

**HINDUSTAN ORGANIC
CHEMICALS LIMITED**

**MINISTRY OF CHEMICALS AND FERTILIZERS
(Department of Chemicals and Petrochemicals)**

**COMMITTEE ON
PUBLIC UNDERTAKINGS
1996-97**

ELEVENTH LOK SABHA

**LOK SABHA SECRETARIAT
NEW DELHI**

CORRIGENDA TO 4TH REPORT OF COMMITTEE ON
PUBLIC UNDERTAKINGS (ELEVENTH LOK SABHA)

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**FOURTH REPORT
COMMITTEE ON PUBLIC UNDERTAKINGS
(1996-97)**

(ELEVENTH LOK SABHA)

**HINDUSTAN ORGANIC CHEMICALS LIMITED
MINISTRY OF CHEMICALS AND FERTILIZERS
(DEPARTMENT OF CHEMICALS AND
PETRO-CHEMICALS)**

*[Action Taken by Government on the recommendations contained in the
46th Report of the Committee on Public Undertakings (10th Lok Sabha)]*



*Presented to Lok Sabha on 20.3.1997
Laid in Rajya Sabha on 20.3.1997*

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COMMITTEE ON PUBLIC UNDERTAKINGS
(1996-97)

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INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this 4th Report on Action Taken by Government on the recommendations contained in the Forty-sixth Report of the Committee on Public Undertakings (Tenth Lok Sabha) on Hindustan Organic Chemicals Limited.

2. The Forty-sixth Report of the Committee on Public Undertakings was presented to Lok Sabha on 22 December, 1995. Replies of the Government to all the recommendations contained in the Report were received on 24th September, 1996. The Committee on Public Undertakings considered and adopted this report at their sitting held on 27th February, 1997.

3. An analysis of the Action Taken by the Government on the recommendations contained in the 46th Report (Tenth Lok Sabha) of the Committee is given in Appendix-II.

NEW DELHI;
17 March, 1997

26 Phalgun, 1918(S)

G. VENKAT SWAMY,
Chairman,
Committee on Public Undertakings.

CHAPTER I

REPORT

The Report of the Committee deals with the action taken by Government on the recommendations contained in the Forty-sixth Report (Tenth Lok Sabha) of the Committee on Public Undertakings (1995-96) on Hindustan Organic Chemicals Limited which was presented to Lok Sabha on 22nd December, 1995.

2. Action Taken notes have been received from Government in respect of all 22 recommendations contained in the Report. These have been categorised as follows:—

- (i) Recommendations/Observations that have been accepted by Government:—
Sl. Nos. 4, 5, 7, 8, 9, 10, 12, 13, 15, 17, 20 & 21.
- (ii) Recommendations/Observations which the Committee do not desire to pursue in view of Government's replies:—
Sl. Nos. 11 and 14.
- (iii) Recommendations/Observations in respect of which replies of Government have not been accepted by the Committee:—
Sl. Nos. 1, 2, 18 & 22.
- (iv) Recommendations/Observations in respect of which final replies of Government are still awaited:—
Sl. Nos. 3, 6, 16 and 19.

3. The Committee desire that final replies in respect of 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 the recommendations.

A. Delay in Signing of MOU (Recommendation Sl. No. 1)

5. The Committee had noted that while the MOU for the year 1994-95 was signed on 19th July, 1994, the MOU for the year 1995-96 was signed on 10th October, 1995. The Committee were of the firm opinion that delay in signing of the MOU definitely hampered the spirit of MOU and defeated its very purpose and had desired that necessary steps be taken to evolve a system by which MOU is expedited and signed well before the beginning of the financial year.

6. In their reply, the Ministry have stated that the issue has been referred to Department of Public Enterprises (DPE)* The practice in such cases has been that once the draft MOU submitted by the Company is discussed by the Adhoc Task Force members with the Company and the concerned Ministry officials, action on the said MOU is initiated even before the formal signing of the MOU. The Ministry have further stated that the draft MOU for 1996-97 was discussed with the ATF Members on 22nd March, 1996 and the draft as desired by the ATF members was submitted to DPE for clearance on 25th March, 1996. The Department of Public Enterprises vide their letter dated 11.9.96 have informed that Draft MOU has been approved by the High Powered Committee. The MOU was finally signed on 7th October, 1996.

7. The Committee regret to note that inspite of their recommendation for timely signing of MOU, the MOU for the year 1996-97 was signed six months after the beginning of the financial year. Although, the MOU for the year 1996-97 had been sent to DPE for clearance on 25th March, 1996 was finally cleared on 11th September, 1996 and signed on 7th October, 1996. The reasons for such delay in signing the MOU are not understandable to the Committee. The Committee desire that this delay of about 6 months in the Department of Public Enterprises should be analysed and reiterate their earlier recommendation that suitable measures be taken to avoid such delays in future.

**B. Mid-term appraisal of MOU
(Recommendation Sl. No. 2)**

8. On a suggestion made by HOCL which was also endorsed by the Ministry, the Committee had recommended that the present system of MOU should be examined indepth by Government and if found advantageous, a provision for mid-term review of the MOU should be made in order to consider the effect of external forces and to modify the targets if necessary so that a realistic assessment of the performance of the company was possible.

9. The Government have stated in their reply that the mid-term appraisal of the MOU targets is undertaken by the Government when the performance of the company is reviewed in the review meetings which are held periodically. At the end of a year the performance of the company is also evaluated by the Adhoc Task Force (ATF) against the targets set forth in the MOU. The ATF duly takes into consideration the effects of external forces on the company's performance before awarding overall rating to the company. Therefore, the modification of the present

* At the time of factual verification the Ministry have stated that they have received a communication from DPE which prescribes the guidelines for timely signing of MOU for the years 1997-98 and 1998-99. Ministry of Chemicals and Fertilizers (Deptt. of Chemicals and Petrochemicals O.M. No. 51/15/94-Ch. III) dated 4th March, 1997.

system of MOU to provide for mid-term review of the targets is not considered necessary as review of MOUs are being done periodically.

10. The Committee are not satisfied with the reply furnished by Government. As per the present system the MOU targets are appraised in the periodic review meetings and there is no mid term adjustment in the MOU itself. Although the effects of the external forces on the company's performance are taken into account while awarding the over-all rating of the company at the end of the year, there is no mechanism for taking corrective action during the year. Besides, it were the Ministry themselves who had agreed that a mid-term review of the MOU would enable the company to take corrective action as well as to assess the future performance in a more realistic way since the domestic and international market was of dynamic nature. It is surprising now that the mid-term review of MOU is not considered necessary simply because the performance of the company is reviewed by Government periodically. The Committee, therefore, reiterate that the matter should be examined indepth with a view to finding out the desirability of providing for a mid-term review of the MOU so that timely corrective action could be taken and the performance of the company assessed in the more realistic way.

