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SICKNESS IN PUBLIC UNDERTAKINGS

MINISTRY OF INDUSTRY
(DEPARTMENT OF PUBLIC ENTERPRISES)

COMMITTEE ON PUBLIC UNDERTAKINGS 1997-98

ELEVENTH LOK SABHA

SABHA SECRETARIAT
DELHI

ELEVENTH REPORT

COMMITTEE ON PUBLIC UNDER-TAKINGS (1997-98)

(ELEVENTH LOK SABHA)

SICKNESS IN PUBLIC UNDERTAKINGS

MINISTRY OF INDUSTRY (DEPARTMENT OF PUBLIC ENTERPRISES)

Presented to Lok Sabha on 12.8.1997
Laid in Rajya Sabha on 11.8.1997

LOK SABHA SECRETARIAT
NEW DELHI

July 1997/Asadha, 1919 (Saka)

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Page	Para	Line	For	Read
7	4.3	6	complete	compete
66	3	19	Recommendations	Recommendation
68	6	2	come	some
68	7	27	executives	executive
75	20	15	effact	effect
76	24	2	rehabilitation.It	rehabilitation, it
100	-	On top	Add : XVI	

CONTENTS

COMMITTEE ON PUBLIC UNDERTAKINGS
(1995-96)

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1. Shri J.P. Ratnesh —*Additional Secretary*
2. Shri P.K. Grover —*Deputy Secretary*
3. Shri Cyril John —*Assistant Director*

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Eleventh Report on 'Sickness in Public Undertakings'.

2. The subject was examined by the Committee on Public Undertakings (1995-96). The Committee took evidence of the representatives of Indian Institute of Public Administration, New Delhi on 19 September, 1995; Centre for Public Sector Studies, New Delhi on 20 September, 1995; National Confederation of Officers Association of Central Public Sector Undertakings on 28 November, 1995; Federation of Indian Chambers of Commerce and Industry on 29 November, 1995; Standing Conference of Public Enterprises and All India Trade Union Congress on 13 December, 1995 and Indian National Trade Union Congress and Centre of Indian Trade Unions on 21 December, 1995. They also took evidence of former Chairman, Board for Industrial and Financial Reconstruction, Shri R. Ganapati on 7 December, 1995.

3. The Committee on Public Undertakings (1996-97) further took evidence of the representatives of Ministry of Industry (Department of Public Enterprises) on 25 October, 1996; Ministry of Textiles on 6 and 7 January, 1997; Ministry of Chemicals & Fertilizers (Department of Chemicals & Petrochemicals) and Indian Drugs & Pharmaceuticals Ltd.; Ministry of Chemicals & Fertilizers (Department of Fertilizers) and Hindustan Fertilizers Corporation Ltd. on 3 March, 1997; Ministry of Industry (Department of Heavy Industries) on 4 March, 1997; Ministry of Finance on 11 March and 19 March, 1997 and Confederation of Indian Industry on 2 April, 1997.

4. The Committee on Public Undertakings (1997-98) considered and adopted the Report at their sitting held on 22 July, 1997.

5. The Committee feel obliged to the Members of the Committee on Public Undertakings (1995-96) and (1996-97) for the useful work done by them in taking evidence and sifting information which forms the basis of this Report. 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 Industry (Department of Public Enterprises), other Ministries, Departments, Public Undertakings, Trade Unions and other organisations for placing before them the material and information they wanted in connection with examination of the subject. They also wish to thank in particular the representatives of the Ministries, Departments, PSUs, Trade Unions and other organisations mentioned in Para 2 and 3 above who gave evidence and placed their considered views before the Committee.

G. VENKAT SWAMY
Chairman
Committee on Public Undertakings

NEW DELHI;
July 28, 1997
Asadha 6, 1919 (Saka)

PART A

BACKGROUND ANALYSIS

I. Introductory

1.1 The Public Sector in India was deployed as a potent instrument of socio-economic development with a view to develop sound agricultural and industrial base, overcome economic and social backwardness and for generating sufficient surpluses. Policy on the public sector has been guided by the Industrial Policy Resolution of 1956 which gave the public sector a strategic role in the economy. Massive investments have been made over the past four decades to build public sector which has a commanding role in the economy. However, in the process of achieving rapid industrialisation in the country and with the public sector moving into all spheres of economy, including non-infrastructure and non-core areas, their performance started deteriorating and gave low or even negative returns to public investment. Industrial sickness is a growing problem in our country leading to various ill effects particularly due to its adverse impact on scarce capital. It was in the light of this that the Committee on Public Undertakings (1995-96) took up Sickness in Public Undertakings in general with special reference to sickness in textile industry for horizontal study.

II. Objectives of the Public Sector

2.1 The major objectives of setting up of public enterprises as per the DPE Survey were as follows:—

(1) To help in the rapid economic growth and industrialisation of the country and create the necessary infrastructure for economic development;

(2) To earn return on investment and thus generate resources for development;

(3) To promote redistribution of income and wealth;

(4) To create employment opportunities;

(5) To promote balanced regional development;

(6) To assist the development of small-scale and ancillary industries; and

(7) To promote import substitutions, save and earn foreign exchange for the economy.

2.2 The investment in central public enterprises has grown from Rs. 29 crores as on 1.4.1951 in 5 enterprises to Rs. 1,78,628 crores in 243 enterprises as on 31.3.1996.

2.3 The wide range of product and activities of central public sector enterprises include making of steel, mining of coal and minerals, extraction and refining of crude oil, manufacture of heavey machinery, machine tools, instruments, heavy machine building equipment, heavy electronical equipment for thermal and hydel stations, transportation equipment, telecommunication equipment, ships, sub-marines, fertilizers, drugs and pharmaceuticals, petro-chemicals, cement, textile and a few consumer items such as bread, newsprint, paper, footwear and contraceptives, operation of air, sea, river and road transport, operation in national and international trade, consultancy, contract & construction services, inland and overseas telecommunication services, hotel and tourists services etc.

2.4 Trying to trace the development of the public sector in the country, the Chairman, SCOPE and CMD, Hindustan Zinc Ltd. stated in evidence as follows:—

> "Sir, I would not like to go into the legacy and the reasons as to why the public sector was formed but I would like to mention that the public sector was given the mandate for the economic growth of the country through the Resolution of 1948 and later of 1956. At the time of independence in 1947 there was hardly any industry worth consideration except textile industry, two steel plants and very little of other engineering industries. Although the foundation was laid through the Resolution of 1948 and 1956 the public sector came into being in a very big way in the 1950s and the 1960s when steel plants, engineering industries, machine tool industries and a lot of other industries came up. In other words, the public sector which was envisaged to carry the economic growth of this country and reach dizzy heights, had the foundation in the 1950s and 1960s. I personally feel and many of us in the public sector today feel that it was the right time for the industries to come up. Over a period of time, the investment has tremendously increased and from what was virtually the beginning of the public sector 45 years or so ago there is virtually nothing which is not being made in the public sector today. I would consider that technology and technical growth of this country through the public sector has been tremendous. It is no small means that what was virtually nothing, came into being as one of the largest technical manpower in the world today. We have experts in every aspect of the industry. So, public sector has done a tremendous job."

2.5 Pointing out the significant role played by the public sector in the development of industry in the country, the Deputy General Secretary, AITUC stated in evidence as follows:—

> "IDPL came to the rescue of nation. It produced everything that was required. No private company was prepared to do that. The nation depended entirely on the IDPL. Immediately after the Emergency, they have almost dismembered it. It seems there is a lack of political will on the part of the Government, It has forgotten the fact that the public sector is for the development of the country. Whatever private sector which is there in our country now, is all due to the assistance rendered by the public sector. Instead of depending on foreign assistance all the time, if the public sector could be further developed and the capabilities retained, well, the private sector in our country would have prospered."

2.6 Making an assessment of the extent to which PSUs have been able to fulfil the objectives for which they have been set up, the witness observed:—

> "Now the question before us is, has the public sector been able to achieve the objectives which were laid down at the time of its formation? Some of the objectives were-there should be strong technical foundation; there should be economic growth; there should be return on investment to be ploughed back for the growth of the public sector; regional imbalances should be corrected; and the standard of living of the people should be improved. I would say, by and large we have been able to fulfil most of these objectives. There have been areas where no other sector would perhaps have gone but public sector units have been put up. But there are a few problems which are being faced. Over a period of time, especially in the last four to five years, the problems have increased and they are much more now than they were earlier."

2.7 Stating that the public sector is still relevant in the present scenario, the Secretary, INTUC stated during evidence as follows:—

> "Our organization is of the firm view that public sector is as relevant in the present liberalised climate also, as it was in the past. Besides its corporate performance, the public sector has been vested with certain social responsibilities like developing of backward areas and thereby reducing regional imbalances, generation of internal resources for development, generation of employment, promotion of the growth of small scale and ancillary industries. There can be no denial of the fact that though the corporate performance of the public sector is not commensurate with the huge investments made, the social responsibilities vested on it has been fulfilled in a marvellous and remarkable manner. For instance, in this liberalised

climate, most of the investments by the private sector are taking place only in the already industrially developed States at the cost of backward States. The backward States continue to be neglected like Bihar, Orissa and others continue to be neglected. Investments are taking place mostly in States like Maharashtra, Gujarat, Tamil Nadu. It is only the public sector that had gone to backward areas like Rishikesh and Jhansi. Private Sector is basically profit oriented and shares is going to array when there is no infrastructure facility. While the public sector has gone there and generated new work culture. So the public sector is still relevant."

III. Sickness in Public Undertakings

3.1 Industrial sickness has been defined by economists as the situation where the rate of return realized on invested capital, taking risk involvement into consideration is significantly and continually less than the prevailing rates on similar investments. This can also be described as the situation where the revenues of a firm are insufficient to meet the cost and the average rate of return on investment is less than the firm's cost of capital. According to Reserve Bank of India, "a sick unit is that which has incurred a cash loss for one year and in the judgement of the Bank, it is likely to continue incurring losses for the current as well as in the following year and the unit has an imbalance in the financial structure, such as current ratio is less than 1:1 and there is a worsening trend in debt equity ratio".

3.2 The Sick Industrial Companies (Special Provisions) Act, 1985 defines a sick industrial company as an industrial company (being a company registered for not less than 5 years) which has at the end of any financial year accumulated losses equal to or exceeding its entire net worth and has also suffered cash losses in such financial year and the financial year immediately preceding such financial year.

3.3 The number of loss making PSUs and the amount of loss involved from 1990-91 to 1995-96 is given below:—

(Rs. in crore)

Year	No. of Units	Amount
1990-91	111	3122
1991-92	102	3723
1992-93	106	4113
1993-94	116	5223
1994-95	109	4883
1995-96	101	4826

3.4 Commenting on the phenomenon of sickness in ~~public~~ undertakings, the Chairman. SCOPE and CMD, Hindustan Zinc Ltd. stated in evidence as follows:—

> "If you take public sector as a whole, perhaps, you will bifurcate it into four major sectors. There are companies which are doing exceedingly well which, let us say, have about 10 percent rate of return of sales turnover; there are companies which are somewhere in the region of 5 to 10 percent: there are companies which are below 5 percent: and there are companies in the fourth category

which have a negative rate of return. As you will recall, a large number of sick private sector companies were taken over by the Government simply because of the social problems which would have been created in case those had been wound up. Some of these companies have been performing well but a large number of them have not been able to be turned around. Some of these companies have been referred to the various Government organisations. This fact is pulling down the rate of return of the public sector as a whole. If you keep these companies out and take those companies which are doing reasonably well with 10 percent rate of return of sales turnover. I think it is not too bad a figure taking into consideration that there are certain liabilities and social obligations which still are in force in the public sectors. Hence, there is need for public sector to become more efficient, more productivity-oriented, and more production-oriented. But the fact remains that painting with one brush, across the board for public sector units as a whole. I think would be a misnomer."

3.5 On the low rate of return on investment in PSUs, the President, FICCI commented during evidence as follows:—

"If we go by the returns, after all it is very important, the investment made has a minimum return. We find that the return is 2.7 percent or 2.8 percent. This is also there because we take the highly profitable oil sector which is again price controlled and monopoly sector. If you take that out, there is hardly any return."

3.6 Describing sickness in the PSUs under his Department, the Secretary, Ministry of Industry (Department of Heavy Industry) stated during evidence:—

"The total losses of these companies have declined a bit though they are very substantial. The losses in 1995-96 are about Rs. 1,346 crore excluding DCSL. In the previous two years, that is, in 1994-95 it was Rs. 1,481 crore and in 1993-94 it was Rs. 1,521 crore. You are aware of the broad assistance that we give in terms of financial restructuring, plan assistance, non-plan assistance and also funds for manpower rationalisation under the Voluntary Retirement Scheme. The total cash assistance in the Eighth Five Year Plan for all the companies under the Department of Heavy Industry has been of the order of Rs. 1,850 crore. Besides that, of course, bank guarantees have been given for a little over Rs. 1,000 crore about Rs. 400 crore has been converted into equity and about Rs. 1,640 crore of interest has been waived. As on today, out of these 48 companies, 24 companies have been referred to the BIFR, out of which restructuring plans have been sanctioned and are under implementation for seven companies. The balance are at various stages. So, this is the broad feature of the 48 companies under the Department of Heavy Industry."

