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HINDUSTAN FERTILIZER CORPORATION LIMITED

MINISTRY OF CHEMICALS AND FERTILIZERS (DEPARTMENT OF FERTILIZERS)

COMMITTEE ON PUBLIC UNDERTAKINGS 1992-93

TENTH LOK SABHA

LOK SABHA SECRETARIAT
NEW DELHI

FOURTEENTH REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS (1992-93)

(TENTH LOK SABHA)

HINDUSTAN FERTILIZER CORPORATION LIMITED

MINISTRY OF CHEMICALS AND FERTILIZERS (DEPARTMENT OF FERTILIZERS)

[Action taken by Government on the recommendations contained in the 5th Report of the Committee on Public Undertakings (Tenth Lok Sabha)]

Presented to Lok Sabha on 31 March, 1993
Laid in Rajya Sabha on 31 March, 1993

LOK SABHA SECRETARIAT
NEW DELHI

March, 1993/Chaitra, 1915 (Saka)

C.P.U. No. 708

Price: Rs. 9.00

Published under Rule 382 of the Rules of Procedure and Conduct of Business in Lok Sabha (Seventh Edition) and printed by the Manager, Government of India Press, (PLU) Minto Road, New Delhi.

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(1992-93)

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* Ceased to be a Member of the Committee consequent on appointment as Minister in the Council of Ministers *w.e.f.* 18th January, 1993.

ACTION TAKEN SUB-COMMITTEE OF THE COMMITTEE ON PUBLIC UNDERTAKINGS
(1992-93)

1. Shri A.R. Antulay —*Chairman*
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4. Smt. Bibhu Kumari Devi
5. Shri Madan Lal Khurana
6. Prof. (Smt.) Rita Verma
7. Shri Santosh Kumar Sahu
8. Smt. Kamla Sinha

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to submit the Report on their behalf, present this Fourteenth Report on Action Taken by Government on the recommendations contained in the Fifth Report of the Committee on Public Undertakings (Tenth Lok Sabha) on Hindustan Fertilizer Corporation Ltd.

2. The Fifth Report of the Committee on Public Undertakings (1991-92) was presented to Lok Sabha on 12th March, 1992. Replies of Government to all the recommendations contained in the Report were received on 4th November, 1992. The replies of Government were considered by the Action Taken Sub-Committee of the Committee on Public Undertakings on 24th March, 1993. The Committee also considered and adopted this Report at their sitting held on 24th March, 1993.

3. An analysis of the action taken by Government on the recommendations contained in the Fifth Report (1991-92) of the Committee is given in Appendix-III.

NEW DELHI;
March 24, 1993
Chaitra 3, 1915 (Saka)

A.R. ANTULAY,
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 Fifth Report (Tenth Lok Sabha) of the Committee on Public Undertakings on Hindustan Fertilizer Corporation Ltd. which was presented to Lok Sabha on 12th March, 1992.

2. Action Taken Notes have been received from Government in respect of all the 44 recommendations contained in the Report. These have been categorised as follows:

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

Sl. Nos. 1-4, 6-10, 12, 15, 18-23, 25, 29, 32-35 and 41-44.

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

Sl. Nos. 5, 14 and 27

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

Sl. Nos. 11, 13, 31 and 36

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

Sl. Nos. 16, 17, 24, 26, 28, 30 and 37-40

3. The Committee desire that the final replies in respect of the recommendations for which only interim replies have been given by Government should be furnished to the Committee expeditiously.

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

A. Corporate Plan

(Recommendation Serial No. 7, Paragraph 1.34)

5. The Committee had observed that a large multi-unit Fertilizer Company like HFC had been functioning hitherto without a perspective plan. The Committee had, therefore, desired that as assured by the Secretary, Department of Fertilizers in the course of evidence, Corporate Plan of the Company should be drawn up soon.

6. In their reply, the Government have stated that while some work in this direction was initiated recently, the current situation is not conducive to concretising a perspective plan. As a chronically loss making company,

the Hindustan Fertilizer Corporation Ltd. has been referred to the Board for Industrial and Financial Reconstruction (BIFR). The Company also has to have discussions with their recognised unions on the Revival Plan given by the latter. They have further stated that any perspective plan can be given concrete shape after these processes are complete and a clear picture of the future role of the company emerges.

7. The Committee note that being a chronically sick Company, HFC has been referred to BIFR. The Committee are of the firm view that long term perspective plan should have been formulated by the Company much earlier. However, in the given circumstances, they desire that perspective plan of the Company should be finalised within six months after the report of BIFR is received and also taking into consideration the Revival Plan submitted by the recognised unions of the Comapny. Since the Company is not getting any budgetary assistance, the Committee desire that pending recommendations by BIFR, Government should provide financial assistance to the Company so that it can sustain its operations.

B. Delay in approval of revised cost estimate of Haldia Project

(Recommendation Serial No. 11, Paragraph 2.78)

8. The Committee had noted that although an expenditure of Rs. 608.48 crores was incurred on the Haldia Project, the latest cost estimate approved by Government was Rs. 281.96 crores. In this connection, the Committee had invited attention to the BPE guidelines issued in 1981 that whenever the revised cost based on DPR exceeded by more than 20% of the original amount sanctioned by Government, the case has to be brought up for approval again at the appropriate forum. Expressing their displeasure over the neglect by the Government in complying with the guidelines, the Committee had desired that responsibility be fixed for the lapse and the Committee apprised of the same at the earliest. They had also desired that revised cost estimate of the plant should be got approved by the competent authority at the earliest.

9. In their reply, the Government have stated that in case of Haldia Project much time was spent in making efforts to commission the project. During that period, the cost of the project was monitored regularly and very carefully in the Government before release of additional funds. The commissioning efforts were finally given up in October, 1986. Thereafter, various alternatives for revamping the unit were under consideration of the Government. They have further stated that as no decision on the future of the project could so far be taken, revised cost estimates could not be prepared. In the light of the above, no individual or group of individuals can be held responsible for not getting the revised cost estimates approved and hence the question of fixing responsibility on anybody does not arise.

10. The Committee are not at all convinced with such an evasive reply given by the Government. Undoubtedly before such an enormous expenditure was allowed to be incurred beyond the approved cost, the

revised cost estimate should have been got approved by the competent authority. The Committee reiterate their earlier recommendation that the additional expenditure incurred over the approved cost should be got regularised at the earliest and responsibility fixed for not complying with the extant guidelines on the subject.

C. Enquiry regarding failure of Haldia Project

(Recommendation Serial No. 13, Paragraph 2.80)

11. The Committee had observed that neither was any enquiry conducted into the failure of the Haldia Project nor was any action taken against those who were responsible for its planning and implementation. The Committee had, therefore, recommended that a detailed enquiry be conducted with a view to fixing responsibility for all the lapses in the execution and monitoring of Haldia Project and they be informed of the outcome.

12. In reply, the Government have stated that a large number of persons and mainly three organisations, *viz.* Fertilizer Corporation of India Ltd. (FCI) Projects & Development India Ltd. (PDIL) and the Hindustan Fertilizer Corporation Ltd. (HFC) were involved in the implementation and commissioning of the project stretching over a period of more than a decade. The delays were due to a number of factors which were beyond the control of any individual or organisation. The Government have also stated that it is difficult to pinpoint responsibility on any individual or organisation and it is doubtful whether any purpose would be served by launching an enquiry at this stage on this complex set of factors and circumstances.

13. The Committee deprecate the stand taken by the Government in regard to their recommendation for institution of an enquiry and fixing responsibility for all the lapses in planning and implementation of Haldia Project. As pointed out earlier by the Committee, the Project suffered from a number of technological and design deficiencies and they have no doubt that many of these deficiencies in design and fabrication could have been avoided had there been proper planning and effective monitoring at various stages of implementation of the Project. The Committee feel that in view of this action should have been taken by Government on their own to institute an enquiry into the failure of the Project. What dismays the Committee is the fact that the Government without conducting any enquiry have reached the conclusion that no purpose would be served by launching an enquiry. The Government seems to have taken the recommendations of the Committee in a rather casual manner. The Committee, therefore, reiterate their earlier recommendation that an enquiry be instituted into all aspects leading to the failure of the project and appropriate action be taken against the persons found responsible as a result of enquiry and the Committee be apprised of the same.

D. Rehabilitation of Haldia Project

(Recommendation Serial Nos. 16 & 17, Paragraphs 2.85 & 2.86)

14. The Committee had observed that HFC and the Government had advanced diametrically opposite views on the question of setting up a new grass root plant at Haldia. Whereas HFC favoured NPK Plant, the Department of Fertilizers vehemently advocated in favour of a DAP Plant. While urging the Government to expedite a final decision on the proposal for the rehabilitation of Haldia Project which had been hanging fire for several years, the Committee desired that a decision on the product should be taken after careful evaluation of all the aspects of the proposals including availability of raw material and viability of the Plant.

15. The Government have stated in their reply that they had favoured setting up of a DAP Plant at Haldia for the simple reason that the subsidy outgo in this case was lower as compared to subsidy outgo for a NPK Plant. They have also stated that with the decontrol of phosphatic fertilizer w.e.f. 25.8.1992, the viability of DAP Plant at Haldia will have to be assessed with reference to market viability in a no subsidy regime and the available data do not present an encouraging picture in this regard.

16. **It is disquieting to find that although more than seven months have elapsed since the presentation of the Report by the Committee to Parliament, the Government do not seem to have given any serious thought to the recommendations of the Committee for expediting a decision on the future of Haldia Project, which is pending decision for the last six years. The reply furnished by the Ministry is too general and evasive. As noted by the Committee earlier, all commissioning and production activities were stopped in Haldia in October, 1986 and a workforce consisting of 1819 persons were deployed there as on 31.3.1990 for which the Company had incurred an expenditure of Rs. 36.64 crores towards payment of salary and allowances alone upto December, 1990. The precarious financial position of the Company called for a speedy decision about the future of the Project. It hardly needs reiteration that HFC should not be allowed to incur further loss on account of Haldia Project. The Committee, therefore, desire the Government to examine all possible alternatives with regard to the future of Haldia Project and a decision be taken thereon within three months from the date of presentation of this Report. They would also like to be apprised of the decision of the Government and the action taken thereon.**

E. Rehabilitation of old plants

(Recommendation Sl. Nos. 24, 26, 28 and 30, Paragraphs 3.76, 3.78, 3.80 and 4.29)

17. The Committee had noted that both HFC and the Ministry were in favour of the modest investment proposal for partial revamp of old plants in view of the magnitude of investment as proposed by the consultant M/s. Halder Topsoe, Denmark, resources crunch and uncertainty of the plants

becoming viable even after making heavy investment in the plants. They had desired that after due consideration the proposal should be got approved by the concerned Department of the Government without any further loss of time. The Committee were informed that a proposal was submitted by the Company to the Government for derating the capacity of old generation plants. The Committee had also noted that both Government and HFC were confident that the Company would become viable once the proposals for financial restructuring, derating the capacity and partial revamp of the plants are implemented. The Committee, therefore, had urged the Government to weigh the pros and cons of the proposals and expedite decision thereon. The Committee also had desired that the Government draw up a broad time frame for setting up the new plants immediately after the modest investment proposal is approved.

18. In their reply Government have stated that since the Company has in the mean-time been referred to BIFR, no decision could be taken on the proposal for modest investment for revamping the plants. It has also been stated that the Government have constituted an expert group to look into the proposals submitted by HFC for derating the capacity of Durgapur, Barauni and Namrup II Plants. Similarly, the proposal for restructuring of capital of HFC is also under consideration of the Government. The Government have further stated that due to change in the economic policy as well as the severe resources crunch they are facing, the proposals to have new grassroot plants in the public sector is not being seriously considered by Government at this stage. Besides, Government and the Company are awaiting any measure that may be suggested by BIFR for making the net worth of HFC positive. For these reasons, Government is not in a position to draw up any time-frame for setting up of new plants.

19. The Committee need hardly stress the urgency for expediting decision on the rehabilitation of old plants, which are vital for the survival of the Company, so that the future of a large fertilizer company like HFC does not continue to hang in the balance indefinitely. It is high time that Government should consider all these proposals in the right perspective and arrive at some definite decisions. The Committee, therefore, desire Government to impress upon BIFR and the expert group looking into the proposals submitted by HFC to expedite their recommendations. They also urge that immediately after the Report of the BIFR is received, it should be considered together with all other proposals relating to the company like partial revamp, financial restructuring, derating of capacity and setting up of new grassroot plant. In view of the abysmally low production performance of these plants at present, the Committee emphasise that no time should be lost in deciding the future status of the Company and implementing the proposals for rehabilitation of the old plants. They would like to be apprised of the steps taken by Government in this regard.

F. Recovery of outstandings from BISCOMAIN

(Recommendation Sl. No. 31, Paragraph 4.31)

20. The Committee had noted that BISCOMAIN in Bihar had not settled debts amounting to Rs. 12 crores owed to the Company despite intervention of the Government at the higher level. The Committee therefore, desired that effective steps should be taken by the Company and the Government especially for recovery of debts outstanding for long.

21. The Government have stated in their reply that the recovery of dues from M/s. BISCOMAIN is being regularly followed by them with the Government of Bihar. While the Company has been able to recover dues from other public enterprises to a large extent, the dues from BISCOMAIN as on 31.8.1992 were Rs. 16.31 crores as principal and Rs. 17.74 crores as interest.

22. The Committee are not satisfied with the reply of the Government. They feel that the Company and the Government have not made serious efforts to recover the outstandings from BISCOMAIN. They, therefore, desire that immediate steps be taken at the highest level in the Government to pursue with the Government of Bihar for recovery of the amount outstanding from BISCOMAIN.

G. Surplus Manpower

(Recommendation Sl. No. 34, Paragraph 5.36)

23. The Committee had observed that inspite of the recommendations made by the Task Force in 1986 for taking measures to reduce the burden of excess manpower, it was only after the Committee took up examination of HFC, that a decision was taken to appoint a Committee to study the manpower requirements of all the Units. The Committee had desired that the study be expedited, surplus manpower identified and effective measures taken to reduce the surpluses within a realistic period.

