to increase production of equipment with higher indigenous content, a Project Report was prepared (August 1972), envisaging a capital outlay of Rs. 355.75 lakhs (revised to Rs. 599.17 lakhs in June 1975), for establishing a captive foundry with an installed capacity of 3600 tonnes per annum, capable of being further augmented by 1000 tonnes per annum after providing additional marginal facilities. The cost per tonne of in-house manufacture of castings and forgings was estimated at Rs. 10,081, Rs. 9,074 and Rs. 8,470 at capacity utilisation of 60 per cent, 80 per cent and 100 per cent respectively *vis-a-vis* the estimated purchase price of Rs. 11,238 resulting in cost advantage to the Company. The actual expenditure incurred to end of 1974-75 was only Rs. 11.73 lakhs on the pattern shop building meant for the foundry which is, however, being used for housing the Hydraulic Shop catering to R&D activities. Subsequently, Government of Karnataka proposed in July 1975 to entrust to the company a private foundry run by Vignyan Industries Limited (VIL), Tarikere, set up in 1970 and remaining closed since December 1974 because of mismanagement and shortage of funds. The estimated production capacity of VIL was 1500 tonnes of steel castings p.a., subject to rehabilitation and augmentation of plant and machinery (estimated cost: Rs. 106 lakhs). The VIL was rehabilitated with the assistance of financial institutions and became a deemed Government Company under section 619(b) of the Companies Act, 1956 with effect from January, 1975 and resumed working from November, 1975. Government of India, however, approved (April, 1983) conversion of VIL into a subsidiary of the Company by purchase of shares to the extent of at least 75 per cent of the total shareholding at an approximate cost of Rs. 16.45 lakhs. Meanwhile the Company purchased from open market during 1974-75 to 1983-84 steel castings to the extent of 14,881 tonnes (including 2763 tonnes from VIL) at the average purchase price of Rs. 13,375 per tonne. Thus, due to delay in either, establishing a captive foundry or taking over of VIL, the expected cost advantage was lost by the Company. The Committee had also noted that even as early as

1972, the Company had envisaged need for 3600 tonnes of castings per annum but the actual consumption in the 10 years from 1974-75 to 1983-84 was only 14,881 tonne i.e. an average of less than 1500 tonnes per annum. In this connection, the Committee were informed by the company that the need for 3600 MT of castings per annum was envisaged in early 1972 based on the production level of 850 earth moving equipment (at stabilisation level) and also for a production of 400 Rail coaches and taking an average of 1500 tonnes over a long period was not correct. They envisaged the progressive development and increase in requirement of castings upto 3600 tonnes had been reached in the year 1983-84 and subsequently they have been using casting to the tune of more than 400 tonnes. On the question of acquiring M/s. Vignyan Industries Limited whose capacity was assessed at only 1500 tonnes per annum after rehabilitation and augmentation of plant and machinery at a cost of Rs. 106 lakhs, as against estimated requirement of 3600 per annum, the Committee were informed that the licensed capacity of VIL was 3000 MT of steel castings. The Committee were at a loss to understand as to why M/s. Vignyan Industries Limited whose installed capacity was only 1500 tonnes per annum was purchased while the company's need as envisaged in early 1972 was for 3600 M.Ts of casting. The Committee were constrained to note that during the years 1985-86 and 1986-87 this foundry produced only 581 tonnes and 1006 tonnes of steel castings and incurred a loss of Rs. 87.24 lakhs and Rs. 57.34 lakhs respectively. As admitted by the representative of the Company the total production of this Foundry might not exceed 1400 or 1500 tonnes during the current year. The committee were most unhappy to note that M/s. Vignyan Industries Limited has been able to operate only at 20 per cent of its capacity. To end of 1985-86 it incurred a cumulative loss of Rs. 512.39 lakhs as against its paid up capital of Rs. 45.47 lakhs.

12. The justification given by the representative of the Company that they could not achieve full capacity due to inadequate supply of power did not convince the Committee in regard to the dismal performance of the Foundry. As against the consumption of 4100 M.Ts in 1986-87, the foundry produced only 1006 tonnes of steel castings. The remaining quantity had to be purchased from the open market. The Committee had, therefore, come to an inescapable conclusion that the decision to purchase Vignyan Industries Limited was not commercially prudent. They had desired that the Ministry should hold an enquiry as to what level the decision to purchase this unit was taken what were the considerations which weighed for taking over this unit. The committee had also desired to know as to why the decision in regard to establishing a captive foundry was shelved.

13. It has been stated by Government in their reply that the Government of Karnataka, who had a substantial financial stake in Vignyan Industries Limited (VIL), was (in 1975) looking for a company with a strong management set up to rehabilitate VIL. They accordingly approached BEML to lend support to this sick foundry which had

suspended operation in December, 1974. At about that time BEML's proposal to set up a captive steel foundry had to be shelved for the following reasons:—

- (i) Import of such equipment, as was not available indigenously, was to have been made from Czechoslovakia or from Poland. However, despite negotiations carried on for about two years, the response from these sources was not encouraging.
- (ii) The project estimates required to be revised upwards from Rs. 3.55 crores to about Rs. 6 crores by the end of 1975, when efforts for the import of equipment from Czechoslovakia / Poland finally failed.

While M/s. VIL did not become a subsidiary of BEML until April, 1983, BEML was involved with the rehabilitation of the Company even earlier. An officer of the Company was appointed as Executive Director of the Company in November, 1975 and the Company resumed production in March, 1976. In 1978, out of BEML's total requirements of around 1500 MT of steel casting, about 800 MT were supplied by VIL. The rest was purchased from various parties, such as M/s. Mukand Steel, M/s. Ramakrishna Steel, M/s. Indian Iron & Steel Company, at competitive rates. BEML have been able to control the procurement price rates of castings through the acquisition of VIL as a Subsidiary, as the Company could resort to the production of any particular type of casting at VIL, in case outside prices were high. This has helped BEML to keep the prices of steel castings, during 1984-85 and 1985-86, at the price level of 1983-84. During 1986-87, the price of castings increased by only 4.4% over the prices prevailing in 1983-84. Thus, the takeover has not only enabled BEML to meet a sizeable share of their overall requirements of steel castings from VIL, but it has also helped the Company to keep the prices of castings procured from other sources under check. While it is true that BEML's requirement of casting is more than VIL's capacity (1500 tonnes per annum), the quantity of castings supplied by VIL has been sufficiently large to enable BEML to procure casting from other sources at reasonable rates. VIL's production being only 581 tonnes in 1985-86 and 1006 tonnes in 1986-87 was on account of the severe power cuts imposed during these years (it is clarified that the statement regarding VIL operating at 20% of its capacity during 1985-86 relates to its licensed capacity & not its installed capacity). As against the requirement of about 6 lakhs units of power per month for achieving a break even level of production, VIL was receiving only around 1.3 to 3.6 lakhs units per month. However, from 1988 onwards, revised upwards norms of power allocation have been established for VIL, and these are sufficient to meet their current needs. The poor availability of power had also prevented BEML from considering augmentation of the foundry's capacity. Now that the power situation has improved VIL's production during 1987-88 was 1280 metric tonnes; in

1988-89 it rose to 1411 tonnes. It is true that the process of takeover of VIL took considerable time. This could not be helped as the take over a Company with private shareholding was involved. Hence, the matter was required to be examined from various angles, (technical & financial viability etc.) in consultation with the Ministry of Law, Ministry of Finance, Ministry of Industry, the State Government of Karnataka etc., before coming to a final decision. The valuation of the shares of the Company also took some time. As many agencies and a number of issues were involved, the final decision could not be taken until April, 1983.

14. The Government have further stated that M/s. BEML have made considerable efforts to revive this sick Company by the provision of services of good technical/managerial personnel from its own cadre, supplying raw materials, providing an assured market, extending working capital assistance and improving its viability through:

- (a) persuading VIL's creditors to forego a part of their principal/interest accrued and to agree to rescheduling repayments;
- (b) reducing power consumption by making the desired changes in the induction furnace; introducing in-house machining of castings. These measures are encouraged to eventually ensure higher income and a fuller utilisation of manpower; and
- (c) making arrangements for the training of personnel in leading private sector companies to enable improvement in the methods of production/design.

The BEML acquired the controlling interest in VIL for Rs.16.83 lakhs (face value of the investment is Rs. 35.44 lakhs). The Company has 11 acres of industrial land and 10 acres of non-industrial land. Its buildings are valued (31.3.1988) at Rs. 17.26 lakhs. In 1981 the ICICI had arrived at a Gross Block valuation of Rs. 289.78 lakhs against a Book Value of Rs. 109.06 lakhs (30.12.1980) for the fixed assets.

15. Concluding their reply the Government stated that from the aforesaid analysis it would be appreciated that it would not be a sound conclusion to say that the decision to purchase VIL was not commercially prudent. The decision to acquire VIL as a subsidiary of BEML was taken by the Government after due and careful examination and approvals at the appropriate levels. In this context it would be seen that holding an inquiry, at this junction, into the consideration involved in the purchase of the foundry would not be a fruitful exercise. The hon'ble Committee are requested to reconsider their observation in the matter, after considering the explanation rendered in the preceding paras.

16. The Committee are not convinced with the reasons put forth by Government for acquiring M/s. Vignyan Industries Ltd., Tarikere. The purpose underlying the acquisition of M/s. VIL was to have an in-house foundry appropriate to its requirements. This purpose has, obviously,

remained unfulfilled despite considerable loss of time and money. The Committee is not willing to view real estate gains supposed to have been made in the transaction as an achievement because BEML is not in the real estate business. They feel that pros and cons of purchasing M/s. VIL *vis-a-vis* setting up its own captive foundry were not thoroughly weighed by the Company before taking over M/s. VIL. It is evident from the fact that the production of castings in M/s. VIL still falls much short of the requirement of the Company. The Committee, therefore, reiterate their earlier recommendation and desire that the Ministry should hold an independent enquiry into the circumstances leading to the decision of purchasing M/s. VIL, as also the decision to shelve the setting up of captive foundry. It should also be ensured that such an enquiry should be free from pulls and pressure from any quarters to bring out full facts.