IV. Causes of Sickness

4.1 The causes of sickness vary from undertaking to undertaking. These could be classified broadly into two categories, *viz.* internal factors which are within the control of management and external factors which are beyond the control of management.

(a) *Liberalisation*

4.2 With the liberalisation of economic policies, restructuring of the economy and the encouragement being given to multi-nationals to make more and more investment in the country, some feel that the less competitive and weaker units in the Public Sector as well as Private Sector are likely to be added to the list of sick units.

4.3 Explaining this predicament, the Chairman, SCOPE and CMD, Hindustan Zinc Ltd. stated in evidence:—

> "Some PSUs are turning into non-viable units and some of them have become sick and some of them are on the verge of becoming sick and some of them may get sick in future simply because they are unable to complete. It is getting into a vicious circle. You are not able to sell your products, get money and funds for modernisation. Your products are, therefore, more expensive.
>
> These problems have come up in the public sector in terms of, let us say, unlimited competition from various sectors whether it is domestic sector or private sector or international sector. International sector is making public sector little uneasy. This will further be compounded by the fact that the public sector is losing the direction, which was followed by it earlier. What role the public sector should play? Under the circumstances, should they continue to make investments or should they not make investments in various sectors?"

4.4 On the impact of economic reforms on the performance of the public sector enterprises, the Ministry of Finance (Department of Economic Affairs) stated in a note as follows:—

> "As a result of economic reforms, the list of industries reserved for public sector has been reduced from 17 to 6. The opening of new entry both by domestic private firms and by foreign sector enterprises exist. In the earlier situation, many areas where reserved for the public sector and therefore PSEs had monopoly presence in many sectors. It was therefore feasible for them to operate even within the operational constraints that are typically posed by public sector ownership. Cost plus pricing and administered pricing regimes

were also feasible in that environment. Moreover, many commodities produced by the public sector such as steel, non-ferrous metals, and coal, among other, were governed by price and distribution controls. Since imports were restricted in most capital goods industry, intermediate goods, and raw materials, PSUs in these areas had a captive domestic market while facing no competition from imports either. Pressures for continued investment in modernisation and technology upgradation were also non-existent.

"The situation has now been completely changed as a consequence of domestic and external deregulation encouraging new entry and providing relatively freer imports. Public sector enterprises now have to complete in the market with private enterprises."

4.5 On protection being given to PSUs, the Secretary-General, Centre for Public Sector Studies stated in evidence:—

"Protection is one thing which is good: of course, the profits should be given to the companies in India initially, but you cannot stretch it to the extent of saying that protection has to be given for all times to come."

4.6 Similar view was expressed by the Finance Secretary during evidence, who stated as follows:—

"In my view the policy of giving a protected market is very damaging to the national interests. The assumption that production units must be protected and that it is good for industry, it is good for trade, this will generate employment. I would respectfully suggest for the Committee's consideration that this is incorrect. In fact, it is an uncritical issue to give protection for a very long period which explains that for several decades India lost her position compared to several other countries. There are no unique economic laws for India. I think we should learn from what the other countries are doing. And the other countries did not develop strong industries, high growth industries did not generate employment for raising protective walls."

4.7 The Chairman, SCOPE and CMD, Hindustan Zinc Ltd. felt that even if protection for the public sector is taken away, at least they should be given the autonomy just like the private sector to compete in the market. He stated in evidence:—

"What we are asking from the Government is that we should get a fair deal. The Government could open the sector to the competition, but it must also allow these companies to perform as commercial companies, otherwise, I am afraid, the future of public sector will not be that bright. When I say that they should be allowed to operate in commercial terms. I mean that they should have no disadvantage compared to the advantages or disadvantages which are due to the other sector. Let us take an example that a decision has to be taken by the public sector unit about putting up a project. The whole process, if it is beyond the powers of the Board, goes through so many levels. It has to go to the Government. There is a procedure through which it has to go to the Government for final approval which normally is three-four levels. This may be the right thing to do as it was done all these years. The fact is that if we have to compete now we must be allowed to take a decision at one level. I am giving just one example to highlight as to why some of these problems are coming up, as the fact remains that we are supposed to compete."

(b) *Outdated technology*

4.8 The large incidence of sickness in the traditional industries, viz. textile, engineering, jute, sugar etc. indicate that obsolescence and failure to update the technology in these industries was the major cause of sickness.

4.9 Stating that one of the factors which has placed the public sector in disadvantageous position is non-upgradation of technology, the President, FICCI stated during evidence as follows:

"First take the technology today. Even in the private sector, if we want to survive in the long run we have to depend on it because the value addition comes out of the technology. The Japanese import iron ore from India and produce a better and cheaper steel. This value addition comes out of technology. Technology has become very important for the upgradation because without that you cannot compete in the market. One of the reasons is the backwardness of the technology."

4.10 According to the Chairman, SCOPE and CMD, Hindustan Zinc Ltd. too out-dated technology was the main factor leading to sickness in Public Undertakings. Elaborating on this point, he stated during evidence:

"Earlier the Planning Commission had a outlay. The capital outlay for the year was calculated on the basis of depreciation and profit if you have generated i.e. gross internal generation and demand. Over the period of time depreciation amount is not adequate to replace the obsolete equipment. Many of these units are facing problems of financial crunch simply because they do not have enough funds to replace the obsolete equipment. Once you are having obsolete equipment, certainly your cost of commodity becomes higher. Further they are not able to raise funds simply because they are not taken in as financially sound."

4.11 Pointing out that modernisation is an area that is neglected President, National Confederation of Officers Association of Central Public Sector Undertakings (NCOA) stated in evidence:

"Another thing is gross negligence of modernisation. The concrete example is that of the National Textile Corporation. Textile industry is the mother industry in our country. It is from the textile industry that other industries have sprung up. The National Textile Corporation was not made sick, it was born sick. All the units were rendered sick by the private promoters who drained the funds to the last rupee. Then the Government intervened and in order to ensure continued supply of products to the people and in order to provide continuous employment to the workers, they took over those sick units and set up the National Textiles Corporation. After taking over these units, what has the Government done to modernise them? They are incurring losses year after year and the Government has been giving them loans to make good their losses. If the same amount had been spent on modernisation, the NTC would not have been brought to the present sorry state of affairs. So, the Government also is to be blamed."

(c) *Resources Crunch*

4.12 A major constraint in the way of overcoming sickness is non-availability of fianance for timely renovation and rehabilitation of loss making PSUs. Explaining the constraints faced by the Government in the allocation of funds, the Finance Secretary stated in evidence:

"Sir, first you have raised the point that the Committee is being told by other Ministries that the problem of the public sector is always the problem that the Finance Ministry is not willing to give money and that most Ministries think that they could solve the problem if money is provided. It is not that the Finance Ministry is objecting to providing money. Our view is that there is an overall kitty. There is a certain total amount of resources. I do not think that the public sector should have any automatic access to budgetary resources. It would be a very bad policy if whatever losses are being made and whatever public sector enterprises demand for restructuring automatically lead to provision of money from the Government Budget. Our resources are very scarce and we do want to utilise those resources in the best way possible to promote our Plan objectives. For this purpose, the Finance Ministry decides best on the available resources as to how much support is possible for Plan expenditure. That amount is made available to the Planning Commission.

Sir, the Finance Ministry is not objecting if the Planning Commission feels that way. Out of the total budgetary support, the funds that we provide to the Planning Commission, the Planning Commission allocates those to the different sectors, to new projects, to the social sector and to infrastructure. They can, if they wish, if they find investment for reviving public sector enterprises as a high priority. There is no stopping the Planning Commission from devoting some money to the revival of an existing public sector enterprise."

4.13 Explaining the impact of writing-off loans, the Secretary (Expenditure), Ministry of Finance stated in evidence:

"One takes very lightly about write-off and thinks that there is no budgetary impact. The Government's borrowing is very high. So, by 'write-off' we said that this money will never come back. There are accumulated losses, which the company had lost and its capital had been eroded. There are no assets to cover these loans. The current assets are not there. The bank dues are separate. The revival plan is a worthy exercise provided the company does not come back afterwards for support."

4.14 Citing the cases when Government has provided funds for revival of PSUs Finance Secretary stated during evidence:

"There are 34 cases where the Government has said that it would provide funds. There are cases where the Government has said that it would not provide funds. In the case of NTC. It was mentioned earlier and the argument was that this could be revived without the budgetary support. It is because the money can be realised from the sale of land, closure of some units and revival of other units. That scheme, as the Chairman has himself said, has failed because the State Government did not agree to sell the land. Faced with this situation, the Government was not willling to provide any budgetary support, if the sale of land is not possible for whatever reason. The Government as the owner has said that it would not provide funds to revive these units."

The witness added:

"Our view is, when the Planning Commission says, here is Rs. 55,000 crore of budgetary support, it should say that it is allocating Rs. 2,000 crore for the revival of sick units and we will set up some mechanism to decide which one should be revived. If they decide not to allocate anything, then in the course of the year, every revival plan that comes does not have funds and the Government, *ipso facto,* decides not to fund it. It has been our consistent view that the Planning Commission should pre-allocate funds. If they do not pre-allocate funds, it means they find that these programmes are not worthwhile which is not our concern."

4.15 Giving details about financial institutions providing funds for revival of the public sector undertakings. Finance Seceretary stated in evidence as follows:

"May I explain this position? Let us forget about the Government for a moment. Look at what happens in the private sector. The BIFR process does distinguish between whether it is a public sector enterprise or it is a private sector enterprise, now the position is that when an enterprise is sick, an independent technical study is commissioned which is a revival package, now that study may involve additional injection of funds by the promoters plus additional support by the financial institutions and the banks. The banks are completely free to say that they have looked at the schemes and they do not think there is much of it and so they are not providing the funds. There is no requirement on the part of the banks also. Even if ICICI were the operating agency and some staff members of ICICI prepared a package, there is no compulsion on ICICI to fund that package. That is a separate decision they take. Similarly there is no compulsion on the owner to bring in funds. Really the Government is only coming in the same way. Here is a package. It requires so many things from you and so many things from other institutions. Are you willing to provide these additional funds? Now in this you can have two types of situations. The first situation is that the financial institutions may simply say that they are not interested in providing the funds. So, the package is *ipso facto* unviable. The financial insitutions are not interested in funding many of these packages, although they are prepared by the BIFR. The financial institutions make their own judgements. They judge whether in their view, the management of these organizations within the same framework of the public sector will, in fact, be conducive to viability. Many of them find that they will not. We are not interfering with that process."

4.16 Suggesting that the money realised through disinvestment should be given back to PSUs and not used for reducing budget deficit, Prof. Kamal Nayan Kabra, Indian Institute of Public Administration stated during evidence:

"Disinvestment at the moment, is not taking place in respect of the sick units, it is taking place only on respect of the healthy units. At the moment, the disinvestment policy is not about the sick or weak units. The best of the units and the most profitable units are put on disinvestment. Another point which is important is that if public enterprises are notable to make technological upgradation because of poor Budgetary grants, if their technology has become obsolete and if less than 20 per cent of their equity is disinvested, then my commonsense suggests that this money should be given back to them. This is what I would tend to think. That should not be used for reducing the budgetary grants.

Subscribing to this view, the Secretary CITU stated:

"As a matter of principle, we do not support the idea of disinvestment of the shares of the healthy units because day in and day out whenever we turn the pages of the newspaper we find scam, etc. and in that fashion, in one fine morning we may find a very serious situation developing in regard to BHEL, etc. In our book we said: 'What did the Government do with the disinvested money? If the Government would have ploughed back that amount in the public sector itself, perhaps it would make some sense. If that amount is taken to meet the Revenue Expenditure, then it is a gross injustice."

4.17 A similar view was expressed by the Chairman, SCOPE and CMD, Hindustan Zinc Ltd. also in evidence:

> "I submit that a part of the disinvestment which the Government is in the process of doing in the public sector should be kept as a fund for financing the sick unit. We have said so at various fora."

(d) Managerial inefficiency

4.18 The Committee have noted that according to a study made by experts from the Delhi School of Economics and the Indian Statistical Institute, management failure and financial structure have been the primary reasons for industrial sickness. The study conducted by the Reserve Bank of India also indicated that at the unit level, management deficiency was the most frequent cause of sickness.

4.19 Pointing out that many of the sick PSUs have no regular Chief Executive, the President, NCOA stated in evidence:

> "They do not have even a Chairman. Take for example, Bharat Bhari Udyog Nigam Ltd. I think, it covers most of the sick units of West Bengal-Braithwaite, Burn Standard, Jessop and so many others. Now there is a Chairman-cum-Joint-Secretary-cum-this-cum-that. Here is a unit which needs tremendous effort and attention. I would rather have a Chairman-cum-Joint Secretary for ONGC. With the best effort, it is very difficult to pull out BBUNL. If I were given a choice, I would put the best man in the

sick unit rather than the best man in a profit-making unit. Take HFC. You have an IAS officer as the Chairman. Where is the management, first of all? That is the most serious problem.

At least for the sick units, if you are very serious in reviving them, get hold of people who are competent enough. Pay them any amount of money. Tell them: "We want these units to be revived." But what happens today is that they have an A.B.C. or D classification. BHEL Chairman will be paid a higher salary than the Chairman of a 'sick corporation'. If you are serious, you had to have a tremendous expertise to revive a unit rather than the other way round. If I have a heart attack, I need the best doctor.

You identify the sick units you want to revive. If necessary, call private experts. Pay them well. Tell them that these are the targets. We want these to be revived within two years and let us go for it. We will revive it. What is the problem? First, a decision must be taken."

