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I.T.I. LIMITED

MINISTRY OF COMMUNICATIONS
(Department of Telecommunications)

COMMITTEE ON PUBLIC UNDERTAKINGS 1996-97

ELEVENTH LOK SABHA

LOK SABHA SECRETARIAT
NEW DELHI

TENTH REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS
1996-97

(TENTH LOK SABHA)

I.T.I. LIMITED

MINISTRY OF COMMUNICATIONS
(DEPARTMENT OF TELECOMMUNICATIONS)

Presented to Lok Sabha on 30.4.1997
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LOK SABHA SECRETARIAT
NEW DELHI

April, 1997/Vaisakha, 1919 (Saka)

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(1995-96)

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4. Shri P.K. Grover — *Under Secretary*

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* Elected w.e.f. 22nd August, 1995 *vice* Shri Vilas Muttemwar resigned from the Committee. Ceased to be a Member of the Committee consequent on his appointment as Minister in the Council of the Ministers w.e.f. 14th September, 1995.

** Ceased to be a Member of the Committee consequent on his appointment as Minister in the Council of Ministers w.e.f. 15th September, 1995.

COMMITTEE ON PUBLIC UNDERTAKINGS
(1996-97)

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2. Shri J.P. Ratnesh — *Jt. Secretary*
3. Smt. P.K. Sandhu — *Director*
4. Shri P.K. Grover — *Deputy Secretary*

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this 10th Report (Eleventh Lok Sabha) on I.T.I. Limited.

2. The Committee's examination of the subject was based on the Report of the Comptroller & Auditor General of India (No. 12 of 1992).

3. The Committee on Public Undertakings (1995-96) took oral evidence of the representatives of I.T.I. Limited on 30th and 31st October, 1995 and of the representatives of Ministry of Communications (Department of Telecommunications) on 16th, 17th and 31st January, 1996. The Committee on Public Undertakings (1996-97) took further evidence of the representatives of Ministry of Communications (Department of Telecommunications) on 26th and 27th December, 1996.

4. The Committee on Public Undertakings (1996-97) considered and adopted the Report at their sitting held on 28th April, 1997.

5. The Committee feel obliged to the Members of the Committee on Public Undertakings (1995-96) for the useful work done by them in taking evidence and sifting information. They would also like to place on record their sense of deep appreciation for the invaluable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

6. The Committee wish to express their thanks to the Ministry of Communications (Department of Telecommunications) and I.T.I. Limited for placing before them the material and information they wanted in connection with the examination of the Company. They also wish to thank in particular the representatives of the Ministry of Communications (Department of Telecommunications) and I.T.I. Limited who gave evidence and placed their considered views before the Committee.

7. The Committee would also like to place on record their appreciation for the valuable assistance rendered to them by the Comptroller & Auditor General of India.

NEW DELHI;
April, 30, 1997
Vaisakha 10, 1919 *(S)*

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

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PART - A

BACKGROUND ANALYSIS

I. ROLE AND OBJECTIVES

A. General Background

1.1 The Indian Telephone Industries Limited (ITI Ltd.) was established in July 1948, as a departmental undertaking of the Government of India. It was formed into a Company in January 1950 with an authorised capital of Rs. 2.50 crores. By the end of March 1996, the authorised capital stood at Rs. 100 crores and the paid up capital at Rs. 88 crores. The Company has seven manufacturing units located at Bangalore (2) in Karnataka, Naini. Rae Bareli and Mankapur in Uttar Pradesh. Palakkad in Kerala and Srinagar in Jammu and Kashmir.

1.2 The Company started with the production of step-by-step Strowger Switching Equipment and Telephone instruments under foreign collaboration in 1950-51. Presently, Telephone Instruments are produced at Bangalore, Naini and Srinagar, Transmission Equipment at Bangalore, Naini and Rae Bareli, Small Electronic and Digital Trunk Automatic Exchanges and Switching Exchange Equipment at Palakkad, Electronic Switching System (ESS) and special products at Bangalore and Electronic Digital Switching Equipment at Mankapur and Bangalore.

1.3 The Company is under the administrative control of Ministry of Communications (Department of Telecommunications). Stating about the role which the DOT expected ITI to play, the Secretary, Department of Telecommunications informed the Committee during evidence on 16.1.96 as under:—

> "....I would like to submit three or four general issues which should set the perspective as to how we look at the working of the ITI.
>
> Firstly, the Ministry of Communications and the Department of Telecommunications is proud of having an undertaking like ITI. It was the first public sector undertaking of the independent India. It is the flag-bearer of the Department of Telecommunication. It has made a historic contribution in the growth of telephony in the country because for so many years it was the principal supplier of telecom equipment to the DOT as an operator. It has also a very proud record of making profits every year of its existence, except the year 1994-95, for which we have special reasons. Therefore,

the Government has a very heavy stake in the successful working of this undertaking and its financial help, and we would like to do all that is necessary to see that the ITI is back on the rail and it is in good health and continues to serve not only the Department of Telecommunications but the whole telecom industry.

The Second point I wish to make is that the Telecom Department has a double relationship with ITI, which is peculiar to us. Unlike other Ministries which only have a Governmental role in relation to their public sector undertakings, we have also the distinction of being the principal customer of the produce of the ITI......some of the issues arise out of this conflict of the role of the Ministry-as a parent department, on the one hand, and as a principal customer of the ITI on the other.

The third point I wish to submit is that the telecom in the country is poised for a massive growth. The services sector is going to register very large growth in the coming decade. There will be massive requirement of telecom equipment. In this background, the ITI should certainly welcome the appearance of competitors. The appearance of a large number of operators, both of basic services and of value-added services, and they should look upon what is happening, as a very big historic opportunity for selling its equipment, for producing more and for selling more. Instead of the management sitting back in despair and saying that this competition is going to kill them, they should look upon this as a historic opportunity because the demand for telecom equipment is going to be very large in the coming years.

Finally, I would like to submit that there is no escape in the new economic and industrial environment that the country is trying to cultivate in the ITI to get ready for operating in a competitive environment. It has been used for so many years as the single seller, as having a single purchaser, as having a captive customer, being the sole supplier to the DOT. The times have changed. We are having a competitive environment. The telecom industry in the last five years has grown in a very big way. It has gone up from a level of production worth Rs. 3,000 crore four years ago to more than Rs. 7,000 crore now.

This kind of growth is unprecedented. Instead of being the sole player, ITI is now one of the many players. It still remains the player in telecom equipment today. But things are changing and, therefore, it is time that the management, instead of every time coming around to the argument that they are not getting orders from the DOT and DOT is not supporting them in full, must try to stand on its own and must learn to compete on equal terms. I say it not merely on behalf of the Government but as a customer also because as a customer I stand to gain in a big way if ITI learns to compete. It is one of the large public sector undertakings and if its prices are competitive, if its product is competitive, then it will be beneficial to everybody."

B. Role and Objectives

1.4 The objectives of the Company are as under:—

(a) To ensure customer satisfaction and competitiveness through Quality, Delivery & Cost.

(b) To ensure optimum use of the resources for manufacture of the Telecom equipment and diversify into related areas in Telecom Network operations and value added services.

(c) To generate and exploit the export potential for Telecom Equipment Services.

(d) To strengthen technology scanning capabilities to benchmark its products/services against global standards, identify new products, enable better make or buy decisions and identify potential partners.

(e) To build company-wide efficient information structure to assist all functional groups in achieving corporate objectives and goals.

(f) To gear HRD activities to improve quality of work life in the organisation.

1.5 When asked whether the company has been able to achieve its objectives fully, the CMD, ITI Ltd. informed the Committee that till date they have achieved all their objectives. When the Committee desired to know whether the company had prepared any micro objectives as laid down by Bureau of Public Enterprises in 1979 and 1983, the witness informed the Committee as under:—

> "The BPE have basically asked us to draw the micro-objectives with reference to the basic parameters in the form of a memorandum of understanding like what is going to be the profit and so on.
>
> Prior to 1991-92, only the budget estimates were prepared and submitted to the Government. From 1991-92 onwards, specifics have been drawn up in the form of MOU. We have been spelling out the objectives, targets and everything. We have been rated 'excellent' upto 1993-94."

1.6 Subsequently, the Committee were informed by ITI in a note that the rating obtained for 1994-95 and 1995-96 was 'Fair'.

1.7 The Company has been entering into MOU with the Government of India since 1990-91. Following table shows the dates of signing of MOUs during the different years:—

Year	MOU SIGNED ON
1991-92	December 1991
1992-93	August 1992
1993-94	18.6.93
1994-95	24.6.94
1995-96	30.11.95
1996-97	12.11.96

1.8 On being asked as to the reasons for the delay in signing the MOU, the CMD, ITI Ltd. stated during evidence on 30.10.1995 as follows:—

> "It has got certain process. In respect of the submission from the ITI, there is a criteria based on which the MOU performance is judged, the ITI will submit the draft MOU within a particular time limit. From the ITI side, we have been submitting the draft MOU within the prescribed time limit as indicated in the MOU."

1.9 In this regard, the Secretary, Ministry of Communications, (Deptt. of Telecommunications) informed the Committee on 16.1.96 as under:—

> "While I do apologise for the delay, every year it had so happened that various procedures have taken time. However, I would not consider it as a total waste of effort because most of the intervening time has been spent on discussions with the management of the company about the details of the MOU. There were different points of view which took some time to be sorted out. This year was particularly unfortunate in this regard."

The witness further stated:—

> "I plead guilty. The MOU must be signed before the beginning of the year. There are guidelines and they are well-known to the management as well as to the Government. Everyone down the line knows what is the mission, what are the objectives, what are the tasks assigned to the management and what are the responsibilities of the Government. I do concede that there has been an unpardonable delay in this. However, in 1995-96 there was delay because of some difficulty about what should go into the MOU as there was a difference in perception between the top management of the ITI on the one hand and the Ministry on the other bacause of the problems that we were discussing earlier."

1.10 The Committee desired to know in chronological order, the dates for various stages of signing the MOU for the years 1994-95 and 1995-96. In a post-evidence reply, the Ministry informed the Committee that the draft MOU for the year 1994-95 was submitted by the ITI to the Ministry on 26.11.1993, scrutinised by the Ministry on 28th January, 1994 and forwarded to DPE on 9th February 1994. The Ad hoc Task Force approved the MOU on 24th March, 1994 and the same was approved by High Power Committee on 8th June, 1994 and signed by CMD, ITI and Chairman (TC) on 24th June, 1994. (It took more than 7 months in completing the MOU process).

1.11 Regarding the MOU for the year 1995-96 the draft MOU was submitted by ITI on 7th December, 1994 and passing through the various stages it was finally signed on 30th November, 1995. It took almost one year in completing the MOU signing process. On being asked whom the Ministry would like to blame for the delay in signing of MOU the Secretary Department of Telecommunications stated during evidence on 16.1.96 as follows:—

> "I am taking the blame because we are the nodal point. I have to relate to the ITI on the one hand and I have to relate to the Department of Public Enterprises on the other."

1.12 The MOU for the year 1996-97 was signed on 12.11.1996. Stating the reasons for the delay for the year 1996-97, the Secretary DOT deposed before the Committee on 26.12.1996 as under:—

> "There were some reservations on the part of the management of the ITI. There are two sides in the Memorandum of Understanding. Whatever the Ministry is expected to do is spelt out and whatever the company is expected to do that is also spelt out. But the feeling was that adequate assistance from the Ministry was not coming forth. That is why, there was a reservation and the matter was discussed and ultimately the Memorandum of Understanding was signed in the month of November, 1996."

1.13 During evidence the Committee were informed by the CMD. ITI Limited that Ministry's obligations which are recorded in the MOU are not fulfilled and the company has represented to the Government that once the obligations are not fulfilled, there is no point in signing such an agreement. In a post evidence reply, the company further informed the Committee as under:—

> "As per the existing system, the evaluation of the performance under MOU is done only for one party whereas obligation exist for both parties. In case of ITI's MOU for 1994-95 and 1995-96, the position of Government obligations and present status is tabulated below:—

1994-95:—	
While signing MOU for the year 1994-95 it was decided that the Govt. will provide necessary	Against MOU Level-1 Net sales target of Rs. 1700 crores, order availability for the year 1994-95

assistance to ensure placement of orders well in advance on ITI taking into consideration the capacities available.	was Rs. 1193 crores only out of which order for Rs. 300 crores were received in the later part of the year.

The other MOU obligations *vis-a-vis* status are detailed below:—

	Government Obligation	Status and ITI's views
1.	To ensure timely and adequate provision in the budget of DOT to match with the value of completed supplies programmed from the company to meet Level-1	The initial outlay was for Rs. 1420 crores but the same was subsequently reduced to Rs. 890 crores. This was grossly inadequate, compared to the supplies made to DOT and outstanding payments from DOT at the beginning of the Year. Case for delayed payment from circles presented to DOT but no improvements.
2.	To settle overdues outstanding to the Company.	There are 14 financial issues pending as on 31.3.1994 but till end March 1995, none got settled.*
3.	To provide necessary assistance in improving exports.	Assistance accorded was limited to conservative participation in exhibition abroad. No other assistance was available.
4.	To ensure that specifications are frozen timely for the equipment indicated in each Purchase Order.	Some representative cases wherein the specifications were changed are as follows: After releasing of P.O. No. MMCT 1361 dated 31.10.1994 for VAST Units, specification changes were done by Satellite Planning Branch. Again in the case of 2 GHz Microwave. TEC approval and bulk production clearance were made available long back; however, design changes were continued to be incorporated based on field feed-back, thereby hampering production activities.

*. As on 31.10.1996, 6 cases have been settled.

Government Obligation	Status and ITI's views
1995-96	
1. To ensure placement of orders well in advance on ITI taking into consideration the capacities available.	Against the MOU Level-1 target of Rs. 1940 crores (Net Sales), the order availability for the year 1995-96 was Rs. 924 crores. Of this, orders for value of Rs. 340 crores were received only at the end of 3rd quarter.
2. To support ITI on "BLT" Pilot Projects and Value-Added services.	Not implemented.
3. To settle overdues outstanding to the company speedily.	As on 31.3.96 the overdues out standing to the Company is Rs. 564.81 crores. The average outstanding debts stood at Rs. 610 crores throughout the year.
4. To ensure that specifications are frozen timely for the equipments indicated in each purchase order.	In the case of 2 GHz Microwave. TEC approval/bulk production clearance were made available long back: however, design changes are continued to be incorported based on field feed back. The production activities are hampered.
5. Speedy clearance of project proposals from ITI.	Delays were obseved.
6. Set up a Committee between DOT and ITI to suggest methods of neutralising the additional costs incurred by ITI towards social and other overheads.	The Committee has been set up in 1996-97.
7. To promote ITI as a Global player in the fields of Telecom.	Needs full support.
8. To Assist ITI on the issue of reimbursement of VRS payment and compensation for Srinagar Unit's operational cost.	Reimbursement of VRS payment: Rs. 5 crores only has been received as against our actual payment of Rs. 54.7 crores till the end of 1995-96. The Company has paid Rs. 16 crores towards Voluntary

Government Obligation	Status and ITI's views
	Retirement Scheme during 1995.96. Compensation for Srinagar Unit's operational cost: ITI has requested for reimbursement of losses to the tune of Rs. 18.51 crores (period 1989-90 to 1995-96). DOT has so far released Rs. 9.31 crores as compensation. Balance Rs. 9.20 crores is yet to be received.

1.14 On being enquired from the Ministry as to what were the reasons for not providing required assistance to the company by the Government, the Ministry informed the Committee in a written reply as under:—

> "Required assistance has always been provided to the Company by the Government. ITI has been signing MOU document since 1990-91 and has been evaluated as excellent for four years in MOU rating. It could not have been possible for the Company to get excellent rating, had the Government's assistance not been forthcoming to the Company. One major means of assistance is purchase preference extended to the Company.
>
> Provision for payments to ITI is based upon the total budget grants available. The dues of the Company also remain unsettled sometimes owing to non submission of proper bills by the Company.
>
> DOT has been trying to help the company to improve their exports. ITI is encouraged to participate in the International Exhibition/Seminars for which a portion of the expenditure is borne by the DOT. The officers of DOT have even been deputed abroad to supplement the export efforts of the company. On specific requests from the Company, their cases for exports have been taken up with the concerned Ministries/Indian Embassies also.
>
> As regards the expansion of the activities of the Company, necessary assistance has been provided by the Ministry to them from time to time by way of encouraging them to enter into new products/value added services, etc. even through foreign collaborations or Joint Ventures, where ever necessary. The Company has also been permitted to undertake cable laying jobs. DOT is also considering to entrust some maintenance and installation jobs to ITI, in appropriate situations."