24. In their reply, the Government have stated that HFC had constituted a manpower committee to identify the surplus manpower of the Company. The report of the Committee has been received by the Government for its consideration. It has been stated that some of the employees have been deployed in Sales and Sales Promotion of the Company's products, as well as, on imported and bought out products. It has been further stated that the Government has also received a request from the Company on the deployment/absorption of their surplus employees in the various Agriculture Universities and Departments of the States. The Company is stated to have sent similar requests to the various State Governments and Agriculture Universities. With regard to reduction of surplus manpower in Units by other methods, the matter is reportedly under consideration of the Government. The Government have added that the case of the Company has been referred to the BIFR which is also looking into its problems.

25. The Committee fail to understand as to why the Government and the Company have so far failed to take any decision on the report of the

manpower committee set up by HFC or to initiate any concrete measures for reduction/redeployment of surplus staff in the various divisions of the Company. The reply of the Government is also silent about the concrete measures suggested by the said committee to reduce/redeploy the surplus manpower. It is needless to reemphasise that one of the major reasons for turning the Company sick is its surplus manpower. The Committee reiterate that Government should take urgent steps to identify the surplus manpower and take concrete steps to reduce or redeploy the surplus labour in the Company. It need hardly be stressed that simultaneously the proposal for the absorption of surplus employees in the Agricultural Universities/ Government Departments should also be pursued vigorously.

H. Industrial Relations and Incentive Scheme

(Recommendation Sl. No. 36, Paragraphs 5.39 & 5.40)

26. The Committee were of the firm view that improving of industrial relations should receive prompt attention of HFC and the Government as a pre-requisite to improving the working of the Company. The Company had therefore, desired that expeditious steps be taken to review and rectify all agreements entered into with workers which are adversely affecting the working of the Company and to improve discipline and morale among employees and industrial relations climate in the Company as a whole.

27. The Committee also noted that a decision had been taken to implement a productivity linked Incentive Scheme in HFC. They desired that the Incentive Scheme should be result oriented and linked to production as also suitably substitute the existing system of payment of unjustified overtime.

28. The Government have stated in their reply that termination of all agreements entered into with the Workers Unions adversely affecting the production, have not been agreed to by the Unions. The matter has been taken up by the Company with the Labour Ministries of the State Governments of West Bengal and Bihar, but the response of the Unions has not been encouraging.

29. The Government have further stated that since the Company had found it difficult to implement the Incentive Scheme based on BPE guidelines, they prepared their own scheme based on the achievable capacity of the Plant after taking into account other related factors. However, the Unions are reportedly insisting on a low threshold level and the matter is being pursued by the Company.

30. The Committee are not convinced with the reasons advanced by the Government for not making any headway in improving the industrial relations climate in HFC. They are of the view that since most of the agreements entered into with the employees were inherited by the Company from the erstwhile FCI, these could have been reviewed and rectified at the time of taking over the Units by HFC. The Committee find that the

Government and the Company did not make any ernest effort to have these agreements suitably modified or substituted with new ones during all these years by pursuasive methods or by settling the contentious issues across the table with the employees. The Committee, therefore reiterate their earlier recommendation that sincere efforts should be made by the Government and the Company to review and rectify the existing agreements which are adversely affecting the Company's production. They desire that of industrial relations climate in the Company should be given top priority and the possibility of new schemes like Production Incentive Scheme substituting earlier agreements like the one for unjustified overtime to the employees might be seriously considered.

I. Relocation of Corporate Office

(Recommendation Sl. Nos. 37 to 40, Para Nos. 6.25 to 6.28)

31. The Committee had observed that while all its operating units and divisions are situated in the Eastern Region the Headquarters of HFC is in Delhi and this had an adverse impact on the performance of the Company. The Committee had, therefore, desired that steps be taken to expedite the decision regarding shifting the Head Office of the Company from Delhi, identify a suitable alternative location and ensure that the shifting is done within a reasonable timeframe.

32. In their reply the Government have stated that any decision on the shifting of the Headquarters of the Company is linked with the decision on revamping of the units, future scenario *i.e.*, decision on new plants at these locations and also on the outcome of the reference made to BIFR.

33. Inorder to make the corporate management of the Company more effective, the Committee re-emphasise the need for shifting the Head Office of HFC from Delhi to a location in the region where the plants are located. They desire that after the report of BIFR is received, any proposal for rehabilitation of the Company should include a time-bound scheme for relocation of its Corporate Office. The Secretary, Deptt. of Fertilizers had also assured the Committee during his evidence earlier that the question of shifting the Headquarters from Delhi would be reopened and decision thereon taken as quickly as possible. The Committee would also like to be apprised of the concrete action taken in this regard.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

(Recommendation Serial No. 1, Paragraph No. 1.27)

The Hindustan Fertilizer Corporation Limited came into existence in March, 1978 consequent on the decision of the Government of India to reorganise the Fertilizer Corporation of India Limited and the National Fertilizers Limited. It was felt that the erstwhile F.C.I. with as many as 17 Projects, seven in operation and ten under various stages of implementation, had become too large and unwieldly and could not be controlled effectively. On the basis of the recommendations of Fazal Committee, comprising of representatives of various Ministries, NFL and FCI, the Government allocated running units, Namrup I and II, Durgapur and Barauni and the Haldia Project, which was under implementation to HFC. Though the Secretary, Department of Fertilizers maintained that process or technology of the plants was also one of the factors taken into consideration at the time of allocation of the units among HFC, FCI, NFL, and RCF, the main criteria which prevailed over the allocation seems to have been their geographical location. The outcome was that HFC was born unhealthy with the units allocated to it being handicapped with a number of technological, design and equipment deficiencies. The Committee are of the view that while grouping together operating plants located in a particular region, factors like operational viability, profitability, and industrial climate of the units should have been given due consideration while deciding the allocation of the units to the different companies. This would have helped the sick units to draw and sustain on the internal resources generated by the healthier units.

Reply of the Government

The modalities of the reorganisation were worked out by a Working Group comprising representatives of the Ministry of Chemicals & Fertilizers, Finance (Expenditure), Law & Company Affairs, Bureau of Public Enterprises (BPE) and the Managing Directors of FCI and NFL. The Broad criteria of geographical location and process technology were taken into consideration. The other factors mentioned by COPU, although relevant, could not be visualised in the circumstances prevailing at the time of the reorganisation.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) OM No. 39/7/92-FDA-II/Part-I Dated 30th October, 1992]

(Recommendation Serial No. 2, Paragraph No. 1.28)

It is regrettable to note that as the undivided FCI's marketing establishment was based in Calcutta it was *ipso facto* forced upon HFC with manpower strength far beyond the Company's requirements. Similarly, the financial burden of promotional wing of the erstwhile FCI, called the Fertilizer Promotion and Agricultural Research Division (EP & ARD) which in its generic sense was not the function of a fertilizer company, was also to be borne by HFC. Yet another anomaly of the reorganisation was the exodus of qualified and experienced personnel at senior levels to the healthier companies by way of exercising their options, leaving a vaccum in the management cadre of HFC.

Reply of the Government

The Eastern zone of the marketing establishment of the undivided FCI was located in Calcutta and it was this zone that was amalgamated with HFC. The other zones *viz.* the Northern and Western are located elsewhere and were not amalgamated with HFC.

It may be pointed out that any vaccum created by the exodus of experienced personnel at senior levels to other companies was filled up from time to time by HFC, by recruitment at the appropriate levels.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) OM No. 39/7/92-FDA-II/Part-I Dated 30th October, 1992].

(Recommendation Serial No. 3, Paragraph No. 1.29)

After having examined the working of HFC, the Committee are left with no doubt that allocation and grouping of various units, divisions and personnel at the time of reorganisation was inequitable and incongruous. Although at this stage the Committee can only express their displeasure on this lapse, in their view the Government cannot be exonerated for their ommissions and commissions at the time of reorganisation of the erstwhile FCI and allocation of the units to HFC.

Reply of the Government

The broad criteria adopted at the time of reorganisation were geographical location of the units and process technology. The details were worked out by an inter-Ministerial Working Group. It is also true that development subsequent to the reorganisation belied the assumptions on which the reorganisation was effected. The Government, however, has noted the concern of the COPU in this regard.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) OM No. 39/7/92-FDA-II/Part-I Dated 30th October, 1992].

(Recommendation Serial No. 4, Paragraph No. 1.30)

The Committee note with concern that the net loss of the Company which was Rs. 80.94 crores at the time of reorganisation in 1978 sharply rose to Rs. 949.70 crores in 1989-90, the claims of HFC'S management that the Company had been able to achieve the objectives of reorganisation to a certain extent are not borne out by tangible results. At least the Secretary Department of Fertilizers was candid enough to admit: "I am afraid, the facts show that the result has not been commensurate with the expected performance of the units for which this bifurcation was done." According to the Committee the performance of HFC after reorganisation has been to say the least, dismal. Not only that none of the objectives of reorganisation has fructified, but also the Company has gone from bad to worse. The Committee have gathered an impression that although the Company had inherited many a problem from its parent company at the time of bifurcation, the administrative Ministry have also miserably failed in their responsibility to evince sufficient interest in its working, guide and monitor the production performance and take timely measures to improve the financial health of the fledgling Company. On the other hand, the Company made no conscientious effort to streamline its own working, revitalise the management cadre, improve production and financial performance and make the units viable. The Company has been crippled with lack of guidance and initiative, apathy and indecisiveness throughout. While expressing their displeasure, the Committee urge the Government and HFC, that at least from now onwards concerted efforts should be made to find solution to the problems facing the Company, expedite the revamping and rehabilitation projects and improve the working of the Company without any further delay.

Reply of the Government

While it is accepted that the performance of HFC has deteriorated, it cannot be said that, the Government and the Company 'miserably failed' in their responsibility to evince sufficient interest in the Company. The performance of the Company has been monitored regularly and all help, and guidance has been provided. Concerted efforts have been made to find solutions to the problems facing the Company. These can be divided into two parts:

(1) Action taken by the Company

Barauni

(i) 2.5 MW gas turbine set for protection of front end of ammonia plant has been recommissioned.

(ii) Revamping of the process steam generation boilers is in progress. The job is completed in one boiler and the work is in progress in the second boiler. Work order for the remaining two boiler is expected to be awarded shortly.

(iii) Repair and modification work in the Capative Power Plant is expected to be completed by October, 1993.

(iv) Additional cooling tower has been commissioned in July, 1992.

(v) Essential replacements/Repairs are being taken up under renewal and replacements.

(vi) Tube bundle of water cooled condenser has been replaced with higher capacity tube bundle. However, certain equipments which require sub stantial investments will be replaced after the necessary funds are available under the modest investment proposal under consideration.

(vii) Tower packing in purification section would be replaced with stainless steel packing to improve the efficiency and to eliminate the operational problems.

Durgapur

(i) Augmentation facilities of the ammonia and urea cooling towers have been commissioned.

(ii) Major repair of the service boilers have already been taken up which is to be completed by end Sept. 1992.

(iii) Replacement of 80 nos. primary reformer tubes and replacement of primary reformer catalyst have been taken up in the annual shutdown in the first quarter of 1992.

(iv) Modification and revamping of Captive Power Plant boilers is in hand and is expected to be completed by the end of March, 1993.

(v) Tower packing in purification section would be replaced with stainless steel packing to improve the efficiency and to eliminate the operational problems.

Namrup-I

(i) The process air compressor is being replaced in the first quarter of next financial year.

(ii) Replacement of primary reformer tubes and replacement of synthesis catalyst in one stream of ammonia plant have been completed. Replacement of secondary reformer refractory is expected to be completed in the financial year 1992-93.

(iii) Front-end of the ammonia plant has been put on captive power to minimise the thermal shocks and to minimise the down time.

(iv) Conversion of sulphuric acid plant from SCSA to DCDA has been completed.

Namrup-II

(i) Repair of the service boiler is expected to be completed by the financial year 1993-94.

(ii) The tube bundle of water cooled condenser would be replaced with a higher capacity tube bundle in the annual shutdown proposed to be taken up in 1992.

(iii) Tower packing in purification section would be replaced with stainless steel packing.

Namrup-III

(i) The second recyle carbamate pump procured from Japan has been commissioned.

(ii) Spare tube bundle for RG boiler has been procured and received at site. Replacement action will be taken during the annual shutdown during 1992-93/1993-94.

In addition to the above, the Company has also taken economy measures like reduction in over-time and other fixed expenses. Moreover, the Company has adopted aggressive marketing strategy not only to clear old stocks but also to take up distribution of imported urea and DAP.

Common problems of the Namrup Complex taken up by the Company and the Central Government

(i) ONGC and OIL have been approached for better availability of natural gas.

(ii) State Government has been requested to solve the problem of availability of water as also the problem of power from the grid.

(2) **Efforts by the Central Government**

(i) The Central Government got an end-to-end survey done in 1988, by foreign consultants, which recommended a revamp of the plants at a cost of Rs. 486.39 crores. This was found uneconomical.

(ii) Government is examining the viability of the HFC units if some essential critical equipments are replaced and the plants suitably operated.

(iii) Preference has been given to HFC in handling imported fertilizers. The import and handling of fertilizers at the ports of Haldia, Saugor Anchorage and at Dahej have been entrusted to them.

(iv) The Indo British Fertilizer Education Programme and Rainfed Farming Project have been given to them for implementation so as to avail of the British assistance of about Rs. 66.78 crores.

[Ministry of Chemicals & Fertilizers (Department of Fertilizers) OM No. 39/7/92-FDA-II/Part-I Dated 30th October, 1992]

(Recommendation Serial No. 6, Paragraph No. 1.33)

The Committee are not satisfied with the contention of HFC that its objectives were kept in view at the time of formulation of the annual budgets of the Company. They neither approve the reasons advanced by the Department of Fertilizers for the Company having not formulated its objectives and obligations nor the plea made by HFC that it might be difficult to spell out the micro objectives before the revamping and rehabilitation proposals are implemented. On the other hand, the Committee are of the firm belief that had the Company formulated its micro objectives well in time, its overall performance and profitability would not have been as disappointing as it is today. They need hardly stress that no realistic and meaningful evaluation is possible unless the objectives for which a Company has been established are clearly known. In fact, the Secretary, Department of Fertilizers conceded during evidence that micro objectives should have been framed by HFC. The Committee, therefore, recommend that micro objectives of HFC, which is long overdue, should be formulated as per BPE guidelines and got approved by the Ministry within a period of three months and the Committee informed of the same.