4.20 Commenting on this, General Secretary, AITUC stated in evidence:

> "We have a feeling that many of the public sectors are without competent Chairman or Executive Directors even to this day. How are they supposed to be run? For example, the Scooters India, Lucknow. There is no full time Chairman or Managing Director. One Joint Secretary sitting in Delhi cannot be a Chairman or Managing Director of a concern running in Lucknow. That is a sure way of bringing about sickness and the public sector goes out of existence. I think, some machinery should be involved for appointment, just like the Union Public Service Commission. There ought to be a Committee which appoints the Chairman and the high officials, the Directors and others having some statutory authority."

4.21 Suggesting that there should be proper succession planning, the President NCOA stated in evidence:

> "At least three months before the Chairman retires, the second man should be appointed so that the organisations also come to know who will be the next Chairman and the new man also will come to know about the organisation like it is done in the case of Services. Now what is happening is that the organisation is left headless for one or two or three years and that is very undesirable. If a person dies, I can understand that it is an unforeseen situation. In the case of retirement, why can't the Government start the exercise earlier? I really feel that this needs to be done."

4.22 The Chairman, SCOPE felt that there should be a pool of good managers available for the public sector so that they could man the sick companies. He stated during evidence:

> "In some of the sick companies people are leaving in large numbers. There should be pool of good managers and those managers should be sent there to man them. Otherwise, it is very difficult for the sick companies to get good people. It could be one of the solutions. We can put highly committed and reasonably paid people drawn from other public sector undertakings there, who can be given the challenge of managing these sick companies. Of course, you can give them a little incentive. You can also think of giving them some compensation also later on."

In this connection, the witness added:—

> "After selection of the Chief Executive, he should be there in the company before the previous Chief retires for one month in advance so that he will know what type of the company it is, etc. I would say that the process of selecting the Chief executive should start at least six months in advance so that the selected chief will be in a position to know all the other things."

4.23 Pointing out the need to evolve a system of changing management when it is found to be unsuccessful, the Chairman, Public Policy Committee of Confederation of Indian Industry (CII) stated in evidence:

> "The basic thrust is that it is the management of an enterprise which ultimately results in the enterprise making money or losing money, that management must perform and if it does not perform, then you have to change the management."

4.24 The practice of appointing civil servants to top managerial positions in PSUs and over-representation of Government Directors on the Board, lack of professionalism etc. are also often pointed out as factors affecting the working of public enterprises.

4.25 Commenting on the practice of appointing persons who are without professional background as chief executives, a representative of Confederation of Indian Industry (CII) stated in evidence as follows:

> "If you look at civil aviation, you have Boards where not one person on the Board has any long term professional background in aviation. You have 10 bureaucrats in a Board of 11. Moreover, you have this curious situation today where, in a number of public sector undertakings, the CEO's position is being held on part-time basis by a bureaucrat. If he is a Joint Secretary and if he were to resign from that job in order to be

unlikely to perform well later on when these people leave. Therefore, there must be adequate compensation."

The President, FICCI also commented on this as follows:—

"I have to make a general comment. Today we have not thought in terms of either providing employment or any unemployment insurance in case of a unit getting sick. Today, we do not provide for any employment insurance. We do not have retrenchment compensation or how the workers should be taken care of. There should be a proper safety measure for the workers. Then, it is much better to sell the idea to the workers that it is in the interest of the economy and in their interest in the long run."

4.39 With the continued growth in sickness in Industries, the matters of rationalisation of work force was being visualized and there was likelihood that workers might get affected. Accordingly, to protect the interest of the public sector workers affected due to rationalisation of work force. National Renewal Fund (NRF) was set up in February, 1992 with the budgetary provision of Rs. 200 crores for the year 1992-93. The NRF assistance is provided for retraining and redeployment of surplus workforce as well as counselling affected employees and for meeting expenditure on Voluntary Retirement Scheme. Since then every year budgetary provision is made in the fund. Till 31.3.1996, a total of 97,585 employees of the public sector took Voluntary Retirement with the assistance of NRF. Whereas the budgetary allocation for NRF for the year 1994-95 was Rs. 700 crores, allocation for the year 1995-96 was Rs. 300 crores only, out of which Rs. 209.58 crores was spent for VRS and Rs. 7.42 crores for conselling/retraining of workers.

4.40 Commenting on NRF, the Secretary, CITU stated in evidence as follows:—

"..... National Renewal Fund is a misnomer. It is rather destroying the nation. As per the figure available with me upto June, 1994, more then 70,000 employees of the public sector have taken voluntary retirement although each and every case is not a voluntary one. They are imposed by different designs and fashions and for that, money has been spent. So, when the concept of National Renewal Fund was placed before us all the trade unions irrespective of affiliations rejected it. Nevertheless, during several meetings, we said that the money spent for paying towards people who go in for so called voluntary retirement along with that of disinvestment amount could have been pumped in for getting rid of sickness of units. If that was done, it could have been good. What was the declared purpose of National Renewal Fund? The idea was to help the reorganising or restructuring of sick or weak units in the public sector. Now, out of the 70,000 people who have gone in for voluntary retirement, more than 70 per cent are officers, managers, engineers and other skilled persons."

(f) *Social Obligations*

4.41 Another factor stated to be responsible for placing public enterprises in a disadvantageous position as compared to private sector is the obligations placed on PSUs to take care of employees' welfare and meet social objectives.

4.42 Recalling that it was through the public sector that cross-subsidisation and balanced regional development were made possible. President, NCOAC stated during evidence:—

> "The last point I would like to make is that public sector is the instrument through which this nation has tried to deal with two problems one is cross-subsidization and the other is balanced regional development. Through the public sector we have tried to provide cross subsidisation even if it meant a loss for us. In our industrial policy we tried to provide balanced regional development. Nobody with any commercial sense would set up a Turbine Factory at Hardwar or a paper plant in Cachar. You may privatise or multinationalise: that is your option. But what are the instruments of policy with which you want to tackle these two problems because these two problems cannot be wished away. You need cross-subsidisation and this nation will need balanced regional development. Public Sector was the instrument through which this was being done. Write off the public sector. I do not mind. But what are the substitute instruments? This is what I would like to know. If you do not provide substitute instruments. What will be the social, political consequences of that vacuum? I would urge most humbly that this Hon. Committee should examine this aspect very seriously."

4.43 The President, FICCI felt that PSUs should concentrate more on those areas where the private sector would not come in. He stated in evidence:—

> "I feel that the public sector should be brought in focussed areas and those focussed areas are the areas where the private sector will never come because it is not a commercial proposition. I would like to take this opportunity to tell something I feel very strongly. The Government was doing the entire infrastructure before: but two years back they had thrown open the infrastructure sector to the private sector. A stalemate has been created wherein neither the Government nor the private sector is making any investment in infrastructural areas like road. Whereas the industrial growth has been five to ten percent. The roads are growing at the rate of one to two percent only. After all the investment is from the public money and growth in other areas will get struck if this sector does

within five minutes. And the people who are considered for these positions are not at all suitable."

4.32 On the Selection Board, the Secretary-General, Centre for Public Sector Studies stated in evidence as follows:—

"Sir, I would submit that the Chairman of the Selection Board must be a full-time Chairman. We should not have part-time people in the Selection Board. The Chairman should always take help from the technical personnel. As I mentioned about the SAIL, in the selection process there, steel experts should be there. All the Members of the Selection Board must be present while making selections. The members are there from the Department of Public Enterprises and others. But the Selection Board itself, as of today, is not competent to select the technical experts."

4.33 On the need to have a participative management, the President, NCOA stated in evidence as follows:—

"There is no reason why the workers and the managers of the public sector should not be put on the Board of Directors. I say that, at least, in the sick, units why not implement it straightaway. There is nothing to lose."

4.34 Expressing the same view point, the Secretary, INTUC stated in evidence:—

"We want participative management because we firmly believe in Gandhiji's theory of trusteeship. According to Gandhiji's trusteeship theory all production instruments belong to the community and capital and labour are the trustees. In turn capital and labour are mutual trustees. Without capital, labour cannot produce and without labour capital could achieve nothing. Both are mutual partners. When such is the relationship we should involve them in the management in a very efficient and concrete manner."

The witness added:—

"There should be workers' participation from the lowest level of floor level to the decision making Board level. That will not only improve the performance of the public sector units but also will bring in a new culture of harmony in industrial relations. Of course, there is no denial of the fact that we have to take care that the participative form are not turned into bargaining tables. It has got to be an efficient participative activity in the management."

4.35 Stating that workers should be consulted on important matters like MoU, the witness observed:—

"Another factor is that before signing the Memorandum of Understanding, the workers are not taken into confidence at all. It is the workers who have to perform and show results. The

Chairman is there only to manage the affairs and guide them, but the actual performer, that is, the worker, is not taken into confidence and the Chairman himself signs the Memorandum of Understanding. Of course, there is a new trend now, as in Hindustan Aeronautics, where they involved the workers when the Memorandum of Understanding was signed."

(e) Surplus Manpower

4.36 Surplus manpower is identified as a major cause of industrial sickness. Giving details on surplus manpower in the Public Sector, the Chairman, SCOPE and CMD, Hindustan Zinc Ltd. stated in evidence as follows:—

"Overmanning is another area which has given rise to this sort of a problem, which is there in many of the sick units. It is a misplaced consideration which has said that the public sector should generate employment. It is not an employment agency to take as many people as possible and as they like. There have been cases where there have been pressures to take more people and with the result, overmanning has become—surplus manpower—one of the main reasons for sickness in some of these units which are not performing well."

4.37 The President, FICCI also expressed the view that most of the public sector undertakings are overstaffed at present. It is also equally true that in the post-independence period PSUs were the only agencies to generate employment opportunities.

4.38 Expressing the view that employees should not suffer on account of sickness in the public sector, the Chairman, SCOPE stated as follows:—

"What I am trying to say is, the disparity in salary structure between public sector and other sectors is becoming fairly large. There was a time when the disparity between public sector and other sectors was not so large. So the commitment to work for the national sector was there. Now the difference has become so large that a large number of people are leaving public sector because they feel that their career growth in other sectors is far better than their career growth in public sector. Another fact is that till now the public sector has not come out with a clear-cut policy of its future. So if they are not stopped. We will be left with mediocre people and even if you give adequate money, you will not be able to bring them up, simply because there will not be adequate and competent people to man them. One way to stop this, specially in the case of sick and potentially sick companies, is that they should be compensated as in the other public sector companies. They should not be deprived of their dues—increase in salary—just because the company is not performing well today. It is most a CEO in the same company, then he would be considered too junior to qualify; but today he runs the enterprise in the public sector as a full time CEO on a temporary basis."

4.26 Stressing the need to have professionals as Chief Executives of PSUs, the Secretary, INTUC stated in evidence:

> "Many of the PSUs are headed by bureaucrats for whom the PSUs are transit camps. But the bureaucrat does not bother about understanding the industry. Even if he tries by the time he is able to understand, he is transferred from there. Without any consideration to his performance he gets promotion because he is a civil servant. Unless you recruit professionals, skilled men and qualified managerial personnel at the top level, the public sector cannot perform the duty which has been assigned to it."

The witness added:

> "The civil servants are holding the top positions and I am sorry to state that they do not have that intellectual commitment to the concept of public sector in the developing country like ours. Unless they are committed to the very concept, how do you expect them to perform their duty?"

4.27 Citing the example of BHEL when there had been Directors who had grown within the organisation, the President, NCOA stated in evidence as follows:

> "I do not know for what reasons the Government has not encouraged the growth of management. I tend to believe that one of the reasons why BHEL has done well is because since 1977 it has had Directors who have grown within the organisation, whereas if you look at other organisations the Directors were from outside. They would know nothing about that organisation. But from the experience of BHEL I can say that no doubt if you have your internal people grow up to the top that unit will succeed.
>
> I am very proud to say that BHEL has withstood multinationals and they are ready to beat the multinationals if they are given the freedom to do so. I have no hesitation in saying that it is because of all the Chairmen since 1977 and all the Directors have grown from within the organisation. That makes a lot of difference. Today, I have a Chairman who has grown with me for the last 20 years. I can talk to him whenever I want to. We know each other for the last 20 years. But if some Joint Secretary or an IAS officer is appointed and if I do not know him that makes a big difference."

4.28 In this connection, the Secretary-General, Centre for Public Sector Studies stated during evidence:

> "You can improve the working of the management. There should be proper checks and balances about the working of the

management. So, mostly there should be a technical personnel for the post of the Chief Executive. There should be persons belonging to that discipline. It is not that you take IAS officers for that post. They have failed miserably to reviving the public sectors........... So, my point is, for the post of the Chief Executive, we should always have a person having sound technical knowledge so as to run the unit in a much better way."

4.29 Suggesting that if not a technocrat, the Chief Executive should be at least a technically qualified person, during evidence the President, FICCI stated:

"It is not necessary that he should be a technocrat but he should be a technically qualified person, he should posses requisite knowledge and experience. Today you have bureaucrats who are all through running the Government Ministries with absolutely no experience. They have a different mind-set. With the best of intentions it is difficult for them to manage certain situations without having requisite knowledge in the subject. Certain situations could be better managed by an Engineer. I am not saying that an IAS officer may not be able to perform after all they are doing it in the Ministries. By and large it depends on individual talents."