C. Manufacture of Diesel Engines

(Recommendation Sl. No. 13)

17. The Committee had noted that the Collaboration Agreement with M/s. Komatsu, Japan for the manufacture of Diesel Engines by BEML was approved by Public Investment Board (PIB) on 15.7.1985. However, the project could not be cleared because of certain objections raised by the Ministry of Industry and the DGTD. The Committee also found that M/s. Kirloskar Committee Limited, Pune are the only manufactures of diesel engines which can be lifted in equipment supplied by BEML to its customers. BEML was facing a number of complaints from customers including Coal India Ltd. of serious performance deficiencies and there was an unduly long period for stabilisation of new equipment resulting in growing customer dissatisfaction. The Committee expressed their deep concern over the delay in sanctioning of the diesel engine project particularly when the project for the manufacture of engines had been approved as early as December, 1985 and desired that the precious time should not be lost in clearing Diesel Engine Project.

18. In reply the Ministry have stated that Government's approval for BEML making a capital investment of Rs. 30.06 crores out of its own resources for the setting up of facilities to manufacture diesel engines for its earthmoving equipments on the Company's own land at Mysore has been conveyed on 21st July, 1988.

19. The Committee find from the reply of the Government that the project is still at the drawing board stage. Since there has been already a slippage in the execution of the project which was sanctioned as early as 1985, the Committee hope that the project would be speeded up to make up for the delay that has already taken place and would like to know the targets fixed for the completion of the project and progress, if any, made so far.

D. Sale of Earthmoving Equipments

(Recommendation Serial Nos. 22 & 23)

20. The Committee observed that the customers were required to pay 70 to 100 per cent of the value of the equipment through their bankers on

the production of proof of despatch according to terms and conditions of the contracts for sale of earthmoving equipments. But there was no provision for recovery of penal interest (OD) for bills not paid by the customers within the due date. Consequently, the company had to pay to the banks Rs. 139.15 lakhs as interest during the period from February '79 to March '87 due to 402 bills valued at Rs. 81.13 crores not honoured by the customers on due dates. The Committee were informed by the Company that most of the customers including the Government Departments did not agree to the incorporation of the clause regarding levy of any interest charges in case of delayed payment by them. However, the Ministry informed the Committee that the Board of Directors of the Company were being asked to examine the matter.

21. In reply the Government have now stated that the Board of Directors examined the matter and opined that in view of the fierce competitive market, the buyer dictates terms and that the Company often have no other option but to accept these terms and accordingly they were not in favour of adopting a rigid approach in this regard as a matter of policy. It was stated that the company would offer selective credit specifically for customers in the Government sectors and they expect that normally outstanding sundry debts would be cleared within a period of 3 to 4 months through constant liaison with the customers.

22. The Committee feel that the reply given by the Ministry is not convincing. In the case of supplies to Government Sector the orders are placed by the Government Departments only when funds are available in their budget grant and, therefore, there should be no difficulty for them in making prompt payment thereby saving the Company from an avoidable payment of huge interest charged by the Banks for not making payment of the bills within the due date. The Committee also regret to note that the outstandings at the end of the year 1986-87 amount to Rs. 20,255.24 lakhs and the major customers against which the dues are outstanding are Government Departments/Public Sector Undertakings. The Committee, therefore, trust that suitable systems would be developed by the Company to avoid payment of interest and streamline the procedure for recovery of huge outstanding debts. The Committee feel that the profitability of the Company will be enhanced and financial constraints in cash flow will be greatly reduced if serious attention is paid in these areas and desire an in-depth review by the Board of Directors and devise methods to overcome the difficulties experienced by the Company in obtaining prompt payments for supplies made to customers.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation Serial No. 1

The Committee note that the Board of Directors of the Company in December, 1976 approved a Corporate Plan, covering *inter-alia*, environmental influences, missions, objectives, corporate strategies and functional strategies as well as an action plan comprising detailed year-wise targets for 1976-77 to 1980-81 and broad projections for the subsequent five-year periods ending 1985-86 and 1990-91. Although the Bureau of Public Enterprises had issued guidelines as far back as in 1974 to the effect that each public enterprise was required to formulate a Corporate Plan with formal ratification/approval by the administrative Ministry, neither the Bharat Earth Movers Limited (BEML) cared to obtain the approval of the Department of Defence Production and supplies to the Corporate Plan approved by their Board of Directors in December, 1976 nor the Department considered it necessary to ensure compliance with the guidelines issued by BPE in this regard. The Department of Defence Production and Supplies stated that as the composition of the Board included Government Directors and also in view of the fact that a copy of the agenda was sent to the Ministry no separate reference for approval of the Corporate Plan was made to the Government. The old records available in the Ministry do not suggest that the Corporate Plan of BEML was formally ratified by Government. At this stage the Committee can only express their regret that since 1976 the Company has been functioning on the basis of a Corporate Plan not approved by the Government. The Committee need hardly emphasise that specific approval of Corporate Plan by Government was necessary to enable it to indicate the direction that the Company should take and to have an overall view of the production requirements.

Reply of the Government

The need for a specific approval of the Company's Corporate Plan by Government in the Administrative Ministry has been noted for adherence, in future.

[Ministry of Defence, Deptt. of Defence Production and Supplies O.M. No. 23(11)/87/D(BEML) dt. 13th July, 1989]

Recommendation Serial No. 2

The Committee are surprised to find that the Company had not made a comprehensive review of achievements against the various strategies, action plans, etc., laid down in the Corporate Plan but only reviewed in 1980-81 (April, 1980) and 1985-86, the action plans relating to introduction of new equipment in production, year-wise production/sales of equipment and certain indicators/ratios of performance of efficiency, at the Board level. The Committee are not satisfied with the reply given by the Company that their Board had been regularly reviewing the performance and achievements of the Company in the background of the strategies and action plans spelt out in the Corporate Plan even though a specific review might not have been undertaken as comprehensive, distinct and independent exercise since the growth rate had, by and large, been in consonance with the Corporate Plan.

Reply of the Government

Instructions have been issued to all the Defence Public Sector Undertakings, including Bharat Earth Movers Ltd., to make a formal comprehensive, independent and distinct, review of their performance vis-a-vis Perspective Plan annually. In fact their annual performance is critically examined in the Ministry with reference to the goals of Production, Sales, Profits, Exports fixed in their Perspective Plan.

[Ministry of Defence, Deptt. of Defence Production and Supplies O.M.
No. 23(11)/87/D(BEML) dt. 7.4.1989]

Recommendation Serial No. 6

The Committee note that the production of heavy vehicles meant for Defence Department was due for introduction in 1978-79 in Railcoach Division, with an envisaged production level of 95 numbers by 1980-81. It had not been taken up as the question of entering into a collaboration agreement with the Czechoslovakian Government was under consideration and the prototype tractor was under trials (December, 1985). In the meantime, 45 vehicles were imported by the Defence Department in 1983 at a cost of Rs. 21.86 lakhs each. The Committee have been told during evidence that these heavy vehicles are still being imported by the Army. According to the Company, they were aware of General Staff Quality Requirement (GSQR) of the Army in regard to heavy vehicles from the very beginning. The Army was experimenting with various types of heavy duty vehicles but had not come to any definite conclusion as to which particular type of vehicles was required by them. The Secretary, Defence

Production informed the Committee during evidence that the heavy vehicles which BEML wanted to introduce and develop as per GSQR sometime in 1984 was given to the defence services in 1984 for their evaluation and trials. The result of those trials were yet to be received by the Ministry. When enquired as to how much time will be taken to evaluate vehicles given by the Company for trials, the Secretary, Defence Production stated:—

“Final view has not yet emerged.....These are matters which involved huge financial implications, change in technology, change in pattern and fuel efficiency.”

2. The Committee are constrained to point out that the production of 95 heavy vehicles in 1980-81 itself was envisaged in the Corporate Plan by BEML without having any specific consultation with the Army. They are also pained to note that even though the Ministry were aware of the envisaged production of these heavy vehicles, they did not direct the Army to give clear indication regarding their requirement of such vehicles and the specifications thereof. Although the proto-type of the heavy vehicle was given to the Army by BEML in 1984, the Army has yet to take a final view in this regard. The Committee are unable to appreciate the delay of almost four years on the part of the Army in taking a final decision in the matter. They are particularly concerned because the BEML has the necessary infrastructure for development of such heavy duty vehicle but the Army is not giving a clear indication in regard to the model they are finally interested in whereas they have been importing such vehicles spending the scarce foreign exchange. The Committee hope that Department of Defence Production and Supplies would take up the matter with the Army with a view to pursuing the evaluation and trials of heavy duty vehicles, the proto-type of which was supplied to the Army in 1984. The Committee are afraid that such delays in evaluation and trials of futuristic vehicles required by the Army might result in technological obsolescence of the equipment and resultant loss to the Company. The Committee, therefore, recommend that the Government should perform a constructive role in getting the requirement of Army finalised soon and orders placed on BEML.

Reply of the Government

Heavy duty vehicles are required by the Army for performing various roles. These vehicles are used as prime movers for trailers transporting tanks, breakdown recovery vehicles, for gun towing, missile mounts, crash fire tender etc. The vehicle developed by Bharat Earth Movers Limited was primarily meant to be used as a prime mover for a tank transporting trailer. On the other hand, the 45 vehicles imported during 1983 were for use as heavy duty recovery vehicles and were fitted with crane and other specialised equipment used in EME workshops.

2. The vehicle developed by BEML, like other vehicles introduced into service by the Army, required to be put through technical trials, user trials (separately for winter and summer seasons in different sectors) and finally maintenance trials. The vehicle was also modified on the basis of the *prima-facie* observations made by the Army Hqrs. The detailed trials were also hampered at times due to breakdowns. Thereafter, the Army Hqrs. had to evaluate the data accumulated during the trials to take a final view. All this contributed to the overall length of time taken for the decision on the induction or otherwise of the vehicle.

The Army Hqrs. have finally not recommended the introduction of the vehicle into service as, according to them, it suffers from serious design limitations and other drawbacks.

Since Tatra vehicles were already in use with the Army for use as prime movers for tank transporting trailers, and there were likelihood of large numbers being required in the future, M/s. Bharat Earth Movers Ltd., have entered into a collaboration agreement with M/s. Omnipol of Czechoslovakia for the licenced manufacture of Tatra vehicles in their works. Creation of facilities at BEML for manufacturing the vehicles at a capital investment of Rs. 29.45 crores has been approved by the Government. During 1987-88 the Company has supplied 88 vehicles to the Army and M/s. Bharat Electronics Ltd. An order for the additional supply of 320 Nos. of vehicles for Army has also been received.