Reply of the Government

The Company has since formulated its objectives on 10th July, 1992, after approval by the Board. A copy has been sent to the COPU in reply to paragraph No. 1.32. While it is true that the Company should have framed its micro objectives, the poor performance and profitability of the company have been essentially due to several factors like outdated process technology serious problems of equipment and power and indifferent work culture in the plants and the Corporate Office.

[Ministry of Chemicals and Fertilizers (Deptt. of Fertilizers) OM No. 39/7/92-FDA-II/Part-I Dated 30th October, 1992]

(Recommendation Serial No. 7, Paragraph Nos. 1.34 & 1.35)

It is equally astonishing that a large multi-unit fertilizer Company like HFC has been functioning hitherto without a perspective plan. While expressing their displeasure over the lapse, the Committee fail to comprehend how the programmes and activities of the Company were regulated without a long term perspective plan. They hope that as assured by the Secretary, Department of Fertilizers in the course of evidence, Corporate Plan of the Company would be drawn up soon. Ours being a basically agrarian economy, a large multi-unit fertilizer enterprise like HFC has a crucial role to play in the perspective of national plans. The Committee note that while the share of capital investment of HFC in the total investment for fertilizer companies in the Public Sector was the highest which accounted for 26.65% in 1988-89, the percentage share of the Company's production in terms of Nitrogen in the country as a while was only 4.20% during the year.

Reply of the Government

The need for a perspective plan is readily accepted. However, it may be recalled that while some work in this direction was initiated recently, the current situation is not conducing to concretising a perspective plan.

Company has been making losses since its inception. As a chronically loss making company, the Hindustan Fertilizer Corporation Ltd. has been referred to the Board for Industrial and Financial Reconstruction (BIFR). The Company also has to have discussions with their recognised unions on the Revival Plan given by the latter. Any perspective plan can be given concrete shape after these processes are complete and a clear picture of the future role of the company emerges.

The facts and figures mentioned in the para are confirmed.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers O.M. No. 39/7/92-FDA-II/Part-I, Dated 30th October, 1992]

(Recommendation Serial No.8, Paragraph No. 1.36)

It was significant to note that actual production achieved by the Company in the Seventh Plan period was less than satisfactory with the production as less as 74.15% of the share assigned to it. The Committee find that notwithstanding the fact that the operating units of HFC expect Namrup III were not expected to maintain even the present effective sustained load capacity, the Government has fixed targets for Durgapur and Barauni 288% and 136% higher respectively for the period 1990-91 to 1992-93 compared to the actual production recorded in the terminal year of the previous plan period without sufficient justification. Similarly, the projections for production for Namrup I and II are also equally unrealistic. Even after taking into consideration the proposed plan outlay and the high claims made by the Ministry about the prospects of the Company achieving the targetted production, the Committee find that the plants are not amendable to better capacity utilisation without implementing the revamping and rehabilitation proposals as conceded by the Company's management in the succeeding parts of this Report. Although the Committee are not in agreement with the practice of production targets being fixed far below the rated capacity of a plant, they are of the view that projecting utopian targets which cannot be achieved is also equally reprehensible. They are astonished to observe that while marginally higher projections for Namrup I & II, Durgapur and Barauni plants for 1993-94 and 1994-95 are based on the assumption that zero date for the revamping project of these units was 1st April, 1991 with a completion period of 24 months the proposal is still in the embryonic stage. In the circumstances, the Committee wonder whether the Company would be able to achieve even the targets set for the latter part of the plan period. The Committee desire that realistic targets for HFC's plants be drawn up for the Eighth Five Year Plan and the same plan before the Committee within three months.

Reply of the Government

Production targets are fixed before the beginning of each financial year after discussion with the company on the status of the plant, its capability, the schedule of turn-around and the stream days likely to be lost on account of unforseen equipment breakdown etc. In the case of HFC also, the production targets for 1990-91 to 1992-93 were fixed after taking these factors into account.

It has been observed by COPU that excessively high targets were fixed for Durgapur and Barauni for the years 1990-91 to 1992-93, compared to their actual performance in the year 1989-90. For a number of reasons the production performance of these units during 1989-90 was extremely poor. An analysis of the reasons for plant shut-down in these units has brought out the following position:—

Reasons for the plant shut-down during 1989-90

(number of days of shut-down during 1989-90

	Reasons	Durgapur	Barauni
(i)	Industrial Relations	113	10
(ii)	Equipment related	188	146
(iii)	Power related	20	21
(iv)	Turn-around	—	81
	Number of days of shut-down	321	258
	Number of days of operation	44	107
	Total	365	365

In view of the unusually high incidence of equipment breakdowns as well as industrial relation problems in 1989-90, the production targets for the years 1990-91 and 1991-92 could not be fixed on the basis of the actual production in 1989-90.

The production targets for 1990-91 and 1991-92 were fixed at very modest levels of capacity utilisation of 50% or less taking into account the condition of the plants and their capabilities, the schedule for annual turn-around and the stream days likely to be lost due to unforseen equipment breakdowns estimated on the basis of past experience. It was expected that these targets were achieved with better management and improved industrial relations.

The targets set for the Eighth Five Year Plan have since been reviewed taking into account the fact that no revamping programmes have been approved so far and the decision on revival package may be delayed as the Company has been referred to Board of Industrial and Financial Reconstruction as required under the provisions of the Sick Industrial Companies Act 1985 as recently amended.

The revised targets set for the Company for the Eighth Five Year Plan period are as follows:—

(000 MT of Nitrogen)

	1992-93 (approved by Govt.)	1993-94	1994-95	1995-96	1996-97	Total
Namrup-I	2.1	4.2*	4.0	3.8	3.6	17.7
Namrup-II	75.0	62.1	59.3	56.1	53.3	305.8

	1992-93 (approved by Govt.)	1993-94	1994-95	1995-96	1996-97	Total
Namrup-III	130.0	125.0	120.0	118.4	113.9	607.3
Durgapur	60.0	35.4	33.6	31.7	30.1	190.8
Barauni	60.0	60.0	57.0	54.3	51.6	282.9
Total	327.1	286.7	273.9	264.3	252.5	1404.05

* Increase due to renovation of the sulphuric acid plant

[Ministry of Chemicals & Fertilizers (Department of Fertilizers) O.M. No.39/7/92—FDA.II/Part-I, Dated 17th July, 1992]

(Recommendation Serial No. 9, Paragraph No. 1.37)

Having taken into account the fact that Namrup III is a new generation plant which went into operation as recently as in October, 1987, the Committee fail to comprehend the rationale for setting a tepid target for the plant throughout the Plan period. The Committee also find, to their dismay, that no production target has been set for the Haldia Unit of the Company for which revamping and rehabilitation proposal, already approved in principle, is under consideration of the Government for investment decision. The Committee desire that revamping and rehabilitation proposal should be finally approved and implemented expeditiously. The Committee would urge HFC and the Ministry not to spare any effort to achieve the production targets set out for the Eighth Five Year Plan period.

Reply of the Government

Namrup-III started commercial production from 1st October, 1987. Since this plant was designed to take a portion of its Ammonia from Namrup-I which is an old plant (1969) and also because the Namrup-III would take some time to stabilize, the targets for Namrup-III were fixed at a lower level, so that within a limited period, say—2 years, the plant could possibly achieve its rated capacity.

No targets were fixed for Haldia, as it had a long history of unsuccessful commissioning and ultimately the commissioning had to be stopped from 1986 and an end-to-end survey had to be undertaken. Targets are fixed once a plant is commissioned Haldia could not be commissioned.

The Government has approved in principle, in July 1989 the revamping of nitrophosphate group of plant of Haldia at an estimated cost of Rs. 123.88 crores. However, when this proposal was being processed for obtaining the approval of the Government it was noticed that the fresh investment required to revamp the nitrophosphate plant had gone up from Rs. 123.88 crores to Rs. 200.95 crores which would have resulted in high cost of production and subsidy.

An alternative was examined for a new DAP plant using the existing facilities to the maximum extent. It was seen that a DAP plant of about same P_2O_5 capacity as that of the nitrophosphate plant will cost Rs. 42.4 crores, as fresh investment and therefore, first stage clearance of the Committee of PIB was obtained for setting up a 600 tpd DAP plant. This alternative could also not be pursued as it was found on more updated estimates that the cost of production of DAP was high as compared to imported DAP (which is relevant to the present situation of decontrol of phosphatics) and ways could not be found for pruning the strength of officers/staff substantially, as the DAP plant would require not more than 500 personnel.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) OM. No. 39/7/
92-FDA-II/Part-I, Dated 30th October, 1992]

(Recommendation Serial No. 10, Paragraph No. 2.76)

Haldia Project, which was under implementation at the time of inception of HFC, has not been commissioned as yet. Although the zero date of the project was 1 September, 1972 with a completion period of 42 months and the scheduled time for commerical production was September, 1976 as envisaged at the TEFR stage, the project was meehanically completed only in November, 1979, i.e. after a delay of 45 months. The reasons for the delay were stated to have been on account on inordinate time taken in release of foreign exchange, receipt of basic engineering documents. Civil works, receipt of major equipments at site and installation of river water system. In addition, the Committee observe that much of the actual delay was due to defective project Planning, revision of the basic design of vital sections of the Ammonia plant at late stages, frequent changes, in the source of supply of critical equipments and delay in delivery of equipments by suppliers. It is distressing to note that even minor aspects of project planning like land development was, not correctly evaluated in the DPR which led to considerable delay in implementation of the project. The Committee were informed that decisions taken to go in for indigenous technology to the extent possible and avail of credit facility for the technology and equipments which were required to be imported were two major contributing factors for the delays.

Reply of the Government

It is admitted that there was serious delay in the mechanical completion of the Project. The causes of delay in mechanical completion and the failures of commissioning, have been gone into in great detail. Broadly, this delay was due to:—

(i) Inadequate soil survey to determine the precise requirement for foundation.

(ii) Major revision in the basic design of Ammonia plant at a late stage.

(iii) attempt for the first time for major indigenisation of equipments which led to considerable delay in the delivery of equipment.

(iv) Availing as many as 13 credits for procurement of equipment which resulted in delay in placement of orders and ill matching of equipment.

(v) Serious industrial relations problems during the construction and commissioning phase of the project.

(vi) When the project was mechanically completed in November, 1979 the commissioning activities could not be taken up due to inability of West Bengal State Electricity Board to supply the required quantum of power although at the project approval stage it had assured supply of power to this project. The Government of India had to provide a 20 MW Gas Turbine which was commissioned in January, 1982.

(vii) When commissioning activities started, there was a number of equipment breakdowns due to which repeated efforts for commissioning the project did not succeed and, therefore, the commissioning activities of this project were stopped from October, 1986.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) OM No. 39/7/92-FDA-II/Part-I Dated 30th October, 1992]

(Recommendation Serial No. 12, Paragraph No. 2.79)

The Committee are distressed to note that the project suffered from a number of technological and design deficiencies on account of which the plants could not be operated on a sustained basis and production and commissioning activities had to be stopped. Serious problems were experienced in the oxygen compressors, the most critical equipment in the fertilizer plant, and three compressors were damaged. The Committee were informed that ENSA, the French Agency, with whom order was placed for the supply of number of equipments including Oxygen compressors, had procured various components of the equipments from different agencies and got them assembled. It was surprising to learn that there were as many as 11 firms engaged for basic and detailed engineering for the project while equipments were supplied by as many as 26 companies from India and abroad. The Committee were also given to understand that the selection and import of various technologies were swayed more by economic, rather than technical considerations. Orders for major items were placed on French and Polish firms who arranged major part of the credit. The tied loans resulted in mismatch and repeated failure of equipments. What further dismays the Committee is the selection of an unproven process technology for the Nitro-phosphate Plant in Haldia was based on know-how from Stamicarban, Holland. Significantly, the only plant other than Haldia set up on the basis of this technology in Bulgaria had been abandoned. Similarly, the process technology selected for Sulphuric Acid and Nitric Acid Plants were reportedly very old. M/s. Toyo Engineering Corporation, Japan and M/s. Uhde, West Germany who were engaged consultants to carry out end-to-end survey of the Plants in

Haldia also found a lot of deficiencies in design and fabrication which in some cases ranged between 50% to 100% due to manufacturers' workmanship.

Reply of the Government

The project no doubt suffered from a number of equipment deficiencies on account of which commissioning on a sustained basis could not be achieved and had to be given up in October, 1986. It is also true that serious problems were experienced with the Oxygen Compressors and some other equipments. It is in the Oxygen Compressors mainly that mismatch occurred due to procurement of components/equipment from diverse sources, due to credits therefor, which contributed to delay. It is normal to get various equipment of a fertilizer plant from different sources as no single manufacturer has expertise to manufacture all types of equipment. It may be added that the technology chosen was the best available in the circumstances prevailing at that time.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) OM No. 39/7/-92FDA-II/PART-I Dated 30th October, 1992]

Recommendation Serial No. 15, Paragraph Nos. 2.83 & 2.84)

M/s. Toyo Engineering Corporation, Japan engaged to carryout end-to-end suryvey of Ammonia, Urea and Methanol Plants in their report submitted in July, 1988 proposed additional investment of Rs. 299.18 crores for revamping of the plants. The Committee are affirmed that there was no proposal before the Government to revamp the plants on account of high investment required. They are distressed to find that no efforts have been made by the Company or the Government to rehabilitate these plants since their closure in 1986. The Committee recommend that soon after a decision on the proposed DAP/NPK Plant in Haldia is taken, the viability of rehabilitating the Ammonia, Urea and Methanol Plants should be examined by Government.

The Committee note that M/s. Uhde Gmbh, West Germany submitted a proposal for an additional investment of Rs. 199.17 crores in two phases for revamping and rehabilitation of the Nitro-Phosphate Group of Plants. Although Phase I proposed at a cost of Rs. 123.88 crores to produce 1100 tpd of NP was cleared in principle by the Government in July 1989 and a DPR prepared thereafter, it was subsequently concluded that a new grass root DAP Plant of 600 tpd with indigenous technology based on imported Phosphoric Acid and Ammonia would be better. Resource constraints and unviability were stated to have been the main reasons for not pursuing the proposal submitted by the consultant. The Committee were informed that if investment was made as per the consultant's proposal, the retention price would have increased to the extent of Rs. 10741 per tonne Urea against the normal rate of Rs. 4200 and Rs. 8534 per tonne for NP against normal rate of Rs. 5000, thereby increasing the subsidy burden on Government.