4.30 Suggesting that top management of the public sector should be recruited by the UPSC, the Chairman, Economic Affairs Committee of the CII stated in evidence:

"We have suggested that the recruitment of the top management of public sector should be done by a body like the UPSC. The lower level people could be recruited directly by the company itself. Today, the top management is recruited by the Public Enterprises Selection Board and then the recommendations of the Public Enterprises Selection Board go through the concerned Ministry and up to the ACC. What we are suggesting is to bring about a certain distancing of the selection procedure from the political or any other considerations. After all, you recruit for civil services through the UPSC. We do that because we want to make the civil services independent from any pressures or any kind of bias."

4.31 Stressing the need for improving the procedure for selection of Chief Executives, the Chairman, SCOPE and CMD Hindustan Zinc Ltd. stated during evidence:

"It was a very balanced selection process in which people selected were good. Now, the whole process is confined to five minutes. I do not think that we can select Chief Executives not grow in tandem. Therefore, the Government must have its hold on the focussed areas which are essential for the country. They are the social infrastructure like education, health, sanitation, water, etc. The rest of the activity like running of the hotels, trucks, buses: they are not the operations of the Government."

4.44 When it was pointed out that it was the public sector which had made much investment in the social infrastructure, the witness commented during evidence as follows:—

"I would go by the context of time. At that particular time when these industries were set up, they did not have the time, patience and even the finance to take care of the social infrastructure. But today they are in a position to take that responsibility. The role that both should play is to take care of the social infrastructure."

4.45 Disagreeing with the view, the President, NCOA stated in evidence:—

"It is said that there are some private sector enterprises which pay more to their workers and, at the same time, undertake many social welfare activities. Barring large industrial houses like Tatas, I would like to know which are the private sector establishments that have any interest in social welfare activities. They may be paying a little more but I know that for every single pie paid by them, they extract much more work. Their motive is profit. They believe in exploitation. As such, we do not agree with the point that private sector undertakes social welfare activities."

4.46 President, FICCI was of the view that be it private sector or public sector profitability should be the main criteria for running any enterprise. He stated during evidence:—

"My emphasis is on running the unit viably and economically. For a particular sector or sect. for employment or whatever may be the ideology, you want to protect, it is not possible. It has to run viably and economically. That has to be the criterion. If it is possible to revive economically, it should be revived. But it should be revived to run the unit economically."

4.47 After the initial concentration of public sector investment in key infrastructure areas, public enterprises began to spread into all areas of the economy including non-infrastructure and non-core areas. This also led to poor overall performance of the public sector.

4.48 Suggesting that indiscriminate spread of the public sector to all areas including the non-core sector should be checked, the General Secretary, AITUC stated in evidence:—

"We agree that the public sector does not at all mean that everything should be in the public sector. Our country needs the private sector, the public sector, the cooperative sector as well as the tribal sector. It is the mix of all forms of economic systems which could develop our productive forces. Therefore, we could clearly say that public sector should be only in some selected areas. We are not for spreading it out in all types of non-essential sectors. What is necessary is that it should be in the core and infrastructure industries. Too much of indiscriminate spread. I think, has diluted the purpose. There is no need, for instance, for the public sector to be in the industry for making bread etc. Of course, the public sector came into being due to certain historical reasons. Take for instance textiles which is a very important sector in our economy. The NTC, as you may be aware, came into existence because the sick textile mills had to be taken over by the Government and in many cases those sick mills have in a way turned round and made profit. They were taken over after their managements virtually ripped off everything. They had to be taken over by the Government so as to provide employment to the workers. That type of public sector should be continued quite apart from the core and infrastructure. Everything else may or may not be there."

(g) *Lack of autonomy*

4.49 In order that PSUs function efficiently there need to be a harmonious blend of both autonomy and accountability. Autonomy should precede accountability. It is commonly felt that lack of autonomy and undue interference have adversely affected the efficient working of the public sector.

4.50 Trying to establish that lack of autonomy is one of the factors leading to sickness, the Secretary, INTUC stated in evidence as follows:—

"Irrational pricing policy, administered prices and lack of autonomy are some of the other reasons responsible for the sickness. In spite of everything, still there is back-seat driving by the bureaucrats, with the result that the Chairmen of the public sector enterprises have to wait at the door of the Secretary or the Joint Secretary day in and day out. He may be a highly qualified professional man who has a thorough understanding of the industry, but in spite of that, he has to be at the mercy of the bureaucrats. So autonomy is another important thing."

4.51 Subscribing to this view, the General Secretary, AITUC stated in evidence:—

"Then, Sir, about the causes of sickness................................ I would like to say a few things. We should not have constant interference by the Government Departments. Sometimes interference, even by the officer of the rank of an Under Secretary of the Government, in the management of very big public sectors has been harming the public sector considerably. We are opposed to it. There is interference of Government Departments and the controlling Ministries and that has led to total lack of autonomy as far as public sector is concerned. We, who are in the trade unions, are very much connected with it. We are very sorry to say that a Chairman has to seek instructions from the Ministry for appointing even a Class-IV employee. Not only appointment, but for transfer and other matters because after all they are the appointees of the Ministry. There is lack of autonomy and lack of professionalism. After all, the civil services are arrogating to themselves all the plum posts. They are in the administration and so they get advantage of it. Before retirement or after retirement, they acquire those posts without any expertise. And we do not like that."

4.52 Trying to draw a comparison with the private sector, the Vice-President, CII stated in evidence:—

"I am also from the private sector and I run my own business. I started as a small-scale businessman thirty years ago and now I have a turnover of Rs. 150 crore. I employ about 1500 people. All my senior managers have been with me for the last 20 years, since the time I built my business. Each one of them looks after one particular centre and he has total freedom in the centre to hire his people, to fire his people and to show the results. The main difference between an organisation of the type which I am running, which is a medium scale company, and a public sector company is that when my manager takes a decision and if that decision goes wrong—some decisions can go wrong—there are no committees or CBI inquiries to say that the action has been taken in a malafide manner. He has the freedom to take action and he has the freedom to proceed ahead. I think, that is one of the biggest areas where our public sector is lacking. You may have any number of people in Government, but it is the Joint Secretary who ends up controlling these public enterprises. Besides, there are all sorts of Committees, Vigilance Commissions. These are something which are not there in the private sector. The issue of hire and fire is secondary. When a person is performing, only a fool will fire him. It takes years to build up an operating manager and an enterprise. The second thing which I wanted to highlight is that in the scenario which is given, takeovers are going to become relatively more easier in private sector companies which does not perform well or it will go into liquidation or it will disappear from the scene. What we wanted to stress is that unless the public sector gives to its people the same degree of operational freedom, it would not be able to function in today's environment."

4.53 Stating that freedom of operation is very important for improving efficiency especially in view of the international competition, the witness stated:—

"Freedom to operate is a very critical issue, when the international competition comes in. The private sector is faced exactly with that problem. I can tell you that we have the same problem in our company. We are doing the same thing in the private sector. What we are suggesting is how can the companies, whether in the private sector or in the public sector, become profitable in a new environment. The environment has changed and I wish we could guarantee security to anybody. But unfortunately even we have no guarantee. In the private sector, we have to depend on performance. The idea of the entire presentation is to make the public sector perform and we are suggesting some changes."

4.54 Suggesting that Boards of PSUs should have adequate power delegated to them, the Chairman, SCOPE and CMD, Hindustan Zinc Ltd. stated in evidence as under:—

"We have been saying that we should give powers to the Board and these powers should be adequate so that they become Board managed company. The idea is that the Board should have adequate powers to take decisions. It is a very large investment which must be made or made in sensitive sectors, certainly it must go through various levels. What we have been saying is that we should have no undue levels for taking decisions. The level should be such that the Board can take decisions and manage its affairs, by themselves. The restrictions are there on the public sector companies simply because they belong to this sector and the accountability has to be to the Parliament. So they have their own set of conditions. I am not disputing that they are right or wrong. The pointis where is the comparison which has to be made with the private sector because the functioning of that sector is totally different."

4.55 Even in the face of liberalisation and stiff competition, level play has been denied to the public sector. Citing an instance, President, NCOA stated during evidence:—

"In the case of power sector, it is a matter of record that in the last 15 years BHEL has won 90 per cent of all global bids. Even today after 1991, there have been five global bids. Recently also in the global bid for Kayamkulam, BHEL is LI, i.e. the lowest bidder. Just last week, NTPC has opened a world bank tender. But as far as the Enron deal is concerned there was no bidding, BHEL is out. To throw us out of market in the name of competition does not make any sense at all."

4.56 Citing examples of Indian Oil Corporation and Indian Airlines the witness stated as follows:—

"Indian Oil is being asked to sell Mobil lubricant in competition with their own Servo lubricant in their official outlets. In my official outlet I am supposed to sell my competitor's product against my product. Are we competitors or are we colaborators? Mobil does not even have to do any marketing. I would like to know if the Mobil Oil company in America will do the same thing to our product on a reciprocal basis. I dare say that nobody in the world will do it. Even an illiterate businessman will not do that. But it is there for you to see right in front of you. What is being done with the public sector is really atrocious, if you permit my use of that word. We are being denied orders, we are being kept out of the market, we are being forced to collaborate with our competitors and whatever profitable portions is there, it is being privatized and all loss making portions are being nationalized. You take for example Indian Airlines. If you allow us to operate only the profitable routes as is being done by the private airlines, then those private operators will not stand anywhere near us is competition. Why do you bog us down with non-profit making routes? We are ready to run only the profitable routes, dump all the resources and we will give such a service that nowhere in the world you would have seen. Then you see the profits we will make. You cannot tie our legs and hands and say that you do not run faster than that guy. These are very serious matters."

V. Sickness in PSUs: Case Study

(a) *Indian Drugs & Pharmaceuticals Limited (IDPL)*

5.1 IDPL had been incurring losses since its inception except for a brief periods of five years from 1974-75 to 1978-79. The accumulated losses of the company, as on 31.3.1996, are provisionally estimated at Rs. 690.15 crores as against the paid-up capital of Rs. 267 crores. A statement indicating the performance of the company in the last five years (unit-wise) is given below:—

(Rs. in crs.)

Years		Value of Production	Sales/ Trans.	Profit/(Loss)	
				Cash	Net
1		2	3	4	5
1991-92					
—Rishikesh		69	71	(31)	(33)
—Hyderabad		62	67	(52)	(54)
—Gurgaon		9	9	(4)	(4)
—Madras		10	11	(14)	(14)
—Muzaffarpur		8	7	(5)	(6)
	IDPL	156	167	(96)	(110)
1992-93					
—Rishikesh		99	97	(15)	(17)
—Hyderabad		55	52	(44)	(46)
—Gurgaon		11	10	(4)	(4)
—Madras		7	8	(9)	(10)
—Muzaffarpur		—	8	(6)	(7)
	IDPL	177	164	(79)	(83)
1993-94					
—Rishikesh		102	102	(12)	(14)
—Hyderabad		46	49	(49)	(50)
—Gurgaon		11	11	(3)	(3)
—Madras		2	3	(9)	(10)
—Muzaffarpur		5	5	(7)	(8)
	IDPL	165	158	(66)	(70)

1		2	3	4	5
1994-95					
—Rishikesh		137	138	(13)	(14)
—Hyderabad		55	56	(57)	(58)
—Gurgaon		12	13	(5)	(5)
	IDPL	199	183	(74)	(77)
Subsidiary Units					
—Madras		0.9	1.1	(2.1)	(2.3)
—Muzaffarpur		0.7	0.2	(1.9)	(2.4)
1995-96					
—Rishikesh		81	83	(34)	(35)
—Hyderabad		28	28	(58)	(60)
—Gurgaon		6	7	(11)	(11)
	IDPL	114	123	(103)	(106)
Subsidiary Units					
—Madras		2.3	2.0	(1.4)	(1.5)
—Muzaffarpur		1.6	1.5	(3.2)	(3.6)
1996-97	(Upto	30.11.1996)			
Rishikesh		27	28	(43)	(44)
—Hyderabad		13	12	(46)	(47)
—Gurgaon		2	2	(9)	(9)
	IDPL	39	40	(98)	(100)
Subsidiary Units					
—Madras		1.2	0.7	(0.9)	(1.0)
—Muzaffarpur		0.02	0.1	(2.1)	(2.4)

Cash Loss=Loss before Depreciation.

Net Loss=Loss after Interest & Depreciation

The peformance during 1995-96 and 1996-97 (upto November, 96) is provisional and unaudited.

Madras & Muzaffarpur Plants were converted as subsidiary units *w.e.f.* 1.4.1994.

5.2 The reasons for sickness, as identified in the Report by IDBI in June, 1993 were the incidence of social objectives, emphasis on formulations for sales to institutional market, manufacture of bulk drugs from basic stages, inadequate emphasis of sales of formulation to the trade market, most products being under the price control, high employment cost, incidence of policy changes with regard to import of bulk drugs, high interest burden, decline in budgetary support, inheritance technology inadequacies particularly from the centralized utilities and services and locational disadvantages.