As M/s. BEML were aware of the specifications of these vehicles from the start, and were developing the proto-type based on interaction with Army, no need was felt for giving directions to the Army in respect of the specifications.

Evaluation of vehicles and equipment is a long drawn process in order to meet the stringent requirements imposed by strategic considerations as well as on account of the heavy investment implications. The Army Hqrs. have been advised to minimise the time taken in this regard and to make the optimum use of indigenously available equipment/vehicles.

[Ministry of Defence, Deptt. of Defence Production & Supplies
O.M. No. 23(11)/87/D(BEML) dt. 13th July, 1989]

Recommendation Serial No. 8

The Committee note that the Company had set up production facilities progressively in the Earth Moving Equipment project to keep pace with requirements, phasing out the capital investment over a period of 19 years from 1965-66 to 1983-84. The expenditure incurred to the end of March 1984 was Rs. 31.29 crores. The U.S. consultants to the project suggested in May 1965 that a more detailed and a specific programme be drawn up for implementing the Earth Mover Project. But the Company neither prepared a detailed and a specific programme nor laid down a time schedule for implementation of the Project so as to monitor the implementation on the

basis of accepted techniques such as PERT and CPM. In this connection, the Company has informed the Committee that the product-mix for which the capacity was proposed to be created was changing from time to time with each project revision. The Company has further informed that in view of the fact that the demand was not growing as anticipated, they had to perforce go slow in the creation of facilities. Although no project should be implemented without having any time schedule for implementation, in this particular case the execution of the project in phases and to the extent necessary and required for meeting the demand has helped the Company in avoiding building up of idle capacity. But by resorting to close monitoring of progress of the project, Company was able to create facilities for manufacture of the variety of models of earth moving equipment which could meet not only the domestic demand but also to a certain extent overseas demand. The PERT and CPM techniques were not frequently used in those days as they were less known and of recent use in India. The Secretary of the Ministry attributed the absence of time schedule to piecemeal sanctioning of the various phases. As regards monitoring of the implementation of the project, the Secretary informed the Committee that during those days when this project was sanctioned or initiated in the Government or in the Government Undertakings either the awareness of these techniques (PERT/CPM) or the desirability of introduction of such techniques did not exist. For the first time the BPE issued instructions on this *vide* their Circular dated 30th March, 1970. The Committee have also been informed that continuous monitoring of the project was effected through annual capital budgets and revised estimates. In this connection, the Secretary of the Ministry also stated: "I am not ruling out the possibility of a PERT monitoring mechanism even on piecemeal sanction, but its utility and its effectiveness in my opinion is bound to be very poor if the project requirements were not sanctioned at one go." While agreeing to the importance of PERT/CPM techniques for project monitoring, the Secretary of the Ministry agreed that he would not dispute the importance and contribution of these techniques to any management practice. The Committee regret to note that the Company went on creating facilities in phases for 19 long years for the manufacture of earth moving equipment without drawing up any specific programme as suggested by the U.S. consultants. The Committee totally disagree with the justification given by them for not doing so on the ground that they had to implement the project in a piecemeal fashion so as to keep pace with the actual growth in demand. The Committee strongly feel that in such a situation it was all the more necessary for the Company to finalise a detailed and specific programme for implementing the project. The Committee are also unhappy to note that the Company did not adopt the monitoring techniques such as PERT/CPM to watch the implementation of the Project. The reply given by the representative of the Company as well as Government that these techniques were not adopted because of their awareness or the desirability of the introduction did not exist, is most unsatisfactory. The BPE had issued guidelines for adopting these

techniques as early as in March, 1970. The Company could have at least considered adoption of these techniques for monitoring the implementation of this project after they had received these guidelines.

Reply of the Government

The delayed adoption (1985) of techniques such as PERT/CPM for monitoring project implementation is regretted by the Company. However for the implementation and monitoring of projects currently being undertaken by the Company, these techniques are being effectively utilised. All these projects are proceeding according to schedule.

[Ministry of Defence, Deptt. of Def. Prod. & Supplies O.M. No. 23(11)/87/D(BEML) dt. 13th July 1989]

Recommendation Serial No. 10

The Committee note that the total revenue and capital expenditure incurred on R&D upto March, 1987 was Rs. 1973.36 lakhs and Rs. 1294.24 lakhs respectively. Out of the 43 development projects taken up by the Company during the period April 1971 to March 1984, only 27 projects were completed to the end of 1983-84. The Committee also note that the Company did not draw up any specific schedule on imports substitution projects for execution after establishment of R&D in 1971. The Committee are not satisfied by the reply of the Company that they did not draw up schedule as they gave priority for absorption of technology available through collaboration and indigenisation of collaborated products. The Committee on Public Undertakings in their 2nd Report (5th Lok Sabha) had strongly recommended that the Undertaking should formulate research schemes with the specific purpose of achieving objectives for which the Research and Development Fund had been created including the scheme to rapidly indigenise the manufacture of components. The Committee are pained to note that the Company did take no serious note of this recommendation of the Committee. Delays in the completion of 18 projects ranged from 16 to 76 months. Had the company drawn up schedule of import substitution projects for the execution immediately after setting up R&D, they would have reduced the delays in completion of various projects. It is only now that the Company draws up schedule for both development of products and imports substitution. The Committee regret to note that, as admitted by the Secretary, Department of Defence Production and Supplies, the Ministry did not evolve a regular mechanism for monitoring and evaluating results of the various R&D Projects undertaken by the Company. The Secretary also conceded that this has been a weak area as far as the Ministry level was concerned. The Committee hope that as assured by the Secretary a regular monitoring mechanism would now be evolved in the Ministry for monitoring expenditure incurred by BEML on various R&D projects and for proper evaluation of results achieved by the Company in the field of R&D.

Reply of the Government

From the Quarter ended on 31.3.1988 the progress of the Research & Development activities for Bharat Earth Movers Ltd., is being reviewed in the Quarterly Performance Review Meetings held in the Ministry. A common format is also being evolved for the review of the R&D activities of all the Defence PSUs in such meetings.

[Ministry of Defence, Deptt. of Defence Production & Supplies O.M. No. 23(11)/87/D(BEML) dt. 7.4.1989]

Recommendation Serial No. 11

The Committee are constrained to observe that although the corporate plan emphasised self-reliance in the fields involving sophisticated technology, neither any appreciable progress has been made nor effective action taken in fulfilment of this important corporate strategy even after a lapse of 12 years. This fact has been admitted by the Secretary, Department of Defence Production when he informed the Committee during evidence that one of the areas of concern was indigenisation.

Reply of the Government

Starting in 1965 with only 5 models of earthmoving equipment and confining themselves mainly to assembly work, M/s Bharat Earth Movers Ltd. have now a product range of 24 models of earthmoving equipment. On account of lack of suitable infrastructure in the country for the supply of heavy duty castings, forgings, hydraulic pumps, cylinders, transmissions etc., the initial pace of indigenisation was slow. The problem was aggravated due to the stringency of specifications on the one hand and the limited off take of equipment by customers on the other.

With the progressive development of the company's own manufacturing facilities for various type of gears, transmissions, hydraulic system components like cylinders, pumps etc., and also with the progressively increasing quantitative off take, it has been possible (since about 1980) to give a greater thrust towards indigenisation. While in the earlier years it used to take 10-12 years to achieve an indigenisation level of 80%, the Company now aims towards achieving this level within 5 years. A commitment to this effect is given to the Directorate General of Technical Development in respect of all new equipments taken up for manufacture. In fact, new models/equipment are being introduced with an initial indigenisation level of between 35 to 40%, which is fairly high.

The progress of indigenisation, against the present targets, is reviewed on a quarterly basis at the corporate level (i.e. by the Board of Directors). Aspects of production relating to indigenisation are also discussed in the quarterly performance review meetings taken by the Raksha Rajya Mantri. The Dte. General of Technical Development in the Ministry of Industry also monitors the levels of indigenisation of BEML's products to ensure

that it is in accordance with the predetermined phased manufacturing programme approved by them.

[Ministry of Defence (Department of Defence Production & Supplies)
O.M., No 23(11)/87/D(BEML) dt. 7.4.1989]

Recommendation Serial No. 13

The Committee note that the collaboration agreement with M/s Komatsu, Japan for the manufacture of diesel engines by BEML was approved by Public Investment Board (PIB) and taken on record by Government on 15-7-1985. The Ministry intimated Audit in December, 1985 that the BEML's proposal for having its on captive Diesel Engine Plant was in final stages of approval. However, the Project could not be cleared because of certain objections raised by the Ministry of Industry and the DGTD, who have now finally agreed to the proposal. The Committee find that M/s Kirloskar Cummins Limited, Pune are the only manufacturers of Diesel Engines which can be fitted in equipment supplied by BEML to its customers. The BEML has been facing a number of complaints from customers including the Coal India Limited of serious performance deficiencies and in every case of new equipment the period of stabilisation has been unduly long resulting in growing customer dissatisfaction. The Committee cannot but express their deep concern over the delay in sanctioning of the Diesel Engine Project particularly when the project for manufacturing Engines had gained currency as early as December, 1985. The Committee hope that no precious time would not be lost in clearing Diesel Engine Project.

Reply of the Government

Government's approval for BEML making a capital investment of Rs. 30.06 crores, out of its own resources, for the setting up of facilities to manufacture diesel engines for its earthmoving equipments, on the Company's own land at Mysore, has been conveyed to the Company on 21st July, 1988.