Reply of the Government

The Government examined carefully the recommendations of both the consultants who were entrusted with the task of an end-to end survey of the project. M/s. Toyo Engineering Corporation undertook a study of the ammonia, urea and methanol plants and suggested a revamp of these plants at a cost of Rs. 299.18 crores. This was considered a huge investment and if agreed to, would have resulted in a heavy outgo of subsidy from Government and would have made the project economically unviable. It was, therefore, decided to take up revamping of the nitrophosphate group of plants to start with. Even the revamping of nitrophosphate plant was found to be unviable.

2.84 The observation of the Committee including the reasons for not pursuing the proposal, are confirmed. The recent increases in the price of Fuel oil/LSHS an purchase of equipments at market rate of foreign exchange will increase the subsidy on urea further and would make NP/DAP unviable in the prevalent situation of decontrol.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) OM No. 39/7/92-FDA-II/Part-I Dated 30th October, 1992]

(Recommendation Serial No. 18, Paragraph No. 2.87)

The Committee find that in the four projects completed and commissioned by the HFC during the period 1985-90, there were delays ranging between 35 to 109 months and cost escalation ranging from 103% to 412%. The Committee were informed that while factors like delay in civil works, change in scope, etc. were responsible for considerable delay in cost overrun, the major contributory factor was non-adherence of schedule by suppliers of equipments and machinery, most of which were public enterprises. Some of the equipments were manufactured for the first time by these companies resulting in slippages and defects in the equipments. Commenting on monitoring the execution of Projects by HFC's management, the Acting CMd was can did in admission that "had they done the job in time, the problems would not have arisen." The Committee are perturbed about the enormous delays and cost escalations in the execution of the Project which admittedly, were due to lack of management control and monitoring by the Company. In this context, it is also significant to note that the retention price formula does not reckon cost escalation in the implementation of projects for the purpose of calculation of fertilizer subsidy and the Company had to bear the brunt of cost overrun. They would also stress that although the Committee are in favour of encouraging indigenous know-how for the manufacture of capital equipments, the

Government should have ensured that the Companies had the capacity and expertise to manufacture the items before public undertakings were directed to place orders on these Companies. The Committee trust that HFC and the Ministry would ensure in future that schedules fixed for implementation of projects would be adhered to religiously.

Reply of the Government

The delays in project execution as the Committee rightly observed, were mainly due to delay in delivery of equipment.

On the observation that the retention price formula does not reckon cost escalation, it may be mentioned that the formula is designed to ensure timely execution of the project, in other words, Government should not subsidise inefficiencies.

On the question of encouraging indigenous know-how for the manufacture of capital equipment, Government had satisfied itself about the capacity and experience of the manufacturers, who apparently could not overcome the teething problems in manufacturing equipments of such complexity and range.

The Committee's recommendation regarding adherence to the implementation schedules for projects is noted for guidance.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) OM No. 39/7/92-FDA-II/Part-I Dated 30th October, 1992]

(Recommendation Serial No. 19, Paragraph No. 3.71)

The Committee view with concern the abysmally low capacity utilisation and the declining trend in production in HFC's operating Units, Barauni, Durgapur and Namrup I & II. The Committee were also given to understand that production and capacity utilisation in respect of Urea was the lowest in HFC comparing to other plants producing the fertilizer in the public as well as cooperative sectors. Whereas average capacity utilisation in the Company's plants in 1989-90 was 36% fertilizer companies in the cooperative sector, KRIBHCO and IFFCO recorded 114.8% and 106% capacity utilisation respectively and public sector companies like NFL and RCF, 97% and 81% respectively. It is also distressing to note that the total production of Nitrogen by the Company has declined from 2.89 lakh tonnes in 1987-88 to 2.40 lakh tonnes in 1988-89 and 2.37 lakh tonnes in 1989-90, inspite of the fact that Namrup III with an installed capacity of 177150 MT Nitrogen commenced production in 1987. The actual production by all the units of HFC fell short of the targets throughout the Seventh Plan period, which the Committee have gone into in the earlier part of this Report. They are particularly concerned about the level of capacity utilisation which was 66.5% in 1989-90 in Namrup III, a gas based new generation plant commissioned in 1987 even after its gestation period was over, whereas similar plants in the country were operating at 100% or more of their capacity. The Committee are unhappy to find that no serious efforts had been made either by the Company or the Ministry to improve the production performance by the units.

Reply of the Government

The low capacity utilisation of the units of HFC is mainly due to frequent failure of equipment and machineries and also unstable power supply from State Electricity Boards. A comparison of the capacity utilisation of HFC units with those of IFFCO and KRIBHCO in co-operative sector and RCF and NFL in public sector would be unrealistic because of the following reasons:

(1) vintage of plants

(2) provenness of the technology

(3) feed stock

(4) locational factors

The Department would like to reiterate that serious efforts have been made both by the Company and by the Ministry to improve the production performance by the units based on regular reviewing of performance and identification of weaknesses and constraints. An end-to-end survey was made by the foreign consultants M/s. Haldor Topsoe of Denmark in respect of Barauni, Durgapur and Namrup-I & II units. The consultants have suggested revamping of operating units to arrest the declining trend in production. However, in view of the large investment involved no dicision could be taken on the revamping proposal. Normally, repairs and replacement are being done as and when required. Captive power plants have also been installed in all the units to meet the power problems. The Government is also considering various alternatives including a modest investment proposal for replacement of trouble-prone equipments of the different units so as to keep the plants in operation.

The low capacity utilisation in Namrup-III plant is mainly due to the frequent failure of equipments such as RG boiler in Ammonia Plant and Second Stage Carbamate Recycle Pump. This pump has since been replaced by a more proven one and various other measured like procurement of spares, R.G. Boiler Tube Bundle and strict control of boiler feed water quality are also taken. It is expected that the performance of Namrup-III plant would be better from now onwards.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) OM No. 39/7/92-FDA-II/Part-I Dated 30th October, 1992]

(Recommendation Serial No. 20, Paragraph No. 3.72)

The shortfall in production was attributed to a variety of factors like technological and design deficiencies, equipment breakdown, power shortage, insufficient supply of raw material, etc. These constraints, besides annual turnaround, were responsible for the number of streamdays achieved by the Units of HFC being low, the lowest being 42 days for the Urea Plant in Durgapur in 1989-90. The technological and design deficiency in the Montecatini technology on which the Plants of the Company were based was stated to be predominant hurdle in improving the production performance and quality of Urea prills. Although other proven technologies were available at the time of its selection in 1960s, the decision in favour of it appears to have been swayed more by economic rather than technological considerations since M/s Montecatini, Italy offered to finance the foreign exchange component of the project on supplier's credit basis. The Committee find that whereas the process knowhow for the Urea Plant was a proven one, Ammonia plant of 600 TPD capacity with centrifugal compressors was designed by the consultant for the first time. While expressing their displeasure over selection of an unproven technology for the Ammonia Plant, the Committee feel that notwithstanding the economic considerations, the provenness of technology and design of the knowhow selected should have been given precedence over all other considerations, especially in view of the heavy investment involved in a fertilizer plant.

Reply of the Government

At the time of the implementation of Durgapur, Barauni and Namrup projects the country was going through a severe foreign exchange crunch. M/s. Montecatini, Italy offered to finance the foreign component of these projects on the basis of suppliers' credit. M/s. Montecatini were already in the field of design, construction and operation of fertilizer plants. The process knowhow offered by them for the urea plant was in successful operation in some plants at that time; as such, they were selected as consultants with PDIL to do the detailed engineering, procurement, construction and commissioning. With regard to technology for Ammonia Plant, although M/s. Montecatini had the know-how for design and construction of plants of smaller size, this was the first time they had designed a 600 tonne per day (TPD) capacity plant. A similar plant at Cochin using the same technology has given a better performance compared to HFC plants mainly because of the fact that the Cochin plant had a captive power plant from the very beginning.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) OM No. 39/7/92-FDA-II/Part-I, Dated 30th October, 1992]

(Recommendation Serial No. 21, Paragraph No. 3.73)

Another production constraint was frequent breakdown of equipment resulting in considerable loss of streamdays in the units. The Committee find that whereas the Urea Plant in Namrup I was closed down, the equipment failures in Durgapur, Barauni and in a relatively new plant like Namrup III had increased to disturbing proportions in 1989-90 with the number of streamdays lost in the Ammonia Plants having been 116 in Durgapur, 114 in Barauni and 52 in Namrup III and in the Urea Plant in Namrup III the same was 45 days. The frequent breakdown of equipments were reportedly due to unproven equipments and unreliable supply of power. Admittedly the maintenance system in the Company was left with much to be desired. Although the Acting CMD, HFC was can did in admission during evidence that "the plant people are careless in taking action quickly", the Committee are surprised to find that there is no centralised maintenance system in the Company. The Units had to heavily depend on outside agencies even for routine maintenance work which led to an expenditure of Rs. 446.55 lakhs in 1989-90. The Committee are not satisfied by the steps already taken by the Company in this regard. They recommend that the Technical Department should be further toned up with an effective Centralised Maintenance System functioning under the Corporate Office for attending to all major maintenance jobs in the Plants gradually reducing dependence on external help. In view of the frequent unscheduled shutdowns, the Committee would also underscore the need for improving prevention maintenance in the plants.

Reply of the Government

The P and D Division of the erstwhile FCI, later constituted into a separate undertaking viz. PDIL which specialised in non-destructive testing (NDT), used to assist these units in the past, in the maintenance jobs. Government has also, from time to time, emphasised upon the Company the need to streamline its maintenance system and to introduce predictive and preventive measures to reduce down time in the plants to the minimum. The Company has constituted an expert Central Condition Monitoring Team in order to keep a periodical check and monitor the condition of equipments and machinery in various plants. It draws up preventive maintenance schedules, carries out routine checks to prevent breakdowns etc. The Company is also organising a Central Maintenance System.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizer) OM No. 39/7/92-FDA-II/Part-I, Dated 30th October, 1992]

(Recommendation Serial No. 22, Paragraph No. 3.74)

The Committee note that power shortage was yet another contributing factor adversely affecting production. Although agreements were signed with the concerned agencies before commissioning of the Plants, the Power Supply from the grids became erratic due to growth in demand. The Committee are not convinced with the reasons advanced by the Company for not having included Captive Power Plants in the Original Project itself and having relied solely on grid power especially for fertilizer plants which are continuous process industries. The Committee were given to understand that a similar Ammonia Plant based on Montecatini technology set up in Cochin had given better performance as compared to HFC's plants because a CPP was commissioned there in the very beginning. At this stage they would only like to comment that commissioning the plants totally relying on grid power was a clear case of bad project planning. What further dismays the Committee is the fact that inspite of setting up captive Power Plants in all the Units with the passage of time with capacity to meet power requirements to a considerable extent, the Units continued to experience unabated power shortage due to the unsatisfactory performance of CPPs on account of equipment problems and poor quality of coal. The Committee are not able to comprehand the argument advanced by HFC that the CPPs were meant only to meet the requirement of Ammonia Plants. They suggest that the desirability of enhancing the existing captive power generation capacity of the operating units should be examined by Government and suitable action taken with a view to minimise dependence on grid power. It is a matter of concern to the Committee that although the Company had succeded in stabilising power generation at Namrup, the CPPs at Durgapur and Barauni were still facing a number of teething troubles. While the Committee note that a private agency has been engaged for running the CPP at Durgapur, they suggest that if need be, the services of an expert agency might be engaged for the power Plant in Barauni also for improving its performance. At the same time the Committee desire that the Central Government should use their good offices and impress upon the State Government/Electricity Boards to ensure regular and uninterrupted power supply to the plants situated in the respective States.

Reply of the Government

The Government has taken necessary steps to ensure that the power situation improves at Durgapur and Barauni. For this purpose, Government took up with the State Authorities as well as the Durgapur Projects Ltd. to ensure uninterrupted supply of power. The Coal Feeder of the CPP at Durgapur is being modified to accept the present quality of coal being supplied by M/s. Coal India Limited. Modifications are also being carried out to have an oil support system especially during the rainly season in case of any emergency. These modifications are likely to be completed by March, 1993. Until then, the units would continue to depend on grid power.

Further, in the case of Barauni, plant operators and supervisors are being trained in the captive power plant of NFL plants. The services of an expert agency from outside may have to be requisitioned if necessary.

The Government keeps touch with the State Electricity Boards and the State Governments of Assam, Bihar and West Bengal to ensure regular and uninterrupted supply of power to the plants.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) OM No. 39/7/92-FDA-II/Part-I, Dated 30th October, 1992]

(Recommendation Serial No. 23, Paragraph No. 3.75)

The number of streamdays lost on account of shortage of raw material in the Urea Plants were 109.5 in Barauni, 107 in Durgapur and 104.5 in Namrup II in 1989-90. There was shortage in the supply of natural gas by ONGC and Oil India Limited to the extent of 30% in Namrup Group of Plants. As a result, all the plants could not be operated together at the optimum capacity. Moreover, due to high Methane content in the gas supplied by OIL the consumption was also higher. The Committee are happy to learn that the problem has since been sorted out with the personal intervention of the Secretary, Department of Fertilizers and the gas companies have promised to improve the gas supply. They also note that the problem with the quality of river water for the Namrup Plants was also expected to be overcome as a result of intervention by the Government. The Committee trust that with these measures, production would improve in the Namrup group of Plants. Due to higher ash content in the coal supplied by the collieries of Coal India Limited for the power and steam generation plants there were heavy breakdown and evasion of equipments. The Committee have been informed that efforts were being made to get an agreement signed with Coal India Limited for regulating the quality of coal supplied to the Units. The Committee find that although during the Performance Review Meeting, the Ministry had suggested that HFC should consider deputing some experienced officers at the collieries for monitoring the quality and despatches of coal, it could not be implemented in the absence of an agreement to that effect. The Committee desire that steps should be taken to finalise the agreement expeditiously with Coal India Limited for supply of coal including that for deputing officers of HFC at the collieries for monitoring the quality of coal. The Committee are also informed that the Company experienced difficulties in arranging necessary funds for the procurement of input materials like Naphtha and Coal due to liquidity problems. What dismays the Committee is that while on one hand the Company experience shortage of raw material on account of liquidity problems, on the other hand the Company was carrying heavy inventory which represented 24.62 months consumption as in the end of March, 1990. They cannot resist commenting that the purchase of raw materials was not carefully regulated and did not commensurate with the actual requirement of each raw material.