5.3 The BIFR formally declared IDPL sick in terms of the provisions of the SICA, 1985 on 12.8.1992. A revival package prepared by the IDPL Management was got vetted, at the instance of the Ministry of Finance, by the Industrial Development Bank of India (IDBI), Bombay. The revival package conceived as an agreed package in terms of Section 17(2) of the SICA, 1985 was approved by the BIFR on 10.2.1994 and the existing management/promoters were allowed to implement the package. The plan had the target of production and sales of Rs. 328.00 crores and Rs. 306.00 crores respectively in 1994-95 and the targetted net profit was Rs. 0.08 crores. The overall anticipated impact of the plan was (i) IDPL would start earning net profit within one year; (ii) the networth would become positive by the Sixth Year (1999-2000); (iii) the accumulated losses would get wiped-off by the ninth year (2002-2003); (iv) gross cash accruals would be adequate to cover the long term liability and the DSCR would work-out to 1.50 as against the minimum requirement of 1.33.

5.4 IDPL was expected to generate Rs. 23.17 crores over a period of two years from 1994-95 to 1995-96 from sale of surplus land/assets. The package, *inter-alia*, envisaged fresh financial assistance to the tune of Rs. 119.94 crores in 3 years beginning from 1993-94 to 1995-96 and capital restructuring with effect from 1.4.1993. The revival package also envisaged rationalisation of the excess manpower to the extent of 3,300 persons over a period of two years and upto 1994-95 from Rishikesh, Hyderabad and Gurgaon plants.

5.5 The actual performance of IDPL (from the three main plants, namely, Rishikesh, Hyderabad and Gurgaon) in 1994-95 was as under:

(Rs. in crores)

Particulars	Targets (Revival Plan)	Actual (Unaudited)
Production	328.00	199.23
Sales	305.65	183.03
Gross Profit/(Loss)	52.35	(25.88)
Interest	47.27	41.06
Depreciation	4.80	2.99
Net Profit/(Loss)	0.08	(77.52)
Reduction in manpower	3300 persons	2059 persons
		(Shortfall=1241)

5.6 About failure of the first revival package implemented by IDPL, the Secretary, Ministry of Chemicals and Fertilizers (Department of Chemicals and Petrochemicals) stated in evidence as under:—

"The first package had been prepared by the IDPL management in consultation with various labour unions and it had set certain production and sales targets. The Government was required to release to them roughly a sum of Rs. 120 crore worth of assistance. That assistance was released. The restructuring which was inherent in the Revival Plan was done. It is surprising to note that about 50 per cent of the targets could be met. The result was that instead of the company starting turn around in the first year of the Revival Package Plan it incurred huge loss. You would be surprised to hear people saying that the targets were ambitious and all that. What I would like to emphasize is that those targets were accepted. This was prepared by the management themselves. Therefore, to say that the targets were un-realistic. I do not think it will hold water."

5.7 To a query whether the Company was in agreement with these observations the Director (Finance) and CMD Incharge, IDPL stated in evidence:—

"We have expressed our differences on various matters in our Board meetings, before the BIFR and in the joint meeting which the IDBI held before the BIFR hearing. So what we had pointed out is that the revival package is based on certain assumptions."

5.8 On being asked about the reasons for the failure of the first package the witness replied:—

"The work was started in September, 1992. It involved a working capital assistance of Rs. 20 crore in 1993-94. Rs. 20 crore was also asked for in 1994-95. The revival package assumed that IDPL would not have to provide any assistance for Madras and Muzaffarpur Units. The amount provided in 1994-95 was of Rs. 20 crore. Out of that Rs. 20 crore there was some unforeseen exigency *i.e.* we had to pay Rs. 1 crore as Government guarantee fee there was an *ad hoc* demand for another Rs. 1 crore from the U.P. Electricity Board and we had to give about Rs. 2.3 crore to Madras and Muzafffarpur plants. What was available for 1994-95 was only Rs. 15 crore. We had assumed that the manpower would get reduced in 1993-94 and 1994-95 by 3,300 employees. At the end we would have to pay Rs. 44 crore in 1994-95. But the manpower reduction did not take palce because under the voluntary retirement scheme, people did not take voluntary retirement. So we had 1300 employees more than what we had projected. The wage bill for 1994-95 was actually Rs. 56 crore..... There was a very substantial shortfall in the sale of formulations. We did about 80 per cent in bulk drugs. We had projected about Rs. 120 crore. We were actually able to do Rs. 96 crore in bulk drugs."

5.9 A modified revival package submitted by IDPL was rejected by Government. Narrating the sequence of events a representative of the Ministry of Chemicals and Fertilizers (Department of Chemicals and Petrochemicals) stated in evidence:—

"The write off and waiver of outstanding interests and penal interests that accrued upto 31.3.1993 was to the extent of Rs. 285 crore. In addition to this, Rs. 140 crore was actually given in the form of loan, in the form of equity, in the form of money for VRS. That was also pumped in. In spite of all this, in the very first year they failed to achieve the targets. Then they came up with the modified revival package calling for yet greater contribution from the Government and further writing off of loans and equity. At that time the Group of Ministers took the decision that this modified revival package cannot be accepted and the Department of Chemcials and Petrochemicals was told to go to BIFR. The modifications proposed were got to be vetted properly. So an appropriate agency in the course of giving assistance to IDBI was necessary as directed by BIFR. This was as directed by BIFR. It was decided to call on the service of consulting firm to make a thorough techno-economic viability. That is the second part of the modified revival package when AF Ferguson came into the picture."

5.10 The case of IDPL in the meantime came up before the Bench I Special of the BIFR on 8 July, 1996. The Bench after considering the present position directed that the cut-off date should be shifted from 30 June, 1996 to 31 March, 1997. The BIFR directed the Operating Agency to prepare a revised rehabilitation proposal within a period of two months and the hearing was fixed on 29 October, 1996. In the hearing held on
29 October, 1996. BIFR directed IDBI, Bombay to get the diagnostic

study completed by the Consultant (M/s. A.F. Ferguson & Co.) appointed by the OA by the middle of December, 1996 so that the rehabilitation proposal could be considered in the hearing fixed on 15 January, 1997. M/s. A.F. Ferguson & Co. submitted its report to the OA on 26 December, 1996. According to IDBI the preparation of the long-term revival proposal would involve a detailed study and therefore, IDBI requested BIFR for postponement of the hearing.

5.11 The production in the plants of IDPL-Rishikesh, Hyderabad, Gurgaon and Muzaffarpur Unit came to a halt from October, 1996 except nominal operation in Gurgaon Plant and Madras unit. IDPL had difficulty in paying the wages and salaries to its employees from the month of November, 1996. Notices from the State Electricity Boards have been received for disconnection of power supply.

5.12 Stating that M/s A. F. Ferguson & Co. has not been able to suggest any revival package, the Secretary, Ministry of Chemicals & Fertilizers (Deptt. of Chemicals & Petrochemicals) informed the Committee during evidence that the matter has been sent to the Cabinet:—

> "In the light of the comments received from various departments, we have submitted a note to the Cabinet. We had analysed and put up the recommendations of the IDBI, that is the operating agency's recommendations before the Cabinet. They have found the techno-economic plan of reviving the IDPL, not being feasible. They were not able to suggest any fresh revival package. Based on that, we had sent a note to the Cabinet with a few recommendations on which it should take note of and give the directions."

5.13 Stating that IDPL has not been found viable for revival in the light of its operations, the witness observed:—

> "The point is the accumulated losses and the investments require the kind of alternatives to that. I have more or less made it clear that this is one of those cases perhaps where a revival may not be possible. I am saying it not very lightly. I think some companies are, unfortunately, reaching what we call a point of no return. I am afraid that in my opinion this is one of those cases. I must be frank enough before this Committee because I cannot literally say that I will think of it. After seeing all the performances of the previous ten years in terms of its highest production ever achieved, highest sales ever achieved, management ethos, management practices, the locational advantage or disadvantage and everything. I am of the opinion that this is not a revivable unit any longer."

The witness added:—

> "As per the IDBI report the IDPL is not viable. All that I am saying is that the recommendation with which this Department proposes to go before the Cabinet would be in view of this report,

that Gvoernment may consider whether they would tell the BIFR that they would not longer be interested in being the chief promoter. It is for the BIFR to decide what they would do. But as per the report the IDPL is techno-economically not viable."

5.14 When enquired whether it meant closure of IDPL as a whole, the witness stated as under:—

"That is of course, one of the options. What we are actually recommending is that the Government may have to take a view and put up the viewpoints before the BIFR saying that the Government is no longer in a position to act as the Chief Promoter. That would mean the BIFR will have some other option."

5.15 On being asked whether it would not be desirable to obtain a second opinion by a consultancy organisation preferably in the public sector before any final decision is taken on the future of IDPL, the witness observed:—

"Sir, I will have to seek instructions on that."

(b) *Hindustan Fertilizer Corporation Ltd. (HFC)*

5.16 Plant-wise production performance in HFC's plants for the last three years was as under:—

(Production in thousand MT 'N')

Unit	1993-94		1994-95		1995-96	
	Prodn.	% Cap. Utilisation	Prodn.	% Cap. Utilisation	Prodn.	% Cap. Utilisation
Barauni	10.1	6.7	30.83	20.31	25.81	17.00
Durgapur	18.8	12.4	1.30	0.86	34.98	23.04
Namrup-I	—	—	—	—	—	—
Namrup-II	3.4	2.2	0.91	0.60	—	—
Namrup-III	84.0	47.4	72.23	40.77	64.74	36.55
TOTAL (OVERALL COMPANY)	116.3	17.8	105.27	16.11	125.53	19.21

5.17 It has been stated that the performance of Namrup-I, Namrup-II, Barauni and Durapur units has not been satisfactory, mainly due to ageing of the plants equipment/design deficiencies power shortage, industrial relations problems, surplus manpower and resource constraints. The production in Namrup II has remained suspended since October 1994 due to shortage and unsteady supply of natural gas. The Durgapur unit faced shut down from 11.11.1994 to 10.3.1995 due to a Supreme Court order on account of non-installation of pollution control measures in accordance with the directive of the State Pollution Control Board, West Bengal. The plant was allowed to resume production in March, 1995 consequent upon the implementation of certain pollution control measures by the company.

5.18 Haldia Unit was mechanically completed in November, 1979. Commissioning activities at this unit was stopped in 1986 due to various technological deficiencies. The assessment arrived at in the course of the preparation of the revival package for HFC for submission to the BIFR was that the revamp of the Haldia project would not be techno-economically viable, since its revival would require the setting up of a new plant at an investment of about Rs. 910 crores (at 1994 price level). In view of this it has been decided to consider the option of attracting private capital for its rehabilitation.

5.19 Net loss incurred by HFC from 1993-94 to 1995-96 was as follows:—

1993-94	Rs. 375.07 crores
1994-95	Rs. 412.07 crores
1995-96	Rs. 485.22 crores

5.20 The Committee on Public Undertakings had presented their 5th Report on HFC on 12 March, 1992 and 14th Action Taken Report on 31 March, 1993. In both the Reports the Committee had recommended that in view of the serious financial constraints being faced by the Company the proposals for revamping and rehabilitation of HFC's plants should be implemented expeditiously.

5.21 HFC was registered with BIFR on 30 June, 1992. In their action taken reply Government had stated that since the Government and the Company were awaiting measures to be suggested by BIFR for making the networth of HFC positive, the Government was stated to be not in a position to draw up any time frame for setting up of new plants as well as for implementation of the modest investment proposals. In the action taken report also the Committee had recommended that no time should be lost in implementing the proposals for rehabilitation of the old plants, which was vital to the survival of the Company. The Committee had also desired that Government should impress upon BIFR to expedite finalisation of the revival package.

5.22 In their reply on follow up action taken by Government on the Action Taken Report it was stated by Government that as per directions of the BIFR, ICICI is working on a viable revival package in respect of all the units of HFC for submission to the BIFR. The Department was also stated to be in the process of completing a fresh exercise in this regard.

5.23 According to the Annual Report (1995-96) of the Ministry of Chemicals & Fertilizers (Department of Fertilizers), in the hearing held on 19.1.1995, BIFR directed Department of Fertilizers to submit the firmed-up revival package for HFC by 31.3.1995. A revival package to revamp Durgapur, Barauni and Namrup units of HFC was formulated by the Department of Fertilizers which was approved by the Government on 20.4.1995 with the stipulation that the possibility of mobilizing fresh funds of the order of Rs. 464.93 crores required for revamp be explored from the financial institutions and/or cooperative undertakings in the fertilizer sector. However, according to the Annual Report the funding arrangements were yet to be tied up.

5.24 The Committee have learnt that a proposal for untied loan for HFC from the Export-Import Bank of Japan is pending for want of certain information from the Government. The information required to be provided include confirmation that it is a priority project for economic development detailed information on the content and nature of expenditure to be undertaken and Government guarantee for the loan facility.

5.25 On availing the offer of Japanese loan HFC stated in a note as follows:—

> "The detailed terms and conditions as well as the quantum of loan which the Export Import Bank of Japan (EXIM-J) would offer have yet to be spelt out. Based on revised cost estimate as per the latest report of ICICI, HFC would interact with EXIM-J to quantify the extent of funding facility likely to be made available by that source. The credit offers of foreign agencies have to be approved in consultation with the Ministry of Finance especially as the issue of Government guarantee is involved. As per the existing policy, External Commercial Borrowings backed by Government guarantee are currently being confined to power sector projects or co-financing with multi-lateral agencies like World Bank and ADB.