1.15 When asked specifically as to how the Ministry could explain the lower placement of orders as compared to the MOU targets of net sales, the Ministry stated in a written reply as under:—

"As per the MOU document of 1994-95, the performance of the company in respect of supply of small and medium exchanges, large exchanges, digital radio T/R and optic fibre terminal etc. has been upto the mark. Owing to fall in prices of the equipment, the Net Sales, Gross Margin and Net Profit to Capital Employment have suffered during 1994-95.

The supplies made by ITI Ltd. in respect of the products included in the MOU for 1994-95 have been as follows:—

S.No.	Product		MOU 1994-95	
			Target for (Excellent/very good rating)	Actual Supplies (made during 1994-95)
1.	Large Exchanges	(KL)	1000/900	1182
2.	Small and Medium Exchanges	(KL)	500/450	404.66
3.	Digital Radio Trans/ Receiver	(Nos.)	1100/1000	940
4.	Optical Fibre Terminal	(Nos.)	500/450	620

"As regards the low sales turnover of the Company during 1994-95, it is further explained that the turnover of the Company suffered to the extent of about Rs. 277 crores owing to fall in prices during 1994-95 as compared to the previous year. It is also estimated that the sales turnover of the Company would have increased by another about Rs. 171 crores if the Company had executed the orders which were available with them but the same were not executed by them owing to main problem of low prices etc. Very low orders in respect of certain products which became obsolete viz. ILT. MILT equipments etc., high interest burden and high manpower costs have been certain other factors responsible for low sales turnover of the Company during 1994-95.

As at the end of December, 1995 the Company has received firm orders for about Rs. 858 crores and LOI/APO etc. for 95-96 and 96-97 for about Rs. 453 crores."*

*: At the end of March, 1996, the Company had received firm orders for Rs. 924 crores and LOI/APO etc. for 1995-96 and 1996-97 for Rs. 787 crores.

1.16 The Ministry also stated that in a competitive market ITI Ltd. had to win the orders and not hope to get these on an exclusive or non-competitive basis.

1.17 The Company had informed the Committee that the MOU signing companies do not require the approval of the administrative ministry to depute anybody on foreign tour except for CMD. But these powers have not been given to ITI's CMD even though the MOU for 1995-96 envisages promoting ITI as a Global Player, seriously affecting the company's business opportunity. When asked as to the reasons for not extending to ITI the powers which are available to other MOU signing companies, the Ministry informed the Committee in a written reply as follows:

> "All the enhanced financial and administrative powers except deputing officers on tours abroad, which are available to MOU signing Companies, are being exercised by ITI also. This power has not been delegated to the Company in order to economise the expenditure. However, proposals from the company which have adequate justification are processed and considered promptly. Ministry feels that non-delegation of this power is in no way a handicap to the company."

1.18 The Company had expressed the Opinion that the MOU had no relevance with the change in economic environment whereby level playing ground was not available to compete with MNCs/Private Sector. The MOU was a one sided document, hence ITI would not like to enter into MOU from 1996-97 in its existing form. Asked for comments of the Ministry in this regard, the Ministry stated in a written reply that the proposal of ITI for not entering into MOU for the year 1996-97 was not appropriate as the Ministry was rendering all possible assistance to the company. Rather at this juncture of competitive environment and the crisis of transition that the PSU is facing, ITI's continuance of signing MOU with the Ministry was even more relevant.

1.19 The Committee desired to know whether there was any mechanism in the MOU system to fix the responsibility on the Ministry in case of its failure to fulfil the MOU obligations. In this regard the Ministry informed the Committee in a written reply as under:

> "MOU is a fairly new concept in the field of management and DPE is continuing to make efforts to improve the system. Recently a Committee has been constituted by the DPE to review the existing financial criteria *viz* Gross Margin and Net Profit/Capital employed.
>
> Although the focus of the MOU is not to fix responsibility as such on the Government, any failure on the part of Government to fulfil any promised assistance can be taken into account in assessing the performance of the PSU."

C Appointment of Regular CMD

1.20 The post of Chairman and Managing Director was vacant since 1.6.1995 consequent to the retirement of the then CMD, till 1.9.1996 when the new CMD was appointed. When the Committee desired to know the reasons for the delay in filling up the post and steps taken by the Ministry is this regard, the Secretary, Department of Telecommunications informed the Committee during evidence on 16.1.1996 that they have been making very sincere efforts to find a suitable successor to the outgoing Chairman. The witness further stated:

> "Sir the PESB which is entrusted with the responsibility of selecting candidates for top positions in the public sector has held two interviews. It so happened that the candidates who choose to appear for the interview were not found suitable and we have now resorted to the final remedy of advertising the post. We are hoping that in response to our advertisement some good candidates would become available. We are interested that we should select a really efficient person for the job. The Company is a very important one and it needs a very intelligent and best person at the top. Therefore, PESB is taking special care that they select a really outstanding person. We hope that the search is over and in the next interview some good candidate will become available."

1.21 In subsequent evidence on 26.12.1996, the Secretary, Department of Telecommunications informed the Committee as under:—

> "The fact is that the post was vacant between June, 1995 and September, 1996. I may also add that there were delays in filling up this post. I have come to this Department very recently. But even in my earlier capacity, we had occasions to notice the delays in filling up these top posts in the public undertakings. These delays have been brought to the notice of the Government."

II. DEVELOPMENT & PROJECTS

A. Strowger Switching Equipment at Rae Bareli

2.1 The Strowger Switching Equipment Project approved in 1974 was to set up capacity for manufacture of 1 lakh lines of Strowger Equipment by May, 1978 at a cost of Rs. 16.08 crores. But the Company incurred expenditure of Rs. 17.42 crores and set up capacity to manufacture 80,886 lines only by March, 1983 because of poor infrastructural facilities at Rae Bareli a green field area. The internal rate of return came down to 13.19 per cent from 16.57.

2.2 In this connection the company informed the Committee as under:—

"The actual production had commenced on scheduled time as per the Project report. However, the volume of production achieved has been less than the volume envisaged in the project report due to various reasons as under:

(a) There was delay in construction of factory building due to failure of the main contractor entrusted with the job of the construction of production building. The contractor had to be replaced and some other contractor had to be appointed to complete the balance work.

(b) The development of ancillaries were not upto the mark. The ancillary development primarily depended upon the availability of industrial infrastructural facilities in and around Rae Bareli. These facilities were inadequate. State Government agencies like UPSEDC, PICUP etc., were involved in the development of ancillary units for ITI. The entrepreneurs were also found unwilling to set up ancillaries.

(c) The delay in setting up in-house facilities for the manufacture of tools also contributed to the shortfall in the production. The project originally envisaged import of one set of almost all the tools and contemplated idigenous production of the tools at a later stage. However, the indigenous tool suppliers failed to meet the quality requirement of the Company. Hence, in house facilities for production of tools were set up. This is one of the main causes for the low production.

(d) Rae Bareli was a green field area with very little infrastructural facilities. Various problems in inducting skilled and trained manpower were faced in recruiting manpower from agricultural community.

(e) Due to the oil crisis the capital costs went up. The request for revising cost from Rs. 1608 lakhs to Rs. 1823 lakhs was made to the Government. The Government approved only Rs. 1757 lakhs. While the Company's revised estimates of Rs. 1823 lakhs itself was made after judicious review of the requirements and cutting down several facilities envisaged in the original estimates, further pruning down to Rs. 1757 lakhs resulted in further deletion of facilities. This resulted in certain imbalances in the production capacity in the different areas.

As may be seen from the above, all the reasons contributing for the shortfall in the production occurred beyond the control of the Company.":

2.3 Stating the reasons for the delay in the project the CMD, ITI Ltd. informed the Committee during evidence as under:—

"No, Sir, delay in construction was not due to contractors alone, it was also due to the development of other infrastructural facilities which was also to be provided at that place, based on which the building comes up. Infrastructural facility includes electrical, sewerage facility etc. In that area nothing was there. Everything had to be developed and created by ITI, in that process 10 or 20 contractors were working together. In that process one to the other got linked up and so it got delayed. But the delay was not due to somebody else fault."

2.4 When asked about the reasons for selecting the site when nothing was available there, the witness informed the Committee that the site was recommended by the Ministry and the ITI was not involved in decision making in this regard.

2.5 In this connection, the Ministry informed the Committee in a written reply as under:

"The site of project at Rae Bareli on Sultanpur Road about 2 miles from the city which was offered by the State Government was found to be good. There was 132 KV Sub-Station nearby from where ample power could be drawn. There was no problem of water also. It was also reported that there was an Industrial training institute nearby.

It was reported that though no infrastructure was available immediately at Rae Bareli but a number of applications had been received by the State Government for setting up of small industries in the proposed industrial estate. It was also pointed out that the town in fairly close to Kanpur, Allahabad and Lucknow etc., and it would not, therefore, be difficult to avail facilities available in these cities.

CMD, ITI also had discussions with the Chief Secretary, Uttar Pradesh who informed that the industrial estate at Rae Baeli would be set up very soon and it would be very useful for the development of the area if ITI locates the unit there."

B. Crossbar Capacity at Bangalore

2.6 Expansion of Crossbar Capacity from 60,000 lines to 75,000 lines at Bangalore at a cost of Rs. 3.05 crores was taken up in May, 1979, to be completed by February, 1983. The expansion was achieved in 1983-84 at a cost of Rs. 1.83 crores. But, savings in Nickel and Silver contemplated was not realised because of non-commissioning of the contract welding machines. According to the Company, it had considered, in May, 1979 expansion of Crossbar capacity from 60,000 lines to 75,000 lines at a cost of Rs. 3.05 crores at Bangalore in order to meet the increasing Demand of P&T. The additional capacity of 15,000 lines was intended to be achieved by installing required machinery in the existing plant. Plant and Machinery worth Rs. 304.94 lakhs were received, which includes 3 critical machines namely Automatic Contact Welding Machines procured from Foreign supplier. The estimated saving of Rs. 10.5 lakhs per annum in consumption of raw materials-Nickel, Silver was based on estimate with respect to old machines in use, which could not be achieved due to non-commissioning of machines.

2.7 When asked as to what action has been taken against the supplier for their failure to commission the contact welding machines, the company informed the Committee in a post-evidence reply as under:—

> "The Purchase Order for the above line was placed on M/s Inter Modern, West Germany. (later named as Moeller Automation) to procure the Contact Welding Machines. The machine was procured at a cost of Rs. 121.46 lakhs to meet the additional requirement of ICP equipment. During Phase-I the supplier's technicians installed the machines and the tools were mounted and the raw material feeding system was also installed. During the trial run, the technicians complained about the raw material problems. In the second trial run they observed the problem with respect to tooling. They modified various features in machines as well as in the tools but they could not succeed. During July, 1983, the case was referred to Additional Secretary, Ministry of Communication (MOC), giving the details of non-commissioning of the contact welding machines. During August, 1983, the supplier sent a letter through their legal adviser indicating their intentions to proceed with legal action if the payment was not settled and blamed ITI for poor quality of material supplied for try out. Similarly during September, 1983, M/s. Inter Modern refuted that they were not responsible for the tool design as the tool also had its own problems. Further, between Dec'83 and Feb'1984, the MOC took up the matter with the supplier through Indian Embassy in West-Germany. The Ministry made certain proposals with respect to the tool. The raw material and arranging for trial in the presence of company technicians at West Germany which were not agreed to by the Company in full. However, even with this prolonged correspondence no positive response was seen from the supplier. During March, 1986, finding no solution for this long pending issue, the Company was constrained to take a decision to go ahead in commissioning the line with available facilities within the Company at the suppliers cost, which was also not agreed to by the supplier. The main area of difference was that a technician from ITI should be present in Germany for trying out of the tool which was not agreed by the Company. As an alternative the supplier suggested to have a neutral expert for expert for commissioning and modifying the tools. Considering the non-helping attitude of the supplier the Company's concern and the dis-satisfaction was intimated to the supplier during June, 1986. Though the responsibility rested with the foreign supplier, but there had not been any outcome. Subsequent to technological advancement, crossbar technology itself was phased out, rendering the machines obsolete. All the purchase procedures/systems were complied with. Sincere efforts were made by the company.

Ministry and Embassy to get the machines commissioned. As such responsibility in this is not attributable to any individual."

2.8 Replying to a question about the blacklisting of the supplier of the machines, the Ministry informed the Committee in a written reply as under:

"As per the terms and conditions of the Purchase Order, the claim as per the bank guarantee exercising the power under the clause of unsatisfactory commissioning of the machines was preferred on State Bank of India. Madras and ITI claimed an amount of Rs. 3.51 lakhs which was realised during May, 1983. As reported by the ITI, the foreign Company was not blacklisted. However, ITI have not entered into any further commercial dealings with this foreign Company."

2.9 In this regard the CMD, ITI Ltd. informed the Committee that the product has since been phased out and the requirement of machines has completely vanished. When the Committee desired to know as to what the company was going to do with these machines the witness stated that they are taking action for their disposal."

2.10 On being asked whether these machines have since been disposed of, the Ministry informed the Committee in a post evidence reply as under:—

"The Company had split the tendering process for disposal of the contact welding machines into two portions *i.e.* press unit and welding unit. The tenders were invited on 5.11.1996 and were opened on 26.11.1996 followed by auction on 28th and 29th November, 1996. Offers were received for the press unit only and the same were disposed of for a value of Rs. 24.06 lakhs. No offer was received for the other portion of the contact welding line *i.e.* the welding unit and fresh tenders will be invited for disposal of this unit."

C. Small Electronic Exchanges and Digital Trunk Automatic Exchanges at Palakkad

2.11 The Switching equipment manufacturing factory at Palakkad was conceived in 1974 for the manufacture of small Electronic Private Automatic Branch Exchanges at a capital investment of Rs. 26 lakhs for production of 10,500 lines. The production commenced in the year 1976. The exchange equipment taken up for production were designed by the ITI, R & D centre at Bangalore. the unit successfully manufactured and marketed Private Automatic Exchanges of capacity 10 lines to 25 lines and 50 lines as well as EPABX of 50 lines.

2.12 In 1980, the unit was expanded with an additional investment of Rs. 98.58 lakhs (Under Board's power) for producing 32,500 lines (on one shift basis) covering medium size Electronic Exchanges of 200 lines capacity of a new series of PAM Switching System.

2.13 Later on approval for Phase III expansion was received from

Government of India vide No. U. 17024/7/82-FAC dated 21.7.83 at a cost of Rs. 33.72 crores to manufacture 1,50,000 lines of Digital electronic switching equipments.

2.14 According to Audit, manufacture of 40 lines EPABX based on in house know-how at a cost of Rs. 24 lakhs for 43,000 lines per annum was to be set up. Capital cost of Rs. 28.09 lakhs was incurred. Production ranged between 300 and 9680 lines per annum only from 1976-77 to 1980-81. On expansion Rs. 98.58 lakhs was incurred but only 23,325 to 33,883 lines per annum were produced from 1981-82 to 1985-86 against estimate of 60,000 lines per annum. On production of Digital Trunk Automatic Exchanges with foreign collaboration expenditure incurred upto end of March, 1992 was Rs. 56.39 crores. Against 3,75,000 lines of DTAX. EPABX and RAX equipment to be produced from 1986-87 to 1989-90 only 2,42,863 lines were produced. Management informed Audit in Ocotber, 1991 that shortfall in production was due to non-approval of capital expenditure between December, 1987 to August, 1989 by Government. According to Ministry, the Company had incurred more expenditure that what was approved which required examination by Government.

2.15 According to Audit the unit suffered a loss of Rs. 2.83 crores from 1986-87 to 1988-89 instead of making profit of Rs. 14.39 crores visualised in Feasibility Report because of the excessive capital expenditure.