Reply of the Government

HFC has finalised an agreement with M/s. Coal India Limited for the supply of coal. The Company is making arrangements for monitoring at the pit heads of Coal India Limited the quality of coal to be supplied to the Captive Power Plants of the company. With regard to the heavy inventory level, the figure of 24.62 months inventor as at the end of March,90 for raw material does not seem to be correct. This figure seems to include the stores and spares and spares including insurance spares, semi-finished and finished goods. The inventory level of the Company for coal and raw materials in different units at the end of March, 1990 is reported to be 0.96 month's consumption instead of 24.62 months, as stated in the Report.

The Company is making all out efforts to liquidate its stock of finished goods through aggressive marketing in order to improve its liquidity position. At the end of August, 1992, the stock of finished goods wás as shown below:—

UREA indigenous	—88410 tonnes
Urea imported	— 7060 tonnes
DAP impotred	—93160 tonnes

The company is making all efforts to sell the stocks during the ensuing Rabi season.

[Ministry of Chemical & Fertilizers (Deptt. of Fertilizers) OM No. 39/7/ 92-FDA-II/Part-I, dated 30th October, 1992]

(Recommendation Serial No. 25, Paragraph No. 3.77)

The cost of production was considerably high in all the three Units of HFC—Barauni, Durgapur and Namrup—both in comparison to the selling price and Average retention Price fixed by Government. The Committee are particularly concerned about the jump in the cost of production in Durgapur Unit from Rs. 7398 per tonne in 1988-89 to Rs. 11737 in 1989-90 and in Barauni Unit from Rs. 5198 per tonne in 1988-89 to Rs. 8138 in 1989-90. It is also intriguing that in Durgapur unit while the direct cost increased from Rs. 4484 per tonne in 1989-90 the indirect cost registered a sharp rise from Rs. 2914 to Rs. 6004. This phenomenon is stated to have been due to gross under-utilisation of capacity on account of frequent breakdown of equipments and machinery, interruption in power supply, disturbed industrial relations, etc. Higher ratė of consumption of raw material as compared to FICC norms due to increased number of shutdowns and start-ups, ageing of equipments etc. has also added to the higher cost of production. Notwithstanding these constraints, the Committee are to the view that there was still scope for cost reduction by reducing overhead expenditure, stabilising power supply and maintaining consumption close to FICC norms. The Committee urge the Company and the Ministry to constantly review the performance of these plants and conduct periodic cost analysis with a view to reducing the cost of production.

Reply of the Government

In every Quarterly Review Meeting, the performance of these units is monitored very carefully. There is not doubt that there is much scope for cost reduction. Some of the areas that have been indentified for possible cost reduction are over head expenditure, raw material consumption, streamlining of maintenance to reduce frequent break-downs and re-deployment of work force to achieve better capacity utilisation. The cost of production is being closely monitored by the Government during the Quarterly Review Meetings.

The Board of Directors of the Company, which has nominees of hte Government, also regularly monitors the performance of the Company. A strict check is kept on the various items of the expenditure.

[Ministry of Chemical & Fertilizers (Deptt. of Fertilizers) OM No. 39/7/92-FDA-II/Part-I, dated 30th October, 1992]

(Recommendation Serial No. 29, Paragraph No. 4.28)

The mounting losses of HFC since its inception is a source of deep concern to the Committee. The Committee are distressed to find that the Company which has occupied the second position among the top loss making public sector enterprises in the country in 1988-89 catapulted to the top in the list in the year 1989-90 accounting for 8.67% of the total loss incurred by the public sector in the year. At the time of formation of the Company the anticipated rate of return on capital employed was 12% after tax as per FICC pricing policy. However, against the paid up capital of Rs. 645.22 crores, the accumulated loss at the end of 1989-90 has reached a staggering figure of Rs. 949.69 crores, thus wiping out the whole paid up capital. In addition, the company has loans and interest thereon outstanding for repayment due to liquidity problems. Besides the progressive rise in net losses year from Rs. 104.84 crores in 1987-88 to Rs. 156-38 crores in 1988-89 and Rs. 169.97 crores in 1989-90, another disturbing feature was the actual losses incurred being constantly higher than the budgetted figures since 1986-87, *viz.* the actual loss which was 111% of the budgetted figures in 1986-87 rose to 116% in 1987-88, 119% in 1988-89 and 125% in 1989-90, pushing the company more and more into the red. Against a budgetted loss of Rs. 175.18 crores for the year 1990-91 the provisional loss incurred upto December 1990 was Rs. 187.97 crores. It is significant that the sharp rise in losses were despite the fact that Government had paid subsidy to the Company aggregating to Rs. 296.92 crores during the lost five years from 1985-86 onwards as retention price subsidy and freight subsidy under the Retention Price Scheme.

Reply of the Government

Government also views the mounting losses of the Company with deep concern. This matter features in the Quarterly Review of the Performance of the Public/coop. sector undertakings under the control of this Department. Special reviews are also undertaken in the case of chronically loss making units including HFC and reasons for mounting losses are gone into in great details.

The Company's net worth has completely been eroded and from 1987-88 onwards the networth of the Company has been negative. The loss for 1989-90 was Rs. 169.79 crores and those for 1990-91 and 1991-92 Rs. 231.45 crores and Rs. 330.53 crores respectively.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) OM No. 39/7/ 92-FDA-II/Part-I, dated 30th October, 1992]

(Recommendation Serial No. 32, Paragraph No. 4.32)

The Committee find that Company has been carrying heavy inventory, much in excess of the norms. The total value of inventories as at the end of 1989-90 was Rs. 203.04 crores. The position was particularly bad in regard to the level of inventory of raw materials, stores and spares etc. Which represented 14.40 months consumption in 1987-88 against the norm of 12 months and consistently increased to 19.80 and 24.62 months in 1988-89 and 1989-90 respectively. Although the level of inventory of finished goods, which represented 7.12 months sale in 1987-88 was scaled down to 4.27 months in 1989-90, it was still high against in norm of 0.75 month's sale. It is surprising to the Committee that while on the one hand HFC was carrying excess inventory of finished goods, on the other hand indigenous production of Nitrogenous fertilizes had been less than the overall demand in the country and the Company's sales have been below the targets during the last five years even with a marketing set up beyond its requirements. It hardly needs mention that heavy inventory represents avoidable blocked up capital as also entails inventorty carrying cost which was as high as Rs. 7.20 crores in HFC annually. The Committee would underline the need for adopting an aggresive marketing policy to avoid piling up of finished goods and measures to check unnecessary accumulation of process stock.

Reply of the Government

The reasons for carrying heavy inventory by the company are mainly as under:—

(i) In plants such as Namrup which are distantly located, there is need to stock more spares in order to avoid delay in repair work and emergenet procurement.

(ii) A large portion of this inventory consists of insurance spares which are unavoidable. As some of the spares are imported and the lead time required for the import of these is quite long, the quantum of imported spares would also increase. Some of the items have become obsolete due to design changes of the equipment. Moreover, spares have to be stocked in larger quantities because of frequent shut-downs on account of ageing of the plants.

(iii) The inflationary trend has also resulted in the increase in the value of stock of spares.

However, the company is taking all steps to see that the inventory level is brought down to a reasonable level as compared to the production in the units. Obsolete spares are being disposed off wherever possible and age-wise analysis is being done to weed out dormant and non-moving stocks.

With regard to marketing of finished goods, aggressive steps are being taken to dispose of the stock of finished goods from the godowns of various units.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) OM No. 39/7/92-FDA-II/Part-I, dated 30th October, 1992]

(Recommendation Serial No. 33, Paragraph No. 5.35)

The Committee note that the manpower strength in HFC at the end of March, 1990 was 10,594. Although it was quite obvious that the Company was allocated manpower far beyond its requirements in many of the departments at the time of reorganisation, no study was conducted to assess the overall manpower requirements. Significantly, a study conducted for Barauni Unit revealed that the actual requirement of manpower was only 1450 against the existing strength of 1715 and sanctioned strength of 1958. Surprisingly, the Company recruited 912 persons during the last five years whereas the number of employees who availed of the Voluntary Retirement Scheme introduced by the Company was only 334. A work force consisting of 1819 persons were still deployed in Haldia although all commissioning and production activities were stopped in October, 1986 entailing an expenditure of Rs. 36.64 crores towards payment of salary and allowances till December, 1990. Inspite of the fact that there has been surplus manpower in the Company, there was high incidence of overtime allowance in all the units which aggregated to Rs. 1380.43 lakhs during the period from 1987-88 to 1980-90. Yet another disturbing feature was the steep decline in labour productivity in Durgapur and Barauni from 66.46 and 93.80 tons of urea per employee in 1987-88 to 18.72 and 46.55 tons respectively in 1989-90.

Reply of the Government

HFC's manpower as on 31st March, 1992 was 9642. After the introduction of Voluntary Retirement Scheme (VRS) in 1989, more than 1000 persons have opted for voluntary retirement till 31st March, 1992. Further requests are being processed on a regular basis in order to reduce the manpower. The HFC management has fixed limit on the amount of overtime allowance per month and per quarter. As a result, there is a discernible down-ward trend in overtime allowance payments.

With regard to assessment of the surplus manpower, reply to the recommendations of the Committee is being supplied in paragraph no. 5.36. As for the work-force in the Haldia Project, the number of persons is 1606 as on 1.9.92 and 159 persons have availed of VRS upto 1.9.92. The policy of the management is to encourage people to avail themselves of VRS.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) OM No. 39/7/92-FDA-II/Part-I, dated 30th October, 1992]

(Recommendation Serial No. 34, Paragraph Nos. 5.36 & 5.37)

The Committee are perturbed about the casual manner in which HFC and the Ministry have been dealing with this vital aspect of manpower management. They regret to note that inspite of the recommendations made by the Task Force in 1986 for taking measures to reduce the burden of excess manpower, it was only after the Committee took up examination of HFC, that a decision was taken to appoint a Committee to study the manpower requirements of all the Units. The Committee desire that the study be expedited, surplus manpower identified and effective measures taken to reduce the surpluses within a realistic period. The Committee would urge that a conscientious efforts should be made to productively deploy the surplus manpower, curtail payment of unjustified overtime and increase productivity of labour. They would like to be informed of the steps taken in this regard at the earliest.

Owing to inequitable distribution of manpower especially at senior and middle levels at the time or reorganisation and the natural tendency to desert a sinking ship, HFC has been experiencing dearth of qualified and experienced manpower from the beginning. In view of the fact that this was major constraint in improving the performance of the Company, the Committee feel that the administrative Ministry should have come to their rescue and arranged for the services of experienced persons from other fertilizer Companies under their control. They desire that HFCD should evolve a long term manpower policy and besides induction of experienced and qualified personnel at senior and intermediate levels, direct recruitment strictly on merit should be resorted to at junior levels in a phased manner to overcome the problem. They are left with no doubt that human resources development had been the most neglected area in HFC. The

Committee recommend that due emphasis should also be given to manpower training at all levels.

Reply of the Government

HFCL had constituted a manpower committee to identify the surplus manpower of the company. The report of the Committee has been received by the Government for its consideration. Efforts are being made by the Company to reduce over-time from Rs. 37 lakhs p.m. to Rs. 12 lakhs p.m. Efforts are also at hand to see that this is brought down further. In order to gainfully utilise the extra manpower of FP&ARD, some of the employees have been deployed in Sales and Sales Promotion of the Company's products, as well as, on imported and bought our products. The Govt. has also received a request from the Company on their department/absorption in the various Agriculture Universities and Departments of the States. The Company has sent similar request to the various State Govts. and Agriculture Universities. The VR Scheme which was put into operation in 1989 in the company has been able to weed our more than 1000 persons uptill March 1992. Further requests for Voluntary Retirement are also being processed. With regard to reduction of surplus manpower in Units by other methods, the matter is under consideration of the Govt. The case of the Company has been referred to the BIFR which is also looking into its problems.

While HFCL is taking steps to strengthen its human resources development functions in terms of the report of the Manpower Committee, which has also given similar suggestions, the Company has not met with success as suitable professionals are not willing to join HFC. However, recruitment at Junior Management Levels has been undertaken in 1989 and 1990, so that these personnel may be groomed for taking up responsible positions in Middle Management Levels.

However, it may not be out of place to mention here that the financial situation of the Company is very bad and the Company has constraints in spending much either on HRD or on manpower training at all levels. The recommendations of the Committee would be taken into consideration subject to overall funds availability and in the light of the Government decisions on the future of the units.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) OM No.39/7/92-FDA-II/Part-I, dated 30th October, 1992]

(Recommendation Serial No. 35, Paragraph No. 5.38)

The Committee also regret to note that the most predominant factor coming in the way of efficient functioning of HFC was the unfavourable industrial relations climate prevalent in its units right from the beginning. The total mandays lost on account of strikes alone was 23481 in 1988 and

5366 in 1989. Durgapur Plant was shutdown for about 7 months in 1988-89 on account of labour problems. There ware instances when inter-union rivalry, minor disputes and resistance from employees delayed the installation of equipment in Durgapur for nearly six years and even severly demaged the oxygen compressor in Haldia. Indiscipline among employees seemed to be the order of the day in HFC's plants with frequent instances of intimidation and gherao of officers which had resulted in demoralisation of employees in general and the management in particular. The Problem had compunded with the multiplicity and inter rivalry of Unions. A number of agreements were signed with workers under pressure besides some inherited from the erstwhile FCI relating to promotions without consideration of technical qualifications, block overtime not related to actual work, etc. which adversely affected productivity.