[Ministry of Defence (Department of Defence Production & Supplies)
O.M. No. 23(11)/87/D(BEML) dt. 7.4.1989]

Comments of the Committee

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

Recommendation Serial No. 14

The Committee note that although regular production in the Company commenced in 1968-69, the rated capacity of Earth Mover Division has not been fixed either in terms of physical output or in standard manhours (SMH) after taking into account the production facilities progressively set up. The Committee are unable to agree with the BEML that since they are manufacturing a variety of heavy duty engineering equipments with very little commonality between them in regard to size and time taken for processing of components, it was not possible to fix capacity in such a

manner and that there was no other guide for rated capacity than an assessment of the work content. In fact, the Company has now worked out a notional capacity in terms of standard man hours from 1979-80 to 1986-87 based upon a proportional working in relation to the progressive expenditure on plant and machinery actually made from time to time and working backwards from the year of completion of the project for 890 equipments viz. 1985-86. As conceded by the Secretary of the Ministry, capacity of the varied product mix could be fixed in terms of standard man hours based on industrial engineering studies. Thus, the Committee desire that based on industrial engineering studies, the Company should fix the capacity in terms of standard man hours, even in the product-mix situations like that of the company. The SMH capacity so fixed should be formally documented and compared with the actual capacity utilisation to have realistic assessment of the performance of the Company and reported to the Committee within six months of the presentation of this Report.

Reply of the Government

The annual capacity available in terms of facilities (machines and men) set up in various production units for 1988-89 for production of equipment has since been determined by BEML as under:—

<i>Earth Moving Equipment</i>	(in lakhs SMH)
(a) 'B' Division (Plant at KGF for manufacture of Bulldozers and Excavators)	24.17
(b) 'P' Division (Plant at KGF for manufacture of Rope Shovels, Wheel Loaders, Transmissions, etc.)	16.12
(c) 'Y' Division (Plant at Mysore for manufacture of Dumptrucks and wheeled Equipment.)	9.73
Total	50.02

The capacity in terms of SMH has been determined with reference to the men and machine available in the production units for regular production purposes.

In the case of machines the number of shifts for which they are planned to be worked are taken into account. This has also been communicated to the production units for comparison on a quarterly basis with actual capacity utilisation.

Since the capacity, in terms of SMH as now determined, will vary from time to time with reference to the actual number of men and machines available on the shop floor, capacity will be determined afresh at the beginning of each financial year.

Similarly, in respect of Bangalore Complex of the Company the annual

capacity has been determined as 41.93 lakhs SMH. The annual capacity in the Hydraulics & Power Line Division will be determined after project implementation is completed.

[Ministry of Defence (Deptt. of Defence Production and Supplies)
O.M. No. 23(11)/87/D(BEML) dt. 7.4.1989]

Recommendation Serial No. 15

The Committee also find that although the Company is producing spares but their capacity in terms of SMH has not been fixed. The Committee are not satisfied by the explanation given by BEML that since the work content involved in manufacture of complete equipment was relatively much higher than that required for production of spares, which were mostly confined to moving and wearing parts, there was no need to specifically create additional capacity for spares and the requirement can be met by resorting to overtime work etc. The Secretary of the Ministry stated during his evidence: "...The basic question which the audit is putting is that, why are you not fixing the capacity for the production of spares? The Company's answer is that we have never created any capacity as such for spares. Therefore, we can not fix it. It is the viewpoint of the Company. I am not saying that I accept it or that it should be accepted... I personally feel—apart from the argument and the logic thereof—and I would also suggest to the Company that they should give a re-look to this problem and come out with alternatives which are possible and also how to tackle it. I propose to write to them immediately after my submission before the hon. Committee as to what are the possibilities, how best we can try to satisfy audit. We would try to find a realistic solution... these days whenever we sanction a project for manufacturing so many original equipments, the percentage of spares is also mentioned. This is so in ordnance factories". The Committee would, therefore, like BEML to clearly specify in terms of standard man-hours the capacity for spares so as to have a realistic assessment of utilisation of their capacity.

Reply of the Government

The sanctioned and installed capacity in terms of standard man hours was determined at 44.90 lakhs SMH at the end of 1986-87 for the Earthmoving Equipment with reference to the work content of each model of equipment for which capacity has been sanctioned from time to time. This does not include capacity for the manufacture of spares. In defence to the recommendations of COPU an attempt was made to review the actual time spent on in-house manufacture of spares. The study revealed that the average capacity that should be earmarked for production of spares is about 5% of the total available capacity. Thus, the capacity sanctioned and installed, in terms of work content of each model of equipment, and taking

into account 5% towards spares manufactures, will work out to 47.10 lakhs SMH. In other words the capacity for spares is 2.20 lakhs SMH. -

[Ministry of Defence (Department of Defence Production & Supplies)
O.M. No. 23(11)/87/D(BEML) dt. 7.4.1989]

Recommendation Serial No. 16

The Committee note that the rated capacity of 270 railcoaches per annum of the Railcoach Division of the Company was expanded to 400 railcoaches by 1975-76 at a cost of Rs. 211 lakhs, based on an expansion project for increasing the capacity of the Division, which was approved by Government in December, 1970 (estimated cost Rs. 213.65 lakhs). Though the Railway Board intimated in April, 1974 a cut back in orders for rail coaches, the Company went ahead and raised the plant capacity to 400 railcoaches on the ground that bulk of the commitments on civil works, plant and machinery were already made. The Committee regret to note that as against the rated capacity of 400 railcoaches per annum, the actual production of the Division ranged between 184 to 350 railcoaches per annum from 1979-80 to 1986-87. Even after 12 years, the full capacity of 400 coaches has not been utilised by the Company. The Committee are unable to comprehend such a situation as on one hand there is acute shortage of rail-coaches in the country and on the other hand established capacity of BEML for railcoach manufacture is not fully utilised. The Railways have to invest in expanding their coach manufacturing capacity whereas BEML has to diversify to utilize its capacity. The Committee consider such a sorry state of affairs due to lack of proper dialogue between the Ministry of Railways, Ministry of Defence and BEML.

Reply of the Government

The capacity available in M/s Bharat Earth Movers Ltd. to manufacture railcoaches can be utilised by the Railways only to the extent of their requirement of coaches, which is further dependent on the availability of funds, and the expected production in the Railway's own production units. As a result of the interaction between BEML and the Railway Board, the Railways have progressively increased the orders of coaches on BEML and during the current year (1988-89) the level of orders has already reached 400 coaches. BEML, in consultation with the Railways are gradually diversifying their product mix by the introduction of Overhead inspection equipment and Track laying equipment in the Rail Coach Division to meet the Railway requirements.

[Ministry of Defence (Department of Defence Production & Supplies)
O.M. No. 23(11)/87/D(BEML) dt. 7.4.1989]

Recommendation Serial No. 17

The Committee find that as against the sanctioned capacity for the manufacture of 850 earthmoving equipment upto 1980-81 and 890 thereafter, the earthmover division produced 950 equipment in 1981-82, 1131 in 1982-83, 930 in 1983-84, 1004 in 1984-85 and 924 in 1985-86 respectively. The percentage of imported components to total consumption of components has increased from 45.53 per cent in 1979-80 to 61.37 per cent in 1985-86 as also the value from Rs. 25.06 crores to Rs. 133.65 crores during the same period. According to Audit, the utilisation of high percentage of components from outside sources to achieve higher rate of production also resulted in under utilisation of production facilities established in the company. The percentage of in-house manufacture of components of the Company came down from 15.17 in 1979-80 to 9.04 in 1985-86. The Committee recommend that the Company should take necessary measures to ensure that the foreign exchange outgo should be as little as possible and in no case it should be encouraged. The import content in the manufacture of equipments should therefore be brought down to the barest minimum. The Committee would like a close watch to be kept on the imports of components equipment-wise.

Reply of the Government

It is felt that the conclusion that there was an under utilisation of the production facilities established in the company does not take into account the fact that the in-house manufacture has also registered a steady increase. Procurement of components from outside sources, including imports, was to the extent necessary to supplement the in-house production. Outgo of foreign exchange is inescapable when the required raw materials/components are not indigenously available or a particular component is not capable of being manufactured in-house with reference to the facilities created and the Phased Manufacturing Programme approved by the Directorate General Technical Development (DGTD) in the Ministry of Industry.

A close watch is kept on the import content of BEML products — equipment-wise and a report on indigenisation is submitted to the Ministry for the Quarterly Performance Review Meetings. From the year 1988-89 BEML is also required to follow the import procedure applicable to the non-defence Public Sector Undertakings and Private Sector Companies, for their import requirements for fulfilling orders placed by non-Defence agencies. Their import requirements would thus be strictly scrutinised by the DGTD and the Chief Controller of Imports & Exports (CCI&E) to ensure that they are in keeping with the predetermined

phased manufacturing programme of the particular equipment for which it is required.

[Ministry of Defence (Department of Defence Production & Supplies)
O.M. No. 23(11)/87/D(BEML) dt. 7.4.1989]

Recommendation Serial No. 18

The Committee note that the Company initially started production of earthmoving equipments with low indigenous content to be increased progressively with the assistance of collaborators. In some cases the agreements were extended specifically to attain this objective. However, the extensions of such agreements due to non-achievement of expected indigenisation levels led to continual import of components. Several products developed by the Company were also produced with low indigenous content initially and progressively increased thereafter. From the information furnished to the Committee by the Company, it is observed that in case of the equipments like Haulpak LW 50, D 355 A-3 Dozer, D 155A, Dozer G.D. 605 Motor Grader, either the level of 85 per cent indigenisation has been achieved after the target year of maximum indigenisation or has not been achieved at all so far. In case of new equipments introduced in 1984-85 like D31, HD785, PC 650 and PC300 Hydraulic Excavators, there was no significant progress made by the Company to achieve maximum indigenisation. The Committee are informed that there was a delay in achieving required indigenisation level for some of the equipment because of specifications and degree of sophistication in respect of certain items. The Committee are surprised at the reply of the Company that they adopted an optimistic approach with a view to reaching high levels of achievement. In Committee's view they should have taken the factor of degree of sophistication into account while fixing the target year for maximum indigenisation. The Committee hope that as assured by the Company, they would achieve the indigenisation level of 80 per cent within a period of 5 year as against the 10—12 years taken by them in earlier years. The Committee need hardly stress their earlier recommendation made in their 2nd Report (1971-72—5th Lok Sabha) that the pace of indigenisation progress needs acceleration.

Reply of the Government

The Ministry and the Company fully share the concern shown by the Committee on Public Undertakings regarding the need for accelerating the pace of indigenisation. Accordingly, Research and Development efforts of the Company have been geared towards this goal. Efforts made towards indigenisation and R&D from major elements of the Quarterly Performance Review Meetings.