2.16 When asked to state the reasons for lower utilisation of capacity of the unit, the CMD ITI stated during evidence as under:

> "Initially when we established for this small EPABX, at that time certain projections were given by the DOT for which the factory was established and production was taken up. When we established, compared to the projected demands, orders were not available for that particular type of product. And subsequently that requirement was also changed and upgraded. By that process, in the Phase-II we went for a different product with Rs. 99 lakh expenditure. We have taken up expansion for 200, 300 and 400 lines of micro processer controller PABX exchanges. This was a new product of a new design, for which this small expenditure had to be incurred. It was not for the same product, for which the Phase-I was there. It was for the additional new product line, for which this expenditure was incurred. That was because the projections which were given by the DOT could not be taken up. We could not get because the DOT did not place orders to the extent of the projections made by them."

2.17 When asked to state the reasons for not placing the orders by DOT as per projections the Department of Telecommunications informed the Committee in a written reply as under:

> "DOT could not place orders for 40 line EPABX as envisaged in the Feasibility Report of ITI on account of lack of well proven design for general use and obsolescence of technology.
>
> The expansion was taken up by the Company for the manufacture of new technology 100/200/400 line micro processor controlled EPABXs. The project was approved by the ITI Board of Directors under their own powers."

2.18 The Ministry had informed audit in January 1992 that the Company had incurred more expenditure than what was approved which required examination by Government. On being asked whether the Government examined the reasons for incurring of more expenditure than the approved, the Ministry informed the Committee in a written reply as under:

> "The reasons for incurring more expenditure on the project than approved were examined in the Ministry and the proposal for revision of cost of the phase-III Palakkad project was placed before PIB on 18.12.87. As desired by PIB, a Committee was constituted for ascertaining the factors responsible for cost and time overruns, inclusive of fixation of responsibility etc.
>
> The Committee submitted its report on 30.3.88. The Committee, *inter-alia* came to the conclusion that deviation and enlargement of the scope of the project had been done without the approval of the Government. CMD. ITI, however, took full responsibility for the commitments he had made in excess of the approved cost.
>
> After consideration of the report it was concluded that even though there were procedural lapses on the part of CMD, ITI, his actions were without any malafide intentions and the decisions were taken by him in the overall interest of the Company. In view of this, it was decided to seek the approval of the Cabinet for the expenditure and exonerate the officer from any further action. The Cabinet Committee on Economic Affairs considered the proposal at its meeting held on 28.3.1990 and approved the proposal."

D. E-10-B Electronic Switching Systems at Mankapur

2.19 ITI had proposals in 1982 to set up a project at Bangalore at a capital cost of Rs. 149.19 crores for manufacture of 5 lakhs lines of Digital Electronic Switching Systems per year.

2.20 Government of India decided in 1984 to set up a project in Mankapur at a cost of Rs. 177.02 crores (including Rs. 27.44 crores for providing infrastructural facilities). This was approved by the Cabinet Committee on Economic Affairs, to develop backward areas. As desired in the Public Investment Board (PIB) meeting held on 10.1.89, a revised draft note, with updated value of Rs. 219.35 crores, after incorporating foreign exchange variations upto Dec' 89 was sent to the Ministry of Communications on 7.3.1990. Public Investment Board have recommended the same in their meeting held on 29.3.1990. According to Audit, the project cost included Rs. 20.15 crores for further infrastructural facilities at Mankapur. The Company incurred extra expenditure of Rs. 1.78 crores or flood control and prevention measures.

2.21 The Committee desired to know the reasons for change of location of the project at an excess cost of Rs. 21.93 crores. The CMD, ITI Limited informed the Committee as under:

> "The basic objective of the Government was to develop Mankapur, which is a backward area. It was a 'zero industry' area as classified by the Government of India. As such, they intended to develop this particular area. We established this factory and we have been able to achieve in converting it into a relatively good socio-economic area."

2.22 Originally the idea of setting up the plant at Bangalore was to utilise the excess labour at Bangalore. When the Committee desired to know whether after setting up the plant at Mankapur, excess labour of Bangalore was utilised in the plant the witness replied in negative.

2.23 Stating about the reasons for setting up the project at Mankapur, the Ministry informed the Committee in a written reply as under:

> "While approving the project, it was decided by the Government that the project should be located at Mankapur (Uttar Pradesh). The project was located at Mankapur, keeping in view the policy of Government for upliftment of industrially backward areas. The expected benefits have been realised since the Mankapur Unit has brought about a good socio-economic improvement in the region."

III. PRODUCTION PERFORMANCE

3.1 The production performance of 1992-93,1993-94, 1994-95 and 1995-96 for key products in physical quantities compared to 1991-92 is as under:

	1995-96	1994-95	1993-94	1992-93	1991-92
Electronic Switching (Lines)	20,25,000	18,90,300	17,47,416	14,41,316	9,95,916
Telephones (Nos.)	8,13,600	6,95,400	6,95,656	6,33,328	5,17,440
Transmission Turnover (Rs. in crores) (Major Products Physical)	165.19	260.58	397.29	355.28	295.62
Digital Radio T/R system (Nos.)	896	726	758	580	296
Optic Fibre Terminal Eqpts (Nos.)	213	618	606	361	313
Open Wire System (Nos.)	2344	1438	3532	2932	2704
Digital MUX (Nos.)	4162	7209	9286	6348	3333

A. Production in Bangalore Complex

3.2 In Bangalore Complex there was shortfall of 72.6 percent, 41 per cent and 15.9 percent in the production of C-DOT RAX equipment during the years 1988-89, 1990-91 and 1991-92 respectively, as compared to targets. According to Company, the shortfall in the production of C-DOT RAX was owing to non-receipt of bulk validation clearance in respect of certain items of C-DOT Electronic Switching equipment. The production shortfall was 12.65% during the year 1992-93 in respect of C-DOT RAX equipment. The unit has achieved targets set for the year 1993-94, 1994-95 and 1995-96.

3.3 The Committee desired to know from the Company whether there was any other reason for the shortfall. In this regard the CMD, ITI Ltd. informed the Committee as under:

> "Sir, the C-DOT design was at the infancy stage. During the period it was indigenous design which was developed in India by the Department of Telecommunication. When we got the design there were certain problems which were being looked into by the C-DOT. Due to that the bulk production clearance was not given. Hence we could not produce the equipment as per the requirements. Once those technical parameters were cleared by them, the bulk production was resumed."

3.4 When asked whether the Company could foresee any other problem which could result in shortfall in the future, the witness stated as follows:

"After the design has been formalised, we have been producing RAX. There should not be much problem on that except during the period when import licence problem was there, particularly during the year 1990-91 and 1991-92. Due to crunch in foreign exchange reserves in the country, lot of restrictions were imposed on the import of components. We had difficulties in the past which has affected the production directly and, at times, indirectly on our inventory. It is because sometimes we had to keep at the inventory also. But with the liberalisation and with everything getting covered under the OGL, today we do not have any problem in regard to imports."

3.5 On being asked about the reasons for decline in production in Bangalore complex, the CMD, ITI Ltd., stated during evidence as follows:

"As I said, basically there are two reasons. One is with reference to technology advancement due to that there are certain products which got obsolete and the other reasons is the decline in the order from main customer. This is how the production went down."

The witness further stated:

"Yes, Sir. There is a change from period to period. In case of switching, there was a major change for the products in 1993-94 onwards. In the case of telephones, it came about four or five years back. But, still we were getting the total production because we were getting order near to the capacity. Only in C-DOT the major change has come where we have not been able to utilize the capacity. Similar was the position in transmission equipment where we have not been able to utilize our capacities. In the case of medium range of switches which we have developed, the requirement of the same was completely changed by DOT. They say that they would not be able to have them, hence completely closed. The major reasons are technology as well as ordering from the DOT."

3.6 In Bangalore complex, the percentage of production to targets in terms of standard man hours in different Divisions for products manufactured in-house during the last 3 years was as follows:

Division	1992-93	1993-94	1994-95
		(Percent)	
Strowger	104.93	69.61	39.33
Telephones	91.12	64.12	58.35
Transmission	101.24	77.26	68.14
Elec. Switching	115.49	80.28	15.34

3.7 When asked about the present position, the witness informed the Committee that they have introduced new technology but the orders in the new technology as well as on today, are not available. If the present situation continues in 1995-96 also, it will have losses. On being asked as to what efforts have been made by the Company to improve the performance the CMD, ITI Ltd. stated during evidence as follows:

"As far as the efforts from ITI is concerned till today there is only one customer. We have requested and represented our case to the full telecom commission sometime back and indicated as to what are our capacities, what is the order position etc. But we have not been able to succeed in that direction."

B. Production in Naini Unit

3.8 In Naini Unit MARR (VHF) systems' capacity has not been fixed and stated to be still under project stage. Multi Access Rural Radio (MARR) Systems production was 71% in 1992-93 and 45% in 1993-94 of the capacity. Additional capacity for MARR has been created in Bangalore and Rae Bareli Complex at a capital cost of Rs. 5.67 crores (Nov. 1993).

3.9 The Committee desired to know from the company the reasons for under-utilisation of capacity in respect of Multi Access Rural Radio (MARR) systems and Telephones. In this regard the CMD, ITI Ltd. informed the Committee as under:

"In case of MARR, we have developed a particular design. We were going ahead based on projections given by the DOT. They wanted to have these lines in the villages. But in between specifications were issued for a new design. For this new design we have to have the development activity. The total offtake by DOT was got reduced because the product was not available in the market. Again the design was changed and for that tenders were invited in the current year. The total order available for the design which was being supplied in the past were not available with ITI for which the requirement also vanished from the DOT."

3.10 When asked to state the position during 1994-95 the CMD, ITI Ltd. informed the Committee that the company have not supplied MARR because of changes in design and the product was not available. About Telephones the witness informed that they have supplied 3,54,800 Telephones from Naini Unit against a capacity of 2.5 lakhs.

3.11 On being asked from the Ministry whether the DOT give any commitment in regard to assured purchase at the time of giving design specifications, the Ministry informed the Committee in a written reply as under:

"The equipment is procured through open tenders. The technical specifications are also made available along with the tender Document. These specifications are not changed for a particular tender."

3.12 When asked about the reasons for frequent change in desings, the CMD, ITI Ltd. informed the Committee during evidence as under:

"The change in the specifications are made by the DOT and the design has to be developed by the ITI or by the supplier. The requirement of the change, particularly in this case where we have to build the rural communication, is on account of frequency problem. Frequency had to be desired because it is based on radio technology. Radio frequency has to be worked out. Initially, the product which had been designed was having a fixed frequency system. Subsequently, the design was changed so that the requency could be modified and changed at the site as per need. That was the change made later on. Further having made this change again due to the frequency problem specifications were revised from VHF to UHF and this is the latest change.

There is a likelihood that if the present scene continues, the requirement would be to link on lakh villages with the telecommunication network. But whereas against this, only 6,000 villages have been linked.

3.13 When asked whether there was any problem regarding working of these telephones, the witness stated:

"There are large number of suppliers who have come and developed one or the other technologies. But we do not deny that there are some problems as far as our product is concerned and we have attended to these problems. As of today, for the rural communications, the new system has been designed as per requirement of the DOT but in time to come probably it will get replaced with the digital communication. We are already working on it irrespective of the fact that till today it has not been decided but from our side we are trying to see that such technology can be introduced. The cost factor is coming in the way but to have a stable and a better communication after 2-3 years digital sytstem is good."

3.14 On being asked whether the DOT had indicated their demand for the equipment the witness stated as under:

"The total demand which has been indicated by the DOT in the plan and based on which we have to work was that they would like to connect one lakh villages over a period of two or three years and based on that we have assessed the total requirement and the share of the market. In that share of market DOT has already agreed that of each years requirement, 20 per cent will straightaway be given to ITI."

3.15 Later in a reply the Company informed the Committee as under:

"Order book position of the Company in respect of MARR during the last three years *inter alia* stating share of the Company in the total orders given by DOT.

ORDER BOOK POSITION (MARR)

Year	Configuration	Qty.	Share of DOT Orders
1994-95	MARR 2/15 VHF	50 Nos.	NIL
1995-96	MARR 2/15 VHF	NIL	NIL
	MARR 4/36 VHF	NIL	NIL
	MARR 2/15 UHF	NIL	NIL
	MARR 4/36 UHF	NIL	NIL
1996-97	MARR 2/15 VHF	NIL	NIL
	MARR 4/36 VHF	NIL	NIL
	MARR 2/15 UHF	225	10%
	MARR 4/36 UHF	225	10%".

3.16 When asked to state the total investment on the project the Committee were informed in a post-evidence reply that it was Rs. 10.41 crores as on date.

3.17 When asked to state the reasons for change in design specifications and inviting tenders for the new designs from the Ministry Member (P), Telecom Commission informed the Committee during evidence as under:

"UHF type is a new technology. VHF type was having limitation of frequency. That is why it has been changed. This is for everybody not just for ITI. We wanted to change over to a better technology. As we progress new designs keep coming up."

3.18 When asked as to how much investment ITI will have to make in order to turn to new designs specifications the Ministry informed the Committee in a post evidence reply that the total investment required is estimated to be Rs. 50 lakhs.

3.19 The Ministry had informed the Committee that as on 31.12.1996, 2,16,000 villages have been covered. ITI has supplied equipment for about 25,000 of these villages.

3.20 On being asked as to how the spare capacity of the company is proposed to be utilised, the Ministry informed the Committee in a written reply as under:

"There is a large demand of MARR equipment. The demand would, however, be for the UHF Type of systems. The capacities created in

ITI would be utilised with some additions of testing equipment etc. With the opening up of Telecom Sector, private companies would also be investing their money for provision of telephones in villages. These companies are also expected to need equipment for providing telephones in villages."

C. Spreading of Production

3.21 Production was not spread out uniformly during the year as seen from the table below:

Production in percentage to total

	In half year ended September	In quarter ending December	In quarter ending March
1986-87	31.5	23.3	45.2
1987-88	34.8	25.8	39.4
1988-89	30.4	19.3	50.3
1989-90	26.3	23.4	50.3
1990-91	29.4	21.1	49.6
1991-92	27.1	20.4	52.5
1992-93	25.5	21.5	53.0
1993-94	36.5	24.6	38.9
1994-95	33.1	25.3	41.6

3.22 According to Audit, even improvement of 10% in the production in the first nine months of the year would speed up the funds flow resulting in a saving of Rs. 3 crores on interest charges apart from other benefits. The Ministry had also been emphasising the importance of spreading the production uniformly during the year.

3.23 When asked about the reasons for not achieving uniform production, the Director, ITI Ltd. stated during evidence as follows:

> "Against 53 we have tried to bring it down by monitoring from 53 to 41%. In 1994-95 we achieved. That is, for the last quarter it is 41 percent. As regards 1994-95, we have made an attempt on this but we have not been able to achieve."

3.24 The CMD. ITI Ltd. admitted during evidence that was fault of the ITI. However the witness further stated as follows:

> "On the face of it it looks to be okay. But, unfortunately what is happening is that the ITI has been working along with DOT together as a Government Department working with year end fever which comes at the end of the financial year if people are working eight hours earlier and productive hours are four in the last quarter they used to work for twelve hours. Now that is the difference because in the public sector, that is the culture which has been developed. As a commercial organisation this may not be

reasonable. In the initial period say in May June or July when the schools and colleges are closed there is a high absenteeism. they go out and after the close of the year there is some slackness also. I am not denying it."

3.25 In this regard the Ministry informed the Committee in a written reply as under:

"The production during the first quarter of the year is generally low owing to large absenteeism of workers on account of holidays etc. It is not only the finished production but also the production of components assemblies and work in progress to be taken into consideration. What is finished towards the close of the year has been processed partially in the erlier parts of the year."

3.26 When asked whether the Ministry ever monitored the spreading of production by the company the Ministry informed the committee in a written reply as under:

"The Ministry has been advising the Company for spreading out the production during various meetings being held with the Company at various levels. This item is also discussed during the Installers Meet held periodically. Supply performance is also monitored during these meetings."

D. Quality Management

3.27 The Company issued two quality manuals at the Corporate level in March 1980 and June 1982. But quality manuals in Naini, Palakkad and Rae Bareli units were issued only in October 1984, September 1985 and March 1989 respectively. The manuals for Mankapur and Srinagar were issued in January 1992. Earlier quality plans have not been fully implemented in Bangalore. Naini Rae Bareli and Srinagar Units. The Company has stated that ISO 9000 implementation process was formally launched in April 1991. A new comprehensive Company Quality Manual Based on ISO 9000 Standard was released in September 1992. Electronic City Unit, Bangalore and Palakkad Unit achieved ISO 9002 Certification in April 1993 and September 1993 respectively. Telephone Division and Transmission Divisions of Naini Unit also obtained ISO 9001 certification during December 1994. ISO 9000 implementation is in progress in DS Unit. Bangalore Complex. Progressively all the divisions of the Company are being covered for ISO 9000 certification. The Company as a whole has not received ISO 9001 certification. Till now 25 products of the Company have achieved self-certifications status from DOT.