**C. Raising of ceiling for approval of new schemes/projects
(Recommendation Sl. No. 3)**

11. The Committee had noted that the Board of Directors of the Company could approve new schemes/projects costing upto Rs. 50.00 crores. HOCL had suggested that since the limit was fixed by the Government in 1988-89 and since then there had been considerable change in business environment, this limit should be raised to the level of Rs. 150-200 crores. The Committee had recommended that the matter should be taken up with the Department of Public Enterprises at the earliest with a view to get the ceiling for approval of investment by the Board of Directors raised expeditiously.

12. In their reply, the Ministry have stated that the matter is reportedly under active consideration of the Government in the Ministry of Finance.

13. The Committee are concerned to note the undue long delay in taking a decision in the matter of raising the ceiling for approval of the investment by the Board of Directors. Though more than one year has elapsed when the Committee had presented the Report and given their recommendations, matter is still pending at consideration stage. The Committee strongly recommend the Government to take a decision in the matter without any further delay and inform the Committee accordingly.

**D. Rerating of Capacities
(Recommendation Sl. No. 6)**

14. The Committee were constrained to observe that though the Company had realised the need for uprating the capacities in some plants in 1979, it did not take any action in this regard. The Committee had desired that the study by FACT Engineering and Design Organisation (FEDO) should be completed early and necessary action to uprate the capacities for the remaining plants taken at the earliest.

15. In their reply, the Government have stated that FEDO Report has since been received by them and the same is being considered and after due deliberation and discussion, a decision will be taken for rerating of capacities wherever recommended. HOCL has been directed to expeditiously examine the recommendations of FEDO and take decision thereafter quickly.

16. According to Audit, M/s FEDO's final report was received by the Company in June, 1996. However a final decision on rerating is yet to be taken by the Company.

17. The Committee are dismayed to observe the delay in rerating of capacities of the plants. Though FEDO had submitted their report in June, 1996 no decision has so far been taken in regard to uprating of capacities. The Committee desire that the matter should no longer be delayed and the rerating of capacity wherever necessary should be done forthwith.

**E. Acceptance of Fake Bank Guarantees
(Recommendation Sl. No. 18)**

18. The Committee had noted that 10 out of 12 bank guarantees furnished during December, 1988 to February, 1990 by a party which was purchasing the material from HOCL were fake and the bank did not honour the guarantees of Rs. 71.64 lakhs. A departmental inquiry was ordered during May 1991 to identify the shortcomings in the existing procedure and to fix responsibility. A criminal case for bouncing of cheques and a civil suit has been filed which were pending in Bombay High Court. The Committee had exhorted the Government to pursue the case vigorously. They had also desired that an independent high level enquiry should be conducted into the matter and responsibility fixed in the matter of acceptance of guarantees.

19. In their reply, the Government have stated that civil & criminal cases have been filed by the company in Bombay High Court and several meetings were held with the solicitors for expediting decision in the cases. Regarding criminal cases, they had meetings with Public Prosecutor for expeditious hearings. In the case of acceptance of bank guarantees. The prescribed procedure under the existing system was being followed.

20. The Committee had recommended an independent high level enquiry into the matter of acceptance of fake bank guarantees and fixing of

responsibility. However, they are constrained to observe that no responsibility has been fixed till now in the matter and it has simply been stated that the prescribed procedure under the existing system was being followed. The Committee deprecate such casual approach of Government in implementation of their recommendations and reiterate that an independent high level enquiry should be conducted into the matter and responsibility fixed on the officers concerned for accepting fake bank guarantees. They would like to be apprised of the action taken in this regard within a period of three months. They would also like to reiterate that the cases pending in Bombay High Court should be vigorously pursued.

**F. Award of contracts to Rasayani Employees' Engineering Company
(Recommendation Sl. No. 22)**

21. The Committee had noted that the contract for maintenance work of Sulphuric Acid Plant during the plant shut down period in October and November, 1985, was awarded to a company floated by the Employees Union of the company viz, Rasayani Employees' Engineering Company (REEC) though the bids of two other parties were lower than REEC. The reason advanced by the company for this act was that the two parties lacked experience in this specialised job. The Committee did not agree with this contention of the company because REEC had no workshop or establishment. Moreover the formation of REEC itself was against the rules of the company. The Committee had desired that an enquiry be conducted into the whole matter and responsibility fixed on the officials responsible for awarding the contract to a company whose formation itself was improper as well as against the employees who had formed the company against the prevalent rules.

22. In their reply, the Ministry have stated that notice for dissolving M/s REEC has already been issued by the company, and the matter is being pursued with the company.

23. The Committee are not at all satisfied with the reply of the Government. They are surprised to find that though the Committee had desired that an enquiry should be conducted into the whole matter and responsibility fixed, the Ministry have simply furnished a one line reply that notice for dissolving M/s REEC has already been issued. Neither REEC has been dissolved so far nor any enquiry has been conducted into the matter of formation of a company by the employees of the company themselves against the prevalent rules and the award of contract to such company. The Committee expect the Government to consider their recommendations seriously. They would like to reiterate that an enquiry should be conducted into the whole matter and the Committee be informed of the outcome of the enquiry within a period of three months.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation Sl. No. 4 (Paragraph Nos. 1.15, 1.16, 1.17)

The Committee have been informed by HOCL that it had prepared a Corporate Long Range Plan for the period 1976 to 1989. However, according to the Ministry of the Corporate Plan of HOCL cannot be said to be a corporate plan as such, but an approach paper since it did not identify specific targets. The Committee deprecate the inaction on the part of the company in not preparing a Corporate Plan even though the Department of Public Enterprises had issued guidelines in this regard as early as in 1974. Even the so called Corporate Plan was not submitted to the Government for its review. The Committee are very much concerned to find that the Ministry also did not ask the Company at any stage to prepare the full fledged Corporate Plan and fix specific goals and targets. They are unable to understand how in the absence of targets, the Ministry was able to judge the performance of the Company during these years. The Committee strongly deprecate this apathetical attitude of the Company/Ministry and desire that the preparation of Corporate Plan in future should be given the attention it deserves.

Reply of the Government

The Corporate Plan prepared by the Company covering the period 1976-89 was more of an approach paper because the Company used to correlate its plans covering host of projects for implementation purposes, with the Five Year Plans of the Government for which specific formats used to be prescribed by the Government from time to time. Even the plan discussions held by the Government with the Company are based on the Five Year Plan documents. The performance is monitored by the Ministry with reference to such plan documents every year during Annual Plan discussions and even mid-term reviews are undertaken to review the progress on projects and other details. Therefore, there is a system in Government to review the performance of the Company against the committed targets.

Vetting remarks of C & AG

Apart from review of the performance of the Company against the committed targets by the Ministry with reference to five year plan targets the company has to prepare Corporate Long Range Plan, also to identify specific targets. The Corporate Plan for 1997-98 to 2001-02 has been approved by Board of Directors in June, 1995.

Reply of the Government on C & AG's vetting remarks

No comments.