5.26 Giving the latest position in this regard, the Secretary, Ministry of Chemicals and Fertilizers (Department of Fertilizers) stated during evidence:—

> "The BIFR had appointed ICICI as the operating agency and it was desired that a revised rehabilitation package may be worked out in which institutions may come out with proposals for participation.
>
> Now, I am happy to submit before this august body that last week, ICICI have, on behalf of the Steering Committee, that is, operating agency in charge entrusted with the task, come out with a package, with a proposal for HFC. This happened last week. Now, we are actively working on it and we hope that within this month, we will be completing the examination and submit this for inter-Ministerial discussion and consultation."

VI. Sickness in Textile and Jute Industry

(a) *Textile Sector*

6.1 In the textile sector there are two PSUs namely National Textile Corporation Limited (NTC) and British India Corporation Limited (BIC). NTC has 120 mills managed by 9 subsidiary corporations. BIC has two units and two cotton subsidiaries namely, Elgin Mill Co. Ltd., Kanpur and Cawnpore Textile Ltd. Kanpur.

6.2 NTC was set up with the main objective of managing the affairs of the sick textile undertakings taken over by the Government, which were earlier under the management of the private sector. The mills taken over and entrusted to NTC were amongst the weakest in the textile industry and, therefore, had to be nursed back to a level of viability. 117 out of 120 mills of NTC have been incurring losses for the last three years (1993-94 to 1995-96). Profit/loss of NTC and its 9 subsidiary corporations for the last three years, the total net worth and accumulated net loss are as follows:

(Rs. in crores)

Sl. No.	Name of the Undertaking	Location	Profit/Loss 93-94	94-95	95-96	Total net worth (As on 31.3.96)	Accumulated losses
1	2	3	4	5	6	7	8
1.	National Textile Corporation Ltd., (Holding Company) (including 18 mills)	New Delhi	−0.43	−74.60	−81.00	N.A.	981.12
2.	National Textile Corporation (Delhi, Punjab & Rajasthan) Limited.	New Delhi	−30.12	−15.31	−21.40	−176.44	−201.19
3.	National Textile Corporation (Madhya Pradesh) Limited.	Indore	−67.47	−43.18	−44.60	427.87	−453.31
4.	National Textile Corporation (Uttar Pradesh) Limited.	Kanpur	−88.63	−40.48	−43.56	−506.44	−532.48
5.	National Textile Corporation (South Maharashtra) Ltd.	Mumbai	−65.53	51.17	−51.40	−414.90	−462.45
6.	National Textile Corporation (Maharashtra North) Limited.	Mumbai	−79.01	−56.29	−55.17	−461.95	−518.65

(Rs. in crores)

1	2	3	4	5	6	7	8
7.	National Textile Corporation (Gujarat) Ltd.	Ahemdabad	−82.38	−49.47	−54.71	−480.71	−503.77
8.	National Textile Corporation (Andhra Pradesh, Karnataka and Kerala) Mahe Ltd.	Bangalore	−41.42	−25.19	−43.72	−267.86	−330.14
9.	National Textile Corporation (West Bengal, Assam, Bihar & Orissa) Ltd.	Calcutta	−105.32	−51.18	−42.99	−639.36	−672.50
10.	National Textile Corporation (Tamilnadu & Pondicherry) Ltd.	Coimbatore	−4.18	−15.88	−30.68	+41.56	−26.03

6.3 Except NTC (Tamilnadu and Pondicherry) all the subsidiaries of NTC have been referred to BIFR. This subsidiary has also been incurring losses since 1992-93 and the accumulated loss as on 31.3.1997 was Rs. 53.38 crores. During their on-the-spot visit to the subsidiary in June, 1997, the Committee were informed that in case this subsidiary suffers loss during 1997-98 also, it may also have to be referred to BIFR.

6.4 Losses incurred by BIC and its two subsidiaries in the last three years, the total net worth and accumulated net loss were as under:

(Rs. in crores)

Sl. No.	Name of the Undertaking	Location	Profit/ Loss 93-94	94-95	95-96	Total net worth (As on 31.3.96)	Accumulated losses
1.	British India Corporation	Kanpur	−32.51	−32.08	−33.17	−212.69	−257.85
2.	Elgin Mills	Kanpur	−36.23	−50.42	−55.28	−409.81	−411.05
3.	Cawnpore Textile	Kanpur	−5.92	−8.17	−10.53	−55.72	−56.35

6.5 Giving the present scenario of the textile sector, the Secretary, Ministry of Textiles stated in evidence:

> "The main reasons for their sickness are, loss in production and growing financial losses. If we see the growth of textile industry in the country, in the last 10 years from 1985 to 1995, there has been a substantial increase in the number of mills. There has also been a substantial increase in the number of spindles in the spinning sector and in the weaving sector we have seen a very unusual growth in the decentralised sector, that is the powerloom. In 1985 the contribution of the mill sector as a whole, both private as well as national textile mill, in the total cloth production in the country was about 25 per cent and 75 per cent was accounted for by the powerloom, handloom and knitting sector. In 1995, that is 10 years

later, the contribution of the overall mill production has come down to only 7 per cent. From 25 per cent it has dwindled down to 7 per cent whereas contribution in the power loom sector is almost 72 per cent of the cloth production. Spinning Sector in 1985 had 24 million spindles in the country and in 1995 they have increased to 30 million spindles. This has not been in the interest of the National Textile Corporation Mills which were taken over as sick mills. They had been closed before they were taken over by the Government and if they were not taken over then perhaps they would have remained closed."

6.6 Giving the details of internal factors which are responsible for the sickness in NTC, the witness stated:

"So far as the internal reasons for the sorry state of affairs of the NTC mills are concerned. I would say that there are three main reasons which are internal to the management of these mills. It is like the three sides of a triangle. The first side is, the technical parameter. They are very old mills. Out of 120 mills, 94 mills are more than 50 years old. The technology of spinning and weaving in these mills is obsolete. In the new mills, which have been set up both in spinning and weaving, there is a more sophisticated technology. The second technical reason is that we have not invested very much in the modernisation of these mills. There has been some investment to which I will come later, but it has been only in the nature of renovation of the old machines or having balancing equipment. No mdoernisation, as such or the technological upgradation has really been taken up in these mills. This has led to low investment, low utilization, low machine efficiency. If we compare the machine efficiency of our NTC mills with any mill in the private sector, they are at least 25 per cent less in machine efficiency and that is why the quality of cloth that we produce or the yarn is not consistent. The second main reason is the financial parameter. When these mills were taken over, there was no free surpluses available to these mills. There was not profit in the balance sheet and no cash resources available with them. So, they were zero free reserves and because of low productivity, low machine efficiency, they have been incurring losses. Except for a small number of mills in Tamil Nadu and Pondicherry and a few mills in Kerala, all these mills have been incurring losses. There has been a vicious circle of losses leading to continuous cash loss and they have not been able to come out of it."

6.7 To a question whether the objectives of taking over of NTC mills had actually been achieved, the witness stated:

"You are absolutely right when you said that the objectives of taking over were not fully achieved because the main objective of taking over the management of these mills was augmentation of production and distribution of different varieties of cloth and yarn. While the mills have continued to produce cloth and yarn, their contribution has come down quite substantially in the last two decades."

6.8 The Ministry of Textiles has stated that Government had approved a Turn Around Strategy for NTC in 1992 which included phasing out of 14 unviable units and merger of 49 mills into 21 resultant viable units. It had also envisaged modernisation of 55 mills at an investment of Rs. 532.78 crores. In the meantime, as a result of amendment to SIC Act, in 1991, 8 of 9 Subsidiary companies of NTC were referred to BIFR and the implementation of Turn Around Strategy 1992 could not be carried out.

6.9 Giving more details on revival plans, NTC has stated that 4 Textile Research Associations (TRAs) were appointed by the Ministry of Textiles to draw up fresh plans for revival of NTC mills. The Special Tripartite Committee on NTC matters constituted by the Ministry of Labour, set up a Sub-Committee to examine the revival Plans for NTC. The Sub-Committee considered the modernisation plans prepared by the Textile Research Associations. The Special Tripartite Committee accepted the recommendations of the Sub-Committee and reached the following unanimous agreement on 9.4.1994:

i) The reports given by the Textile Research Associations show that the NTC mills as well as Taken Over mills (since nationalised) can be made viable by modernisation.

ii) Modernisation/Rationalisation therefore should be carried out in consultation with the unions.

iii) There should be no retrenchment.

iv) There should be no privatisation.

v) Taken over mills would be nationalised (since nationalised).

vi) Surplus land may be disposed off and the proceeds could be utilised by the Management for modernisation, working capital etc.

vii) Professional Management should be strengthened both in the Holding Company and at the subsidiary levels and representation of trade unions should be ensured upto Board level for effective participation of workers in the management at all levels from unit to Holding Company.

viii) Steps shall be taken to move the BIFR to accept the above proposals and close the cases.

6.10 The plans highlighted the modernisation of 79 mills at an outlay of Rs. 2005.72 crores. The entire funding was proposed to be made from out of the sale of surplus land and buildings available with NTC mills. As per the evaluation conducted by the Central Board of Direct Taxes, the available surplus land and building of NTC would fetch a sum of Rs. 2349.10 crores. Besides, the estimates were made by the TRAs for availability of funds out of sale of surplus machinery to the extent of Rs. 124.15 crores. The Government approved the revised Turn Around Strategy on 9.5.1995. Following were the key elements of the revised Turn Around Strategy.

(a) Nationalisation of 15 taken over mills (since nationalised).
(b) Merger of 36 unviable mills into 18 viable mills.
(c) Rationalisation of surplus manpower by offering V.R.S., and
(d) Modernisation of 79 mills at an outlay of Rs. 2005.72 crores.

6.11 On implementation of the revised Turn Around Strategy, it was expected that NTC would earn a net profit (overall) of Rs. 114.47 crores per annum. The overall production value was expected to touch around Rs. 2960.59 crores per annum.

6.12 Giving further details on funds provided to NTC for modernisation of mills, the Secretary, Ministry of Textiles stated in evidence:

> "Sir, most of these mills were nationalised in the year 1974. Thereafter, an amount of Rs. 160 crore was spent on modernisation of various mills.Then, during the Sixth Five Year Plan a further amount of Rs. 196 crores was spent on rehabilitation and towards start-up expenses, etc. In all, a sum of Rs. 356 crores was spent on these mills.
>
> Thereafter, if was continued in the Seventh Plan also through the Textile Mondernisation Fund and till now the amount that has been spent on modernisation and start-up of these mills is Rs. 511.28 crores. Out of that amount, the funds released by the Promoters, that is the Government, is Rs. 332.16 crores and the funds released by the Financial Institutions is Rs. 179.12 crore.
>
> Sir, in the year 1992, the Government had prepared a turn around plan. This was before the turn around plan which was approved in the year 1995. The Government had approved this turn around plan in August, 1992 with an investment of Rs. 532.78 crore. This was for the modernisation of 55 mills of the NTC and this amount was to be realised from the Financial Institutions to the extent to Rs. 404 crore; Budgetary support of about Rs. 89 crore; and other loans through the IDBI of about Rs. 18.52 crores. So, all these added up to Rs. 532.78 crores. In the meantime, the Sick Industrial Companies Act (SICA) was extended to the Public Sector Undertakings as well. So, according to that wherever the net worth had become negative all these companies were to be mandatorily referred to the BIFR and from the year 1992 all these eight companies, out of the nine companies, of NTC were gradually referred to the BIFR.
>
> Therefore, this turn around plan of 1992 could not be implemented for two reasons. First, the cases had been referred to the BIFR and second, the financial institutions were totally reluctant to provide funds due to its referral to the BIFR. It is because of this

could not materialise. Thereafter, in the year 1993 the Government requested the Textile Research Association to study these mills and come up with modernisation plans. The Cabinet accepted and approved its referral to the BIFR. That is the present position."

6.13 About the latest position with regard to the proposal for modernisation of NTC mills, the witness informed the Committee as follows:—

> "So far as the Ministry is concerned, the formal position as of now is that there are modernisation plans worth Rs. 2005 crores. This issue is still before the BIFR and once the BIFR approves it, then it will be implemented. The process of implementation will constitute the sale of surplus land and the proceeds thereof would be utilised for the modernisation of the 79 mills. Some cases are still pending before the BIFR. This is the present position."

6.14 In the case of 4 Subsidiary Corporations viz. (i) NTC (UP) Ltd., (ii) NTC. (MP) Ltd., (iii) NTC. (WNABO) Ltd., and NTC (Gujarat) Ltd., the BIFR has given an opinion that these Companies should be wound up since the revival proposals prepared by the Operating Agencies are not found to be viable unless the Government takes up a decision for writing off of loans of these Subsidiary Companies. In the case of other 4 Subsidiary Corporations i.e. NTC (DPR) Ltd. NTC (SM) Ltd. NTC (MN) Ltd. and NTC (APKKM) Ltd. though the revival plans prepared by the Operating Agencies have been found viable by the BIFR, no final decision has yet been taken. The Secretary Ministry of Textiles informed the committee that in respect of these four subsidiaries, the matter has been referred to the Cabinet for its decision and a decision is still awaited.

6.15 The funds for modernisation were supposed to come from the sale of surplus land belonging to NTC mills. Giving the progress in this regard, the Secretary, Ministry of Textiles stated in evidence as follows:

> "The modernisation plan prepared was for Rs. 2,005 crore. This was based on the proceeds of sale of surplus land with various mills. The whole amount was to come from the sale of land. The main part of the proceeds was to come from the State of Maharashtra. We have two subsidiaries—Maharashtra North and South Maharashtra as well as the taken over mills of Mumbai. Their surplus land is valued at Rs. 1,946 crore. Hence, out of total expected value of the surplus land of Rs. 2,349 crore, almost 80 percent was to come from the state of Maharashtra."