3.28 When asked to State whether the company had chalked out any time bound programme for covering all the divisions under ISO 9000 certification the CMD ITI Ltd. informed the Committee as under:

"Yes Sir, We have already chalked out a Plan that all the divisions and the units of the company must get covered under ISO 9000 certification by the end of the year 1996."

The witness further stated:

"We have in all seven units and in each unit different divisions are there. We have made a plan that all these divisions and units must get covered by ISO by the end of 1996. Recently last week we have got a certification for one of the divisions in Bangalore complex. The work on this is already going on in units and other divisions of the company. There is complete procedure which we have to follow that is drawing the quality manual getting it accredited and validated"

3.29 When asked to state the action plan for achieving ISO 9001 for the company as a whole the witness stated as follows:

"ISO 9000, 9001 and 9002 are the three certifications and it applies to different areas. In some areas it is 9001 in some areas it is 9000 and in some areas it is 9002. These are the three types of certificates which apply depending on a particular division or unit. What we are saying is that 9000 is the series. So we shall complete all that up to the end of 1996.

3.30 In this connection the Company informed the Committee on 22.4.1997 as under:

(i) Latest position of ISO certification of the various units of the Company.

PCM Divison Bangalore Plant	ISO 9001
Control System Group Bangalore Plant	ISO 9001
Electronic City Plant Bangalore	ISO 9002
Transmission Division, Naini Plant	ISO 9001
Terminal Equipment Division Naini Plant	ISO 9001
Palakkad Plant	ISO 9002
Hybrid Division, Mankapur Plant	ISO 9002
ESL I & II Division, Rae Bareli Plant	ISO 9002
New Products Division, Bangalore Plant	ISO 9002
Telephone Division, Bangalore Plant	ISO 9001

3.31 The Committee desired to know the number of complaints received during each of the last three years regarding quality of its products. In this regard the CMD, ITI Ltd. informed the Committee as under:

"We have not introduced any such system by which the number can be complied. But whatever complaints we have received these are being dealt with by each unit. In each unit we have an Engineering Division which receives all the complaints and then attends to those complaints. There have been complaints which were received in respect of MARR product. Certain complaints were received from the field for the telephone instrument. A few complaints related to transmission also. These complaints have been attended to and corrective action has been taken. Based on the information received from the field about type of complaints the design is changed. So Corrective steps are taken."

3.32 On being asked as to what is the machinery in the company to deal with these complaints the witness stated as follows:

"Disposal is being seen by the Unit Chief. There is a Division called Engineering Services. That Division looks into the complaints and dispose them of. In order to ensure the quality, we have further developed at the Corporate level a QA Organisation which coordinates the total activities and monitors from the Corporate level all these activities with the different units. An executive Director has been posted for this purpose at Corporate level."

3.33 The following cases of losses of money and image suffered in the past due to failure in Quality Management were noticed by Audit.

(a) Complaints about plan 103 telephone instruments resulted in suspension of production from November, 1986. Ministry stated in January, 1992 that the product was selling well in the market at present.

(b) One Unit did not have a regular primary testing equipment till July, 1988 and managed with a simpler Microtronic test system purchased in 1985.

(c) Funds to the extent of Rs. 182.52 lakhs got locked up entailing a loss of interest of Rs. 15.22 lakhs when its products were held up as defective between August, 1985 and November, 1987. Ministry stated (January, 1992) that an attempt was made to economise on capital equipment but later when found absolutely essential the test equipment was purchased.

(d) In 2 cases on replacement of failed spark quenchers and varistors and retrofitting of frequency sources Rs. 32.70 lakhs was spent and shortages of plan 103 and 104 telephone instruments were experienced as well as loss of order for 1.25 lakh Push Button Passive Telephones because of poor quality control.

(e) In July 1985 Quality Assurance Department banned use of some components from two sources in Transmission equipment due to poor quality and reliability. The Naini Unit came to know only after 3 months. The equipment in which these components were used were rejected leading to production loss and replacements.

3.34 When asked to state the reaction of the company to these observations and action taken in this regard the CMD, ITI Ltd. informed the Committee as under:—

> "Yes Sir. The points which have been brought out in the Audit report relate to instruments inward goods and quality manual. Wherever istruments were lacking we have taken action and provided instruments in those areas. The inward goods inspection system has been changed and we have now ensured that 100 per cent inspection takes place of the goods. We have also introduced the qualtiy manual for the units and wherever any vendor's quality is bad in those cases that vendor is banned for supply in ITI. These are the actions which we have taken on the basis of the observations in the Audit report."

E. Divsersification

3.35 The Committee desired to know whether ITI has any plans for diversification the CMD, ITI Ltd. informed the Committee as undet:—

> "The other area which we have considered is the diversification plan. In that process we thought to utilise our manpower and go into the service area. We will be providing Mobile Radio Trunk Services in 36 towns of the country which will be operative in some of the towns before the end of this financial year.
>
> We are also ready for the turn-key-jobs installation commissioning and repair centres. Now these are the service areas which we have taken up in order to utilise our obsolete machines and the manpower. We are studying if we can take up some of the part assemblies or components in the area of agriculture automobile power sector equipments etc. For this purpose we have nominated a Committee to go into the details and ..... possibilities of doing this. We will try to do it as far as possible with a minimum investment if required otherwise with no investment."

3.36 When the Committee desired to know from the Ministry whether the inability of the company to diversify into areas other than telecommunications has affected its performance the Ministry informed the Committee in a written reply as under:—

> "ITI has been supplying Telecom equipment to customers other than DUT *viz* Railways, Defence etc. As regards diversification into areas other than Telecom it was not considered appropriate by the Company because the Telecom field itself had sufficient scope. In view of the changed market scenario the company has reorganised itself into business groups have set up strategic alliance with leading manufacturers, set up certain joint ventures and are in the process of gearing up their marketing activities."

3.37 When asked whether ITI could enter into service sector the CMD, ITI Ltd. stated during evidence as under:—

> "In the service sector, what we can take up is VSAT mobile radio trunk service which will be operated during the current year. In some of the areas, we are already in dialogue with the expected private basic service operators for installation and commissioning with them and taking turn-key job with them. We are also trying as to how we can give them trained manpower, operate the service, etc."

3.38 The witness further informed the Committee that ITI was debarred from the basic services and they came to know about it only on the basis of paper reports. When asked what was the legal authority behind this the witness stated as follows:—

> "I can express my views on the basis of the dialogue took place between the employees' union, officers and the Chairman, Telecom, because they have represented the case. We, as a management, have to follow the Government guidelines. Basically, two-three things which were told during that dialogue are: (1) That the manufacturers normally should not be a basic service provider, that is one criterion because it will create some differences. Number 2 it was expressed that it will need large sums of money which probably the ITI as a PSU does not have. The third point is that the two Government organisations or two Public Sector Undertakings should not compete with each other. DoT is already operating and in case, the ITI also starts operating in the same area, there will be two parallel Government organisations competing with each other in the same service areas.
>
> These were the three reasons which were put forth during the discussions which took place in one of the visits of the Chairman. Telecom to ITI between the Officers Associations and the Union where the Management was also present."

3.39 When the Committee desired to know from the Ministry as to what the reasons for not allowing ITI to enter into the basic service sector, the Ministry informed the Committee in a written reply as under:—

> "The decision to preclude PSUs for operating basic Services was taken to avoid competition between PSUs and DoT. Moreover, the decision to open up basic telephone services to private sector has been done keeping in view the large amount of resources required to achieve the targets laid down in the New Telecom Policy. Paucity of resources is, therefore, the main reason for not permitting the Government companies to take part in the operation of basic telephone services. Moreover, it is felt that entry in service sector was not crucial to ITI and they should concentrate mainly in the manufacturing areas."

3.40 In this regard the Secretary, Deptt. of Telecommunications stated during evidence on 31.1.96 as under:—

"There were two reasons. First, I wish to make it clear that since the Committee is examining the ITI, it was not directed at ITI. Any Government company was disqualified from participating in that tender and we had given two reasons for this. First was, the very fact that we were asking the private sector to come and provide basic services, had arisen out of constraint of public resources and we thought that if public sector is given licences they will again go to the Government for resources because the investments required were very much and it is not going to work. Let us go to the private sector and ask for additionality of resources for improving the basic telecom services in the country.

The second is the area of basic telephone, we did not see much meaning in a Government company competing with a Government company."

3.41 When asked how there was a competition with Government, the witness stated as follows:—

"Because the arrangement was that there will be two operators in every State — a Government operator and one more operator. we were trying to licence that other operator and if that other operator is going to be the Government company, then situation on the ground is that DoT would be competing with a Government company. It would not have brought about a qualitative change."

3.42 Stating about the role of DOT, the witness deposed as under:—

"DoT is not participating in the tender. The problem has been that we were trying to licence private companies as a Government. One operator was not giving the berth to another operator. DoT as an operator will be separate from the Ministry. It will continue to operate. Simultaneously, efforts will be supplemented by the resources of a private operator who will bring his money and experience and enterprise and provide telephone. We do not want a scenario in which the Govenrment operator will be competing with a Government company operator."

3.43 When asked whether the decision not to allow entry of public sector into this sector was approved by cabinet the witness informed the Committee that "permission from the Cabinet was not requried. The Telecom Commission has representatives from the Ministry of Finance, Planning, Industry and Department of Electronics. The Secretaries of these four Departments are *ex-officio* members of the Telecom Commission. All of them considered this aspect".

3.44 On being asked whether the Government will review the policy the Secretary DoT stated that it was too late as tenders had already been floated and invited.

IV. FINANCIAL PERFORMANCE

(a) Capital Structure

4.1 The capital structure position as on 31.3.1994, 31.3.95 and as on 31.3.96 is as given below:

(Rs. in lakhs)

	As on 31.3.94	As on 31.3.95	As on 31.3.96
Share Capital	8800	8800	8800
Reserves and Surplus	43720	37937	12619

4.2 In the paid up capital of Rs. 88 crores as on 31st March, 1992 Government of India held shares for Rs. 87.69 crores and Government of Karnataka for Rs. 0.31 crores. Government of India disinvested Rs. 17.53 crores of its equity holding in July, 1992. At the end of 1994-95 company's long term borrowings stood at Rs. 316.77 crores which Rs. 118.70 crores came from bonds issued to public, Rs. 37.07 crores from Euro Dollar Loans, Rs. 14.53 from PICUP, Rs. 130.63 crores from public Deposits, Rs. 15.84 crores from loans taken from Government of India and Rs. 19.60 crores from loans taken from Financial Institutions.

4.3 The Secretary, Department of Telecommunications informed the Committee during evidence that the Company has requested for increasing its equity base by Rs. 200 crores and a soft loan of Rs. 150 crores. When the Committee desired to know the action taken by the Government on the request of the Company, the Secretary, DoT informed the Committee on 27.12.1996 as under:—

> "..... These are under process in the Ministry of Communications. You will appreciate that such measures will have to be taken on consultation with the Ministry of Finance. I would like to say that the Ministry of Communications would adopt a sympathetic approach while considering these proposals."

B. Working Results

4.4 The working results of the Company during the 1992-93 to 1995-96 are as given below:—

(Rs. in crores)

	1992-93	1993-94	1994-95	1995-96
Sales including services	1483.95	1527.25	1036.62	782.62
Profit before tax	174.65	205.38	(–)85.32	(–)267.69
Profit before tax (after prior period adjustment)	189.89	176.35	(–)81.91	(–)283.96
Tax provision	104.00	92.00	—	—
Net Profit after tax	85.00	84.35	(–)81.91	(–)283.96

4.5 The unit-wise profit/loss position during the last three years is as follows:—

(Rs. in crores)

Unit	1993-94	1994-95	1995-96
Bangalore	(38.60)	(93.93)	(110.89)
Naini	23.14	(28.10)	(73.93)
Rae Bareli	(3.71)	(24.44)	(48.93)
Palakkad	33.29	(5.29)	(28.51)
Mankapur	119.79	50.03	0.43
Srinagar	(3.24)	(2.88)	(2.94)
Installation Maintenance	0.14	1.79	3.49
E.C. Unit Bangalore	50.26	20.54	(18.36)
Regional offices	(4.72)	(0.37)	(4.33)

4.6 ITI has been a profit making entity since inception to the production year 1993-94; the turn-over of the Company got tripled from Rs. 508 crores in 1987-88 to Rs. 1527 crores, in 1993-94 with the same Resource Base. Profits grew from Rs. 18 crores in 1987-88 to Rs. 176 crores, in 1993-94, From 1990-91 to 1993-94 ITI has been rated "Excellent" in MoU. However, during the year 1994-95, the turnover achieved was only Rs. 1036.62 crores, basically for want of orders. During the year 1994-95, there was a steep fall in prices. This problem could have been overcome if ITI had large volume of orders with remunerative prices.

4.7 Mankapur Unit has produced more than the licenced capacity during 1992-93, 1993-94 and 1994-95, and the price per line is as per agreement with DOT. The Mankapur Units's total production is being fully supplied to DOT as the equipment EIOB Electronic Switching Exchanges produced by the Unit were in great demand.

Therefore, Mankapur Unit could be able to achieve outstanding profitability compared to other Units.

4.8 When asked to state the reasons for steep decrease in financial performance of the company during 1994-95. The Ministry, informed the Committee in a written reply as under:

(a) Reduction in prices of telecom equipment has affected the turnover of the Company by about Rs. 277 crores during 1994-95 as compared to the year 1993-94;

(b) The low turnover is also attributable to very low orders in respect of certain products *viz.* ILT.

(c) Huge interest burden owing to large borrowings by the Company.

(d) Owing to the opening up of telecom sector, a large number of manufacturers have set up units in private sector. DOT procures equipments on the basis of tenders. The orders given to the Company depend on their ranking in the tender.

(e) The manpower cost of the company is at very much high side *i.e.* about 20% of the turnover.

4.9 Stating about the corrective steps suggested, the Ministry further stated in the written reply as under:

The corrective steps as follows have been suggested to the company from time to time:—

(a) To diversify into new areas and new technologies even by way of acquiring the same through collaborations or Joint Ventures etc.

(b) To exploit potential of telecom markets in other segments *viz.* Railways, Defence, exports etc.

(c) To take action to reduce their cost of production and increase its productivity.

(d) To strengthen their marketing set up.

(e) To have interaction with the other PSU of DOT *viz.* HTL in order to ensure that ITI and HTL manufacture different items in order to take full advantage of 30% reservation.

(f) To make special efforts to realise their outstanding payments.

(g) To prepare and send a revival plan of their Srinagar Unit.

(h) The company has been advised to develop a mechanism at corporate level to monitor the aspects of diversification, improvement of productivity, exploitation of non-DoT markets and exports etc."

(C) Marketing, Pricing & Cost Control

4.10 The customer composition in respect of sales of the Company during 1993-94, 1994-95 and 1995-96 was as follows:—

(Rs. in crores)

	1993-94	1994-95	1995-96
Government Departments			
DOT	1455.06	858.96	689.27
Non-DOT	6.46	—	24.62
Total	1461.52	858.96	713.89
Public Sector Undertaking	13.40	—	55.69
Exports	2.24	2.76	1.42
Others	50.09	174.90*	11.62
	1527.25	1036.62	782.62

* includes sales to non-DOT and PSUs.

4.11 Till March, 1985, the Company which was the only major producer in the country for most equipment in the telecommunication sector enjoyed a captive market, with most of its sales, going to the Department of Telecommunications. Thereafter under the change in Industrial Policy Telephone Instruments, small exchanges, PCM system, microwave and UHF systems, FDM Multiplex, Multi-access Radio, Telemetry, Telecontrol systems and turnkey jobs became open to others who gave competition to the Company. From around 1991-92 the Company has to compete with many others who have entered the market and possess know-how in the state-of-the-art technology. Competition is on both price and quality fronts.

4.12 The Company's sales to Non-DOT customers came down from 12 percent of the total sales in 1988-89 to 4.7 percent in 1993-94 and rose to 11.93 in 1995-96. According to Audit the Ministry was of the view that control of cost was necessary to make Company's prices competitive. Otherwise the Company was unlikely to secure sizeable orders, as in the past.