Reply of the Government

The unfavourable industrial relations climate prevailing in the units at Durgapur and Barauni has been a matter of concern to HFC as well as to the Government. This has contributed on a large measure to the decline in production and productivity of the Company. Efforts to improve the IR climate by involving the State Government officials have not always met with much guesess in the past.

A number of agreements signed with the Unions before and after the formation of HFC relating to manning, promotions, permanent set up, creation of posts etc. had clauses which adverisely affected productivity. In addition, certain practices detrimental to the interests of the Corporation inherited from erstwhile FCI for giving weightage to in-house programmes conducted, stagnation promotion without conforming to promotional norms due to pressure from the union are other instances. The old agreements had also built-in scope for avoidable over time.

However, during the last 3 years, various steps were initiated by the management for signing new agreements providing for re-deployment of staff based on service exigencies, discontinuance of practices and concentions detrimental to production & productivity, completion of manpower study including identification of surplus manpower, stoppage of avoidable over time in all the units, review and updating of existing rules and regulations, compilation of service hand book as part of effective work place communication etc. Efforts are also on to evolve a *Union Forum* to give participation to all the registered unions with more than 30% following to avoid frequent inter-union rivalries on the issue of recongnition and resolution of contentious issues on the basis of consensus. The above could become possible with the co-operation of the Unions and the concerned State machineries.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) OM No. 39/7/92-FDA-II/Part-I, dated 30th october, 1992]

(Recommendation Serial No. 41, Paragraph No. 6.92)

The Committee regret to note that there have been frequent changes of Chief Executives in HFC. As many as seven incumbent served the Company as regular CMDs since its inception in 1978. Many of them left the Company before attaining the age of superannuation. To compound the problems there were quite long intervals between a Chief Executive leaving the Company and his successor taking over on account of delay in succession planning and the Functional Director officiated in his place till the new incumbent was appointed. The callousness on the part of the Ministry is quite evident from the fact that it took about a year to appoint regular CMD in a chronically sick Company like HFC after the post became vacant in March, 1990. Admittedly, the mid-stream changes in the top management and keeping the Company 'headless' for long spells have hampered the working of the Company.

Reply of the Government

Shri A.V. Singh has taken over as Chairman and Managing Director of the Company w.e.f. 16.3.1992, for a period of 5 years.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) OM No. 39/7/92-FDA-II/Part-I, dated 30th October, 1992]

(Recommendation Serial No. 42, Paragraph No. 6.30)

It hardly needs reiteration that frequent changes in the incumbents of the Chief Executive and undue delay in succession are detrimental to efficient functioning of any Undertaking as these are fraught with lack of control, direction and long term planning. The Committee would urge the Ministry to ensure continuity in top management and proper succession planning in the Undertakings under their control. The Committee on Pulic Undertakings have dealt with this aspect in serval Reports earlier. The recommendation of the Committee in their 49th Report (7th Lok Sabha) that "frequent changes of Chief Executives should be avoided and there should be a minimum tenure of five years subject to satisfactory performance" was accepted by Government. It was however, stated by the Government that order was issued in February, 1991 appointing a regular CMD in HFC for a period of five years or till the incumbent attains the age of superannuation, which is earlier and he was expected to join the Company shortly. The Committee hope that if the new incumbent assumed office would complete his full tenure. In order to ensure the smooth functioning of the public enterprise, the Committee recommend that in future action need be taken in advance by the Government to appoint the

Chief Executives of all the public sector enterprises so that no enterprise remains without a regular Chief Executive.

Reply of the Government

As already stated in reply to para no. 6.29, Shri A.V. Singh has joined as regular Chairman and Managing Director in HFCL on 16.3.1992. His appointment is for a period of five years. The recommendation of the Committee to take advance action to appoint the Chief Executives of all the Public Sector Fertilizer Companies has been noted.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) OM No. 39/7/92-FDA-II/Part-I dated 30th October, 1992]

(Recommendation Serial No. 43, Paragraph No. 6.31)

As per BPE guidelines issued in 1972 the Board of Directors for large multi-unit enterprises should consist of full-time Chairman-cum-Managing Director assisted by at least two functional Directors, one of whom would be in-charge of Finance and part-time Directors. However, the Chairman find that at present the Board of Directors of H.F.C. comprised of Director (Finance) who was officiating as CMD since March, 1990, two-non executive Directors from the Department of Fertilizers appointed by Government and five non-official part-time Directors. The Task Force which *inter-alia* went into this aspect also recommended that the Director (Finance) who is presently placed on the same salary as the General Manager needs to be upgraded and senior person appointed as Director (Technical) to advise the General Managers of the Units on technical matters.

Reply of the Government

The post of Director (Finance) in HFC carries a pay-scale higher than that of General Manager. The Deptt. of Public Enterprises issued in March 92 revised guidelines regarding the composition of the Boards of Directors of Public Undertakings. In the light of these guidelines the compositions of the Boards of the undertakings under the administrative control of this Deptt. are being reviewed. It may also be mentioned that in HFC one of the GMs has been redesignated as Executive Director (Technical) so as to maintain liaison with the GMs of the units on technical matters.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) OM No. 39/7/92-FDA-II/Part-I dated 30th October, 1992

(Recommendation Serial No. 44, Paragraph No. 6.32)

Although the Ministry stated in a written note that there were certain procedural hurdles in implementing the same as the Company was in 'B' schedule, the Secretary, Department of Fertilizers was fully in agreement with the recommendations of the Task Force during evidence and admitted: "we feel that this recommendation ought to be accepted and acted upon". The Committee feel that lack of expert and professional guidance in technical matters is a main contributing factor for the sharp exacerbation of the problems facing the Company, The Committee, therefore, recommend that Government should examine the desirability of reclassifying the Company and rationalising the structure of the Board consistent with the efficient functioning of the Company.

Reply of the Government

The recommendation of the Committee with regard to reclassifying the Company and rationalising the structure of the Board to improve its functioning would be pursued for further suitable action.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) OM No. 39/7/92-FDA-II/Part-I dated 30th October, 1992]

CHAPTER III

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

(Recommendation Serial No. 5, Paragraph Nos. 1.31. & 1.32)

During evidence, the representatives of both the Ministry and the HFC did not favour further reorganisation of the Company. However, the Committee also do not advocate reorganisation of the Company on the lines of what was done in 1978. Yet, they cannot ignore the fact that the most severe anomaly of the reorganisation was the flight of experienced personnel in search of greener pastures, leaving the Company in the lurch. Manpower management is an aspect which has received the least attention of the company. As a result, the affairs of the Company have been poorly managed. The Committee are not hopeful that still born project like Haldia could be revived without an experienced, efficient and motivated team of management. In view of this, the Committee suggest that intercorporate transfers within the fertilizer industry including induction of qualified and experienced personnel from the private sector into HFC at the senior levels should be resorted to. The Committee desire that as mentioned by the Secretary, Department of Fertilizers during evidence, the desirability of entrusting the management of Haldia Plant to a professionally managed fertilizer Company in the Public Sector with a view to improving its production performance should be examined by the Government.

In terms of the recommendations of the Administrative Reforms Commission accepted by the Government of India as far as back as in 1970, the Public Enterprises were required to formulate a statement of objectives and obligations laying down broad principles for determining their precise financial and economic obligations. However, the Committee are distressed to find that HFC has neither cared to frame its micro-objective so far nor have the administrative Ministry considered it necessary to ensure compliance with the guidelines issued by the BPE in this regard, with the result, that the Company has been functioning without any clearly defined objective for the last 13 years. The Committee desire that the matter be enquired into and responsibility fixed and they be apprised of the outcome within three months.

Reply of the Government

It is true that the Company has faced difficulties in strengthening its organisation and filling up vacancies with personnel of high calibre, in view of the performance of the Company. For this reason, those within the

Company have, by and large, remained devoid of experience of working in a profitable and successful company.

With regard to Inter-Corporate transfers within the Fertilizer Industry, no successful manager would generally like to work in a sick company. The same hold good for induction of experienced personnel from private sector as the pay-packets, perquisites, emoluments and other benefits provided by HFC and above all the uncertainty in future growth would prove to be a strong deterrent to any successful manager from private sector industry to join HFC.

With regard to entrusting the Management of Haldia project to a professionally managed fertilizer company in the public sector, it may be stated that such efforts were made in the past without any success.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) OM No. 39/7/92-FDA-II/Part-I dated 30th October, 1992]

Even though the Company had not framed its micro-objectives through a specific document, the main objectives of the Company have been framed and included in the Memorandum of Association. In short the objects are:—

(i) to manufacture and distribute fertilizers; and

(ii) to promote use of fertilizers.

The economic and financial obligations of the Company in greater and concrete detail have also been framed on a year to year basis through the annual production and financial plans which were settled by the Government after discussion with the Company. The performance of the Company has also been closely and regularly monitored by the Department of Fertilizers every quarter with reference to the detailed annual targets set for the Company.

As the annual production and financial plans were prepared on a regular basis setting out the economic and financial objectives no separate document setting out the micro-objectives used to be formulated earlier. Since the monitoring of the performance of the Company has been done on a regular basis with reference to pre-set targets and the non-framing of a specific document setting out the micro-objectives cannot be said to have adversely affected the performance of the Company, under the circumstances, it may not be fruitful or even necessary to attempt to fix responsibility on this aspect at this stage.

The Committee would be happy to know that in accordance with its wishes the Board of Directors of the Company have since framed the micro-objectives of the Company, which are as in the Annexure.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) OM No. 39/7/92-FDA-II/Part-I dated 17th July, 1992]

(Recommendation Serial No. 14, Paragraph No. 2.82)

The Committee note that Government took a decision to stop all production and commissioning activities in Haldia w.e.f. 16.10.1986. The Committee were informed that although some production could be achieved in Ammonia, Methanol and urea plants between 1983 and 1986, the decision was taken as stabilised operation of the plant could not be achieved due to persistent problems faced by the various equipments. Besides this expenses on testing and commissioning of the Plants were also reportedly on the increase. A Technical Committee set up to assess the additional requirement of funds for the Project, in fact, had recommended that Haldia should be allowed to resume commissioning in a phased manner with an investment of Rs. 14.74 crores. The Committee are at a loss to understand as to what considerations weighed with the Government to take a sudden decision to close down the plant all together without having obtained the advice of any expert body or agency. The Committee have reasons to doubt the wisdom of this decision. They are of the view that since the different plants in Haldia were facing persistent problems, a consultant should have been engaged to undertake a detailed study for improving their efficiency and in the meantime the plants could have been kept in operation. The Committee also note that the recommendation made by the Technical Committee that operation of the plants should be allowed to be resumed was not given due consideration by Government. They further note that HFC incurred a loss of Rs. 321.64 crores upto March, 1990 on account of non-commissioning of Haldia Project.

Reply of the Government

As per its terms of reference, the Duleep Singh Committee i.e. Expert Committee on Haldia, was to make an on the spot study of the Haldia project to assess the minimum expenditure required for preservation of the plant and keeping it under readiness for demonstration. However, the Duleep Singh Committee, recommended *inter-alia,* restart of commissioning. This was not accepted by the Government, as persistent attempts in the past to commission the project had not been successful leading to a loss of credibility in this regard. In this background, it was decided that funds for the commissioning of the project would be sought for demonstration runs which the consultants would require in the course of the end-to-end survey.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) OM No. 39/7/92-FDA-II/Part-I Dated 30th October, 1992]

(Recommendation Serial No. 27, Paragraph No. 3.79)

Going by the chronological order of events, the Committee are highly distressed to see the lackadaisical approach of the Government towards rehabilitation of these chronically sick units of HFC. In view of the fast deterioration of the plants and equipments and sharp decline in production over the years in HFC's plants, the Committee cannot but express their displeasure over the inordinate delay on the part of the Government in taking a decision to appoint a consultant to look into the problems which were being faced by these plants, about two years' time taken to scrutinise the revamping proposals submitted by the consultant and not arriving at a final decision on the latest investment proposal for revamping worked out by PDIL, Moreover due to the vascillating approach of the Government to the problem, the study undertaken by the consultant and the expenditure thereon were rendered infructuous as the proposal submitted by the consultant was not accepted by Government. The Committee deprecate such unwarranted delays and indecision on the part of the Government on such vital issue.

Reply of the Government

As already mentioned in reply to para 3.78 after the recommendations of the foreign consultants were examined carefully in consultation with the concerned Departments and planning Commission, a total revamp was found to be unviable. The delay was on account of the fact that a number of agencies was involved in arriving at a conclusion.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) OM No. 39/7/ 92-FDA-II/Part-I Dated 30th October, 1992]

CHAPTER IV

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

(Recommendation Serial No. 11, Paragraph Nos. 2.77 & 2.78)

While a host of other factors were responsible for the enormous delay in mechanical completion of the project, the Committee cannot absolve the Ministry, erstwhile DCI and its P & D division (now PDIL) for the serious lapses in project planning, execution and monitoring. The Committee are of the view that the time of placing orders on indigenous firms with a view to encouraging development of indigenous technology and foreign firms with an eye on credit facility. The Government and the Company should have satisfied themselves about the competitiveness and reliability of such firms. they feel that with proper planning and effective monitoring much of the delays in implementation of the project could have been avoided.

The tardy implementation of the project and change in scope were responsible for revision of the project cost on a number of occasions and its escalation from Rs. 88.03 crores at TEFS stage to Rs 624.18 crores, for which the approval of the Government is still awaited. The Committee deprecate such heavy cost over-run in 709% higher than the envisaged cost at the FR stage, which made the project unviable. Another disturbing aspect is that although an expenditure of Rs. 608.48 crores was incurred on the project, the latest cost estimate approved by Government was Rs. 281.96 crores. In this connection, the Committee would invite attention to the BPE guidelines issued in 1981 that whatever the revised cost based on DPR exceed by more thatn 20% of the original amount sanctioned by Government, the case has to be brought up for approval again at the appropriate forum. The Committee are not convinced with the justification given by Government for the lapse that revised cost estimates are normally submitted before the competent authority for approval when the project is on its way to completion. The Committee cannot but express their displeasure over such neglect on the part of the Government in complying with the guidelines and they desire that responsibility be fixed for the lapse and the Committee be apprised in this regard at the earliest. They also desire that revised cost estimate of the plant should be got approved by the competent authority at the earliest opportunity.