The Company has also issued necessary instructions to its Production Division stressing the necessity to accelerate the pace of indigenisation in respect of equipment being manufactured under collaboration agreements. Progress on this front is being monitored at different levels within the

company as well as the level of its Board of Directors.

[Ministry of Defence (Department of Defence Production & Supplies)
O.M. No. 23(11)/87/D(BEML) dt. 7.4.1989]

Recommendation Serial No. 19

The Committee note from the details of machine utilisation furnished by Audit and the Company that the unutilised machine capacity in the Earth Mover Division during 1979-80 to 1986-87 ranged from 5 to 46 per cent in the Machine Shop, 16 to 64 per cent in the Gear Shop and 3 to 18 per cent in the Plate Shop. In the Rail Coach Division the unutilised capacity during 1981-82 to 1986-87 ranged from (-) 3.45 to 28 per cent in the Machine Shop, 8 to 36 per cent in the Sheet Metal Shop and 14 to 42 per cent in the Material Preparation Shop. The Ministry have informed Audit that the low machine utilisation was due to the inevitable problems of capacity balancing in the different work centres for multi-product situation. Although the Company have introduced machine idle time analysis card, this card does not give details of actual machine utilisation. It is only an indicator of the availability of the machine for utilisation. The Committee feel that such a system would not be useful in computing the actual machine utilisation. The Committee, therefore, recommend that a system should be evolved in the Company with the help of "Industrial Engineering Studies", so that the actual machine utilisation of all the machines installed in the Company could be ascertained accurately for comparing it with the available machine capacity.

Reply of the Government

Action has been initiated to maintain machine utilisation cards for all the machines installed in the company and directly used for production purpose as advised by COPU.

[Ministry of Defence (Department of Defence Production & Supplies)
O.M. No. 23(11)/87/D(BEML) dt. 7.4.1989]

Recommendation Serial No. 20

The Committee also note that the Company has introduced machine utilisation cards for critical and high value special purpose machines in respect of 175, 29 and 16 machines in Earth Mover Division, Rail Coach Division and Mysore Division respectively costing Rs. 50 lakhs and above, as an experimental measure from April, 1984. In October, 1984 the format of the card has been further refined to incorporate the work order reference, planned load and utilisation data. The data is being analysed by the Industrial Engineering Department and the Departmental Head to study the reasons for the non-utilisation, if any, and to take corrective action. According to the Company, the results of an analysis through such utilisation cards are the same as the data available through the earlier system of Machine Idle Time Analysis Cards. The Committee, therefore,

desire that the system of machine utilisation cards for high value special purpose and critical machines should be further refined so as to give more precise utilisation data. They also desire that the possibility of computerisation of the compilation of machine utilisation data may also be explored.

Reply of the Government

As recommended by COPU, the machine utilisation card for high value, special purpose and critical machines have since been refined to indicate the job (Card No.) on which the machine is engaged and the duration for which it is so engaged. This will be initially attempted in the Rail Coach Division, Bangalore. Thereafter this will be reviewed by assessing the work-load vis-a-vis the benefit. An attempt will also be made to computerise the machine utilisation data in respect of these high value machines.

[Ministry of Defence (Department of Defence Production and Supplies)
O.M. No. 23(11)/87/D(BEML) dt. 7.4.1989]

Recommendation Serial No. 21

The Committee are constrained to note that as on 31st March, 1987, 90 items valuing Rs. 1140.07 lakhs were lying in bonded warehouses. Out of these 90 items, 19 items valuing Rs. 139.56 lakhs were lying for a period of 12 to 18 months, 35 items valuing Rs. 467.01 lakhs for a period of 6 to 12 months and 36 items valuing Rs. 533.50 lakhs for less than six months. In justification of bonding of goods for such a long time, the representative of the Company stated in evidence: "Notice of some minimum period has to be given to the collaborators. We cannot order today and get the things tomorrow. We have to get ready with the goods so that whenever any order is placed we could supply the goods from the bon in warehouse otherwise we may have to suffer loss." Although the Company is stated to have taken certain remedial measures for minimising prolonged bonding of goods but the interest charges paid due to bonding of goods were as high as Rs. 314.68 lakhs during the period 1983-84 to 1986-87. In this connection, when the Committee enquired whether there was a need to have relook at the provisioning policy of Company to minimise the incidence of prolonged bonding, the Secretary of the Ministry conceded during evidence: ".....I do agree that importing materials and then keeping them in stock, whether in a bonded warehouse or in your inventory requires a re-look. Certain measures have been taken by the Company and we will request them to keep these observations in view." The Committee, therefore, recommend that as the Company has been financing its working capital requirements mostly out of cash credit obtained from Banks and procurement of material far in advance of requirements resulted in payment of avoidable interest charges which are quite substantial, the Company should also plan their provisioning requirement as to minimise prolonged bonding of items thereby reducing the locking up of funds on inventory.

Reply of the Government

The company have been advised to plan its provisioning requirements in such a way as to minimise, as far as possible prolonged bondings. The Company has further confirmed that the provisioning plan for imported components is being constantly reviewed for preponing/post-poning shipment of items. Bonding of stores is resorted to for the minimum period required.

[Ministry of Defence, Deptt. of Defence Production & Supplies O.M. No. 23(11)/87/D(BEML) dt. 7.4.1989]

Recommendation Serial No. 24

The Committee note that the Company has been availing cash credit facility from Banks for meeting the working capital requirements. While the Company availed cash credit at high rates of interest, considerable funds of the Company have been locked up in bonded inventories, surplus/non-moving stores and outstanding debts. The Committee are distressed to note that the cash credit outstanding at the end of the year 1986-87 has been as high as Rs. 141.35 crores and the interest paid on cash credit from the year 1979-80 to 1986-87 amounted to Rs. 94.52 crores. They are not convinced of the reply given by the Government that the levels of utilisation of a cash credit and the consequential interest burden are not considered excessive on account of the Company's Production/Marketing strategy of manufacturing equipment in anticipation of orders. In spite of the directions given by the Ministry to the Company to minimise inventory including bounding of inventory and expedite collections of debts, the Committee do not see much improvement in the situation. They, therefore, recommend that Company and the Government should spare no efforts to minimise dependence of the Company on cash credits by collecting the dues promptly and also by reducing the locked up inventories. Such a situation has the effect of reducing the profitability of the Company by straining its resources to meet the requirements of working capital.

Reply of the Government

Concerted efforts would continue to be made by the Company to reduce its inventory to a level consistent with the production/marketing requirements. Efforts being made by them to reduce the level of sundry debts are also expected to bear fruit and hence reduce the Company's interest burden.

[Ministry of Defence Department of Defence Production & Supplies O.M. No. 23(11)/87/D(BEML) dt. 7.4.1989]

CHAPTER III

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

Recommendation Serial No. 5

It has also been brought to the notice of the Committee that ONGC and Gas Authority of India have placed orders on foreign parties and contractors for erection of complete HBJ pipelines, who have already got in their stock in their own country or in the third country such equipment/ pipe layers. One of the clauses in the contract with them provides that they can bring the equipments (pipe layers) into India and utilise it for laying of pipelines for HBJ or for any other such contracts. The Committee are informed that the Company took up the matter with the foreign contractors as well as the Gas Authority of India Ltd. for giving BEML an opportunity to supply those equipments and spares but the efforts proved futile as the contract stipulated that the foreign party could bring to India for their use whichever equipment they required and took it back after completion of the project. Similar instances have been quoted by the Company in the field of hydro-power and thermal power projects in which foreign contractors were allowed to bring such equipment required by them and re-export them after the project had been completed. The Committee are also informed that CMD, BEML had met all concerned authorities connected with power projects, big dams, multipurpose projects including the Secretary, Power and Chairman of NHPC, CWC and CEA and also wrote to them that hereafter the company should be allowed to ask the foreign contractor to use the equipments and spare parts supplied by BEML. The Committee feel that the BEML should have approached the concerned authorities in regard to the supply of pipe layers well before the finalisation of agreement with the foreign contractors. The Committee would urge the Government that in future a clause should be introduced in the agreements that where indigenous capabilities were available for supply of equipments and spare parts, they would use such equipments and spare parts instead of importing such equipments and re-export them after the completion of the project.

Reply of the Government

The suggestion of the Committee on Public Undertakings to include a clause in the agreements with foreign agencies to the effect that where indigenous capabilities are available for the supply of equipments and spare parts, they would use the same instead of resorting to import, and then having to re-export the equipment after the completion of the project, has been brought to the notice of the Ministries of Finance and Commerce.

A view has, however, been expressed by the Ministry of Petroleum and Natural Gas, to whom reference was also made, that there already exists a system of price preference for domestic bidders and for the loading of the foreign exchange components. This offers the most efficient method for encouraging indigenisation. In their opinion the introduction of the suggested clause would lead to complications in executing the projects in a cost effective and timely manner.

* The Ministry of Petroleum & Natural Gas have further stated that as regards the HBJ Project the foreign exchange component of the bids were loaded by 25% and that this provided an incentive to the bidders to use indigenous capabilities. In the actual execution of the Project, a number of Indian Companies, both in the private and public sectors are being utilised by successful bidders for the composite contract. The suggestion of the Committee was duly pursued further with the Ministries of Finance, Commerce and Petroleum and Natural Gas. It is regretted that the suggestion could not be got accepted as the Ministries of Petroleum and Natural Gas as well as Finance consider the existing system of price preference for domestic bidders and of loading of the foreign exchange component to be the most efficient method for encouraging indigenisation.

[Ministry of Defence, Deptt. of Defence Production & Supplies O.M. No. 23(11)/87/D(BEML) dt. 13th July, 1989].