> The witness stated further:—

> "We have approached the Government of Maharashtra to allow us to sell the land and initiatives have been taken at political level also. The previous Minister of Textiles and the present Minister of Textiles have been meeting the Chief Minister of Maharashtra with

the request that NTC mills should be allowed to sell the land. The response that we have received till now is that they have appointed a Committee under Shri Charles Correa as Chairman to examine the issue of selling of surplus land. This covers not only NTC mills but also private mills. The Committee is understood to have recommended development of 567.000 sq.m. of surplus land of NTC mills after surrendering one-third to Mumbai Municipal Corporation for public purposes and one-third to Maharashtra Housing Development Authority for housing purposes."

6.16 The Committee appointed by Maharashtra Government gave its report on 30 September, 1996 which has not been made public so far. No final decision has been taken in the matter. It is learnt that a Committee of officials has been appointed by Government to look into the question of revival of NTC mills. There were also press reports that on the basis of a report by this Committee there was a fresh move in which the Ministry of Finance recommended closure of 107 mills of NTC.

(b) *Jute Sector*

6.17 There are three PSUs in the jute sector, namely National Jute Manufacturers Corporation Ltd. (NJMC) its subsidiary company, Birds, Jute & Exports Ltd. and Jute Corporation of India Limited (JCI) Financial performance of NJMC during the last three years was as under:—

1.	Loss incurred:	
	1993-94	Rs. (–) 68.85 lakhs
	1994-95	Rs. (–) 78.14 lakhs
	1995-96	Rs. (–) 86.93 lakhs
2.	Networth as on 31.3.96	Rs. (–) 751.22 lakhs
3.	Accumulated cash loss upto 31.3.1996	Rs. (–) 790.49 lakhs

The Company was taken over by the Government in June, 1980 Reasons for sickness in NJMC were identified as under:

(i) Poor condition of existing plant and machinery.
(ii) Delayed implementation of earlier modernisation scheme.
(iii) Uneconomic product mix.
(iv) Erosion of working capital due to continuous cash loss.
(v) Huge surplus of work force.
(vi) Power problem.
(vii) Increase in cost without commensurate increase in selling price.
(viii) Major fire in Unit National in the year 1986.

The Company was registered with BIFR on 12.8.1992.

6.18 Giving an analysis of the problem of sickness in NJMC, the Secretary, Ministry of Textiles stated during evidence as follows:—

"Sir, so far as NJMC is concerned, after the nationalisation of these mills in 1980, a task force looked into the need for modernisation. The modernisation was started in 1984. The total amount sanctioned for modernisation for these six mills was Rs. 34 crore and the actual amount released for modernisation was Rs. 24.65 crore. After the investment there was some improvement in the productivity of these mills. As a matter of fact, the total production metric tonnes per day — I do not say it was satisfactory — rose from the level of 350 tonnes to about 400 tonnes. But thereafter there has not been any further modernisation. The Committee is aware that there has to be a continuous investment in regular maintenance of the machines and also in replacement and renovation of the machine.

In the NJMC also it is the endeavour of the Government to have a modernisation package. This has been prepared. Since the BIFR is seized of the matter this has also been referred to the BIFR. It is not a very large package. It consists of only Rs. 253.92 crore. There also it includes Rs. 67 crore which the NJMC owes to JCI. If this package is approved then JCI will get Rs. 67 crore from NJMC. If that happens. I am quite sure that JCI will be in a very happy position as they can get a working capital from the banks and I think it will be in the interest of both JCI and NJMC. So, Rs. 67 crore which is to be paid to the JCI is also included in this rehabilitation plan. Besides, the cash loss during the implementation period, is already being given in the form of wages and salaries. This accounts for about Rs. 150 crore. There is VRS element in this package amounting to Rs. 34.5 crore. If this package is approved, we can implement it quickly.

6.19 Stating that the internal set up in the Company has already been geared for implementation of the package, CMD, NJMC stated in evidence as follows:

> "Sir, regarding the internal problem in connection with the implementation of package, we have studied the problems faced in the earlier implementation. Right now, in anticipation of the revival plan being sanctioned, we have created an awareness both among the workers as well as officers as to what the package is like and how it is going to be implemented with the proper phasing. Similarly, we have also set the norms for the works to be undertaken. We have set up a committee which would look after the implementation in a proper manner so that the proper involvement and participation both from the workers as well as officers could be achieved. We have devised a suitable mechanism so that the principles of checks and balances are applied. Sir, after working for a couple of years there, I find that may be instead of one and a half years, the implementation could spill over to two years or may be three years. But once this is decided then we will not commit the mistakes which were committed earlier."

6.20 Explaining the present state of working of NJMC, the witness stated:

> "Sir, all the six mills are working. The price of the jute has gone very high temporarily. But after August, all the mills are showing improvement. Now they are utilizing fifty per cent of their capacity. In November, it was 280 metric tonnes per day and in December we hope to be at the same level and by February, we feel that we will reach the level of 300 metric tonnes. It is difficult to improve with the old obsolete machinery. Unless money is made available, it is not possible to get more output."

6.21 In a note furnished to the Committee by the Ministry of Textiles following information pertaining to the period from 1991-92 to 1993-94 has been made available in respect of JCI:—

1.	Losses incurred:	
	1991-92	Rs. (−) 132.64 lakhs
	1992-93	Rs. (−) 165.99 lakhs
	1993-94	Rs. (−) 71.57 lakhs
2.	Total Networth as on 31.3.94	Rs. (−) 3568.04 lakhs
3.	Accumulated cash loss upto 31.3.1994	Rs. (−) 4068.04 lakhs

6.22 According to the Ministry, though the cumulative losses of the Corporation are much more than 50% of networth as on 31.3.1994 it was not considered a sick PSU as it is engaged in price support operations of raw jute, the losses for which are reimbursed by the Government. The reasons for financial crisis in JCI are mainly attributed to:—

(a) Very small equity base of Rs. 5 crores which is insufficient to mobilise the funds for MSP Operations.

(b) Non reimbursement of losses in full resulting in arrears of Rs. 61 crores.

(c) Non payment of dues amounting to Rs. 64 crores by NJMC to JCI.

6.23 Suggesting that JCI should start procurement of jute to improve its financial performance, the Secretary, Ministry of Textiles stated in evidence as follows:—

> "So far as commercial purchases are concerned, it is a fact that the Cotton Corporation of India is making profits because of the commercial intervention in the market. In my personal view the JCI should also have the same thing. In the raw jute market, they should go out and purchase on their own so that they can make a trading profit. But the problem with the Jute Corporation of India has been that for the last couple of years it has not done any price support operation and because of the accumulated losses it does not have any working capital. There is no working capital with the JCI.

We have tried our best to get some funds released to them so that they can start operations. We are still trying it. The banks and financial institutions will not give any working capital to them till some margin money is given by the Government. In that direction we are making our efforts and if we can provide some margin money, they will be asked to do the commercial operations."

VII. Board for Industrial and Financial Reconstruction (BIFR)

7.1 In the seventies the Government had to come forward for the acquisition of a large number of sick enterprises in the private sector, especially in the engineering and textiles sector, and to take upon itself the responsibility of running them. But taking over of the sick companies by Government was not a permanent solution to sickness because the number of sick companies went on increasing in alarming proportion. There was also no legislative measure for detecting and dealing with industrial sickness.

(a) SIC Act

7.2 Realising the seriousness of the problem, the Government appointed in 1981 a Committee to examine the legal and other difficulties faced by banks and financial institutions in the rehabilitation of sick industrial undertakings and to suggest remedial measures including changes in the law. The Committee submitted its report in October, 1983. This finally led to the enactment of the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA), to promote fast reorganisation of sick industrial companies in the private sector. Its objectives were timely detection of sick and potentially sick companies for providing preventive ameliorative remedial and other measures. The salient features of SIC Act were the following:

(1) The Act is applicable to the industries specified in the First Schedule to the Industries (Development and Regulation Act, 1951).

(2) The sickness is identified on the basis of the indices of cash losses and accumulated losses/net worth.

(3) The onus of reporting sickness and potential sickness rests on the Board of Directors.

(4) The establishment of a Board consisting of experts in the field for enquiring into/determining sickness and devising suitable remedial measures.

(5) The constitution of an Appellate Authority for hearing appeals against the orders of the Board.

7.3 The Government policy on sick public sector enterprises was announced in the industrial policy statement on 24th July, 1991. The relevant portion of the Policy Statement is as under:—

> "Public Sector Enterprises which are chronically sick and which are unlikely to be turned around will, for the formulation of revival/ rehabilitation schemes, be referred to the BIFR or other similar

high level institutions created for the purpose. A social security mechanism will be created to protect the interests of workers likely to be affected by such rehabilitation packages."

7.4 By way of implementation of the said provisions of Industrial Policy Statement, the Sick Industrial Companies (Special Provisions) Act, 1985 was amended in 1991 to bring Government Companies (Central/State PSEs) under its purview. It was further amended in 1993. According to SIC Act a Sick Industrial Company means an industrial company (being a company registered for not less than five years) which has at the end of any financial year accumulated losses equal to or exceeding its entire net worth. According to the Act the restructuring package includes:—

— Reconstruction, revival or rehabilitation.

— Change in or take over of management.

— Amalgamation with any other company.

— Sale or lease of a part or whole.

— Winding up.

(b) Structure and role of BIFR

7.5 The Board for Industrial and Financial Reconstruction (BIFR) is the agency implementing SIC Act. Set up in 1987, it was visualised as a fast facilitation agency with a single point reference and rapid disposal. The Board consists of a Chairman and a maximum of 14 other members appointed by the Central Government. The Chairman has the power to constitute benches consisting of not less than two members. An appellate authority called the Appellate Authority for Industrial and Financial Reconstruction (AAIFR) consisting of a Chairman and not more than three other members, has also been constituted for hearing appeals against the orders of the Board.

7.6 When an industrial company becomes sick, it is obligatory for the Board of Directors to make a reference to BIFR for determination of appropriate measures for restructuring. Such references are required to be made within sixty days from the date of finalisation of the duly audited accounts of the company for the financial year at the end of which the company has become sick. The Central Government or the Reserve Bank of India or a State Government or a public financial institution or a scheduled bank may also make a reference to the BIFR. On receipt of a reference the Board may make such enquiry as it may deem fit to determine whether the company has become a sick industrial company. The Board may order for appointing an Operating Agency (OA) to enquire into and to make a report within 60 days from the commencement of the enquiry. The Board has also powers to appoint one or more persons to be Special Directors of the company for safeguarding the financial and other interests of the company. On completion of the enquiry the Board orders further measures as deemed fit.

7.7 Comenting on the judicial status of BIFR Shri R. Ganapathi, former Chairman, BIFR stated in evidence as follows:—

"Since it is a judicial body, nobody can issue any directions to that or give any instructions which are not contained in the Act itself. Of late, a body of industrialists in the FICCI has been instructed to study the performance of BIFR. They have expressed considerable dissatisfaction and made certain suggestions. I told them that whatever suggestions you make will not be binding on them, because the Government cannot issue executive instructions to the BIFR."

7.8 On the Constitution of Benches in the BIFR, the witness said:—

"I had sanctioned four benches. I was of the view that we need one or two more Benches. So, I envisaged six Benches. ....In certain cases, vacancies were not filled up for long intervals."

7.9 Speaking on this issue, the President, NCOA stated during evidence:—

"We want the BIFR to be revamped. The Indian Labour Conference held early this year had made certain recommendations for improving the performance of BIFR. We want more Benches on a Zonal basis and the workers' representatives on each of the Bench. BIFR benches should also have their sittings in various regions instead of inviting everyone to come to Delhi. BIFR does not give that much importance to workers' say. So, the workers also should be made a party before the BIFR."

7.10 On the need for having exprts in BIFR, Shri R. Ganapathi, former Chairman, BIFR stated as follows:—

"When BIFR was conceived, it was clear in the Act itself that BIFR has a college of experts from different fields. When I was the Chairman, there were demands quite rightly that there should be experts from the private sector also and I had written that there should be some experts including the private sector and other fields. I do not want to make any more suggestions because I do not wish to be told that I have prejudices. You see the membership of the BIFR at different points of time, specially upto January 1992 and after that period. You see who were the people sitting there. If you go to a person who is not a doctor and tell him that you are unwell, then he will call the compounder. He looks at you and prescribes the medicines and that person passes it on to you. Now, will you be satisfied? This is what is happening to the present membership of the BIFR. I said a member does not know what is the left side of the balancesheet and which is the top and the bottom of it. To deal with any sick industrial enterprise. One should require to have deep knowledge of finance, technology and marketing. Now, his answer was that he has got an officer from the bank and he does all these things for him."

7.11 Commenting on the overall role of BIFR the witness stated as follows:—

> "I will start by saying that BIFR was not conceived as a unique institution. Whatever it tried to do was already being done by the financial instituations. Because of certain inherent difficulties in evolving rehabilitation package for sick industrial sector undertakings, it was thought necessary to have an expert body with some sort of judicial status to examine what should be done to put them on the path of recovery in case it was felt that rehabilitation was possible."