Reply of the Government

While all the norms of project planning, coordination and implementation were followed, some delay still occurred due to inadequate project planning in the area of soil survey and foundation requirements. The decision of Government to avail of credit from different sources was based on necessity in view of acute shortage of free foreign exchange.

Regarding the observation on placing orders on indigenous firms. The Government had satisfied itself about the competence of the firms; however, unfortunately there were teething problems with indigenous firms in completing jobs of the size and complexity required of them.

As regards seeking approval for the Revised Cost Estimates, in case of the Haldia Project, much time was spent in making efforts to commission the project. During this period, the cost of the project was monitord regularly and very carefully in the Government before release of additional funds. The commissioning efforts were finally given up in October 1986. thereafter, various alternatives for revamping the unit were under consideration of the Government. Additional funds were released only towards the standing charges after carefully assessing the requirements. As no decision on the future of the project could so far be taken, revised cost estimates could not be prepared.

In the light of the above, no individual or group of individuals can be held responsible for not getting the revised cost estimates approved and hence the question of fixing responsibility on anybody does not arise.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) OM No. 39/7/ 92-FDA-II/Part-I, dated 30th October, 1992]

(Recommendation Serial No. 13, Paragraph Nos. 2.80 & 2.81)

The Committee were informed that the P&D Division of erstwhile FCI (now PDIL) was responsible for the detailed engineering of the Haldia project, The Project was transferred to HFC in 1978 after reorganisation of erstwhile FCI. What further dismays the Committee is the fact that neither was any enquiry conducted into the failure of the project nor was any action taken against those who were responsible for planning and implementation of the Project. They recommend that at least now a detailed enquiry be conducted with a view to fixing responsibility for all the lapses in the execution and monitoring of the project and the Committee be informed of the outcome within a period of three months.

Due to non-availability of power committed by WBSEB, the commissioning activities could be resumed only after a 20 MW Gas Turbine was imported and commissioned in 1982 at a cost of Rs. 691 lakhs. The Committee desire that the proposal for the rehabilitation of haldia Project should invariably include provision for stabilising power generation from the existing Gas Turbine. since the supply of power from grid is unpredictable the practicability of augmenting the existing power generation capacity in the Plant in keeping with the requirements should also be considered.

The reasons for the delays and cost escalations have been gone into and it was found that some of the major reasons for delays and cost escalations were as follows:—

(i) At the time of preparation of the feasibility report, detailed soil survey for determining soil strength, land-filling and soil consolidation was not conducted; after the project was taken up for implementation, it was found that land filling and soil consolidation were required for making the soil suitable for heavy foundation and also to keep the plant area above the high flood level. This additional work resulted in time and cost escalation.

(ii) M/s. Lurgi, Germany, the process licensor for some of the sections of the ammonia plant, revised the basic design substantially after about 8 months of initial delivery of the basic design by them. This made all design engineering work done subsequent to receipt of initial basic design infructuous as every-thing had to be redone, entailing delay.

(iii) due to scarcity of foreign exchange many equipments had to be procured from indigenous sources. Since this was the first time that a major indigenisation attempt was made for a fertilizer project, many of the suppliers of equipment took longer to fabricate the equipment. The delay in the delivery of equipment by the indigenous vendors ranged from 12 months to 36 months.

(iv) due to shortage of free foreign exchange, as many as credit was availed of from 13 sources for procurement of equipment from abroad. Availing of credits from a large number of sources resulted in mis-match of equipment and components in a few cases. Besides, it was also found that for a few equipments, there was no single suplier who could be held responsible for performance and workmanship guarantee.

(v) the industrial relations climate during the construction of the project was most unfavourable. As a result, the contractors took more time for completing their work.

(vi) When the project was mechanically completed towards the end of 1979, power from the state Electricity Board, which was committed to supply power, was not available. The Government approved installation of a 20 MW captive power plant in December, 1980 which was commissioned in February, 1982. The commissioning could start only thereafter.

(vii) During commissioning, there were frequent interruptions in production due to repeated break-downs of equipment, particularly the oxygen compressors, which was the direct result of mis-match of equipment procured from abroad after availing of credit from diverse sources.

(viii) During commissioning, there were frequent industrial relations problems. On one occasion the workers left the plants enbloc, leaving the plants completely un-attended, on the ground of canteen services not being available in time. An emergency arose, resulting in the collapse of the oxygen gas holder which took several months to repair and restore. Soon thereafter, there was a fire and explosion in one oxygen compressor which was the direct result of the collapse of the oxygen gas holder. Within a month of this incident there was fire and explosion in the second oxygen compressor. It took nearly two years to get the compressors repaired for which imported components had to be procured.

(ix) Even after the repair of the compressors, the Plant could produce on an average only at 30% of the rated output, resulting in high consumption of inputs in various forms.

(x) The prolongation of the commissioning activities of the project resulted in mounting commissioning expenses, project management charges and financing charges. Seeing little prospect of the project being commissioned for producing at a reasonable level of capacity utilisation, the Government was constrained to order suspension of commissioning activities w.e.f. October, 1986.

2. A large number of persons and mainly three organisations viz. fertilizer corporation of India Ltd. (FCI), Projects & Development India Ltd. (PDIL) and the Hindustan Fertilizer Corporation Ltd. (HFC) were involved in the implementation and commissioning of the project stretching over a period of more than a decade. The delays were due to a number of factors as mentioned above which were beyond the control of any individual or organisation. It is, therefore, difficult to pinpoint responsibility on any individuals or organisations. It is also doubtful whether any purpose would be served by launching an enquiry at this stage on this complext set of factors and circumstances.

[Ministry of Chemicals & Fertilizers (Department of Fertilizers) O.M.No. 39/7/92-FDA.II (Part-I)dated 17th July, 1992.]

Reply of the Government

This recommendation is linked with the future of the project about which no decision has so far been taken by Government due to several reasons *viz.* the unviability of the different alternatives and the budgetary constraints of Government.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) OM No. 39/7/92-FDA-II/Part-I, Dated 30th October, 1992]

(Recommendation Serial No. 31, Paragraph Nos. 4.30 & 4.31)

Going by the burgeoning losses of the Company it is difficult for the Committee to believe that there had been effective monitoring of its performance by the Board of Directors and the Ministry from time to time. They are left with a feeling that whereas HFC had not taken adequate steps to overcome the constraints facing it since inception the Government only aggravated the situation by simply ignoring it. The

Committee would urge that HFC and the Ministry should constantly review the performance of the plants more effectively and make all possible efforts to see that the Company achieves break even point. The Committee would await steps taken in this regard.

The outstandings of the Company as on 31st March, 1990 were Rs. 3295.59 lakhs equivalent to 15.9% of total sales out of which Rs. 1407.85 lakhs were more than one year old. The Committee are unhappy to note that BISCOMAIN in Bihar has not settled debts amounting to Rs. 12 crores owed to the Company despite intervention of the Government at the higher level. They are of the view that HFC must have stopped further supply of fertilizers to the cooperative society. The Committee stress that effective steps should be taken by the Company and the Ministry especially for recovery of debts outstanding for long from the Government Departments and Public Enterprises.

Reply of the Government

As already stated Government has been constantly reviewing the performance of the company and has been providing whatever assistance that was required and possible. A careful analysis has shown that the poor performance has not been due to want of monitoring but because of a combination of several inherent problems relating to technology, equipments, power, labour and an indifferent work culture and paucity of investible resources both with the company and the Government.

The recovery of dues from M/s. Biscomaun is being regularly followed up by Government with the Government of Bihar. While the Company has been able to recover dues from other public enterprises to a large extent, the dues from Biscomaun as on 31.8.92 were Rs. 16.31 crores as principal and Rs. 17.74 crores as interest. Sales are now being effected strictly on a cash basis.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) OM No. 39/7/ 92-FDA-II/Part-I, dated 30th October, 1992]

(Recommendation Serial No. 36, Paragraph Nos. 5.39 & 5.40)

The Committee are of the firm view that improving of industrial relation should receive prompt attention of HFC and the Ministry as a pre-requisite to improving the working of the Company. This was brought out tellingly by the Secretary, Department of Fertilizers during evidence:

> "Unless the basic climate changes, there is very little prospect of the HFC as a whole coming out of the red."

The Committee desire that expeditious steps be taken to review and rectify all agreements entered into with workers which are adversely affecting the Company and to improve discipline and morale among employees and industrial relations climate in the Company as a whole.

The Committee are glad to note that a decision has been taken to implement a productivity linked incentive scheme in HFC. They would, however, emphasise that the Incentive Scheme should be result oriented and linked to production as also suitably substitute the existing sytem of payment of unjustified overtime.

Reply of the Government

The Govt. agrees with the views of the Committee that improving the IR climate should receive its prompt attention, as well as, that of the Company. Termination of all agreements entered into with the Workers Unions adversely affecting the production, have not been agreed to by the Unions. The matter has been taken up by the company with the Labour Ministries of the State Governments of West Bengal and Bihar, but the response of the Unions has been encouraging.

The Company had found it difficult to implement the Incentive Scheme based on BPE guidelines. The Company has prepared its own scheme based on the achievable capacity of the Plant after taking into account other related factors. However, the Unions are insisting on a low there should level. The matter is being pursued by the Company.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) OM No. 39/7/92-FDA-II/Part-I Dated 30th October, 1992]

CHAPTER V

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

(Recommendation Serial No. 16, Paragraph No. 2.85)

The Committee find that HFC and the Government have advanced diametrically opposite views on the question of setting up a new grass root plant at Haldia utilising the existing infrastructural facilities and equipments to the maximum limit. Whereas HFC favoured an NPK Plant, the Department of Fertilizers vehemently advocated in favour of a DAP Plant. Diverging views were also expressed on the investment requirements, cost of productrion and viability in case of each proposal. However, the Committee have not gone into the merits and demerits of both the proposals. Nonetheless, they note that the subsidy outgo in case of DAP Plant would be Rs. 4787 per tonnes as against Rs. 15889 in case of NPK Plant. Whereas the proposal for the DAP Plant was based on imported Phosphoric Acid, the Committee were given to understand that Paradeep Phosphates limited and Madras Fertilizers Ltd. were facing shortage of imported Phosphoric Acid due to suspension of its import by Goverment. While conceding that there was shortage of the raw material in the country, the Secretary, Department of Fertilizers informed the Committee during evidence that the Government proposed to expand the capacity of Phosphoric Acid in the country and even the facility for its production in Haldia could be made use of in the long run. The Committee are further informed that PIB clearance for making the Project Report for a grass root Plant in Haldia was received on 15th February, 1991 and that proposals for both DAP and NPK Plants would be submitted for a final decision. However, the Company felt that with the expenditure actually incurred and further investment required for rehabilitation, the Project might not become viable even if it is commissioned.

Reply of the Government

The Government had favoured setting up of a DAP Plant at Haldia fertilizer project of HEC for the simple reasons that the subsidy outgo in this case was lower as compared to subsidy outgo for a NPK Plant. This was so, in spite of the fact that it involved import of phosphoric acid. There were, no doubt, some difficulties at that time in the import of phosphoric acid but these were of a temporary nature and were overcome.

It may be mentioned that with the decontrol of phosphatic fertilizers w.e.f. 25.8.92, the viability of a DAP Plant at Haldia will have to be assessed with reference to market viability in a no-subsidy regime. Available data do not present an encouraging picture in this regard.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) OM No. 39/7/92-FDA-II/Part-I, Dated 30th October, 1992]

(Recommendation Serial No. 17, Paragraph No. 2.86)

While urging the Government to expedite a final decision on the proposal for the rehabilitation of Haldia Project, which has been hanging fire over several years, the Committee desire that a decision on the product should be taken after careful evaluation of all the aspects of the proposals including availability of raw material and viability of the Plant. The Committee would like to be apprised of the final decision in the matter.

Reply of the Government

The recommendation has been noted.

Ministry Chemicals & Fertilizers (Deptt. of Fertilizers) OM No. 39/7/92-FDA-II/Part-I, Dated 30th October, 1992]

(Recommendation Serial No. 24, Paragraph No. 3.76)

The Committee are also unhappy to note that capacity utilisation which has been declining over the years in Barauni, Durgapur and Namrup-I was abysmally low in 1989-90, i.e. 10.4% in Durgapur, 11.2% in Namrup-I and 24.2% in Barauni Namrup-II 66.5% in the year. The Committee are informed that proposal was submitted by the Company to the Government for derating the capacity of old generation plants. The Secretary, Department of Fertilizers favoured derating the capacity of these plants during evidence on the ground that the rated capacities were no more achievable due to deterioration in the condition of the plants. He pointed out during evidence: "Our expectation is that with the revision of rated capacity, with this modest capacity taking advantage of the captive power plants and restructuring of the capital, these units can be turned around." The Committee urge the Ministry to weigh the pros and cons of the proposal and expedite a decision thereon.

Reply of the Government

HFC has submitted a proposal for derating the capacity of Durgapur, Barauni and Namrup-II plants. The Government has constituted an expert group to look into the proposal very carefully and make its recommendations.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) OM No. 39/7/92-FDA-II/Part-I, Dated 30th October, 1992]

(Recommendation Serial No. 26, Paragraph No. 3.78)

The Government appointed a consultant. M/s. Halder Topsoe, Denmark in 1987 for carrying out end-to-end survey of Namrup I & II.

Durgapur and Barauni Plants with a view to undertake revamping of these plants. The consultant, in its report forwarded to the Government in July, 1988, recommended revamping of the plants with an additional investment of Rs. 486.39 crores (which was updated to Rs. 604.24 crores by PDIL in February, 1990) with a view to achieving optimum capacity. Although HFC felt that after revamping as suggested by the Consultant the Company could earn an yearly profit of Rs. 9595 lakhs, after the pre-PIB meeting held in May, 1990, the Company was directed to examine the possibility of going in for minimum investment on these plants with a view to operating them for 4-5 years and initiating fresh proposals for grassroot plants in the meantime. Accordingly, an alternative study was got done by PDIL and the minimum investment worked out to Rs. 97.84 crores. The Committee are informed that the modest investment proposal was at the final stage of consultation with the appraisal agencies in the Government and was expected to be put to the competent authority shortly.