(Deptt. of Chemicals & Petrochemicals O.M. No. 51/15/94-Ch. III,
dt. 24.9.96)

Recommendation No. 5 (Paragraph Nos. 1.18, 1.19, 1.20, 1.21, 1.22)

The Company is stated to have prepared a new corporate long range plan concerning the period 1993-2013. Though two years have already passed, the same has still not been approved at the Board level itself. The Committee do not agree with the argument advanced by the Secretary, Department of Chemicals & Petrochemicals that delay in preparing the Corporate Plan, does not affect the day to day working as they have done an exercise for the next five years in any case because of Five Year Plan. The basic purpose of the preparation of Corporate Plan is defeated if its implementation is not taken up in time. The Committee, therefore, recommend that the Corporate Plan of HOCL should be finalised without any further delay under intimation to them.

Reply to the Government

The Corporate Plan for the Ninth Five Year Plan period as approved by the Board of the Company has already been submitted by them to the Government in February, 1996. The Plan document broadly indicates the direction in which the Company is expected to progress during the five years' period from 1997-98 to 2001-2002.

Vetting remarks of C & AG

The corporate long range Plan for 1997-98 & 2002 has been approved at 216th Board Meeting held in June, 1995. Approval of Govt. is awaited.

Reply of the Government on C & AG's vetting remarks

Govt. approval is not required.

(Deptt. of Chemicals & Petrochemicals O.M. No. 51/15/94-Ch. III,
dt. 24.9.96)

Recommendation Sl. Nos. 7 (Paragraph Nos. 2.6, 2.7, 2.8, 2.9 upto 2.18)

Though the Company needs to produce only 22,800 MTs of Sulphuric Acid for its captive consumption, the capacity of the Sulphuric Acid Plant was increased from 30,000 TPA to 45,000 TPA in September, 1979 at a cost of Rs. 55.20 lakhs. The reason for increase in capacity was stated to be the installation of Double Contact Double Absorption System in order to reduce SO₂ and SO₃ emissions in the air. The Committee are at a loss to understand why in the original design of the plan, ecological considerations

were not taken into account. They, therefore, recommend that in all the plants to be set up in future every aspect including environmental angle as well as commercial viability of the plant should be taken into consideration. The Company suffered heavy losses on the sale of the excess quantity of Sulphuric Acid almost every year from 1985-86 to 1993-94. Such losses during 1993-94 were to the tune of Rs. 1 crore. The Committee are not inclined to concur with the opinion of the Secretary, Department of Chemicals & Petrochemicals that it would be worthwhile for them to produce higher quantity even if there are losses. According to the company, as a corrective action Sulphuric Acid sales are now being made directly to consumers in preference to dealers and long term contractual arrangements have been worked out with customers. Needless to say, had these actions been taken earlier, the losses on sales of excess Sulphuric Acid during these years could have been minimised. The Committee would also suggest that the viability of setting up some storage capacity for the excess sulphuric acid should also be examined so as to avoid its sale at a loss.

Reply of the Government

HOCL has reported that in the original design of the plant in 1970, the pollution limits taken were as per the rules then in force. Stricter pollution control rules were to come into force in 1980s. According to the Company, it was necessary to have DCDA system to reduce SO₂ in stack gases.

In the matter of expansion plans of plants, in all plants every aspect including environmental angle as well as commercial viability of the plant was taken into consideration.

With the commissioning of Phase III Nitrobenzene Plant, total consumption of Sulphuric Acid is about 93 MTs per day. It will increase further nitration capacities of Nitrotoluene and nitrochlorobenzene Plants.

At present the storage capacity for Sulphuric Acid Plant is about 2500 MTs which is equal to about 25 days' requirement. This is considered to be quite adequate. The inventory is being effectively managed so as to take into account the availability of Sulphuric Acid for operations and sale.

Vetting Remarks of C & AG

No remarks.

Reply of the Government on C & AG's Vetting Remarks

No comments.

[(Deptt. of Chemicals & Petrochemicals O.M. No. 51/15/94-Ch. III. dt. 24.9.96)]

Recommendation No. 8 (Paragraph 2.19 to 2.24)

The Acetic Acid Anhydride Plant was set up in 1982-83 under a guarantee for performance given by the consultants. The Committee are dismayed to learn that the performance of the plant could not be proved and the company had to incur avoidable expenditure of Rs. 19 lakhs for its modification. Admittedly, the technology was defective and it was commercially a bad judgement. The Committee, therefore, desire that responsibility should be fixed for this faulty decision. The Committee also do not agree with the contention that the non-availability of Acetaldehyde from the existing formaldehyde plant of HOC (as envisaged in the feasibility study for the Acetic acid Anhydride plant) did not result in any loss to the company since the Acetic acid Anhydride plant has been lying idle since 1992 due to non-availability of Acetaldehyde. The Committee would like that the loss due to this plant remaining idle should be assessed and intimated to them early. They also desire that the study regarding the viability of restarting the Acetyl plant should be completed expeditiously under intimation to the Committee.

Reply of the Government

According to HOCL, the technology for producing Acetic Acid and Acetic Anhydride was proven one as these products were produced from the plant. However, the commercial operations of any plant largely depend upon the market environment and the associated costs. As the market for Formaldehyde was better, the production was continued instead of converting it into Acetaldehyde and subsequently the operations of the Acetyl plant was discontinued as it was not considered viable to run the plant. The Company would have incurred losses had it continued production from Acetyl Section.

Due to changed market conditions, the Company had recently initiated studies and looked at the possibilities of restarting the plant. Accordingly, the plant has since been restarted.

Vetting Remarks of C & AG

Acetic Acid and Acetic Anhydride plant has commenced Commercial operations from 4/96.

However the production of these two plants upto May, 1996 is as follows:

Acetic Acid	—	9.12 MT
Acetic Anhydride	—	Nil

Reply of the Government on C & AG's Vetting Remarks

No comments.

[Deptt. of Chemicals & Petrochemicals O.M. No. 51/15/94-Ch. III.
dt. 24.9.96]

Recommendation No. 9 (Paragraph Nos. 2.25 to 2.34)

The Committee are dismayed to note that the actual cost incurred on the Phenol project at Cochin was Rs. 95.78 crores against the original estimated cost of Rs. 49.33 crores. Not only that the project was completed (mechanically) in January, 1987 and commercial production started only in March, 1988 against the original schedule of June, 1985. The cost overrun has been attributed to escalation in prices, foreign exchange rate fluctuation, inadequate provisions in original estimates, extra compensation payable to land owners and extended stay of foreign technicians due to extended trial runs. The extra cost on account of extended stay of foreign technicians alone amounted to US \$ 13.85 lakhs. According to the Company, it has taken adequate steps for selection of right vendors and give them a more realistic schedule in order to avoid recurrence of such cost over-run and time over-run. However, the Committee are of the firm opinion that there have been lapses in project preparation and project monitoring which has also been admitted by the Ministry. They, therefore, recommend that the detailed analysis of the factors responsible for the time and cost overrun should be made expeditiously to avoid such lapses in future.