4.13 The Committee desired to know the steps taken by the Company to increase sales to non-DOT customers. The CMD, ITI Ltd informed the Committee during evidence as under:

> "The major non-DOT customers are Defence and Railways. We have made our marketing more aggressive and strengthened the marketing to take more orders from Defence and increase our sales.

That is one area, as regards the existing position. Once the private basic telecom operators come in the field, may be next year or so market will increase. We are already having dialogue with all prospective basic service providers to provide them our products as well as services. In case they come up, there is a possibility that our product sale to non-DoT customers would increase. But in the present circumstances, the entire telecommunication is being set up by DoT and the major sales goes only to them. There is no other way in which we can sell the products. Even the Defence take the public network first for their own, if they have to build private network, they are establishing and we have established for Defence in part."

4.14 On being asked about the cost control measures adopted by the Company for making the products competitive in the market, the CMD, ITI Ltd., stated during evidence as under:

The major cost in ITI is with reference to material cost, labour cost and interest cost. These are the three costs which are contributing the major amount for any particular product. In respect of material we have already initiated action three or four years back and we have been able to achieve reduction in material cost for the same product by change in design and by making re-engineering in the processes. In the process, material cost reduction has been achieved. That process is still continuing every day and night for each product.

The other area is labour. We cannot do anything at the moment to reduce the labour cost.

In respect of the interest cost, attempts have been made in the past to take loans from different financial institutions at low rate of interest *i.e.* inter-corporate deposit commercial paper etc. But we could not succeed in these attempts as much as we expected. The total reduction in interest has not been achieved. In respect of overhead expenditure, we have now introduced a more stricter control in the budget. During the last year we have identified three major elements of cost and on that we gave target to each unit that they have to reduce by 10% or 20%, making certain adjustments.

These are the measures we have taken to reduce the cost. But most of the other cost as on date is of the fixed nature."

4.15 In this regard the Ministry informed the Committee in a written reply as under:

"Ministry has advised the management of the Company to take necessary cost control measures *viz.* adopting technology updation, reduction of overhead costs and improving the overall efficiency in order to make their products competitive in the market.

The Company has established Value Engineering Cells which take up critical products based on its life and competition on a continuous basis.

For most of the products cost have been established and efforts are made to reduce the cost keeping the performance and quality on the same level."

4.16 When asked to state as to what steps have been taken by the Company to strengthen the marketing management in the company, the company informed the Committee in a post-evidence reply as under:

> "The Marketing Management in the Company is being strengthened, various strategies are being evolved and the working groups are being formed to suit the business group concept and the product mix in the Company. As this would take some more time, it is expected that Marketing Management, *inter alia,* would fully take under its control the following aspects also:
>
> I. Mismatches between different parts and systems.
>
> II. Commissioning of equipments and timely delivery.
>
> III. Shortfall in supplies.
>
> IV. Functioning of the equipments, production and quality control aspects of all the products of the Company.
>
> V. Slippages and imbalances in the supplies of all the products. As this is a continuous process, the Marketing Management is expected to achieve the full customer satisfaction over a short period of time."

D. Price agreements with DOT

4.17 The pricing of products of DOT is generally governed by pricing agreements. As per an agreement entered into and effective from 1.4.86. The Company could get, with the purchase order a 35% advance, which was revised to 45% from 1.4.89. The Company incurred avoidable interest of Rs. 3.54 crores on cash credit due to delays in claiming advance in 26 cases. The Company also had to pay liquidated damages amounting to Rs. 49.35 crores on supplies during 1987-88 to 1990-91. During 1987-88 to 1991-92, due to non-sequential supplies. Rs. 137.11 crores were blocked up as billing for non-sequential supplies was barred. Further cases of delay/ non-drawal of advances amounting to Rs. 6.61 crores and consequential loss of interest of Rs. 1.14 crores were reported to the Ministry in March, 1995. Since August 1992. DOT has stopped payment of advance against orders. Company paid a further Rs. 105.97 crores from 1991-92 to 1993-94 towards liquidated damages.

4.18 When asked to state the constraints being faced by the Company in adhering to delivery schedules, the CMD, ITI Ltd. stated during evidence as follows:

> "The concept of advance against an order was introduced in 1986. This came up for the first time in an agreement signed in 1987. Once an order is placed. based on that we have been claiming the advance but the orders placed did not have a price in a number of

> cases and till the price is settled we cannot ask for the advance. In the meantime. The DOT issued instructions that whatever the order that they place unless and until are unconditionally accepted by us we cannot draw the advance. But we found that the delivery schedule indicated in order were not possible to be met by us and as such there have been delays in asking for the advance."

4.19 The witness further informed the Committee that they have been pursuing this with the DOT and told them that as per the agreement advance should be given alongwith the order but they have not accepted it. When asked by the Committee whether DOT has given any reasons for this the CMD, ITI Ltd. replied in negative. On being asked as to what corrective measures have been taken by the company to reduce the liquidated damages. the witness stated during evidence as follows:

> "For a particular year, we had paid liquidated damages of Rs.55 crore. After taking action. this figure has now gone down to Rs. 14 to Rs. 15 crore. In some cases we have earned a bonus. We have now taken action to ensure that the entire product goes into one lot, there is no mismatch or sequencing problem."

4.20 On being asked how far the payment of liquidated damages was justified when DOT was not adhering to the agreement, the CMD, ITI Ltd. stated during evidence as under:

> "What we have done is, for all these liquidated damages, which have been recovered by DOT, we have represented in respect of a large number of cases which were beyond the control of ITI. The DOT have constituted a committee and that committee is examining these cases. In 95 per cent of the cases which have been examined by the committee, so far they have recommended refund of the liquidated damages. So, we have recovered some of the amounts that we have paid."

4.21 When asked whether these clearances have been accepted by the Government. the CMD, ITI Ltd. stated during evidence as follows:

> "They have been accepted. We have got the money back. This is a long drawn process because we have to prove that it is beyond the control of ITI, that it was a kind of force majeure event. Now we are in the process of getting refunds on these claims. In a number of cases, we have found that they have accepted to refund the liquidated damages paid by us."

4.22 Replaying to a query as to when this examination would be completed, the witness informed the Committee that at the rate at which the work is being done presently, it may take approximately six to eight more months.

4.23 The Committee desired to know the reasons for delays in payment of advances. The Minsitry informed the Committee in written reply as under:

> "Purchase orders were issued by the Department of Telecommunications. New Delhi and M/s ITI were to claim the advance payments from the Chief Pay & Accounts Officer, ITI Bills, Bangalore. The advance had to be paid, for supplies scheduled for the first 12 months, at 35% (45% from 1-4-89) of the base price of the contract as per Clause 12.1 of the Agreement. For new items purchase orders were placed indicating the name of the equipment and numbers required to be worked out by the Chief Pay & Accounts Officer, ITI Bills, Bangalore in the manner laid down in Clause 7 of the Agreement, on the basis of the quantities of raw materials which could only be drawn up by M/s ITI. Advances amounting to Rs. 799 crores were paid during the period from1986-87 to 1989-90. 26 cases of delayed advances involving Rs. 38.01 crores from 1986-87 to 1989-90 have been pointed out by Audit. In these cases claims were delayed mainly due to revision of delivery schedules or preparation of material lists. Once the claims were received, payment was made expeditiously.
>
> A purchase order was placed in October, 1990 for the supply of 23 ILT-2048 Exchanges of which 15 exchanges were allocated to Bangalore Complex and 8 exchanges to Palakkad Unit. M/s ITI was requested to furnish the material list to work out the rates. Instead M/s ITI Ltd. Bangalore claimed 45% advance for 15 exchanges on 31.10.90 as per provisional rates of ILT 512. Similarly, M/s ITI Palakkad submitted the bill on provisional basis for 8 exchanges on 2.11.90. Both the bills were returned on 14.11.90 with the request to come for rate build up. After several discussions with CPAO. M/s. ITI. Bangalore resubmitted the bill on 21.11.90 and the payment was made provisionally on 23.11.90 of 4,36,40.000. M/s ITI. Palakkad resubmitted the bill on 20.3.91 for Rs. 2,30,40,000 and payment was made on 23.3.91.
>
> Advances against purchase orders were discontinued in September, 1992. after instructions were received from the Ministry of Finance in connection with controlling the fiscal deficit.

4.24 On being asked for the reasons for claiming liquidated damages from the company though the advance was not given to the company in time, the Ministry informed the committee in a written reply as under:

> "The lavy of Liquidated Damages is governed by the relevant contractual provision in the Agreement and is linked to the delay in supplies beyond the contracted delivery date."

4.25 When asked whether the DOT should not pay penal interest to the company on delayed advances, the Ministry informed the committee in a written reply as under:

> "There is no provision in the Agreement for payment of penal interest of delayed advances. Moreover, only a very small part of the delay is attributable to DOT."

4.26 On being asked whether the company got interest on delayed advances the CMD, ITI Limited replied in negative. The witness informed the committee that the company had requested to include a clause in agreement for penal interest for delays in receipt of advances but it was not accepted. When asked whether any responsibility could be fixed on any official for not receiving the advances in time, the CMD, ITI Ltd stated during evidence as follows:

> "I do not think that there was any lacuna on that score."

E. Export performance

4.27 Exports achieved in the Company in recent years were as follows:—

Year	(Rs. in lakhs)
1987-88	36.71
1988-89	17.86
1989-90	26.53
1990-91	22.23
1991-92	96.75
1992-93	86.60
1993-94	224.46
1994-95	276.43
1995-96	141.63

4.28 Informing the Committee about the assistance required from the Government in improving the export performance of the Company, the CMD, ITI Ltd. informed the Committee during evidence as under:

> "We have requested the Government by way of a written communication. We are asking for two types of assistance. One is for projecting the image of ITI outside the country so that it becomes a known name."
>
> The witness further stated:
>
> "Yes, Advertisements, participation in exhibition and demonstrations, sending people for marketing, etc. Those are the things which we have requested the DOT and also the financial assistance in these areas. The second thing which we are requesting

is that in these countries Africa and others, if there could be a 'Government to Government' financial arrangement which could be made, it would facilitate those countries in taking up Indian products.

It is just like what is being done by other countries. Japan, for example, is giving a lot of aid to Russian countries. They are giving some aid for development of telecommunications in different countries. It is available from Government of India, those countries will be coming to India."

4.29 In this regard, the Ministry informed the Committee in a written reply that the ITI expected that they should be helped by the Government for propagating the Company's name/brand and their products etc. in other countries. The Company also expected Government's support by way of arranging bilateral talks, giving recommendatory letters and supporting proposals for soft loans etc. When asked as to what action has been taken by the Ministry on the request of the Company, the Ministry informed the Committee in a written reply as under:

"A letter from CMD, ITI was received in June, 1995. He also requested subsequently that Ministry should write recommendatory letters for promoting their exports to Mauritius. Ministry gave due reply to Company's letter of June, 95 advising them to send specific plans for boosting exports. Further, as desired by the Company, recommendatory letters for boosting their exports to Mauritius. were written by Chairman, Telecom Commission to the concerned authorities. It is also stated the Company has been encouraged from time to time to increase their exports. Their proposal for setting up of a joint venture company in Singapore, mainly for export promotion, was duly supported by the Ministry. ITI is also encouraged to participate in various exhibitions and seminars abroad.

An Export Promotion Group is existing in the Ministry to promote the exports of telecom equipment from the country. The total exports in respect of telecom equipment during the last four years have increased from Rs. 20 crores (1991-92) to Rs. 131 crores (1994-95) by the telecom Industry as a whole."

4.30 The CMD, ITI Ltd informed the Committee during evidence that so far they have been able to do only Rs. 2.5 to Rs. 3 crores of export turn-over and next year, they are planning to achieve Rs. 50 crores. However, the Committee were informed that actual export figure during 1994-95 was 2.76 crores against the MOU target of Rs. 3.60 crores.

F. Sundry Debtors

4.31 The Sundry Debts *vis-a-vis* sales in recent years are given below:—

(Rs. in Crores)

Year	Sales including services	Sundry Debts	Debts considered doubtful	%age of Sundry debts sale to sales	No. of months rep. by Sundry Debts
1986-87	440.70	409.69	6.47	92.9	11.2
1987-88	508.48	456.29	8.48	89.7	10.8
1988-89	625.18	496.95	7.12	79.5	9.5
1989-90	958.75	600.49	0.56	62.6	7.5
1990-91	978.46	651.76	0.91	66.6	8.0
1991-92	1084.70	782.12	1.26	72.1	8.6
1992-93	1483.95	876.58	0.93	59.1	7.1
1993-94	1527.25	915.20	1.33	60.0	7.2
1994-95	1036.62	755.82	1.82	72.91	8.8
1995-96	782.62	564.81	2.38	72.47	8.7

4.32 According to Audit, the reasons for such heavy accumulations of Sundry Debts *vis-a-vis* sales were understood to be:—

(i) Non payment by DoT.

(ii) Non submission of bills by Company.

(iii) Objection raised on bills by DoT.

(iv) Inadequacy in billing, despatch to wrong consignee and clerical errors in Company.

(v) Delay in approving rates for billing.

(vi) Delay in agreement on adhoc escalations to be claimed.

4.33 The Ministry informed audit in March, 1992 that the Company sent heavy bills at the end of the year and gave insufficient time to DoT to check them.

Also if the supplies were evenly spread during the year and billing was evenly made by the Company during the year the problems could be avoided.

4.34 The Committee desired to know the steps taken to improve the situation. The CMD, ITI Ltd. informed the Committee during evidence as under:—

"There are two avoidable reasons for which we have initiated action. One was the mismatch or non sequential supply. That we have analysed and the monitoring mechanism is introduced. The other reason which was existing is with reference to certain mistakes in invoices which were raised either on account of the rate or consignee or anything else. For that we have introduced a system of internal check by the Internal Audit Department. Checking will be carried out by them so that continuous correction is made."

4.35 On being asked about the reasons for heavy year end billing, the witness informed the Committee as under:—

"As far as supply is concerned, what we have said is that we have not been able to achieve even the supply target."

4.36 When asked whether the Company will be able to rectify the same in future, the CMD, ITI Ltd. assured the Committee that in future they will ensure that it is made as per their requirements and without any delay.

4.37 The Committee desired to know whether the Ministry has monitored the corrective steps taken by the Company to avoid accumulation of Sundry Debts. The Ministry informed the Committee in a written reply as under :—

"The Company has introduced internal checks for the purpose. The Ministry is also pursuing the cases with the paying authorities for clearance of the outstanding payments to the company more promptly on a regular basis. It is expected that the position in respect of sundry debts will improve in the near future. The Government Director on the ITI Board has time and again in various Board meetings drawn attention to the sundry debts position and asked ITI to reduce the same."

4.38 The Company had informed the Committee that the sale from ITI to DoT is increasing from year to year but the provision in DoT budget for payment to ITI is not being increased proportoinately resulting in increase in debtors outstanding year after year. The issue of increasing the budget provision of DoT was taken up by the Company every year. In addition, there were adhoc deductions and unilateral decisions taken by DOT which resulted in long outstanding dues. Prolonged correspondence in resolving these decisions took long time.

4.39 The Committee desired to know whether the Company could cite any examples of such adhoc deductions. The CMD, ITI Ltd. informed the Committee as under:—

"There are plenty of examples. There was a deduction of Rs. 3 crores in case of MCPC V-SAT. We have been saying that the price indicated by DoT is not correct. There is no other customer. But they want to pin down on a particular price. We have not got it. There can be a number of such cases where the amount is held up. Anyway, we are taking action wherever it is feasible."

V. GENERAL

A. Manpower Management

5.1 The manpower strength of the company as on 31st March, 1996 was 26,272. When the Committee desired to know whether the company has conducted any scientific study to assess the actual manpower requirement in each of the units, the CMD, ITI Ltd. replied in negative. The company had earlier stated that the policy of transfer from one unit to another could not be implemented. The CMD, ITI Limited stated during evidence that the first reason is the geographical situations of the unit. The second reason is that they do not have the requirement in any of the unit.

5.2 In Rae Bareli Strowger Division out of the surplus of 200 persons were expected to be redeployed by 1994-95. However, 2000 persons were still surplus at Rae Bareli and 978 at Bangalore complex as on 31.3.1995.