Reply of the Government

The report of the consultants was submitted by HFC to the Government in May, 1988 (not in July'88). An investment of Rs. 486.39 crores was suggested by the consultants for a total revamp. It was felt that an investment of this magnitude would make the plants economically unviable as the cost of production would be too high resulting in heavy subsidy from the Government. The revamping would not have brought any technological upgradation leaving the plant operation inefficient. There would also have been mismatch of equipment as many old equipment which would have been retained after revamping would have less residual life as compared to the new equipment installed after revamping. Besides, there were severe budgetary constraints for funding of new investments. The company was, therefore, directed to submit a modest investment proposal for replacement of problematic equipments in these plants. The investment under this proposal worked out to Rs. 97.84 crores which has since escalated to Rs. 128.30 crores in 1992. The company has meanwhile been referred to the BIFR. No decision has so far been taken on this proposal.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers)OM No. 39/7/92-FDA-II/Part-I, Dated 30th October, 1992]

(Recommendation Serial No. 28, Paragraph No. 3.80)

The Committee note that both HFC and the Ministry are in favour of the modest investment proposal for partial revamp in view of the magnitude of the investment as proposed by the consultant, resources crunch and uncertainty of the plants becoming viable even after making such heavy investment in the plants. The Committee desire that after due considertion the proposal should be got approved by the concerned Departments of the Government without any further loss of time. The Committee are also informed that the modest investment proposal would be viable only subject to derating the installed capacity of these plants to 60% approval of the proposal submitted by the Company for capital restructuring and sanctioning of new grassroot plants at these sites. The Committee find that whereas proposals for derating the capacity and capital restructuring are under consideration, neither has the Government formulated any plans for setting the grassroot plants nor any provision been made in the Eighth Plan projections for the same. On specifically being asked as to when did the Government propose to set up the new grassroot plants, the Committee were informed that at present the Government was concentrating on revamp of the existing plants and the proposal for new plants would be considered in a phased manner after the revamped plant's operation was seen. The Committee cannot but deplore such myopic policies and planning by the Government. The Committee are of the view that there is little possibility of HFC turning the corner, without new grassroot plants sanctioned to the Company so that these could be commissioned in the near future and old plants replaced in the course of time. The Committee urge that the Government draw up a broad timeframe for setting up the new plants immediately after the modest investment proposal is approved by the Government. The Committee would like to be apprised of the action taken by Government in this regard.

Reply of the Government

Due to a change in the economic policy of the Government as well as the severe resource crunch it is facing, the proposal to have new grassroot plants in the public sector is not being seriously considered by Government at this stage. Besides, Government and the Company are awaiting any measure that may be suggested by BIFR for making the net worth of HFC positive. For these reasons, Government is not in a position to draw up any time frame for setting up of new plants as well as for implementation of the modest investment proposals.

However, in the mean time, every effort is being made by minimum investment on renewals and replacement and by strict maintenance to ensure that the plants perform at a reasonable level of capacity utilisation. Derating of the plants is also being examined.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) OM No. 39/7/92-FDA-II/Part-I, Dated 30th October, 1992]

(Recommendation Serial No. 30, Paragraph No. 4.29)

The Company dismal financial performance has been attributed to variety of reasons. Some of the predominant factors like high consumption of raw material, low capacity utilisation, high cost of production, interruption in gas supply to Namrup, etc. have already been dealt with in the preceding chapter of this Report. However, it is hardly believable that a new generation plant like Namrup-III has been incurring losses ever since its commissioning in 1987. The losses were to the tune of Rs. 857, Rs. 1795 and Rs. 555 lakhs from 1987-88 to 1989-90 respectively, with figures higher than budgetted in 1987-88 and 1988-89. The Committee note that both the Ministry and HFC are confident that the Company could become viable once these measures are implemented. The Committee have, however, reasons to believe that just by implementing the proposals for financial restructuring, derating the capacity of the plants and partial revamp, the plant might not become financially viable. The capital restructuring proposal was submitted to the Government almost three years back. Since the Company is facing serious financial constraints, the Committee desire that this alongwith other proposals which are still pending with the Government should be expedited and implemented without further loss of time.

Reply of the Government

The reasons for the unsatisfactory financial performance of the Company have already been analysed. The problem faced by Namrup-III and the measures taken by the company have already been detailed in reply to Recommendation S.No. 4 Para No. 1.30 of the Report. The Company has made proposals for the derating of the plants, restrueturing of the capital, and injection of modest investments for sustained production. These proposals are under examination in the Government as part of the rehabilitation measures for the company.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) OM No. 39/7/92-FDA-II/Part-I Dated 30th October, 1992]

(Recommendation Serial No. 37, Paragraph No. 6.25)

After examination of HFC, the Committee have come to the inescapable conclusion that the Achilles' heel of the Corporation is the location of its Corporate Office. While all its operating units and divisions are situated in the Eastern region the Headquarters of the Company is in Delhi. It goes without saying that from such a distant location, it has not been possible for the management in the Corporate Office to have effective supervision and control over the various units/divisions of the Company which are crippled with a multitude of recurring problems or make themselves easily accessible to the General Managers of the Units for consultations on matters of urgent nature. This explains the fact that while the units were bogged down with various problems, the management remained helpless and almost ineffective. It definitely had an adverse impact on the performance of the Company, the details of which have been gone into by the Committee in the earlier chapters and hardly need any recapitulation.

Reply of the Government

Any decision on the shifting of the Headquarters of the company is linked with the decision on revamping of the units, future scenario i.e., decision on new plants at these location and also on the outcome of the reference made to BIFR.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) OM No. 39/7/92-FDA-II/Part-I Dated 30th October, 1992]

(Recommendation Serial No. 38 Paragraph No. 6.26)

During evidence, the Secretary, Department of Fertilizers informed the Committee that at the time of reorganisation of erstwhile FCI, Government had, in fact, envisaged that within a couple of years the Headquarters of HFC should be moved out of Delhi. The Committee are dismayed to learn from the Secretary, Department of Fertilizers that direction issued by the Government in March, 1979 asking the Company to initiate action for shifting the Headquarters from Delhi in accordance with the originial decision was rescinded with the change of Government in 1980. The Committee cannot but depecate the haphazard manner in which instructions issued on the basis of well considered decisions are retracted with the change of Government.

Reply of the Government

The decision of Government to shift the Headquarters of HFC out of Delhi within a period of two years of its formation, could not be given effect to, due to representations received from its employees.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) OM No. 39/7/92-FDA-II/Part-I Dated 30th October, 1992]

(Recommendation Serial No. 39 Paragraph No. 6.27)

Significantly, the Committee find that shifting of Headquarters from Delhi was vehemently advocated by the Task Force in its Report submitted to the Government in 1986. Various factors like close liaison and coordination with the Government, objection raised by the Headquarters staff, avoidance of administrative expenditure connected with shifting of Headquarters and the instructions issued by the Ministry of Urban Development not to re-locate the Head Office of Companies in the metropolitan cities advanced to justify retention of the Head Office in Delhi are hardly convincing to the Committee. In Committee's view the Ministry cannot be absolved of its responsibility for not pursuing the matter with the Company in the right earnest and the lack of initiative on their part in getting the decision implemented.

Reply of the Government

The report of the Paul Pothan Committee (Task Force) (1986) recommending shifting of Headquarters from Delhi was noted by Government. In the present serious liquidity position of the Company, any move to shift the HQ from Delhi at this stage, would only result in further deterioration of the Company's precarious financial situation. Moreover, the outcome of the reference made to BIFR is also awaited.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) OM No. 39/7/92-FDA-II/Part-I Dated 30th October, 1992]

(Recommendation Serial No. 40 Paragraph No. 6.28)

The Committee have dealt with the issue relating to location of Head Offices of public undertakings in their earlier Reports and have pointed out that with the development of rapid means of communication, transport etc. there is no reason why the Head Offices of public undertakings should be located in the metropolitan cities. The Committee are of the firm opinion that from the point of view of corporate management, it is but necessary that the Head Office of HFC should be shifted from Delhi to a place in the Eastern region from where access to and communication with the units would easier for the corporate management of the Company. This would not only make convenient administratively for the office but would also yield developmental benefits to the area/region/city where the office shifted. For the sake of coordination and liaison work the Company could retain minimum necessary staff in the Capital. In This connection it is heartening to note that the Secretary, Department of Fertilizer held out an assurance before the Committee that the question of shifting of the Headquarters from Delhi would be reopened and decision thereon taken as quickly as possible. The Committee desire that steps be taken to expedite the decision, identify a suitable alternative location for the Head Office and ensure that the shifting is done within a reasonable timeframe. The Committee would like to be apprised of the concrete action taken in this regard.

Reply of the Government

As already stated in para 6.27, all the factors like Company's financial situation etc. would have to be taken into consideration before deciding on shifting of the HQ of the Company at the present stage. The outcome of the reference made to BIFR would also have to be awaited.

[Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) OM No. 39/7/92-FDA-II/Part-I Dated 30th October, 1992]

NEW DELHI;
March 24, 1993

Chaitra 3, 1915 (Saka)

A. R. ANTULAY
Chairman,
Committee on Public Undertakings.

APPENDIX I

Copy of Corporate Objectives of Hindustan Fertilizer Corporation Limited

Corporate Goal:

The mission of HFC is to manufacture and market quality chemical fertilisers and by-products by optimum utilisation of the available resources of the Company.

To achieve a leading position in the production and marketing of chemical fertilisers in Eastern India, the following micro-objectives have been identified:—

Productivity:

To attain optimum capacity utilisation and economy in the use of inputs, while ensuring safety and proper maintenance of equipments both preventive as well as predictive. More specifically it is the endeavour of the Company.

(a) to strive to implement the rehabilitation schemes at the earliest and to strive to improve capacity utilisation after rehabilitation in the Barauni, Durgapur and Namrup-II plants, from their present average of 25-30% to about 60% and in Namrup-III from the present average of 51% to 85% by 1995-96;

(b) to try to improve the number of 'on stream' days and thereby improve the consumption efficiencies; and

(c) to take up revewals and replacement regularly and promptly by optimally utilising the funds received from Government.

Profitability:

To reduce the losses of the company by the most effective management of assets men and materials specially by taking the following steps:

(i) by supplementing its income by sale of imported fertilisers and other bought out products;

(ii) by reducing costs/over-heads through countinuous monitoring of the cost of production in various units; and

(iii) by reduction of surplus manpower by implementing Voluntary Retirement Scheme.

Growth:

To ensure a steady growth in the business of the Company by modernisation.

Organisation:

To foster and maintain a culture of participation and innovation among employees for the growth and success of the organisation as a whole.

To rationalise the present manpower to the extent required for economically effective operations.

Marketing:

(a) To build a high degree of confidence among farmers by providing them increased value for their money through high standards of product quality in adequate quantity.

(b) To promote the products of the company among farmers by educating them about judicious and balanced use of fertilisers through scientific and effective methods with special emphasis in low input consuming areas.

(c) To minimise inventories by following aggressive marketing strategies.

APPENDIX II

Minutes of the 49th Sitting of the Committee on Public Undertakings held on 24th March, 1993

The Committee sat from 15.15 hrs. to 16.00 hrs.

PRESENT

Shri Basudeb Acharia — *In the Chair*

MEMBERS

2. Shri Chandulal Chandrakar
3. Shri Madan Lal Khurana
4. Shri Peter G. Marbaniang
5. Shri V. S. Vijayaraghavan
6. Shri Devendra Prasad Yadav
7. Shri V. Narayanasamy

SECRETARIAT

1. Shri T. R. Sharma — *Under Secretary*

(OFFICE OF THE COMPTROLLER & AUDITOR GENERAL OF INDIA)

1. Shri N. Sivasubramanian — Dy. C & AG (Commercial)-cum-Chairman Audit Board.
2. Shri K. S. Menon — Principal Director (Commercial) & Member Secy, Audit Board.

In the absence of Chairman, the Committee choose Shri Basudeb Acharia to act as Chairman for the sitting under Rule 258(3) of the Rules of Procedure and Conduct of Business in Lok Sabha.

2. ** ** **

3. The Officers of C & AG then withdrew from the meeting. Thereafter, the Committee considered the Draft Report on Action taken by Government on the recommendations contained in the 5th Report of Committee on Public Undertakings (1991-92) on Hindustan Fertilizer Corporation Limited, as approved by Action Taken Sub-Committee and adopted the same with the modifications shown in Annexure.

4. The Committee authorised the Chairman to finalised the Reports on the basis of factual verification by the Ministry/Undertaking concerned and audit (in respect of report mentioned in Para 2) and to present the same to Parliament.

The Committee then adjourned.

ANNEXURE

MODIFICATIONS MADE IN DRAFT ACTION TAKEN REPORT ON ACTION TAKEN BY GOVERNMENT ON THE RECOMMENDATION CONTAINED IN THE 5TH REPORT OF CPU (1991-92) ON HINDUSTAN FERTILIZER CORPORATION LIMITED

Page No.	Para No.	Line	For	Read
2	7	9		*Add:* Since the Company is not getting any budgetary assistance, the Committee desire that pending recommendation by BIFR, Government should provide financial assistance to the Company so that it can sustain its operations.
7	16	22	six months	three months

APPENDIX III

(*Vide* Para 3 of the Introduction)

Analysis of the Action Taken by Government on the Recommendations contained in the 5th Report of the Committee on Public Undertakings (Tenth Lok Sabha) on Hindustan Fertilizer Corporation Ltd.

I.	Total number of recommendations	44
II.	Recommendations that have been accepted by the Government (*Vide* recommendations at Sl. Nos. 1-4, 6-10, 12, 15, 18-23, 25, 29, 32-35, and 41-44)	
	Percentage to total	61.36%
III.	Recommendations which the Committee do not desire to pursue in view of the Government's replies (*Vide* recommendations at Sl. Nos. 5, 14 and 27).	
	Percentage to total	6.82%
IV.	Recommendations in respect of which replies of Government have not been accepted by the Committee (*Vide* recommendations at Sl. Nos. 11, 13, 31 and 36).	4
	Percentage to total	9.09%
V.	Recommendations in respect of which final replies of Government are still awaited (*Vide* recommendations at Sl. Nos. 16, 24, 26, 28, 30 and 37-40).	10
	Percentage to total	22.73%