Recommendation Serial No. 7

The Committee note that the restructuring of production facilities in the existing factory at KGF, so as to limit it to the production of only crawler equipment and setting up of a new factory at Mysore at an estimated cost of Rs. 61 crores to commence manufacture of wheeled equipment from 1982, were among the strategies under the Corporate Plan. The new factory set up at Mysore, however, started commercial production only from 1985-86. According to the Company, due to insufficient demand for Earth Moving equipments the Company did not go ahead with the Mysore project in a full-fledged manner. It was decided by the Company after reassessing their market potential and market conditions that KGF Complex would continue to manufacture track type of equipments like excavators, bull-dozers etc. and also the sophisticated aggregates like transmissions, hydraulics etc. The production of the wheeled equipment would be done at Mysore by utilising the existing project sanctions and also be smooth transfer of production (CKD's) from KGF to Mysore. As against project sanction of Rs. 61 crores, the factory at Mysore was set up with an investment of Rs. 20.72 crores. The transport charges incurred on the transfer of CKD's from KGF to Mysore during 1985-86 and 1986-87 were Rs. 4.66 lakhs and Rs. 25.39 lakhs respectively which had marginally

increased the cost of production of wheeled equipments. When asked about the reasons for creating separate facilities at Mysore in spite of infrastructure being available at KGF, the representative of BEML during evidence informed the Committee:

“While drawing the Corporate Plan, we had taken note of the need in future for bifurcating the facilities from KGF to another factory at Mysore where there are a lot of growth prospects. We thought that at one place if we start doing it, it will not be a streamlining operation because the number of workers will be around ten to twelve thousand at one place.”

According to the Company, the creation of facilities at Mysore was delayed by the Company due to recessionary trends in the international field of earthmoving industry and the slow growth of the national economy, the market demand pattern did not behave in consonance with the expectations. The Company considered prudent to adopt a cautious and careful approach lest the company is burdened with a heavy unutilized capacity. The Company informed the Committee that the recessionary trend in the international field of earthmoving industry was a part of the general recession in the entire Engineering Industry, world-wide, which was essentially due to oil crisis of 1979. The Committee cannot but express their concern over the fact that the new factory at Mysore which was to commence manufacture of wheeled equipment from 1982 as per the strategy under the Corporate Plan, commenced production only from 1985-86 and instead of investment of Rs. 61 crores as envisaged in the Corporate Plan, an investment of Rs. 20.72 crores was made. This clearly shows that there was lack of proper planning and anticipation of the future demand for wheeled equipment. The argument that the delay in setting up the new factory was due to recessionary trends in the international field of Earth Moving Industry and the slow growth of the national economy is too general in nature and does not fully justify, limiting of facilities at Mysore. In Committee's view the transportation charges of Rs. 25.39 lakhs incurred by the Company in 1986-87 on the transfer of complete CKD's from KGF to Mysore is not an insignificant amount. These charges may increase further in future. The argument given by the representative of the Company that one of the reasons of creating facilities at Mysore was that the number of workers at KGF will be around 10 to 12 thousand at one place. The Committee are surprised as to how the continuance of facilities for wheeled equipment at KGF reconcile with this view of the Company.

Reply of the Government

It is a fact that the demand for Earth Moving Equipments did not grow as envisaged. However, it would not be fair to say that there was a lack of anticipation and planning on the part of BEML. In fact, it was as a result of this planning that BEML was able to keep the level of investment low. Since Public Sector Undertaking/Government Department etc., are the

major customers of BEML, the slow growth in the national economy had a consequential impact on the business turnover of BEML. The demand for the total wheeled equipment, including dump trucks, did not grow as envisaged. The actual sales and projected figures in the Corporate Plan given below indicate the sluggish growth:—

(Figures represent equipments in Nos.)

Year	Actual	Projected figures
80-81	186*	420
81-82	468**	462
82-83	479	508
83-84	513	560

*Sale affected due to strike.

**Sale included carry-over orders from 1980-81.

Even in 1985-86 the turnover was only 557 equipments as against the projected sale of 710 equipments.

2. From 1988-89 the support from KGF to the Mysore Complex has been restricted to the manufacture and supply of only the Final Drive Assembly. Thus, the Mysore factory has attained the self-sufficiency visualised in the Corporate Plan. Additional sanctions needed for balancing the facilities, R&D etc., are also being made in phases.

3. Despite the continuance of support from KGF (now restricted to Final Drive Assembly), the total work force at KGF has come down from 7574 at the end of 1984-85 to 7178, as on 31.3.1988. Thus the objective of restricting the manpower strength at KGF has also been achieved.

4. The transportation charges incurred on the transfer of CKD/Components from KGF to Mysore and *vice-versa* and its ratio to the total

cost in relation to value of output of Mysore Division during last three years was as under:

	(Rs. in lakhs)		
	1985-86	1986-87	1987-88
(a) Transportation cost from KGF to Mysore and vice-versa	4.66	25.39	11.02
(b) Value of production at Mysore	5296	16433	16639
(c) Percentage of transportation cost to the value of production	0.09%	0.15%	0.07%

5. It would be seen from the above that the transportation cost of CKD s / Components from KGF forms a very insignificant fraction of the total cost of production. Furthermore, the figures of transportation costs in 1987-88 indicates a reduction both in absolute terms as well as in terms of percentage of the total value of production. The transfer of CKD's from KGF to Mysore involved a one time expenditure; the subsequent CKD s are received directly at Mysore. From 1987-88 onwards, transfer of only the Final Drive Assembly (and Hydraulics, whose production is centralised at KGF) is involved and the transportation cost thereof is a part of normal procurement costs.

[Ministry of Defence, Deptt. of Defence Production & Supplies, O.M. No. 23(11)/87/D(BEML) dt. 13th July, 1989].

Recommendation Serial No. 12

The Committee note that one of the Corporate strategies laid down in the Corporate Plan of 1976 was to establish engineering capability for development and production of critical assemblies with high technological components like power shift transmissions and hydraulics etc. with a view to achieving self-reliance in these fields involving sophisticated technology. A hydraulic shop was set up in 1976 by regrouping the available facilities and transferring certain machine tools and equipment (value: Rs. 23 lakhs) to produce hydraulic components required for the production of earth moving equipment. The Committee regret to note that from 1981-82 to 1986-87 the value of in-house manufacture of hydraulic items was only Rs. 8.86 crores as against outside purchases of about Rs. 40 crores. The Company is deriving satisfaction from the sudden increase in value of production of hydraulic components from Rs. 1.72 crores in 1985-86 to Rs. 4.03 crores in 1986-87 and expects to reach a level of about Rs. 7 crores in 1987-88. The Committee feel that had the Company made serious efforts

and organised themselves in a better manner in the past years to improve their share of production of hydraulics, their in-house production would not have been a small fraction of their total requirements.

Reply of the Government

The Corporate Plan did envisage the setting up of in-house facilities for the manufacture of Hydraulics. However, the intention was not to produce the entire requirement of hydraulics in-house since this would involve huge capital investments. The company decided, instead, to undertake developmental activity in respect of hydraulic components and to produce, in-house, only such items which were considered critical either on account of the level of sophistication involved or on strategic considerations. Although no specific time frame is indicated in the Corporate Plan for achieving any particular percentage of in-house manufacture of Hydraulic components, the production has been consistent with the facilities created.

2. For a better appreciation of the progress made by the Company in increasing the in-house production of hydraulics, a comparison of the value of in-house production and the bought out items is given in the table below:

(Rs. in lakhs)

Year	In-house manufacture	Outside purchases	Total (2) + (3)	% of in-house manufacture to total
1	2	3	4	5
1981-82	27.00	438.39	465.39	5.8
1982-83	43.00	893.89	936.89	4.6
1983-84	114.82	678.00	792.82	14.5
1984-85	126.64	607.01	733.65	17.3
1985-86	171.81	684.03	855.84	20.1
1986-87	402.84	697.58	1100.42	36.6
1987-88	696.80	494.62	1191.42	58.5

It would be seen from the above statistics that the % of in-house manufacture to the total hydraulics required year-wise over the last seven years has been steadily increasing. In 1987-88 it had reached a level of 58.5% as against 5.8% in 1981-82.

[Ministry of Defence, Deptt. of Defence Production & Supplies O M.
No. 23(11)/87/D(BEML) dt. 13th July, 1989].

CHAPTER IV

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

Recommendation Serial No. 3

The Committee are surprised to find that although the corporate plan had envisaged the introduction of heavy vehicles during 1978-79, 40 ton. pipe layers meant for Mines and Petroleum producers during 1979-80, Hydraulic cranes by October, 1979 and 120 tonne Rear Dump trucks by 1985, these were not introduced till 1986-87. According to the Ministry the main reason for their non-introduction was market demand not picking up as anticipated and also various other factors. The Committee are not in agreement with this view of the Ministry. They feel that the Company should have worked out a systematic and aggressive marketing strategy.

Reply of the Government

As the business environment is dynamic and changes take place continuously over time, the planning process has to be responsive by being flexible, adaptable and continuous. The introduction of a new product during a plan period is envisaged on the basis of certain assumptions of market behaviour. If the market demand for a product does not materialise as anticipated, it would not be prudent to introduce the product only because its production was planned. M/s. Bharat Earth Movers Limited are operating in a highly competitive buyers market. It is, therefore, all the more necessary for them to produce only those items which are in demand in the market.

Based on reports of the Coal and Steel sectors, and keeping in view the projected output and the rate of growth in the preceding plan periods, BEML had visualised the requirement of hydraulic cranes. The Corporate Plan of the Company, however, contemplated that a detailed market survey would be required to come to a definite conclusion on the need for this equipment in these sectors before its production was taken up. The detailed market survey revealed that adequate and sustained demand for the equipment did not exist. M/s. BEML were, therefore, left with no option but to defer the introduction of this equipment into their range of products.

The need for the introduction of 40 ton pipe layers was envisaged in the Company's Corporate Plan in the context of the anticipated requirement for considerable pipe laying work in the country for the transportation of oil, gas and coal slurry by pipeline. Though pipes of 12" diameter could be

laid manually, it was felt that pipes of larger diameter could be laid more quickly and in a more cost effective manner mechanically. Despite the Company's continued and regular liaison with the end users, with a view to generating demand for the pipe layers, the demand did not materialise because of the continued use of pipes of a lower diameter, resort to manual pipelaying and by contractors engaged in this work using their existing old pipelaying equipment rather than seeking replacements. Furthermore, the expectation that coal slurry would be transported through pipelines did not materialise. Since the assumptions on which the introduction of the equipment was based did not come about, the introduction of the equipment had to be postponed to 1986-87, when two numbers of the pipe-layers were produced by the Company (it may be clarified that pipe layer is only a modification of the D.80 Dozer which the Company is currently manufacturing and that the production of pipe layers does not call for the creation of any additional facilities and involves only some minor costs on development work).