5.3. The Committee desired to know whether the company has thought of schemes like Voluntary Retirement Scheme. The CMD, ITI Ltd. informed the Committee during evidence as under:—

> "We have introduced the Voluntary Retirement Scheme and till 1994-95 about 3,000 employees have already availed that facility. In the current year also we have opened that scheme and approximately about 600 employees have applied for voluntary retirement. In spite of this we will have the surplus manpower. But we have not made any study to identify the exact quantum of the surplus manpower. But based on the obsolescence of the products, it is seen that the major surplus manpower is available in respect of Rai Bareli and Bangalore units, because in these two units major products like strowger and cross-bar type of switches have fully become obsolete. Some diversification has been done to redeploy the surplus manpower. In the case of Rai Bareli unit, we started manufacturing C-DOT switches where we are employing a part of the surplus manpower. In the case of Bangalore unit, we have introduced the new switches of the OCB type for the subscriber end equipment producing 5,00,000 lines and being a sophisticated line it is least manpower oriented, we will not be able to employ that much of manpower. So, surplus manpower continues with us."

5.4 When the Committee desired to know whether the company conduct any executive training programme, the witness informed the Committee as under:—

> "In respect of Executives, we organise training programme to meet the present requirements. We have developed for ITI, in collaboration with the Indian Institute of Management, Bangalore, a special programme of four months duration and in that two batches of ITI Executives comprising about 25 people in each batch have recently completed their training. Similarly in collaboration with

Hyderabad Institute, we have developed a programme for the middle level Executives for a duration of two weeks and there also we have completed the training programme for two batches so far.

So, like this there are certain training programme which have been taken up. In respect of non-Executives the working class, the area which we have decided is the service area where we can make use of and that too in the installation and commissioning operations. We have intended that we would develop about 158 non-Executives in that area. The training has commenced yesterday for the first batch of 30 people at Rai Bareli. The second batch will be taking the training at Naini and we intend to take two batches for training at Bangalore.

These are some of the programmes which we have already drawn and scouting. Our HRD Department is also looking into some fresh programmes to increase the knowledge of the employees."

5.5 When asked whether the company had any regular annual programme for executives, trainees and promotional avenues for these trainees the witness stated as under:—

"As regards the non-executive, there is no in-take. In respect of the executives, we have the in-take every year and that too we take from IITs regional engineering colleges and IIMs as the campus recruitment. Simultaneously, we take fresh Chartered Accountants and Cost Accountants because in this area, we are finding that the outflow of executives is very high. In the past some in-take is taken for all these executives. These executives are taken at Level 2 of the Company.

Then, we have time bound scheme for upgradation. So, far it was covering from four years to six years period every year and everybody was able to get it. On the promotion avenues, we have made a study on this which was done by a committee headed by Mr. Udaiparikh who is an expert on HRD system. They have given their recommendation. They have divided different levels into three levels, *i.e.* junior level, middle level and senior level. The existing grades L1 L2 and L3 have been combined together and said as junior level. In that promotion an upliftment is based on the time factor *i.e.* after they complete a certain period of time and other things being equal, one gets elevated. Whereas from junior level to the middle level, one has to pass through the requirement of interview assessment and potential for future."

5.6 The Committee were of the view that the company should have a regular recruitment system so that the company could have a better choice from various parts of the country. The CMD, ITI Ltd. assured the Committee that they have noted the suggestion.

5.7 Stating about the outflow of candidates recruited the CMD. ITI Ltd. informed the Committee that in the second year outflow was about 10-15 percent. In the third year it increased to about 45 to 50 percent and after four years, the left over was about 10-15 percent. When asked about the reasons for this the witness stated that it was because of the opportunities and better perks available to them out. The witness also informed the Committee that they had communicated to the Ministry about the problem of brain drain due to low financial packages. When asked from the Ministry as to what action has been taken by the Ministry in this regard, the Ministry informed the Committee in a written reply as under:—

> "The problem of brain drain is there in the Company owing to the opening up of telecom sector and setting up of manufacturing units by MNCs and private sector companies. The company has been discussing about this problem with the Ministry on different occasions. This problem was also mentioned by CMD, ITI in his letter dated 6.3.95. The flight of technical personnel from PSUs is, of course, a serious problem.
>
> The pay scales in PSUs including ITI have recently been revised. The company is also diversifying into various other projects and updating their technologies. They are also contemplating to enter into value added services *viz.* Paging, Radio Trunking and VSAT etc. It is expected that these measures would arrest the exodus to some extent as the engineers will get more job satisfaction to stay on in the company."

5.8 The percentage of production hours to hours paid for was quite low during the past many years. During 1994-95 this percentages was 54.79 in Bangalore, 86 in Naini, 73.22 in Rae Bareli, 70.75 in Srinagar, 90.72 in Mankapur and 84 in EC Unit.

5.9 When the Committee desired to know the reasons for low production hours to hours paid, the CMD, ITI Ltd. stated during evidence as under:—

> "Sir, earlier, we have talked about the surplus manpower; that manpower is paid whereas we do not have the production. So, corresponding to that there is a gap between the production hours and the paid hours. So, low utilisation is one of the reasons."

5.10 Stating about the steps taken to improve this percentage, the witness further stated as under:—

> "To improve this percentage, we have introduced the Voluntary Retirement Scheme so that the paid hours can be reduced. Another one is to utilise the available manpower for productive purpose by diversification of some of the activities which we have explained to you a little earlier, but the total utilisation may not be feasible because the products which are coming in the market are not manpower-oriented. So, we will not be able to fully utilise that manpower."

B. Materials management

5.11 The total inventory during the year 1992-93 to 1995-96 was Rs. 729.94 crores, Rs. 662.74 crores, Rs. 636.30, and Rs. 534.33 crores respectively. The inventory as compared to norms was as follows:—

	Norms	1992-93	1993-94	1994-95	1995-96
Work-in-Progress (in months of production)	1.5 months	1.9	1.5	1.96	2.1
Finished Goods (in month of sales)	0.5 months	1.1	1.36	1.99	1.4
Total inventory	50% (Percentage of sales)	49%	43%	61%	68%

5.12 The Committee desired to know the reasons for the inventory of work in progress and finished goods being generally higher than the norms. The CMD, ITI Limited, informed the Committee during evidence as under:—

> "In the case of work-in progress, on an average, there is not a very wide gap. But in the case of finished goods, it is very high. When the norm is half-a-month, it has been kept for one to two months. It is due to the production cycle time and the inspection cycle time which results in such situation. We have also observed that whatever production we achieve during the last quarter, the entire production cannot be passed by the inspection wing and, as such, large quantities of finished goods are left over at the year end."

5.13 Later in a post evidence reply the Company informed the Committee as under:—

> "ITI while quoting to DoT and Non-DoT customers has to work with very limited lead time for delivery. Some of the selected goods are kept in ex-stock in anticipation of orders. Long lead time of customer inspection at times results in such inventory. To be in readiness to supply material in time, certain sub-assemblies and assemblies are maintained in the shop, which assists in work-in-progress for the production of final system."

5.14 When asked if they agreed with the contention of ITI, the Ministry informed the Committee in a written reply as under:—

> "There may be a few cases of urgent requirements of the DoT where the lead time for delivery is less. The contention of ITI is, therefore, not fully correct.
>
> Inventory management is primarily the activity to be controlled by the Company. This issue is periodically reviewed by the Management of the Company as also by the Board of Directors."

5.15 When asked whether this excess inventory was responsible for write off of an amount worth Rs. 40.61 crores, the CMD, ITI stated during evidence as follows:—

"This write off has not been done for this reason. This practice of 'write off' has not been adopted since the start of the company. All this is due to the accumulation over a long period. This has happened particularly due to the fast changing technology. If the same technology continues and if the same product continues, this obsolescence does not take place. But due to the obsolescence in electronic or telecommunications which has set in, we had to treat it as a write off. In the past, during the seventies and eighties, there was hardly any write off. It was all due to accumulation and a decision was taken to write off."

5.16 There was net shortage of Rs. 214.96 lakhs during 1992-93 and net excess of Rs. 254.99 and 195.54 during 1993-94 and 1994-95. The Committee desired to know from the company the reasons for these shortages and excess. The CMD ITI Limited, informed the Committee during evidence as under:—

"The shortages and excesses as reflected are based on the physical verification of the stores. In every unit, we have the stock of raw materials and components which is physically verified periodically and on a continuous basis. Based on that physical verification and the stock indicated in the pin card, the difference is located, the figure of Rs. 2 crore is for the entire company. In certain cases, the quantity is in excess; in certain cases, the quantity is less. Now, these are analysed subsequently to reconcile. In a number of cases, these are due to the documentation and mix of the components. In every unit, the components run into 10,000 to 20,000. When the documentation is made, sometimes, it so happend that instead of showing it, for example, under code No. D2-5678, it is shown under code no. 68 where it gets posted and is reflected there.

So, these types of variations comes in a large number because once we have a large number of components which we have to verify, later on, we try to get it reconciled. These are the actions which we take on a continuous basis. This is a continuous process which we do."

5.17 Later in a post evidence reply the company informed the Committee as under:—

"Main reasons for such shortages and excesses are attributable to the following factors.

Mismatching of code number of materials during physical verification.

Non-updation of pincards and stores ledgers in the computers.

Delay in regularisation of material issued on loan basis on authorisation.

These shortages/excesses are generally rectified after checking of stores during the next financial years."

C. Research & Development

5.18 The Company has set up Research and Development divisions at Bangalore in 1952, at Naini in 1972, at Rae Bareli in 1989 and at Mankapur in 1990. In 1948 know-how came from collaborators and was limited to knowledge of manufacture of Automatic Exchanges using Strowger Switching system. It was transferred from Bangalore to Rae Bareli. Know-how for producing Desk 332 type telephone came from abroad and further models developed inhouse. Technology for Crossbar Switching Equipments was imported in 1964 but system ICP was developed, and was produced in Rae Bareli. Other systems developed included 16 transmission systems. The value of production of own developed systems and products accounted for 60 percent of value of production during 1987-88 and 1988-89.

5.19 The Telecommunications Research Centre (TRC) was a wing of the DOT. From August, 1987, TRC limited itself to R&D functions and engineering support was entrusted to a newly formed society called Telecommunication Engineering Centre (IEC) which was under DOT. In August 1984, a Centre for Development of Telematics (C-DOT) had been set up also as a registered society fully funded by Government. In August 1989, the R&D functions of TRC were taken over by C-DOT which came under the Telecommunications Commission of DOT. The Ministry stated (January 1992) that product development and engineering was entrusted to the Company's R&D, while system engineering and technical development was entrusted to Telecommunications Engineering Centre under DOT.

5.20 The Committee desired to know from the Company the expenditure incurred on R&D during the last three years and whether it was commensurate with the size of the operations of the company. Replying in affirmative to the latter question, the CMD, ITI Ltd. informed the Committee during evidence as under:—

"For R&D on revenue expenditure during 1992-93 Rs. 24.85 crore were spent, during 1993-94 Rs. 40.76 crore were spent and during 1994-95 Rs. 28.33 crore were spent. The capital expenditure incurred for these three years were Rs. 1.87 crore, Rs. 3.84 crore and Rs. 2.14 crore respectively."

5.21 When asked whether the company has been able to achieve its objectives in the field of R&D, the witness stated as under:—

"In the past we have achieved objectives for R&D by introduction of new projects developed by the ITI itself and total sale has been approximately to the extent of 30-40 per cent of the products developed by the ITI. But in the recent past we have not been able to do so because of the fast changing technology and introduction into the world market. In the past we had achieved our objectives."

5.22 In this regard the Ministry informed the Committee in a written reply as under:—

"The company has been able to acquire expertise in R&D over the years. The company has now, one of the best R&D set up in the country located at Bangalore and Naini. The R&D centres have advanced facilities such as Hybrid Micro Circuit Lab, large scale integrated circuits/very large integrated circuit labs, computer centre and computer aided design centre. These facilities are backed up by a complement of highly qualified engineers and other specialised staff. Mankapur and Palakkad Units are also having R&D facilities for products support. Over 20% of ITI turnover comes from products of in-house design. New product design and production support is a continuous activity in R&D. The R&D expenditure during 1993-94 was Rs. 47.05 crores (3.08% of the turnover) and during 1994-95 the same was Rs. 34.25 crores (3.30% of the turnover)."

5.23 When asked whether the company has chalked out any long term R&D activity programme, the CMD, ITI Ltd. replied as under:—

"Yes sir, we have drawn the programme for the R&D by identifying certain products which will be taken up by the R&D for development. Simultaneously, we have also entrusted them the plan to cover the obsolescence, to have re-engineering for the material cost reduction in the existing range of the product and to provide a long term support on the products which we are supplying to the DoT or to the customers. This is the plan which we have got."

5.24 On being asked whether the company is coping up with the new technology in the current liberalised scenario, the witness informed the Committee as under:—

"Sir, in the present context, it is not. It is because of the gap between the time for development and the time by which the product is to be introduced. There is a wide gap there. The product or the market cannot wait till that time and as such more of acquiring the technology *i.e.* purchase of technology rather than developing in-house. We have to do it because there is a large brain-drain out of the R&D. We are not having those skilled personnel which we were having in the past."

5.25 Out of 185 R&D projects taken up by the Company from 1975-76 to 1989-90, 17 were completed at a cost of Rs. 3.58 crores but were not productionised for want of orders or import of foreign technology. On 82 projects Rs. 6.82 crores were spent but they were abandoned or short closed between 1980-81 and 1989-90 consequent to acquisition of foreign technology, unlikelihood of orders, unsatisfactory performance, or lack of infrastructure in the company.

5.26 When asked about the comments of the company in this regard, the CMD, ITI Ltd. stated during evidence as under:—

"All the projects were based on the DoT requirement and these were also abandoned in consultation with them, once their requirement was not there. The entire funding was done by them. They identified the product, they identified the project and then only the activity started."

5.27 In this regard the Ministry informed the Committee in a written reply as under:—

"R&D of ITI has achieved good results. 20% of their turnover comes from products of in-house design. R&D projects are normally taken by the company with the approval of their Board of Directors, keeping in view the technological scenario in the country and requirements of DOT. There is no specific assurance given by the DOT that orders would be placed on ITI. Some of the projects cannot be productionised owing to large time taken in R&D work and obsolescence of technology in the intervening period. Factors like acquisition of imported technology and absence of skilled manpower also come in the way of productionisation of some of the R&D projects."

D. Order to Telematics

5.28 The CMD, ITI Limited had informed the Committee during evidence that as far as pricing of ITI products was concerned the company was facing an unhealthy competition. The witness stated that in case of five to six major products in the market, the prices were unreasonable. He also stated that an independent Committee could examine this and ITI could produce all the data to substantiate the claim that the prices were unreasonable. When asked how the prices could be unreasonable as these were fixed by Bureau of Industrial Costs and Prices (BICP), the CMD, ITI Limited stated during evidence as under:—

"The BICP fixed the prices of all our products in the year 1986 and since then, we have been getting those prices. But after the introduction of the tender, the tender prices have been given to us, not the BICP prices. Before the BICP also, we gave all data. They fixed the price of each product. Based on that price, the results are there. Recently, you might have come across that for the C-DOT exchanges of 1000-2000 lines which is a medium-range exchange, almost all the parties have backed out from the tender. They have not accepted the tender price that has been offered. It is only the ITI which accepted it because the ITI does not want to go out from DoT or the business. We have accepted that. We are supplying the products in spite of the fact that those prices are resulting into losses to the Company. If you wish and if you get it examined in the Committee, the truth will come out that the ITI's business has not come down due to quality but due to this type of price which is available to the ITI."

5.29 The Committee desired to know whether Government have received any complaints against dumping, the Secretary, Department of Telecommunications stated during evidence on 16.1.96 as under:—

"We have not come across any evidence of dumping as such. What had happened is that in the last four years—thanks to the industrial policy which is liberal and which is promoting competition—a lot of new companies for the manufacture of telecommunication equipments have come up. Therefore, now that the DoT for the last two or three years have started buying equipments through open public tenders, prices have dropped. The ITI is not able to cope up with the competition and so that ITI is facing the problem."