Reply of the Government

All the aspects of the delay had been analysed in detail and after satisfying that in future the Company would avoid recurrence of such delays, Government approved the Final Cost Estimates of the Phenol Project.

Vetting Remarks of C & AG

No remarks.

Reply of the Government on C & AG's Vetting Remarks

No comments.

[Deptt. of Chemicals & Petrochemicals O.M. No. 51/15/94-Ch. III.
dt. 24.9.96]

Recommendation No. 10 (Paragraph Nos. 2.35 to 2.41)

The Committee regret to note that though the phenol unit at Cochin which commenced production in March, 1988 was to achieve 60% capacity in the first year, 80% capacity in the second year and 100% capacity in the third year onwards, the unit achieved around 60% capacity utilisation in 1988-89, 70% in 1989-90, 80% in 1990-91, 81% in 1991-92, 82% in 1992-93 and 74% in 1993-94. The reason for lower capacity utilisation has been stated to be that the target capacity utilisation was determined with the assumption that 30% of production would be exported but the international market registered a declining trend in the price front. Full benefit of the increase in domestic market was also not available in HOC in the later years because of free import of phenol. The Committee desire

that in order to achieve full capacity of the plant, the Company should take up the manufacture of value added products like Bis phenol-A and Vanilline which are stated to have good market potential. However, it will be advisable to make a proper market study before entering into the new venture.

Reply of the Government

Capacity utilisation as per the original plan was 100% from the third year onwards. The reasons for low capacity utilisation upto 1993-94 was also given by the Company.

However, from the year 1994-95, the production capacity increased due to increased demand in the domestic market and also better export performance. The capacity utilisation for 1994-95 was 94%. During 1995-96, the Company has attained 100% capacity utilisation.

Also during the year 1994-95, 5243 Mts of Phenol and 886. MTs of Acetone were exported. During 1995-96, however, 2600 MTs of Phenol and 800 MTs of Acetone could be exported.

The Company has also exported the value added product viz., Bisphenol-A to the tune of 442 MTs (value Rs. 112 lakhs) during 1993-94 and 272 MTs (value Rs. 62 lakhs) during 1994-95. A proper market study is always undertaken before entering into a new venture. However, under dynamic market situations, fluctuations are also be encountered.

Vetting Remarks of C&AG

No remarks.

Reply of the Government on C&AG's Vetting Remarks

No comments.

[Deptt. of Chemicals & Petrochemicals O.M. No. 51/1594-Ch.III
dt. 24.9.96]

Recommendation No. 12 (Paragraph Nos. 2.49 to 2.53)

The Committee are very much concerned to note that the inventory holding of the raw material as well as Stores & Spares has been much in excess of the norms. Against the norms of 15 days production for raw material and 180 days production for Stores and Spares, the actual holding during the years 1990-91 to 1993-94 were 23, 22, 8 and 33 days production for raw material and 571, 488, 718 and 670 days production for Stores and Spares. Obviously, such high inventory results in unnecessary locking up of funds and adversely affects the functioning of the company. The Committee, therefore, desire that the inventory management in HOCL should be reviewed and strengthened suitably.

Reply of the Government

Continuous monitoring of the Inventory and taking remedial steps has resulted in reduction in the inventory levels during 1995-96.

Further in Rasayani Unit, after the installation of NCB continuous distillation columns for Eutectic Oil commissioned in March, 1996, the inventory levels have gone further down.

Vetting remarks of C&AG

No comments

Reply of the Government on C&AG's vetting remarks

No comments

[Deptt. of Chemicals & Petrochemicals O.M. No. 51/1594-Ch.III dt. 24.9.96]

Recommendation No. 13 (Paragraph Nos. 2.54 to 2.60)

The Expenditure on R&D as compared to net sales was 0.18, 0.15 and 0.69 during the years 1991-92, 1992-93 and 1993-94. The Committee are not happy with the current level of expenditure on R&D activities of HOCL although the Company is not engaged in basic research for new products. The Committee desire that the outlay on Research & Development in the company should be enhanced. Since Research & Development is very vital in a competitive market they strongly recommend the Government to examine the possibility of giving tax benefits on R&D-expenditure so that the Public Undertakings may be able to withstand the competition posed by multinational companies.

Reply of the Government

The Company has taken up the matter regarding tax benefits with the requisite authorities of the Government for necessary tax reliefs. The R&D Department has done several useful work resulting in substantial savings to the Company on a recurring basis. In order to encourage such activities, the Company has also stepped up the expenditure on R&D considerably so as to form at least about 1% of the Net Sales of the Company.

Vetting remarks of C&AG

The R&D expenditure in 95-96 has doubled as compared to last years ie. 94-95 as detailed below.

95-96	94-95 (Rs. in lakhs)
5.95	2.41

Reply of the Government on C&AG's vetting remarks

Factual Position. No comments.

[Deptt. of Chemicals & Petrochemicals O.M. No. 51/1594-Ch.III dt. 24.9.96]

Recommendation No. 15 (Paragraph Nos. 3.1 to 3.3)

The Committee express concern over the declining trend in profits of the company after 1991-92. Against the profit after tax of Rs. 33.11 crores during 1991-92, the profit earned during 1992-93 and 1993-94 was Rs. 28.04 crores, and Rs. 21.67 crores. Although it increased to Rs. 28.74 crores in 1994-95, the percentage of profit after tax to net worth has been consistently declining from 20.82 in 1989-90 to 8.18 in 1994-95. One of the main reasons for decline in profitability was stated to be that consequent to the liberalisation while the Company had to adjust its price as a result of reduction in customs duty on products manufactured by HOCL, the prices of raw materials procured from the refineries were not reduced since they were covered under administered pricing. The Committee suggest that the issues regarding the effect of the export import policy of chemicals on HOCL and tariff rationalisation should be taken up with the Ministry of Finance.

Reply of the Government

With quite a number of effective measures, the Company's performance has been improving consistently from 1994-95 onwards. In fact, the Company has achieved record performance during 1995-96, posting 154% increase in its profit, amounting to Rs. 70.12 crores as compared to Rs. 27.66 crores during 1994-95. With the commissioning of new projects, the Company's profitability is likely to improve further during 1996-97.

Vetting remarks of C&AG

The figures for 1995-96 mentioned in the reply is unaudited figures. As per the certified accounts for the year 95-96 the profit after tax and prior period adjustment is Rs. 58.14 crores and increase in profit is 110%.

Reply of the Government on C&AG's vetting remarks

Factual Position. No comments.