The demand for the 120 tonne Dumpers was visualized by the Company as forthcoming from major projects in the Coal sector. This was based on the report of the Development Council for Automobile and Allied Industries and the Task-Force appointed by the DGTD. The Company maintained close liaison with potential end users and explained to them the possible areas where 120 tonne Dumpers could be utilised with benefit. As a result of the Company's efforts, the requirement for the equipment has picked up recently. The 120 tonne Dumpers were actually introduced by the Company in 1986-87 (as against 85-86 indicated in its corporate plan). Though the introduction of the 120 tonne Dumpers has been delayed by about one year, a sustained demand for the same has been generated as a result of Company's marketing strategy.

The Heavy Vehicles, envisaged in the Corporate Plan for introduction were meant to act as prime-movers for the Army's tank transporting tractors. The delay in the production of the Heavy Vehicles was primarily because the numbers and the specifications of the vehicles required by the Army could not be determined. The Company, however, developed a prototype as per GSQR, in 1984, and a prototype was given to the Army for trials. Evaluation of vehicles and equipment by the Defence forces has necessarily to be a longdrawn process in view of the wide range of climate and geographical variations under which these have to perform. Eventually, after completion of the various trials, the Army Headquarters have not recommended the introduction into service of the vehicle developed by BEML. According to them the vehicle suffers from serious design limitations and other drawbacks. Further, as Tatra Vehicles were

already in use with the Army and there was likelihood of large numbers being required in the future, M/s. BEML have entered into a collaboration agreement with M/s. Omnipol of Czechoslovakia for the licenced manufacture of Tatra Vehicles in their works. The Company has commenced the supply of this vehicle to the Army from 1987-88.

From the above, it will be observed that the demand for certain equipments did not develop as had been expected despite M/s. BEML's persistent efforts to generate a demand for them. The introduction of these equipment had therefore, of necessity to be delayed/deferred. However, while these equipments were deferred, at the same time the Company introduced 9 items not contemplated in its Corporate Plan. This was done with a view to achieve the planned level of growth in production and turnover.

[Ministry of Defence (Deptt. of Defence Production and Supplies) O.M. No. 23 (11)/89/D(BEML) dated the 19th July, 1989]

Comments of the Committee

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

Recommendation Serial No. 4

In regard to 40 T Pipe Layers which was due for introduction in the year 1979-80, only development work, involving an expenditure of Rs. 22.48 lakhs was completed by March, 1985. As stated by the Company during evidence, at the time of finalisation of Corporate Plan in 1976, the Company expected on the basis of their market survey orders from the oil, gas field areas and coal sector, but subsequently the demand did not pick up as anticipated resulting in deferring of introduction of 40 T Pipe Layers from 1979-80 to 1986-87. Only 2 numbers were produced during 1986-87. When enquired whether any specific commitment was obtained from ONGC for placing orders on BEML for 40 ton pipe layers, the CMD (BEML) during evidence stated:

“No, they did not give.....We do not have any such document to prove.”

The Committee cannot but come to the conclusion that there was no reasonable basis for assessing the demand for pipe layers at the time of corporate plan was drawn up. The Committee feel that in the absence of any specific commitment from ONGC and from the coal sector, the Company should not have incurred expenditure on the development work to the tune of Rs. 22.48 lakhs.

Reply of the Government

It may be appreciated that for a Company like Bharat Earth Movers Limited, who are operating in a highly competitive market, it is not commercially prudent to await formal commitments before including a product in their production and R&D plans. This is so because customers

are not in a position to commit their requirement years ahead. Furthermore, such an approach may lead to a delayed entry into the field thereby losing the market potential to others.

Although factors such as the possibility of foreign parties selected for undertaking pipe-laying work being allowed to import their own equipment was not anticipated at the time of assessment of likely demand for pipe-layers, it was known for certain that there was a requirement for considerable amount of pipe-laying work within the country. Since there is a lead time involved in the introduction of equipment it is not always possible to anticipate all such external factors while assessing futuristic demand. An over cautious approach would be detrimental to the Company's long term interests as a commercial enterprise specially as BEML operates in a highly competitive environment.

Though the development action taken by the Company could only be deployed in the manufacture and marketing of 2 number 40 Ton Pipe-layers, the Company's R&D engineers have gained valuable expertise and confidence. This is being utilised in undertaking other development projects like the development of higher capacity pipe-layers (upto 90 ton capacity).

[Ministry of Defence, Deptt. of Defence Production & Supplies
O.M. No. 23(11)/87/D (BEML) dt. 13th July, 1989.]

Comments of the Committee

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

Recommendation Serial No. 9

The Committee note that in the context of inadequacy of existing indigenous sources for supply of castings and to increase production of equipment with higher indigenous content, a Project Report was prepared (August 1972), envisaging a capital outlay of Rs. 355.75 lakhs (revised to Rs. 599.17 lakhs in June 1975), for establishing a captive foundry with an installed capacity of 3600 tonnes per annum, capable of being further augmented by 1000 tonnes per annum after providing additional marginal facilities. The cost per tonne of inhouse manufacture of castings and forgings was estimated at Rs. 10,081, Rs. 9,074 and Rs. 8,470 at capacity utilisation of 60 per cent, 80 per cent and 100 per cent respectively, as against the estimated purchase price of Rs. 11,238 resulting in cost advantage to the Company. The actual expenditure incurred to end of 1974-75 was only Rs. 11.73 lakhs on the pattern shop building meant for the foundry, which is, however, being used for housing the Hydraulic Shop catering to R&D activities. Subsequently, Government of Karnataka proposed in July 1975 to entrust to the Company a private foundry run by Vignyan Industries Limited (VIL), Tarikere, set up in 1970 and remaining closed since December 1974 because of mismanagement and shortage of funds. The estimated production capacity of VIL was 1500 tonnes of steel

castings p.a., subject to rehabilitation and augmentation of plant and machinery (estimated cost: Rs. 106 lakhs). The VIL was rehabilitated with the assistance of financial institutions and became a deemed Government Company under section 619(B) of the Companies Act, 1956 with effect from January 1975; it resumed working from November 1975. Government of India, however, approved (April 1983) conversion of VIL into a subsidiary of the Company by purchase of shares to the extent of at least 75 per cent of the total shareholding at an approximate cost of Rs. 16.45 lakhs. Thus the proposal to establish a captive foundry took more than a decade to materialise. Meanwhile the Company purchased from open market during 1974-75 to 1983-84 steel castings to the extent of 14,881 tonnes (including 2763 tonnes from VIL) at the average purchase price of Rs. 13,375 per tonne. Thus, due to delay in either establishing a captive foundry or taking over of VIL, the expected cost advantage was lost by the Company. The Committee also note that even as early as 1972, the Company had envisaged need for 3600 tonnes of castings per annum but the actual consumption in the 10 years from 1974-75 to 1983-84 was only 14,881 tonnes i.e. an average of less than 1500 tonnes per annum. In this connection, the Committee have been informed by the Company that the need for 3600 MT of castings per annum was envisaged in early 1972 based on the production level of 850 earth moving equipment (at stabilisation level) and also for a production of 400 Rail coaches and taking an average of 1500 tonnes over a long period was not correct. They envisaged the progressive development and increase in requirement of castings upto 3600 tonnes had been reached in the year 1983-84 and subsequently they have been using casting to the tune of more than 4000 tonnes. On the question of acquiring foundry M/s. Vignyan Industries Limited, whose capacity was assessed at only 1500 tonnes per annum after rehabilitation and augmentation of plant and machinery at a cost of Rs. 106 lakhs, as against estimated requirement of 3600 tonnes per annum, the Committee are informed that the licensed capacity of VIL was 3000 MT of steel castings. The Committee are at a loss to understand as to why M/s. Vignyan Industries Limited whose installed capacity was only 1500 tonnes per annum was purchased while the Company's need as envisaged in early 1972 was for 3600 M.Ts of casting. The Committee are constrained to note that during the years 1985-86 and 1986-87 this foundry produced only 581 tonnes and 1006 tonnes of steel castings and incurred a loss of Rs. 87.24 lakhs and Rs. 57.34 lakhs respectively. As admitted by the representative of the Company the total production of this Foundry may not exceed 1400 or 1500 tonnes during the current year. The Committee are most unhappy to note that M/s Vignyan Industries Limited has been able to operate only at 20 per cent of its capacity. To end of 1985-86 it incurred a cumulative loss of Rs. 512.39 lakhs as against its paid up capital of Rs. 45.47 lakhs.

The justification given by the representative of the Company that they could not achieve full capacity due to inadequate supply of power does not

convince the Committee in regard to the dismal performance of the Foundry. As against the consumption of 4100 M.Ts in 1986-87, the Foundry produced only 1006 tonnes of steel castings. The remaining quantity had to be purchased from the open market. The Committee has, therefore, come to an inescapable conclusion that the decision to purchase Vignyan Industries Limited was not commercially prudent. They desire that the Ministry should hold an enquiry as to at what level the decision to purchase this unit was taken and what were the considerations which weighed for taking over this unit. They would also like to know as to why the decision in regard to establishing a captive foundry was shelved.

Reply of the Government

The Government of Karnataka, who had a substantial financial stake in Vignyan Industries Limited (VIL), was (in 1975) looking for a company with a strong management set up to rehabilitate VIL. They accordingly approached BEML to lend support to this sick foundry which had suspended operations in December, 1974. At about that time BEML's proposal to set up a captive steel foundry had to be shelved for the following reasons:

- (i) Import of such equipment, as was not available indigenously, was to have been made from Czechoslovakia or from Poland. However, despite negotiations carried on for about two years, the response from these sources was not encouraging.
- (ii) The project estimates required to be revised upwards from Rs. 3.55 crores to about Rs. 6 crores by the end of 1975, when efforts for the import of equipment from Czechoslovakia/Poland finally failed.

While M/s. VIL did not become a subsidiary of BEML until April, 1983, BEML was involved with the rehabilitation of the Company even earlier. An officer of the Company was appointed as Executive Director of the Company in November, 1975 and the Company resumed production in March, 1976. In 1978, out of BEML's total requirements of around 1500 MT of steel castings, about 800 MT were supplied by VIL. The rest was purchased from various parties, such as M/s. Mukand Steel, M/s. Ramakrishna Steel, M/s. Indian Iron & Steel Company, at competitive rates. BEML have been able to control the procurement price rates of castings through the acquisition of VIL as a subsidiary, as the Company could resort to the production of any particular type of castings at VIL, in case outside prices were high. This has helped BEML to keep the prices of steel castings, during 1984-85 and 1985-86, at the price level of 1983-84. During 1986-87, the price of castings increased by only 4.4% over the prices prevailing in 1983-84. Thus, the takeover has not only enabled BEML to meet a sizeable share of their overall requirements of steel castings from VIL, but it has also helped the Company to keep the prices of castings procured from other sources under check.