5.30 According to some press reports some foreign companies were offering unreasonable low prices and DoT had compelled all suppliers to provide switches at this unreasonable price. When asked to state whether Government has conducted any enquiry into these press reports, the Secretary, Department of Telecommunications stated on 16.1.96 as under:—

"The competition is being provided by six major manufacturers of equipments which are Indian companies having foreign collaborators, with foreign equity partners. But the equipments have been manufactured here, of course a part of which comes in the form of CKD and SKD. Complaints have come from one of them and the Press Report has been quoted by management of the ITI, who were feeling the impact of competition. Those statements were made by one of the manufacturers. We have floated the next tender. The prices that have been referred to by the Chairman of the Foreign Company relate to an order which has been given only about two months back because there were a lot of tender formalities which have to be sorted out. The impact of those prices has not been felt on the working of the ITI because we are talking of 1994-95 when this tender was not really relevant. But prices of many other equipments have gone down in open competition because in the last three years we have been buying from most of the manufacturers through open market. There is a large production base in the country."

The witness further stated:—

"Let us look at the ITI. We have looked into it and we have found out that there was no case of dumping as such there were aspects of competition. It is possible some of the competitors may be making conscious loss. It is not dumping really because the equipments were manufactured in India."

5.31 Later in a post evidence reply, the Ministry informed the Committee as under:—

"In the Press note issued by CEO of M/s. Ericsson it is alleged that the rates quoted by the Companies for new Technology Switching Equipments are too low. In this regard it is submitted that in the same very tender of 1994 M/s. Ericsson quoted the price of Rs. 5220 per line as compared to Rs. 5615 per line by ITI. The rates quoted by other Vendors are given below:—

S.No.	Company	Weighted average price (Rs. per line)
1.	M/s. Alcatel Modi	4359.59
2.	M/s. HTL	4752.32
3.	M/s. Siemens	4851.72
4.	M/s. Ericsson	5220.89
5.	M/s. AT&T	5534.12
6.	M/s. ITI	5615.50
7.	M/s. Fujitsu	5709.47
8.	M/s. Intelecom	6713.19

From the above it cannot be concluded that the rates quoted were dumping prices."

5.32 When asked whether the Government have received any complaints in this regard from ITI Limited, the witness stated on 16.1.96 as under:—

"Company has made complaints about number of equipments. The lowest tender was quoted when we had given it to ITI. They cannot protest at that level. Sometimes they come up with complaints. It is lower than the cost of the materials and therefore they are not able to accept that order. Where do I go."

The witness further stated:—

"When the company brought it to our notice we found that there was no occasion of believing that it was a case of dumping internationally. I am saying 'no' to that. I am also saying that in two or three cases, the tenderers—not essentially international suppliers—were quoting a price which was lower than the cost of raw materials to the ITI."

5.33 The Committee desired to know whether the Ministry had ever analysed how indigenous these projects are and whether importing in the form of components and assembling through collaborator was not dumping, the Secretary, Department of Telecommunications informed the Committee on 16.1.96 as under:—

"They are manufacturers from different parts of the world. They ~~have~~ not come here to the ITI. There are Japanese, German, British, American and Swedish manufacturers. They have set manufacturing facilities for switching in India and they are availing of the import policies of the Government of India for importing certain components.

"They are also competing amongst themselves. As a result of that, the DoT, as an operator is getting equipment at almost half-or one-third of the price. Should we not take them from the national point of view? Or should we only look at it from the corporate angle of the ITI? Or should we look at the larger base of the production equipment? The equipment price is coming down and the production is able to sustain expansion of services. In the last five years, we have been able to double the number of telephones in the country."

In reply to a question as to what was the definition of dumping according to the Ministry, the Secretary, Department of Telecommunication stated as under:—

"Sir, I have to look not only at the health of the ITI but also the health of total telecom industry."

5.34 The Committee desired to know whether before floating a tender the Ministry has some estimated price of the tender, the Secretary, DoT stated as under:—

"Every tender is evaluated by a group of officers who are members of the Tender Evaluation Committee. They look into all the related facts and figures and then recommend as to who should be given .what order on lowest tender basis."

5.35 when asked what was the yard stick by which the Ministry knows whether the tenders presented are genuine or reasonable, the witness stated as under:—

"If I were tendering a contract for the construction of a building, I would certainly have an estimate. Here I am buying an equipment. Therefore, I do not think an estimate price is required."

5.36 In a tender for purchase of SBM 512 P equipments, M/s. Telematics had quoted the lowest and was given the advance purchase order on 18.9.1995. However, the Company did not furnish the bank guarantee within the stipulated time and APO placed on the Company was withdrawn. The bid security amount of only Rs. 20 lakhs which was the upper limit fixed in any contract was forfeited. During evidence of the DoT, before the Committee on 17th January, 1996, the Secretary had assured that in order to see that no supplier can lay with a system in quoting a price which he does not want to honour, they would like stiffer conditions to be incorporated in the tender.

5.37 The Committee were of the opinion that in the present circumstances when most of the tenders were of the value of more than Rs. 10 crores the ceiling of Rs. 20 lakhs on the earnest money had no sanctity and it needed to be revised. The Member (P) Telecom

Commissions concurred with the view of the Committee saying that "there is a need to have a look at it. The Secretary DoT also assured the Committee that they would review it."

5.38 When asked as to what action has been taken against the company, the Member (P), Telecom Commission informed the Committee as under:—

> "In this particular case, it was a bank guarantee covering the deposit. When a particular company wins a contract, we give them letter of intent and they are supposed to submit a bank guarantees for their performance. They have not submitted that in the given time. Ultimately we forfeited that bank guarantee for bid security."

5.39 On being asked as to what was the percentage of guarantee for earnest money the witness informed the Committee that it was calculated on the basis of 2 percent of the estimated value of tender limited to a maximum of Rs. 20 lakhs. When asked how the estimate values were prepared the witness stated "we do have rough estimates." When the Committee desired to know whether the company has since been blacklisted, the witness stated as under:—

> "We have not blacklisted. But as our Chairman mentioned that he had raised it in a Commission meeting wherein he had talked about the necessity for having an arrangement about blacklisting."
>
> "If a party backs out, the maximum that can be done is to forfeit his earnest money deposit which has been done in this case."

5.40 Later in a post evidence reply, the Ministry informed the Committee as under:—

> "The earnest money deposit presecribed in the Purchase Manual of DoT has since been revised. The bid security against a tender is now equal to 2% of the estimated value of the minimum quantity proposed to be procured from the compliant L 1 bidder in the tender and there is no upper limit. Earlier the maximum bid secruity was limited to Rs. 20 lakhs."

5.41 In regard to the black listing of the Company it was stated that the case was being examined in consultation with the Legal Cell of Department of Telecommunications.

5.42 When asked when was the tender floated and when did the party back out from the tender, the Member(P) Telecommunication stated that the tender was floated in November, 1994. However, the witness was unable to inform the Committee about the details of backing out of the company from the tender.

5.43 The Secretary DoT informed the Committee on 17.1.96 that though the Telematics backed out from the offer some companies like

Punjab Communications, NELCO & BHEL are ready to supply the equipment at the rates offered by Telematics. When asked about the views of Ministry in this regard the witness stated as under:—

> "They are not willing to supply this equipment at the lowest quoted price. That is the moot point. The complaint made by ITI to the Government is that this price is not workable. The only evidence I have about workability is the people coming, quoting and willing to supply at the lowest price. That is what we are testing out. We are willing to give orders to ITI at these prices, but they are not willing to take it."

5.44 When asked whether supply of equipment at a lower price will not result in deterioration of quality, the witness stated:—

> "We are not compromising quality, whether it is supplied by ITI or anyone else. Everything else remaining the same a certain price has been quoted in an open public tender. This Rs. 20 lakh limit was applied across the board. Other companies have also quoted in the same tender and if some of them are willing to honour such prices. I have to find out whether they mean it or not and I have to give them an order. In fact, we have a policy of reserving thirty per cent of our orders for ITI."

5.45 The Committee pointed out that reserving thirty per cent of orders for ITI at the lowest price will increase the losses of ITI, the witness stated as under:—

> "This is an odd case. There are three kinds of situation which are generally obtaining. One is a case where besides the thirty per cent reserved order for ITI, ITI is also the lowest bidder and thus it gets additional orders on the strength of being the lowest bidder. The second scene is where ITI is not the lowest bidder but is willing to accept the lowest price which comes to us in an open tender.
>
> Most of the time, these are the two situations, which prevail. But then, the third situation too happens exceptionally. In this case, the third situation has occurred, where the lowest tendered price is considered to be unviable by ITI. In that situation, unless it is proven across the board beyond doubt by the whole industry that the price quoted by the private operators is not workable. I cannot straightway give them an order at a higher price."

5.46 When asked whether the pricing by BICP was possible, the witness stated:—

> "No, that is not possible, because today, we are going by open tenders and as long as private sector suppliers are willing to supply equipment to me, without compromising on quality, at a price, which has been determined by open tenders, I have no means of

offering and higher price to ITI. In fact, that is the logic of competition, liberalisation. That is what I was submitting yesterday. I was submitting that ITI has to transit from the earlier culture of 'cost plus' basis and a captive customer of a competitive situation where they will have to compete in prices."

PART-B

RECOMMENDATIONS/CONCLUSIONS OF THE COMMITTEE

I.T.I. Limited was established in July, 1948 as a departmental undertaking of the Government of India. It was formed into a company in January, 1950 with an authorised capital of Rs. 2.50 crores. At the end of March, 1996, the authorised capital stood at Rs. 100 crores and the paid up capital at Rs. 88 crores. The company has seven manufacturing units located at Bangalore, 2 in Karnataka, Naini, Raebareilly and Mankapur in Uttar Pradesh, Palakkad in Kerala and Srinagar in Jammu and Kashmir. Presently the Telephone/instruments are produced at Bangalore, Naini and Srinagar. Transmission equipment at Bangalore, Naini and Rae Barell, Small Electronic and Digital Trunk Automatic Exchanges and Switching Equipment at Palakkad, Electronic Switching System (ESS) and special products at Bangalore and Electronic Digital Switching Equipment at Mankapur and Bangalore. On the basis of their examination the Committee have made a number of suggestions which are contained in succeeding paragraphs.

2. The company is under the administrative control of the Ministry of Communications (Department of Telecommunications). According to the Secretary, DoT the Ministry have a dual relationship with ITI—one as an administrative Ministry and the other as a principal customer. The Committee are astonished to learn that as a Ministry they would like to take a particular view of ITI whereas as a customer they will have a different perspective. In fact from the examination of the subject the Committee have received an impression that Deptt. of Telecommunications are treating the company only as a mere supplier instead of sincerely helping it as an administrative department. The Committee are very much perturbed over such an attitude of Department of Telecommunications towards ITI especially when the Department itself concedes the historic contribution made by ITI, in Telephone Industry in the past and wants a strong presence of the Public sector as a counterweight or as a balancing factor against private companies in view of the changed scenario when the production in telecom industry according to their own admission has gone up to a level of Rs. 7,000 crores from Rs.3,000 crores four years ago. They therefore, strongly desire the DoT to provide every possible help to ITI in order to bring the company out of red and to enable it to face the challenges from multinational/Indian private companies in the telecom sector.

(Recommendation Sl. No. 1)

3. The Committee are constrained to observe that the Memorandum of Understanding which the Company started signing with Government from 1991-92 onwards has never been entered into in time. The MOU was being signed 3 to 9 months after the commencement of the respective financial year. In the context of MOU for the year 1995-96 having been signed on 30th November, 1995, Secretary, DoT had agreed with the Committee that the MOU must be signed before the beginning of the year. However, it is disquieting to note that the MOU for the year 1996-97 was again inordinately delayed and signed only on 12th November, 1996. The Committee have been emphasising the need of timely signing of MOUs since long. They understand that the Department of Public Enterprises have recently issued guidelines for expediting the process of entering into MOUs. The Committee desire that these guidelines should be followed in letter and spirit in order to ensure that such delays do not recur in future.

(Recommendation Sl.No.2)

4. During the evidence, the Committee were informed by the company that the Ministry's obligations which were recorded in the MOU were not being fulfilled. The company had cited many examples like inadequate budget outlays, delay in settlement of outstanding dues, failure in timely freezing of specifications for equipment indicated in purchase orders, delay in clearance of project proposals, inadequate reimbursement of VRS payment and compensation for Srinagar Unit's operational cost where the Government reportedly had failed to fulfil the MOU obligations. Though the Ministry have claimed that the required assistance has always been provided to the company but for which the Company would not have obtained excellent rating but the fact that many obligations have remained unfulfilled in the past leave the Committtee with an unmistakable impression that the assistance provided to the Company by DoT has not at all been adequate and timely and this alone has contributed to the company's difficulties in facing the changed environment. Besides, they would like to point out that the company could only get 'Fair' rating for both the years 1994-95 and 1995-96. They would, therefore, like the Ministry to implement their obligations as set out in MOU more scrupulously and also to consider the requirements of the company sympathetically to enable it to meet the new challenges brought about by liberalisation.

(Recommendation Sl. No.3)

5. While, the Committee expect the Ministry to fulfil its MOU obligation with all the sincerity, they are of the opinion that merely taking into account the failure of the Ministry to discharge its obligations under the MOU while evaluating the PSU's performance would not serve the purpose since it only amounts to giving some concessions to the undertaking due to

non-performance of the Ministry. They, therefore, recommend that a system should be evolved whereby the reasons for the failure of administrative Ministry to fulfil its obligations under MOU should be analysed and responsibility fixed.

(Recommendation Sl. No. 4)

6. The Committee are surprised to learn that while the other MOU signing companies do not require the approval of the administrative Ministry to depute any of their officers on foreign tour except for CMD, these powers have not been given to ITI's CMD even though the MOU for 1995-96 envisages promoting ITI as a global player. According to the company this is seriously affecting the company's business opportunities. The Committee do not agree with the contention of the Ministry that this power has not been delegated in order to economise the expenditure and that the proposals from the company which have adequate justification are processed and considered promptly. They are unable to understand as to why a particular policy should not be followed uniformly and how a distinction in regard to excercise of particular power can be made amongst the MOU signing companies. They, therefore, desire the Ministry to bring the company at par with other MOU signing companies without further delay.

(Recommendation Sl. No. 5)

7. Chief Executive of a Company occupies a pivotal role in as much as all major decisions emanate and get implemented under his leadership and direction. It is in this context that the Committee have been recommending from time to time in their various reports that the post of chief executive of any undertaking should not be kept vacant for long. They are however constrained to observe that the post of CMD of ITI remained vacant from 1.6.1995 to 19.9.1996 at a time when the profitability of the company was sharply eroding. The Committee strongly recommend the Government to take advance action in this regard and ensure that the post of chief executive of an undertaking is filled up as and when it falls vacant.

(Recommendation Sl. No. 6)

8. The Strowger Switching Equipment at Rae Bareli which envisaged manufacture of 1 lakh lines of Strowger Equipment by May 1978 at a cost of Rs. 16.08 crores could reach the capacity of 80,886 lines only and that too by March, 1983. The Committee were informed that the reasons for delay included delay in construction of factory building, non development of ancillaries, delay in setting up of in-house facilities, lack of infrastructural facilities etc. The Committee are of the opinion that although lack of infrastructural facilities might have contributed to the delay to some extent, but delay in construction of factory building and setting up of in-house facilities are factors which could definitely have been avoided by better management and foresight. They, therefore, desire

that the factors responsible for the delay should be probed indepth and responsibility fixed therefor under intimation to the Committee.

(Recommendation Sl. No. 7)

9. Expansion of crossbar capacity from 60,000 lines to 75,000 lines at Bangalore at a cost of Rs. 3.05 crores, was taken up in May, 1979. The expansion which was to be completed by February 1983 was actually achieved by 1983-84. The contemplated saving of Rs. 10.5 lakhs per annum in Nickel and Silver could also not be realised because of non-commissioning of contact welding machines procured at a cost of Rs. 1.21 crore from M/s. Inter Modern, a West German Firm. The Supplier's technicians installed the machines but there were problems during trial runs for which the technicians gave various reasons. According to the company the attitude of the suppliers was non helping and the responsibility rested with them. Subsequent to the technological advancement, crossbar technology itself was phased out, rendering the machines obsolete and the amount incurred on their procurement infructuous. The Committee are not convinced by the claim of the Company that sincere afforts were made by the Company/Ministry to get the machines commissioned since at no stage any legal action was initiated against the supplier. What is more surprising is the fact that the supplier company has not been blacklisted so far although ITI has claimed not to have entered into further commercial dealings with this Company. The Committee recommend the Company to be more cautious while making such deals in future. The Committee have been informed that one portion i.e. press unit of the machine has since been disposed of. They desire that the other portion i.e. the welding unit may also be disposed of at the earliest under intimation to them.