[Deptt. of Chemicals & Petrochemicals O.M. No. 51/1594-Ch.III
dt. 24.9.96]

Recommendation No. 17 (Paragraph Nos. 3.14 to 3.25)

The Committee are astonished to find that the company has been giving heavy discounts on the sales of its products at its Rasayani and Cochin units. The discount on the sales during the years 1991-92 to 1993-94 ranged between 3.35 per cent to 11.08 percent at Rasayani and between 6.04 at 9.56 percent at Cochin. Although the Company has contended that the discounts were given to avoid competitions from the imported material traded in the country, the Committee have received an impression that shortage of storage capacity and inferior quality of products were also the reasons for such discounts. The company is now stated to have put up new tanks in Cochin and drumming capacity has been increased. Though giving discounts might be a normal practice in the Chemicals industry, the

Committee are of the opinion that such discounts should be limited to the barest minimum in order to increase the profitability of the company. The Committee would, therefore, emphasise the need for more stringent quality management and vigorous marketing efforts to meet the challenges from the competitive market.

Reply of the Government

HOC has explained that discounts are given to match the competitor's price and payment terms. In case of Rasayani products, the competition is from local organised and Small Scale Sectors, who besides offering discounts and extended unsecured credits, supply the material without tax, being in tax free zones. In Cochin, the reason for offering discounts is not only matching the local and international competition but to match delivered price and also to improve the market share in Eastern and Northern Zones, as the Company's markets are existing considerably in these regions and their competitors are very close to the market. However, every effort is made to reduce the discounts by opening more and more Godowns/Stock Points at market place.

Vetting remarks of C&AG

No remarks

Reply of the Government on C&AG's vetting remarks

No comments

[Deptt. of Chemicals & Petrochemicals O.M. No. 51/1594-Ch.III
dt. 24.9.96]

Recommendation No. 20 (Paragraph Nos. 3.38 to 3.44)

The Committee note with concern that the exports of the Company have been showing a declining trend although one of the objectives in the long range conceptual corporate plan is stated to be to promote exports. The percentage of exports to the total sale which was 7 during 1988-89 has been reduced to 1.25 during 1993-94. They expect the Company to maintain an uptrend in exports (Rs. 15 crores achieved during 1994-95). However, the Committee are at a loss to understand that though according to the Company they are focussing on more and more exports, the Ministry feel otherwise. The Committee are also not happy with the apathetic attitude of the Ministry towards the Company. From the detailed examination of the subject, the Committee have received the impression that in every matter, the Ministry have tried to wash off their hands in the name of commercial interests of the Company. Though the Committee fully, appreciate the spirit of giving more and more autonomy to the Public Sector Companies, at the same time, the Ministry's monitoring role cannot be over emphasised and particularly in this era of liberalisation, the company can withstand the competition only with the support of the administrative machinery. They, therefore, recommend that the role of the Company in the matter

of export of chemicals should be clearly specified so that it can concentrate its efforts accordingly.

Reply of the Government

Export is part of commercial decision. Ultimately, however, the transactions should be commercially advantageous to the Company. There has been threefold increase in exports in 1994-95 as compared to 1993-94. Promoting exports is one of the corporate objectives of the Company and the Ministry extends full support to the Company in achieving this objective. The Company has assured that deliberate efforts would be made to enhance exports subject to commercial advantage.

Vetting remarks of C&AG

No remarks

Reply of the Government on C&AG's vetting remarks

No comments

[Deptt. of Chemicals & Petrochemicals O.M. No. 51/15/94-Ch. III dt. 24.9.96]

Recommendation No. 21 (Paragraph Nos. 3.45 to 3.49)

The Committee are concerned to note that the Sundry debts of the Company are increasing year after year. Not only the amount of such debts has increased from 70.47 crores as on 31.3.1986 to Rs. 299.58 crores as on 31.3.1995 but the percentage of debts to sale which was 6.38 as on 31st March, 1990 has also increased to 23.81 as on 31st March, 1995. A substantial portion of the outstanding dues are from the public undertakings falling under the same administrative Ministry (Rs. 3.02 crores as on 31.3.1995 from IDPL alone). But it is disquieting to note that the Ministry have taken the stand that as a rule they do not intervene in respect of trade dues. The Committee seriously deprecate this apathetical attitude of the Ministry. They recommend that HOCL should streamline its machinery for recovery of outstanding dues with a view to liquidate the dues at the earliest. The Ministry on its part should render all help in the matter wherever feasible.

Reply of the Government

Commercial terms for sale are product specific and is largely dictated by the market situation. With a view to enhance market share, credit policy is devised and changed according to the needs. The Company is operating in a highly competitive business environment. The Company also maintains a close watch on the outstanding dues. There has not been any bad debt in the last four years.

The percentage of debts to sale as on 31.3.1996 has gone down to 17.72.

Vetting remarks of C&AG

The percentage of debts to sales as on 31.3.96 is 17.93% (as per certified accounts).

Reply of the Government on C&AG's vetting remarks

Factual Position. No comments.

**[Deptt. of Chemicals & Petrochemicals O.M. No. 51/15/94—Ch.III
dt. 24.9.96]**

CHAPTER III

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

Recommendation Sl. No. 11 (Paragraph Nos. 2.42 to 2.48)

The Committee note with concern that though an investment of Rs. 1.61 crores has already been made on the project for Trimer Tetramer, the project has not taken off due to non-availability of propylene as envisaged. The Committee are unable to understand how the HOCL went ahead with the project assuming the propylene content at 32% in the LPG to be supplied by Cochin Refineries Ltd., when the latter had indicated as far back as in 1981 itself that the propylene content was likely to be 28.17%. As a result, the column, storage bullets and pumps created for extracting additional chemical grade propylene are lying idle since January, 1987. What is worse, the production of Trimer/Tetramer is now stated to be economically unviable in the current market situation. The Committee cannot but conclude that this is just another example of bad planning. They desire that the matter should be enquired into with a view to fixing responsibility for designing the project on the basis of wrong assumptions. They would also like to be informed how the additional column is now proposed to be utilised.

Reply of the Government

The company holds industrial license to manufacture 7000 TPA of Chemical Grade Propylene and made an investment of Rs. 1.61 crores by Commissioning additional fractionation column, bullet, pump etc. HOCL could not take advantage of the installation which is a part of the propylene recovery plant not only due to low content of propylene in the LPG supplied by M/s. Cochin Refineries Ltd. due to the change in the quality of the crude, its source variation etc., but also due to the fact that the availability of LPG from CRL was just sufficient for recovery of lean propylene required for the phenol production.

The Extra column available with HOC cannot be construed as fully idle. It is being used whenever Propane is needed for start up of the Cumene Plant. Propane is essential as a heat sink for the process and it is not an easily accessible product. This column has to be used for producing Propane which is in turn required to start up the plant after shut down jobs.

Vetting remarks of C&AG

No remarks.

Reply of the Government on C&AG's Vetting remarks

No Comments.