While it is true that BEML's requirement of castings is more than VIL's capacity (1500 tonnes per annum), the quantity of castings supplied by VIL has been sufficiently large to enable BEML to procure castings from other sources at reasonable rates. VIL's production being only 581 tonnes in 1985-86 and 1006 tonnes in 1986-87 was on account of the severe power cuts imposed during these years (it is clarified that the statement regarding VIL operating at 20% of its capacity during 1985-86 relates to its licensed capacity and not its installed capacity). As against the requirement of about 6 lakhs units of power per month for achieving a break even level of production, VIL was receiving only around 1.3 to 3.6 lakhs units per month. However, from 1988 onwards, revised upward norms of power allocation have been established for VIL, and these are sufficient to meet their current needs. The poor availability of power had also prevented BEML from considering augmentation of the foundry's capacity. Now that the power situation has improved, VIL's production during 1987-88 was 1280 metric tonnes; in 1988-89 it rose to 1411 tonnes. It is true that the process of takeover of VIL took considerable time. This could not be helped as the take over of a Company with private shareholding was involved. Hence, the matter was required to be examined from various angles, (technical & financial viability etc.) in consultation with the Ministry of Law, Ministry of Finance, Ministry of Industry, the State Government of Karnataka etc., before coming to a final decision. The valuation of the shares of the Company also took some time. As many agencies and a number of issues were involved, the final decision could not be taken until April, 1983.

M/s(BEML have made considerable effort to revive this sick Company by the provision of services of good technical/managerial personnel from its own cadre; supplying raw materials; providing an assured market; extending working capital assistance; and improving its viability through:

- (a) persuading VIL's creditors to forego a part of their principal/ interest accrued and to agree to rescheduling repayments;
- (b) reducing power consumption by making the desired changes in the induction furnace; introducing in-house machining of castings. These measures are encouraged to eventually ensure higher income and a fuller utilisation of manpower;
- (c) making arrangements for the training of personnel in leading private sector companies, to enable improvement in the methods of production/design.

The BEML acquired the controlling interest in VIL for Rs. 16.83 lakhs (face value of the investment is Rs. 35.44 lakhs). The Company has 11 acres of industrial land and 10 acres of non-industrial land. Its buildings are valued (31.3.88) at Rs. 17.26 lakhs. In 1981 the ICICI had arrived at a Gross Block valuation of Rs. 289.78 lakhs against a Book Value of Rs.109.06 lakhs (30.12.80) for the fixed assets.

From the aforesaid analysis it would be appreciated that it would not be a sound conclusion to say that the decision to purchase VIL was not commercially prudent. The decision to acquire VIL as a subsidiary of BEML was taken by the Government after due and careful examination and approvals at the appropriate levels. In this context it would be seen that holding an inquiry, at this juncture, into the considerations involved in the purchase of the foundry would not be a fruitful exercise. The hon'ble Committee are requested to reconsider their observation in the matter, after considering the explanation rendered in the preceding paras.

[Ministry of Defence (Deptt. of Defence Production and Supplies) O.M. No. 23(11)/87/D (BEML) dated the 20th July, 1989.]

Comments of the Committee

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

Recommendation Serial No. 22

The Committee find that as per the terms and conditions of the contracts for sale of earth moving equipment, the customers are required to pay 70 to 100 per cent of the value of equipment through their Bankers, on production of proof of despatch. But the terms and conditions do not provide for recovery of penal interest (OD interest) for bills not paid by the customers within the due date. The Committee regret to note that consequentially on 402 bills (valued at Rs. 81.13 crores) discounted with the banks and not honoured by the customers on due dates, the Company could not recover from the customers overdue interest of Rs. 139.15 lakhs levied by the Banks during February, 1979 to March, 1987. According to the Ministry the OD interest had these bills not been discounted. The Committee have been informed by the Company that most of the customers including the Government Departments do not agree to the incorporation of clause regarding levy of any interest charges in case of delayed payment by them. In this connection, the Ministry has informed the Committee that the Board of Directors of the Company are being asked to examine the matter. The Committee trust that the matter has since been considered by the Board of Directors of BEML. With a view to stipulating in sale orders for recovering OD interest from customers in view of the substantial interest burden involved.

Reply of the Government

The Board of Directors have examined the matter and have opined that in view of the fierce competitive market in which they operate, the buyer dictates terms and that BEML often have no other option but to accept these terms. They, therefore, as a matter of policy do not intend to adopt a rigid approach in this regard. Instead they would adopt a flexible policy and offer selective credit specifically for customers in the Government sector provided that the payment is realisable in 3 to 4 months time. They expect that normally outstanding sundry debts would be cleared within this

time span through constant liaison with the customers.

[Ministry of Defence, Deptt. of Defence Production & Supplies
O.M. No. 23(11)/87/D(BEML) dated 7.4.1989]

Comments of the Committee

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

Recommendation Serial No. 23

The Committee regret to observe the increasing trend of outstandings as well as the bad debts written off. At the end of the year 1986-87 the outstandings and bad debts written off amounted to Rs. 20255.24 lakhs and Rs. 59.52 lakhs respectively. The main reason for heavy outstandings as advanced by the Company is the retention of 20 per cent of payment by major customers like CIL to be paid after commissioning of the equipment. Some Government Departments and also subsidiaries of CIL are insisting upon effecting 100 per cent payment only after commissioning. As regards assistance rendered by the Ministry for the recovery of huge outstandings, the Committee have been informed that the Ministry has been writing to concerned administrative Ministries for early settlement from time to time but there has been no significant improvement in the realisation of outstandings. The Committee desire that as the major customers of the Company are the Government Departments/Public Sector Undertakings, all possible measures should be taken to streamline the procedural formalities to set right the existing impediments in debt collection.

Reply of the Government

The Ministry as well as the company accept the recommendation that all possible measures should be taken to streamline the procedural formalities so as to overcome existing impediments in debt collection. However, since BEML are operating in a fiercely competitive market, it would be counter-productive to be rigid in respect of its terms of payment. Although a system of opening 'inland letter of credit' by Government Departments was recommended by the Ministry of Finance for adoption by Central Government Departments for their procurements from Public Undertakings, the same does not appear to have found favour with the Purchasing Departments. Efforts will be made to encourage Government Departments to utilise this system while placing orders in BEML.

[Ministry of Defence, Deptt. of Defence Production & Supplies O.M.
No. 23(11)/87/D(BEML) dt. 7.4.1989]

Comments of the Committee

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

CHAPTER V

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

—NIL—

NEW DELHI;

23 July, 1990

Sravana 1, 1912 (S)

BASUDEB ACHARIA

*Chairman,
Committee on Public Undertakings*

APPENDIX I

*Minutes of the 2nd sitting of the Committee on Public Undertakings
held on 11.6,1990.*

The Committee sat from 15.00 hrs. to 18.00 hrs.

PRESENT

Shri Basudeb Acharia

— *Chairman*

MEMBERS

2. Shri Manoranjan Bhakta
3. Shri Narsingh Rao Dixit
4. Shri Bal Gopal Mishra
5. Shri R. Muthiah
6. Shri Harpal Singh Panwar
7. Dr. A.K. Patel
8. Shri V. Sreenivasa Prasad
9. Shri Kalpnath Rai
10. Shri Rajdev Singh
11. Shri R. Surender Reddy
12. Shri Daulat Ram Saran
13. Prof. Saif-ud-din Soz
14. Shri Piyus Tiraky
15. Shri Hukumdeo Narayan Yadav
16. Shri Dipen Ghosh
17. Shri Pramod Mahajan
18. Shri Syed Sibte Razi
19. Prof. Chandresh P. Thakur

SECRETARIAT

1. Shri R.D. Sharma — *Joint Secretary*
2. Shri S.N. Banerjee — *Deputy Secretary*
3. Smt. P.K. Sandhu — *Under Secretary*

4. Shri N.M. Jain — *Under Secretary*

OFFICE OF THE COMPTROLLER & AUDITOR GENERAL OF INDIA

1. Shri R. Parmeswar — *Deputy Comptroller and Auditor General of India*
2. Dr. Y.R. Midha — *Secretary, Audit Board.*
3. Shri M.M. Arya — *Director (Commercial)*

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The Committee then considered and adopted the Report on Action Taken by Government on the recommendations contained in the 45th Report of Committee on Public Undertakings (1987-88) on Bharat Earth Movers Ltd.

The Committee authorised the Chairman to finalise the Report on the basis of factual verification by the concerned Ministry/Undertaking and Audit and to present the same to Parliament.

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The Committee then adjourned

APPENDIX II

(Vide Para 3 of Introduction)

Analysis of action taken by Government on the recommendations contained in the Forty-fifth Report of the Committee on Public Undertakings (Eighth Lok Sabha) on Bharat Earth Movers Ltd.

1. Total number of recommendations made	24
2. Recommendations that have been accepted by Government (Vide recommendations Sl. Nos. 1, 2, 6, 8, 10, 11, 13, to 21 & 24)	16
Percentage to total	66.7%
3. Recommendations which the Committee do not desire to pursue in view of Government replies (Vide recommendations at Sl. No. 5, 7 & 12)	3
Percentage to total	12.5%
4. Recommendations in respect of which replies of Government have not been accepted by the Committee (Vide recommendations at Sl. Nos. 3, 4, 9 and 22-23)	5
Percentage to total	20.8%
5. Recommendations in respect of which final replies of Government are still awaited	NIL
Percentage to total	NIL

Corrigenda to 1st Action Taken
Report of Committee on Public
Undertakings (1990-91).

<u>Page No.</u>	<u>Para</u>	<u>Line</u>	<u>For</u>	<u>Read</u>
7	.15	7	junction	junction
8	17	7	lifted	fitted
12	-	7 from bottom	cles	roles
19	-	15	puting	putting