(Recommendation Sl. No. 8)

10. The Committee note that the switching equipment manufacturing factory at Palkkad which was conceived in 1974 underwent expansion in three phases. It is disquieting to find that although Rs. 98.58 lakhs was incurred on expansion only 23,325 to 33,883 lines per annum were produced from 1981-82 for 1985-86 against estimate of 60,000 lines per annum. Similarly against 3,75,000. lines of DTAX, EPABX and RAX equipment to be produced from 1986-87 to 1989-90 only 2,42,863 lines could be produced. What is more surprising is the conflicting reasons advanced by the company and the Ministry for the lower production. The Committee were informed by the CMD. ITI Limited during evidence that shortfall in production was because the DoT did not place orders to the extent of the projections made by them. On the other hand the DoT have informed the Committee that they did not place the orders as per feasibility report of ITI on account of lack of well proven design for general use and obsolescence of technology. The Committee need hardly

emphasise such differences in perception ought to have been avoided with better communication between the Company and the DOT. They earnestly desire the Company and the Government to work in harmonious manner for the betterment of the Company.

(Recommendation Sl. No. 9)

11. The Committee have been informed by ITI that it had proposals in 1982 to set up a project at Bangalore for manufacturing 5 lakh lines of Electronic Switching Systems at a cost of Rs. 149.19 crores. However, the Government decided in 1984 to set up the project at Mankapur at a cost of Rs. 177.02 crores with the basic objective to develop Mankapur which is a backward area. In March, 1990, the cost went upto Rs. 219.35 crores. The Company had also to incur an extra expenditure of Rs. 1.78 crores on flood control and prevention measures. In the process the Company's idea to utilise the excess labour at Bangalore was defeated with the change in location. The Committee express their unhappiness over the change in location of the project.

(Recommendation Sl. No. 10)

12. The Committee note with concern that the performance of the company in respect of products manufactured at Bangalore complex has been showing a declining trend. The percentage of achievements to targets in terms of standard man hours during 1994-95 was 39.33 for Strowger equipment, 58.35 for telephone, 68.14 for transmission and 15.34 for electronic switching. The losses incurred by the Bangalore Complex have increased from Rs. 38.60 lakhs in 1993-94 to Rs. 93.93 lakhs in 1994-95 and to Rs. 110.89 lakhs in 1995-96. The reason for such poor performance has been stated to be lack of orders even after introduction of new technology. The Committee desire the matter should be examined by the DOT at the highest level with a view to solve the problem of inadequate orders for Bangalore Complex and bring the unit out of red.

(Recommendation Sl. No. 11)

13. The Committee regret to note that production of Multi Access Rural Radio (MARR) systems at Naini was 71% in 1992-93 and 45% in 1993-94 of the capacity. The reason for under utilisation of capacity was stated to be that in case of MARR, ITI had developed a particular design and they were going ahead based on projections given by the DOT, however, in between specifications were issued by DOT for a new design. While the Committee do not disagree that there are frequent changes in the technologies but they are of the firm view that such changes should be anticipated well in advance so that the company is not put to a loss. The Committee have also been informed that DOT had agreed to place orders on ITI for 20 percent of the total requirement for MARR each year. However, they are distressed to find that orders placed on ITI were 2% during 1994-95, nil during 1995-96 and 10%

during 1996-97. The Committee recommend that Government should ensure that orders on ITI are placed in future at least to the extent agreed to.

(Recommendation Sl. No. 12)

14. The Committee observe that the production in the company was not spread uniformly over the year. While in the half year ended September it ranged between 25.5% to 36.5% it was in the range of 38.9% to 53% in the last quarter during the years 1986-87 to 1994-95. According to Audit, an improvement of even 10% in the production in the first nine months of the year would speed up the funds inflow resulting in a saving of Rs. 3 crores on interest charges apart from other benefits. Though the Ministry have also been emphasising the importance of spreading the production uniformly during the year the CMD. ITI Ltd was candid in admitting before the Committee that it was the fault of the company since the production in the earlier months of the year was affected due to high incidence of absenteism. The Committee strongly recommend that ITI should make serious efforts to achieve uniform production during the year. They would like to be informed of the specific steps taken in this direction.

(Recommendation Sl. No. 13)

15. The Committee regret to note that the quality manuals issued by ITI from time to time have not been implemented fully in Bangalore, Naini, Rai Bareli and Srinagar units. Subsequently ISO 9000 implementation process was formally launched in April, 1991. Electronic city unit, Bangalore and Palakkad unit achieved ISO 9002 certification in April, 1993 and September, 1993 respectively. The Telephone and Transmission Divisions of Naini unit also obtained ISO 9001 certification in December 1994. Till now 25 products of the company have achieved self-certification status from DOT. According to the Company's plans all the divisions and the units had to be covered under ISD 9000 certification by the end of the year 1996. The Committee are pained to observe that this target has not been achieved so far. They recommend that serious efforts be made to ensure that all divisions and the units of the company are covered under ISO certification at the earliest under intimation to them. The Committee also desire that the quality control system in the company should be suitably strengthened in the present age of competition.

(Recommendation Sl. No. 14)

16. The Committee have been informed that ITI has been supplying Telecom equipment to Railways, Defence etc. In order to utilise its obsolete machines and surplus manpower it has now taken up service areas like turn-key-jobs, installation and commission of telecom projects and establishing repair centres. A Committee has also been formed to study the feasibility of taking up part assemblies or components in the area of agriculture, automobile, power sector equipment etc. with minimum investment. The Committee desire that this study should be completed expeditiously and a time bound programme prepared for diversification into new areas so identified under intimation to them.

(Recommendation Sl. No. 15)

17. The Committee are astonished to observe that ITI could not enter into the basic service sector since the public sector companies were precluded from participation in the tender. The justification given for not allowing the public sector companies to enter into this area was that two operators were envisaged in every State—a Government operator and one more operator. Apart from the constraint on Public resources, giving permission to Government companies for operating basic services would have led to a situation where DOT as an operator would be competing with a Government company. The Committee do not agree with this argument put forward by the Ministry of Communications. It is further disquieting to note that even Cabinet approval was not considered necessary for precluding public sector companies from basic service sector. The Committee recommend that the policy in regard to the basic service sector should be reviewed by Government and for tenders to be floated in future, public sector companies should be allowed to participate.

(Recommendation Sl. No. 16)

18. The Committee have been informed that the company had requested the Government to increase its equity base to Rs. 288 crores from the existing Rs. 100 crores and a soft loan of Rs. 150 crores. The requests of the Company were stated to be under process in the Ministry of Communications. The Committee would like to be informed about the decision taken by the Government in this regard. They feel that in view of the crisis through which the Company is passing, the request of the Comapany deserves immediate attention of the Government and desire that a decision in this regard be taken at the earliest under intimation to the Committee.

(Recommendation Sl. No. 17)

19. The Committee observe that the Company which was earning profits till 1993-94 suddenly started incurring huge losses from the year 1994-95. Against a net profit of Rs. 84.35 crores earned during 1993-94, the Company incurred a loss of Rs. 81.91 crores during 1994-95 and Rs. 283.96 crores during 1995-96. The main reasons attributed by the Ministry for this sudden downfall are reduction in prices of telecom equipment, low orders, huge interest burden, opening of telecom sector and increase in manpower cost of the company. Various corrective measures have been stated to be taken up by the company such as diversification into new areas exploitation of market potential in other segments *viz.* Railways, Defence, exports etc., reduction in cost of production, strengthening their marketing set up etc. While the Committee would like to be informed about the improvements effected in the functioning of the Company as a result of these measures, they desire that an in-depth study of the company should be conducted by a high level Committee to examine the exact causes of debacle of the company

and to recommend suitable measures for the revival of the company. The outcome of such study should also be intimated to the Committee.

(Recommendation Sl. No. 18)

20. The Committee note with concern that the Company's sale to non-DOT customers has been abysmally low from the very beginning. The Company's sale to non-DOT customers which was 12 percent of the total sales in 1988-89 came down to as low as 4.7 percent during 1993-94 though it increased to 11.9% during 1995-96. The Committee are of the firm view that this over dependence of the company on DOT is one of the major reasons for its poor performance. Though various steps are stated to have been taken by the Company to increase its sales to non-DOT customers the Committee feel that these steps are not adequate in the current fast changing scenario in the telecom sector. They also wish to emphasise that unless the company is able to check the cost of its products (which is admittedly on the higher side) it will not be in a position to compete in the market. The areas which need particular attention are labour cost and overhead costs. The Company should also lay greater emphasis on technology updation and overall improvement in efficiency besides strengthening the marketing system.

(Recommendation Sl. No. 19)

21. The Committee have been informed by the Company that it had to pay liquidated damages amounting to Rs. 49.35 crores on supplies made to DOT during 1987-88 to 1991-92 and Rs. 105.97 crores from 1991-92 to 1993-94. The Committee are constrained to abserve that though DOT does not pay anything to the company for the delayed payments, the Company is penalised for the delayed delivery for which DOT is also responsible to some extent. The Committee disapprove such attitude of the Ministry and recommend that when there is a provision for liquidated damages to be paid by ITI, a provision should also be made in the agreement for payment of penal interest to ITI for delayed payments from DOT. The Committee have also been informed that a Committee had been constituted by DOT to examine cases of payment of liquidated damages by ITI and in most of the cases that Committee had recommended refund of the liquidated damages to ITI. They desire that examination of all such cases should be completed expeditiously and the amount due to ITI refunded to the Company within three months.

(Recommendation Sl. No. 20)

22. The Committee note with concern that the exports of the company are showing a declining trend. During 1995-96 the Company could achieve exports of only Rs. 141.63 lakhs against Rs. 276.43 lakhs for the previous year. This is despite the fact that the MOU for the year 1995-96 contained a provision for presenting ITI as a global player in the field of telecom. Needless to say concerted efforts are needed on the part of the Company as

well as the Government for boosting the exports. The Committee therefore recommend that the company should submit a concrete action plan in this regard to Government who on their part should render all possible assistance required by the Company to increase its exports.

(Recommendation Sl. No. 21)

23. The Committee are dismayed to find that the percentage of sundry debts in ITI increased from 59.1 in 1992-93 to 72.47 in 1995-96. The Committee have been given to understand that one of the main reasons for such high percentage of sundry debts is the supplies not being spread evenly over the year and heavy year end billing by the company. The Committee desire that earnest efforts should be made by the company to raise the bills in time in order to avoid accumulation of sundry debts. The Committee also find it strange to note that though the sale from ITI to DOT has been increasing from year to year but the provision in DOT budget for payment to ITI is not being increased proportionately. The Company have also informed the Committee that there were ad-hoc deductions and unilateral decisions taken by DOT which resulted in long outstanding dues. The Committee desire that such instances should be avoided in future and adequate provisions made in the DOT budget for payment to ITI. Besides, the company should take appropriate measures to streamline its machinery for recovery of outstanding dues.

(Recommendation Sl. No. 22)

24. The Committee have been informed that the manpower strength of the company as on 31st March, 1996 was 26.272. Though there is admittedly surplus manpower in the company and a voluntary Retirement Scheme has also been introduced, the Committee observe that no scientific study has been conducted to assess actual manpower requirement in each of the units of the company. The Committee recommend that such study should be done at the earliest so that the exact quantum of surplus manpower could be identified and remedial steps taken to reduce the surplus staff. They also desire that with a view to have qualitative improvement of manpower, more regular training programmes for executives as well as non-executives should be conducted. The Committee also recommend that apart from recruitment from IITs, there should be regular recruitment system in the Company by advertisements in various newspapers etc. so that the company could have talented personnel from all parts of the country.

(Recommendation Sl. No. 23)

25. The Committee have been informed by the Company that there is heavy outflow of technical personnel recruited by the company. While in the second year the outflow was about 10-15 per cent, after four years the left over was about 10-15 per cent. The Committee feel that better service conditions. adequate promotional avenues and creation of such condition which are conducive to job satisfaction in the company could be the only solution to the problem. They therefore desire that every earnest effort

should be made in order to arrest the exodus of talented skilled and technically qualified staff from the Company.

(Recommendation Sl. No. 24)

26. The Committee find that the inventories for work in progress, finished goods and the total inventory was very much in excess compared to norms during 1994-95 and 1995-96. Stating the reason for this excess inventory the company have informed the Committee that the higher inventory is due to limited lead time available for delivery and the need to be in readiness to supply the material in time. The Committee are not convinced with this contention of the company. Had it been so, the norms of inventory could have been suitably revised. Moreover, according to DOT, the lead time is not less in all the cases. The Committee therefore desire that the company should improve its inventory management in order to keep the inventory within the norms. The Committee find that due to this excess inventory the company had to write off an amount of Rs. 40.61 crores due to obsolescence of technology. The Committee desire that suitable measures should be taken in order to avoid recurrence of such incidents in future.

(Recomendation Sl. No. 25)

27. Research & Development is to utmost importance in an area like telecom where technologies are changing fast. The Committee have been informed that ITI has one of the best R&D set up in the country located at Bangalore and Naini. But it is a matter of concern to note that while in the past the company could achieve the objectives of its R&D by introduction of new project developed by it, the position has changed now for the worse. In the changed scenario where the telecom sector has been opened up, some of the products cannot be productionised owing to longer time taken in R&D and obsolescence of technology in the intervening period. The flight of skilled manpower is also a problem. The Committee, therefore, urge that the R&D set up in the company should be strengthened to meet the new challenges. At the same time care has to be taken that while taking up projects for R&D the commercial viability and all such other factors are taken into account well in advance so that the efforts do not result in sheer wastage of money and manpower.

(Recommendation Sl. No. 26)

28. The Committee have been informed by ITI that the company is facing unhealthy competition due to unreasonable prices offered by some multinational companies. According to the company earlier the prices were fixed by Bureau of Industrial Costs and Prices (BICP) but after the introduction of tender system, BICP prices were not given to the company. Though the DOT does not agree with the contention of ITI that the prices quoted by some private companies were dumping prices, the Committee have come to the conclusion that ITI was being put at a loss on the pricing front after introduction of the tender system. They, therefore, recommend that the Government should extend to ITI all necessary help in order to

enable them to atain cost-effectiveness so that they are in a position to compete with the private as well as multi-national companies in the Telecom Sector.

(Recommendation Sl. No. 27)

29. In a tender for purchase of SBM 512P equipments. M/s Telematics had quoted the lowest and was given advance purchase order (APO) on 18.9.1995. Later on the company backed out from the tender and bid security amount of Rs. 20 lakhs which was the ceiling at that time in such cases was forfeited. However, it is strange to observe that the party was not blacklisted. It was only when the Committee took up examination of this matter that the DOT started examining whether the company should be blacklisted. The Committee are shocked to find that while floating a tender, the DOT does not assess the estimated price of the tender. The tender is given to the lowest bidder irrespective of the fact whether the prices quoted by the tenderer are feasible or not. Though the ceiling of Rs. 20 lakhs as earnest money has since been removed and the bid security is now equal to 2% of the estimated value of the minimum quantity proposed to be procured from the compliant L-1 bidder, the Committee feel that this alone is not sufficient. They recommend that the provision should also made to blacklist a party in case it fails to honour its bid without sufficient grounds.

(Recommendation Sl. No. 28)

30. The observations and conclusions of the Committee contained in the earlier paragraphs show that ITI is a typical example of how a public undertaking has to suffer because of the apathetic attitude of Government. Although the Committee agree that there is lack of manpower planning and proper cost control in ITI, they have received an unmistakable impression that the company could have been prevented from the situation in which it finds itself today, had the necessary and timely assistance been forthcoming from the Ministry. On the contrary, what they have found is that ITI has been treated just like any other supplier. MOU obligations on the part of the Ministry have not been fulfilled, huge liquidated damages have been inflicted on it which later turned out to be unjustified. The Company has been left to face unhealthy competition due to unreasonable prices offered by some multinationals. And it has even been debarred along with other public sector companies to enter the basic service sector. The Committee, therefore desire that the high level Committee recommended to be set up in paragraph 19 should also look into effect on ITI of all such policies and remedial action taken in this regard so that ITI the premier public sector undertaking could be saved from becoming sick and be able to face the competition from MNCs and private companies.

(Recommendation Sl. No. 29)

NEW DELHI;
30 April, 1997

10 Vaisakha, 1919 (Saka)

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