[Deptt. of Chemicals & Petrochemicals O.M. No. 51/15/94—Ch.II
dt. 24.9.94]

Recommendation No. 14 (Paragraph Nos. 2.61 to 2.65)

The Committee have been informed that based on the technology developed by the R&D Division, the company set up plants for commercial production of Resorcinol, Metachlorobenzene, Cyclohexylamine, Butene diol and Paranitrophenol. The Resorcinol plant was decommissioned due to stoppage of production of Meta Amino Phenol. The Paranitrophenol Plant was decommissioned as the same was reserved for SSI units. However, the Committee are of the strong opinion that since the Paranitrophenol was reserved for the SSI units subsequent to the setting up of the plant by HOCL there was no need to discontinue the plant. Though the Secretary, Department of Chemicals & Petrochemicals was also of the view that HOCL should have continued the plant. at no stage the Ministry appears to have asked the company to continue the operations of the plant. While the Committee do not disagree with the need for giving protection to the SSI Sector, they desire the Government to enquire into the matter to find out the compelling reasons for the discontinuation of the plant which was set up before the reservation for SSI Sector and fix the responsibility.

Reply of the Government

Para Nitro Phenol was a R&D plant. As the technology was not proven, the plant could not produce quality material even with best efforts. The Company was planning to discontinue production on this account without making any further investment, it was informed that this product was reserved for manufacture in the Small Scale Sector. Therefore, the plant was decommissioned.

Vetting remarks of C&AG

The Plant has been dismantled and disposed of.

Reply of the Government on C&AG's vetting remarks

Factual Position. No comments.

[Deptt. of Chemicals & Petrochemicals O.M. No. 51/15/94—Ch.III
dt. 24.9.96]

CHAPTER IV

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

Recommendation Sl. No. 1 (Paragraph Nos. 1.1 to 1.7)

Hindustan Organic Chemicals (HOCL) was incorporated in December, 1960 by the Government of India. The Company is located at Rasayani in Raigad District of Maharashtra and is engaged in manufacture of organic chemicals and intermediates required for the dyestuffs, drugs and other chemical industries. Between 1970 and 1974, twelve plants were commissioned in Phase I at Capital cost of Rs. 22 crores. The Company undertook Phase II of capital investment as expansion programme which was completed in 1981-82 at a cost of Rs. 17.5 crores. The Company commissioned a unit in March, 1988 at Cochin for manufacture of Phenol and Acetone. The Company also runs a subsidiary at Hyderabad viz., Hindustan Fluoro Carbons Ltd., (HFL) for the manufacture of Poly Tetra Fluoro Ethylene (PTFE). The main objectives of the Company cover manufacturing, buying, selling and dealing in several organic and inorganic chemicals for the pharmaceutical, fertilizer, rubber processing chemicals and all allied industries. Though both the company as well as the administrative Ministry have claimed that the Company has been able to achieve the objectives which were envisaged at the time of its incorporation, the Committee during the course of examination of the subject have noticed a number of deficiencies in the functioning of Hindustan Organic Chemicals Limited which have been brought out in succeeding paragraphs.

Reply of the Government

The Company has by and large been achieving the objectives as envisaged at the time of its incorporation, from time to time and from year to year.

Vetting remarks of C&AG

No remarks.

Reply of the Government on C&AG's vetting remarks

No comments.

[Deptt. of Chemicals & Petrochemicals. O.M. No. 51/94-Ch.III
dt. 24.9.96]

The Committee noted that the Company has been signing Memorandum of Understanding (MOU) with the Government from the year 1991-92. While the MOU for the year 1994-95 was signed on 19th July, 1994 the MOU for the year 1995-96 was signed only on 10th October, 1995 (6½ months after beginning of the financial year). The Committee have emphasised the need for timely signing of MOU in their earlier reports also. One of the reasons advanced by the Secretary, Department of Chemicals & Petrochemicals for the delay is that all the MOUs of different companies go to the High-level Committee at one time and after they are all cleared, the respective Ministries and the respective companies sign them. The Committee are not convinced with the argument and feel that the delay in signing MOU can be avoided if the process of preparing of MOU is started well in time. They are also not satisfied with the reply that since the MOU is known to the company and the Ministry, the Companies start working on them. The Committee are of the firm opinion that delay in signing of MOU definitely hampers the spirit of the MOU and defeats its very purpose. They, therefore, desire that as promised by the Secretary, during the evidence, necessary steps shall be taken to evolve a system by which MOU is expedited and signed well before the beginning of the financial year. The Committee would like to be apprised of the action taken in the matter.

Reply of the Government

The issue has been referred to the Department of Public Enterprises (DPE)*. The practice in such cases has been that once the draft MOU submitted by the Company is discussed by the Adhoc Task Force Members with the Company and the concerned Ministry officials, action on the said MOU is initiated even before the formal signing of the MOU.

The draft MOU for 1996-97 was discussed with the ATF members on the 22nd March, 1996 and the draft as desired by the ATF members was submitted to DPE for clearance on the 25th March, 1996. Formal clearance for signing of the MOU is awaited from the DPE.

[Ministry of Chemicals and Fertilizers Deptt. of Chemicals and Petrochemicals O.C.M. No. 51/15/94-Ch. III) dated 4th March, 1997.

Vetting remarks of C&AG

The draft MOU for 96-97 was approved by the Board of Directors on 6.2.96 (223rd Board Meeting). Approval from Government is awaited.

(Ministry of Chemicals and Fertilizers (Deptt. of Chemicals and Petrochemicals O.M. No. 51/15/94-Ch. III) dated 4th March. 1997.

*. At the time of factual verification the Ministry have stated that they have received a communication from DPE which prescribes the guidelines for timely signing of MOU for the years 1997-98 and 1998-99.

Reply of the Government on C&AG's vetting Remarks

The Department of Public Enterprises *vide* their letter dated 11.9.96 have informed that Draft MOU has been approved by the High Powered Committee.

[Deptt. of Chemicals & Petrochemicals OM No. 51/15/94-Ch. III
dt. 24.9.96]

Comments of the Committee

(Please see para 7 of Chapter I of the Report)

Recommendation No. 2 (Paragraph 1.10.1.11)

A suggestion has been made by the Company that since under the MOU system, the targets are committed for one year and the MOU is also signed for one year, there should be a provision for a mid term review in order to consider the effect of external forces and to modify the targets: The Ministry was also of the view that a mid term review of the MOU would enable the Company to take corrective action as well as to make an assessment of the future performance in a more realistic way. The Committee, therefore, desire that the issue should be examined in-depth by Government and if found advantageous, the present system of MOU should be modified to the extent that it contains a provision for mid term review of the MOU. They also desire that the results of the examination should be intimated to them.

Reply of the Government

The mid term appraisal of the MOU targets is undertaken by the Government when the performance of the Company is reviewed in the review meetings which are held periodically. At the end of an year, the performance of the Company is also evaluated by the ATF against the targets set forth in the MOU. ATF duly takes into consideration the effects of external forces on the Company's performance before awarding the overall MOU rating to the company. In view of the above, modification of the present system of MOU to provide for mid term review of the targets, is not considered necessary, as review of MOUs are being done periodically.

Vetting remarks of C&AG

No remarks.

Reply of the Government on C&AG's vetting Remarks

No comments.

[Deptt. of Chemicals & Petrochemicals OM No. 51/15/94-Ch. III
dt. 24.9.96]

Comments of the Committee

(Please see para 10 of the Chapter I of the report)

Recommendation No. 18 (Paragraph Nos. 3.26 to 3.29)

The Committee are shocked to note that ten out of 12 bank guarantees furnished during December, 1988 to February, 1990 by a party which was purchasing the material from HOC were fake and the bank did not honour the guarantees of Rs. 71.64 lakhs. All the more surprising is the fact that earlier also the party's cheques amounting to Rs. 38.65 lakhs had bounced though payment was received from the party subsequently. A Departmental inquiry was ordered during May, 1991 to identify the shortcomings in the existing procedure and to fix responsibility. Surprisingly, no responsibility in the matter has been fixed although to avoid repetition of such irregularities in future, the company is stated to have introduced a procedure for reverifying Bank Guarantees with the issuing banks directly before supplies are resumed. A criminal case for bouncing of cheques and a civil suit has been filed which are pending in Bombay High Court. The Committee strongly recommended the Government to pursue the case vigorously and outcome of the case be informed to the Committee. They also desire that an independent high level enquiry should be conducted into the matter and responsibility fixed in the matter of acceptance of guarantees.

Reply of the Government

The Civil cases are filed by the Company in Bombay High Court and several meetings were held with the Solicitors for expending decision in the cases.

Regarding criminal cases, they had meetings with Public Prosecutor for expeditious hearings.

In the case of acceptance of bank guarantees, the prescribed procedure under the existing system was being followed.

Vetting remarks of C&AG

No remarks.

Reply of the Government on C&AG's vetting Remarks

No comments.

[Deptt. of Chemicals & Petrochemicals OM No. 51/15/94-Ch. III
dt. 24.9.96]

Comments of the Committee

(Please see para 20 of Chapter I of the Report)

Recommendation No. 22 (Paragraph Nos. 4.1 to 4.10)

The Contract for maintenance work of Sulphuric Acid Plant during the Plant shut down period in October and November, 1985, was awarded to a party floated by the Employees Union of the Company viz. Rasayani Employees' Engineering Company (REEC) though the bids of two other parties were lower than REEC. The reason advanced by the Company for this act was that the two parties lacked experience in the specialised job of sulphuric Acid Plant shut down maintenance and the time quoted to complete this job by the other two parties was 40 and 35 days as against HOCL's requirement of 20-22 days. The Committee do not agree with this contention of the Company because the REEC had no workshop or establishment. Moreover, the formation of the REEC itself was against the rules of the Company as well as the Industrial Employment Standing Orders Act, 1946. The Committee further note that the maintenance work during 1987 and 1988 and a contract for disposal of scrap was also awarded to REEC. Though no further work has been awarded to REEC, the Committee would like to be informed whether it has since been dissolved as repeatedly directed by HOCL after the advice of the Law Ministry. The Committee also desire that an enquiry be conducted into the whole matter and responsibility fixed on the officials responsible for awarding the contract to a company whose formation itself was improper as well as against those employees who had formed the company against the prevalent rules.

Reply of the Government

Notice for dissolving M/s REEC has already been issued by the Company, and the matter is being pursued with the Company.

Vetting remarks of C&AG

No remarks.

Reply of the Government on C&AG's vetting Remarks

No comments.

[Deptt. of Chemicals & Petrochemicals OM No. 51/15/94-Ch. III
dt. 24.9.96]

Comments of the Committee

(Pl. see para 23 of Chapter I of the Report)

CHAPTER V

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

Recommendation No. 3 (Paragraph Nos. 1.12, 1.13 and 1.14)

At present, the Board of Directors of the Company can approve new schemes/projects costing upto Rs. 50.00 crores. HOCL has suggested that since the limit was fixed by the Government in 1988-89 and since then there has been a considerable change in business environment, this limit should be raised to the level of Rs. 150-200 crores. The Committee are surprised to find that though the Ministry also realise the need for raising the limit no concrete action has been initiated in this direction. The Committee recommend that the matter should be taken up with the Department of Public Enterprises at the earliest with a view to get the ceiling for approval of investment by the Board of Directors raised expeditiously.

Reply of the Government

The matter is reportedly under active consideration of the Government in the Ministry of Finance.

Vetting remarks of C&AG

No further remarks.

Reply of the Government on C&AG's vetting remarks

No comments.

[Deptt. of Chemicals & Petrochemicals OM No. 51/15/94-Ch. III
dt. 24.9.96]

Comments of the Committee

(Pl. see para 13 of Chapter I of the Report)

Recommendation No. 6 (Paragraph Nos. 2.1, 2.2, 2.3, 2.4 and 2.5)

Normally the chemical, fertilizer and petroleum plants adopt 330 stream days in computing rated capacity. But according to Audit, HOCL adopted only 300 days in most of its plants at Rasayani, though it adopted 330 days in its Cochin plants. Though the company had realised the need for uprating the capacities in some plants in 1979, the Committee are constrained to observe that it did not take any action to uprate the capacities. Despite repeated insistence, the Committee were unable to get a satisfactory reply from the Company to justify the delay of more than 15 years in uprating the capacities of these plants. It is all the more disquieting that the Ministry came to know about this matter only on

receipt of the Audit Report in August, 1993. It is only now that a study for rerating the capacities of plants has been awarded to Fact Engineering and Design Organisation but this study has so far been completed only in respect of three plants. The Committee desire that the study by Fact Engineering and Design Organisation should be got completed early and necessary action taken to uprate the capacities for the remaining plants at the earliest.

Reply of the Government

HOCL has reported that a study by Fact Engineering and Design Organisation (FEDO) was conducted and their report has been received by them. As recommended by FEDO, the Plant-wise re-assessed stream days and capacities are as follows:—*

Sl. No.	Name of Plant	Re-assessed Stream days	Capacities MTs
1.	Acetanilide	300	2000
2.	Aniline II	330	6600
3.	Dinitrobenzene	320	440
4.	Formaldehyde II	300	33000
5.	Nitrobenzene I	300	12000
6.	Nitrobenzene II	300	12000
7.	Nit. Ch. Benzene	300	9900
8.	Hydrogen I	300	600
9.	Hydrogen II	300	600
10.	Sul. Acid/Olcum	310	46500

The recommendations are being considered and after due deliberations and discussions, a decision will be taken rerating of capacities wherever recommended.

Vetting remarks of C&AG

M/s FEDO had carried out the study on rerating of plant's capacity and their final report was received by the company in June, 1996. However a final decision on rerating is yet to be taken by the company.

* At the time of factual verification, HOCL has informed that Nitrobenzene I is being converted into Nitrotoluene capacity for further value addition and Hydrogen I is being phased out keeping in view the availability of Hydrogen from the newly commissioned Caustic Soda plant

(HOCL CMD's Letter dated 4th March, 1997)

Reply of the Government on C&AG's vetting remarks

The Management of HOCL has been directed to expeditiously examine the recommendation of FEDO & take decision thereafter quickly.

[Deptt. of Chemicals & Petrochemicals OM No. 51/15/94-Ch. III
dt. 24.9.96]

Comments of the Committee

(Pl. see para 17 of Chapter I of the Report)

Recommendation No. 16 (Paragraph Nos. 3.4 to 3.13)

The Committee are perturbed over the poor performance of Hindustan Fluoro Carbons Limited, the subsidiary of HOCL. The Company which commenced commercial operations in March, 1988 has been incurring losses since its inception except during 1992-93 when it earned a profit of Rs. 213 lakhs. The loss incurred by the company during 1993-94 was Rs. 188 lakhs while it earned a profit of Rs. 10 lakhs during 1994-95. The accumulated loss of HFL as on 31.3.1995 was Rs. 27.80 crores. The Committee have been informed by the Company that the long gestation period had resulted in heavy interest burden coupled with the escalation in the loan component and consequently additional interest burden on the French loan availed in the year 1985. There was also delay involved in releasing of loan by financial institutions. Apart from the inherent manufacturing defects in the Methanol refrigeration system purchased indigenously on the insistence of DGTD the market for Poly Tetra Fluoroethylene could not be developed to hundred percent capacity. Besides PTFE had to face severe competition in the domestic market. The Committee are of the opinion that the development of the downstream industries based on PTFE could also not be assessed correctly. They desire that sincere efforts should be made to explore new markets for PTFE in order to run the plant at 100% capacity. The Committee also feel that the merger of HFL with HOCL will immensely help in improving the performance of the Company. Now that the merger proposal has been approved by Boards of Directors of both the companies the final decision in the matter should be taken without any further delay so that the HFL could be revived at the earliest.

Reply of the Government

Maintaining the trend set in 1994-95, the Company has even improved its performance in the year 1995-96 and has made a profit of Rs. 70 lakhs after paying off all its dues to Financial Institutions and after making provision of 10% interest on HOCL's advances.

The Company was referred to BIFR and was declared sick during August, 1994 under the new regulations of SICA, 1985. IDBI was appointed as the Operating Agency (OA) by BIFR. Subsequently, BIFR also appointed a nominee Director on the Board of the Company. BIFR

has so far held five meetings and considered various options to make the company viable on stand alone basis. BIFR also considered the merger of company with HOCL in its last meeting held on 24th May, 1996. The final decision of the BIFR is awaited.

Vetting remarks of C&AG

No remarks. Final decision of the BIFR is awaited.

Reply of the Government on C&AG's vetting remarks

Factual position. No comments.

[Deptt. of Chemicals & Petrochemicals OM No. 51/15/94-Ch. III
dt. 24.9.96]

Recommendation No. 19 (Paragraph Nos. 3.30 to 3.37)

Another glaring instance brought to the notice of the Committee is regarding the sale of 291 MTs of Phenol in March, 1989 to a party without any security. The supply to the party was reportedly continued even after bouncing of cheques of Rs. 1.90 crores. Not only that during September and October, 1989, 147.22 tonnes of phenol was sold to the Party at concessional rate of Rs. 11,375 per tonne though the cost of production of Phenol was Rs. 19,819 per tonne. The Committee have been informed that the report of the Chief Vigilance Officer has been referred to the Chief Vigilance Commission and Ministry are in correspondence with the CVC for a final decision on the action to be taken in the matter. The most surprising thing in the whole episode is that neither the Company nor the Ministry were aware of the happenings till *suo moto* action was initiated by the CVC after they received complaints. The Committee are, therefore led to the inescapable conclusion that there is definitely something wrong with the marketing division of the Company which needs to be streamlined. They, therefore, recommend that the matter pending with CVC should be pursued vigorously and responsibility be fixed on the defaulting officials under intimation to the Committee within a period of three months of presentation of this report.

Reply of the Government

HOCL has explained that the review petition against the decision of the High Court of Karnataka is posted for hearing in May, 1996. This is the status of the Civil case filed against the party by the Company in the Karnataka High Court.

The entire Principal amount is already collected from the party and Civil cases are filed against the party by the Company in Karnataka High Court for collecting Delayed Payment Charges.

▼ CVC is seized of the matter.

Vetting remarks of C&AG

No remarks.

Reply of the Government on C&AG's vetting remarks

No comments.

[Deptt. of Chemicals & Petrochemicals O.M. No. 51/15/94-Ch. III
dt. 24.9.96]

NEW DELHI;

17 March, 1997

26 Phalgun, 1918 (s)

G. VENKAT SWAMY,
Chairman,

Committee on Public Undertakings.

APPENDIX I

MINUTES OF FOURTEENTH SITTING OF COMMITTEE ON PUBLIC UNDERTAKINGS HELD ON 27TH FEBRUARY, 1997

The Committee sat from 1515 hrs. to 1600 hrs.

Shri G. Venkat Swamy — *Chairman*

2. Shri Qamarul Islam
3. Shri P.N. Siva
4. Shri Brij Bhushan Tiwari
5. Shri S.S. Ahluwalia
6. Shri Deepankar Mukherjee
7. Shri Solipeta Ramachandra Reddy
8. Shri Maheshwar Singh

SECRETARIAT

Shri P.K. Grover — *Deputy Secretary*

OFFICE OF THE COMPTROLLER & AUDITOR GENERAL OF INDIA

1. Shri Samir Gupta Chairman, Audit Board
2. Shri R.N. Ghosh, Director (Commercial)

I. Consideration and Adoption of Draft Action Taken Report on Hindustan Organic Chemicals Limited

1. The Committee considered the draft report on Action Taken by Government on the recommendations contained in 46th Report of the Committee on Public Undertakings (1995-96) on Hindustan Organic Chemicals Limited as approved by Action taken Sub-Committee and adopted the same.

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

II. Disinvestment of Public Sector share

3. *****

The Committee then adjourned.

* Minutes relating to disinvestment of Public Sector shares have been kept separately.

APPENDIX II

Analysis of the Action Taken by Government on the recommendations contained in the 46th Report (10th L.S.) of the Committee on Public Undertakings (1995-96) on Hindustan Organic Chemicals Limited

I. Total number of Recommendations	22
II. Recommendations/Observations that have been accepted by the Government (<i>vide</i> recommendations at Sl. No. 4, 5, 7-10, 12, 13, 15, 17, 20 and 21)	12
Percentage to total	54.55%
III. Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies (<i>vide</i> recommendations at Sl. Nos. 11 & 14)	2
Percentage to total	9.09%
IV. Recommendations/Observations in respect of which reply of Government have not been accepted by the Committee (<i>vide</i> recommendations at Sl. Nos. 1,2,18 and 22)	4
Percentage to total	18.18%
V. Recommendations in respect of which final replies of Government are still awaited (<i>vide</i> recommendations at Sl. Nos. 3,6,16, and 19)	4
Percentage to total	18.18%