(c) Efficacy of BIFR in respect of PSUs

7.12 Analysing the merits and demerits of referring PSUs to BIFR, the President, NCOA stated during evidence as follows:—

> "Let us run down the list to see what the BIFR is supposed to do with sick units. First it is supposed to determine whether a unit is sick in terms of the Act, and whether it comes within its purview. In the case of public sector units, the CAG examines their accounts, and there is no question of fudging these accounts. The accounts are there very much. The C&AG examines the accounts; the Audit examines the accounts and the Parliament examines them. So there is no need for the BIFR to do this. The Government can very well decide whether they are sick or not. The BIFR is to determine the causes of sickness of a particular unit and the ways and means of dealing with it, the revival of the units with external assistance of banks and financial institution. In case of PSUs the Government has got reports. There are even reports of the Committee on Public Undertakings in respect of quite a number of units which are readily available. So, again, uou do not need the BIFR to answer this question. About the aspect of finding out as to whether or not it is in the public interest to try to revive the unit, it is not for the BIFR to decide this aspect. Whether the DTC should carry one lakh students free of cost, the BIFR cannot decide. It is a political decision which is within the realm of the Government. Nobody can say you carry students free of cost and make profits. That is an insane proposition. If I am to carry people free of cost, then, it should be a political decision. It has to be Government's decision and not that of the BIFR. The BIFR cannot decide the issue whether to run a coal-based fertilizer unit at a given place is in public interest or not.
>
> The third aspect for BIFR is that of assessing the techno-economic viability of the units in terms of the guidelines. Techno-economic studies of the public sector units have been done a number of times. The Government has got techno-economic studies; including studies

conducted by foreign consultants. There are a number of studies available. You do not need a *de novo* study by the BIFR. The fourth is the deliberation as to which measure outlined in the Act would be appropriate to revive the unit. What is it to deliberate? What are the appropriate methods of reviving the units unless the Government itself decides what it wants to do? Generally, the BIFR feels that a sick unit should be merged with a healthy unit. How is a sick unit to be merged with a healthy unit unless the owner of a healthy unit takes a decision or is inclined to do it? So, framing of rehabilitation/revival scheme is essential. I do not think the financial institutions etc. are far more competent than the Government of India to decide what is to be done. My submission is that all these things are within the realm within the competence, within the entire capability of the Government of India to decide. To abdicate their responsibility, the Government of India just passed on the problem to the BIFR and allow the matter to hang there. Really, the BIFR cannot do anything. So nothing serious comes out of the BIFR. To route Government decision through the BIFR and blame the BIFR for the delay does not make sense."

7.13 Shri R. Ganapathi, former Chairman, BIFR was of the view the responsibility for deciding the revival of PSUs should be with Government and not with BIFR. The witness stated in evidence as follows:—

"I am of the opinion — I have expressed it repeatedly — that Government has shirked its own responsibility by passing on this problem to the BIFR. It has all the expertise to come to a decision in the case of each enterprise. It has all the powers to enforce its decisions. Obvioulsy, BIFR has not the expertise available with them. It refers the case to the operating agencies like IDBI. They may be able to deal with small units. But there are other constraints. How will you deal with those constraints? They are not accustomed to deal with such constraints. Therefore, my submission is that referring the public sector unit to BIFR was quite a negation of its own responsibility by the Government. BIFR also acts like a shy boy. You must call for the records. You must have seen in four years, what has been their disposal and how do they dispose them off?"

The witness emphatically concluded:—

"I personally do not think that the public sector undertakings should be referred to BIFR at all. If it is referred to BIFR it should have been under some enabling provisions, not applying the same rules to the public sector also."

7.14 A similar view was expressed by the Chairman, Committee on Sick Industries, SCOPE and MD. Burn Standard Co. Ltd, during evidence:—

"Who is to take the basic decision as to whether a company has to be revived or closed? It is the promoter who has to make up his mind. If the promoter wants to run, he has to make a proposal. If the promoter does not whant to run, then the BIFR has no mandate to stop that decision. They can work only on the consensus. If any of the parties, whether the bank or the Government or any other financial institutions do not agree to the proposal of the BIFR, then the BIFR, has no teeth to force them to agree to this. In case of the public sector, again the promoter is the Government. If the fund has to come, it has to come through the financial institutions. If the working capital has to come, it has to come through the nationalised banks which are again a part of the Government. So, by being a part of the Government, there is not need to refer it to a third body to take a decision whereas that body has no mandatory powers, but only recommendatory powers."

7.15 Explaining the limitations of the present arrangement for revival of the public sector, the Finance Secretary Stated in evidence:—

"It seems to me that if you look back at the way the public sector revival issue is being posed, very often what is happening is that. I think, in many cases there is actually not enough confidence that the so-called revival package with actually achieve revival. Let me put it properly. The BIFR does not sanctify a revival. It is only an operating agency that prepares a package. Just as in the private sector, when the operating agency prepares a package and when the various participants in the process do not feel that the package is credible, then the unit simply has to be wound up. The problem really is that the BIFR, which is an operating agency, prepares a package. Very often, you have to look and see whether the package itself is credible or not. That is a legitimate point. It is important to realise that the operating agencies are not necessarily willing to finance the package. They say, 'this is for you to judge'. It is only a technical consultant's view. They are not Government appointed agency. They are appointed by the BIFR. Very often, staff are taken from the financial institutions and this key assumption, whether those projections are reasonable, has to be looked at in each case."

7.16 Commenting on this aspect, the General Secretary, AITUC stated in evidence as follows:—

"In each of these, there are certain obligations which the Government has to fulfil. That is exactly what the Government refuses. The BIFR asks the Government, gives a date to the Government. They come back and say that they have nothing to do or it has been rejected. How can the revival take place if the Government is not willing to give budgetary support? The moment you are referred to the BIFR, your credit worthiness is zero, so bankers will not give you anything. How then they will survive? That is one very important aspect which I would point out. Actually the BIFR is acting as an undertaker. Very few cases of revival have actually been there. In all the cases of revival, only one aspect has been carried out, that is sacrifices which the workers are supposed to make. That is being fulfilled. Government obligations are not being carried out."

7.17 Stating that BIFR has not mandatory powers, the President, FICCI said during evidence:—

"As regards the present machanism of BIFR, to which these units are generally referred. I personally feel that BIFR has no system at all, although Government has said that now it is extended to the public sector undertakings also. The experience of BIFR is like this that you can make a reference to BIFR when it is felt that the unit can no more survive. Then, BIFR has no mandatory powers and cannot do anything. It is like taking a dying person to the hospital and admitting him to ICU. Like that, these units are admitted to BIFR and their report comes after six years. That report may be acceptable to one person, it may not be acceptable to another person. Only today we had a seminar on sick units where it was said that the average time taken by BIFR in taking decisions is more than two years and ten months. Now it is reduced to one year or ten months. This period is taken only to come out with a scheme."

The witness stated further:—

"If you are in the net of BIFR, you would be winding up. When the company was running in losses, one person could stall the whole scheme, and when the company was running profitably, an order was passed saying that it should be winded up. The irony of the system of BIFR is that if it cannot take care of such small units with a capital base of Rs. 8—10 crore, then what care can it take of the giant companies? I do not think that it is possible to be taken care of by the BIFR. I would like to make some suggestions. First of all, the BIFR is absolutely not the route for the treatment or solution of the problem of sick units because particularly for Central public sector undertakings, it is the concerned Ministries and the Government of India which is to play the role of a promoter and the finances have to come from the financial institutions."

7.18 Going to the extent that if BIFR is not effective, it should be wound up, Shri R. Ganapathi, former Chairman, BIFR stated in evidence:—

"What we have now in the BIFR has been there for the past seven or eight years. Even when I was the Chairman, I used to point out at various fora that if the BIFR is not successful in its efforts. Then it should be wound up. I will start by saying that for quite some time I have been expressing the opinion that the time has come to wind up the BIFR because it has failed by and large in the objectives that have been set before it by the Act. What has puzzled me is, when I was the Chairman of BIFR and whenever I had the occasion to speak about it. I have been puzzled by the fact that a much simpler remedy has not been built by the Central Government to this problem."

7.19 Suggesting that an inter-Ministerial groups should examine whether a revival package is workable or not, the Chairman, Committee on Sick Industries, SCOPE and MD, Burn Standard Co. Ltd. stated during evidence as follows:—

"Sir, the basic decision lies definitely at the promoter's level. Once the promoter makes up his mind to revive the company, the BIFR's role is only to see the projections and technicalities, whether it is correct or not. Basically, the time taken by the Government is much because of the mechanism that we are having. My personal suggestion on this issue is this. Like we have a Committee of Secretaries to take care of the inter-company disputes, inter-public sector disputes, here also an Inter-Ministerial Group should be formed which could regularly meet once the cases are there. The Committee of Secretaries has been formed consequent on the Supreme Court's decision. It meets regularly, reviews and takes the decision after careful analysis. Like that, the Inter-Ministerial Group may consider whether the revival package is workable or not so that a quick solution could be found. When a proposal is submitted, who passes the ultimate comment on it? Any proposal made by the Board of the Company is first sent to the Administrative Ministry. Again, it is referred to the BIFR etc. etc. What generally happens is that the file travels from Desk Officer to Desk Officer. Certain comments are made. The proposal comes back with some queries. Again, the reply goes through the same route. My feeling is that this is not the way to sort out commercial and industrial matters. There should be across-the-board discussion. Objections can be raised. The whole package could be presented to them. They can either accept it or reject it. But it will not take more than two or three months. For instance, the Foreign Investment Board takes decision in respect of proposals amounting to Rs. 10,000 crores or so. When it is so, there is no reason why such a decision cannot be taken here also. Here, we require a Group like the Committee of Secretaries or the Group of Ministers. Finally, you will be going in the same route. Like the Committee of Secretaries, that could be formed here also. There is no need of going to the BIFR. In such a Committee, even the Finance Ministry people can take part, sit across the table and discuss matters".

7.20 Agreeing with this view, the Chairman, SCOPE and CMD, Hindustan Zinc Ltd. observed during evidence:—

> "The BIFR is for all the sick units. When a large amount of money is spent, it is spent based on the Committee's Report like that of the PIB. Similarly, the Inter-Ministerial Group can take a decision based on an expert committee's report in which the package can be reviewed. The BIFR is not strictly required for the public sector units."

7.21 As to whether the BIFR is relevant to the public sector the witness said:

> "We can certainly do away with that. The same job can be performed by various agencies. But for the private sector, it has to be there."

7.22 A Special Tripartite Committee was constituted in Ministry of Labour on 12th November, 1991 to consider the impact of the new industrial policy on labour and other related matters and to make appropriate recommendations. Based on the decision of the Special Tripartite Committee under the Chairmanship of Minister of State for Labour, six industrial committees *vis.* Industrial Committee on Cotton Textiles, Jute, Chemicals, Engineering, Electricity (Generation and Distribution) and Road Transport were constituted to review the performance of public sector enterprises, particularly sick enterprises. Another sub-Committee under the Chairmanship of Minister of State for Textiles was formed on National Textiles Corporation. The meetings of Special Tripartite Committees are attended by the promoter, the management and representatives of the workers.

7.23 In this context, the Deputy General Secretary, AITUC expressed the view that PSUs should not be referred to BIFR, but to these Tripartite Committees for rehabilitation. He stated during evidence as follows:—

> "In my opinion, it should not be referred to the BIFR particularly because the Tripartite Committees on major industries already exist. It was a commitment of the Government at the very inception of the New Economic Industrial Policy that wherever sickness is apprehended in the major industries. Tripartite Committees would be set up, which would go into the whole question and make their recommendations and due attention would be paid to them. But all those promises had been breached; they had been violated. So what happens is that without reference to these Committees, without giving a second thought, they are straightway being referred to the BIFR, with the result, whatever money they were getting by way of loans from financial institutions its flow stops immediately. For three or four years, proceedings go on and by that time they die their natural death."

(d) Delay in disposing of cases

7.24 According to Economic Survey (1996-97), as on 31.12.1996, 61 sick Central Public Sector Undertakings were registered with BIFR. The status of PSUs registered with BIFR was as under:—

1.	References received	71
2.	Registration declined	11
3.	Under scrutiny	—
4.	References registered	61
5.	Dismissed as non-maintainable	3
6.	Rehabilitation schemes approved/sanctioned	18
7.	Winding up recommended to High Courts	9
8.	Draft schemes circulated	6
9.	Winding up notice issued	6
10.	Under inquiry	11
11.	Schemes failed and reopened	1
12.	Pending cases remanded by AAIFR	2
13.	Stay ordered by Courts	4
14.	Schemes by AAIFR/SC	—
15.	Declared no longer sick	1

7.25 BIFR has been in existence for the last ten years. There are reportedly substantial delays involved in the BIFR procedures for deciding cases of sick industrial companies which in turn damage the prospect of revival of such units. Nevertheless, BIFR has not been able to make much headway in stemming industrial sickness. On delay in disposal of cases by BIFR, the Chairman, SCOPE and CMD, Hindustan Zinc Ltd. stated in evidence as follows:—

> "The only point is that considerable time is taken by BIFR before any decision is taken by them in respect of companies referred to them. The whole process is very long. In some cases it takes two years, in some cases it take three years and in some cases it takes even a longer period. If it takes such a long time before a decision is taken by BIFR, then nobody will place orders with such a company. They are deprived even of their legitimate right of orders being placed on them. What we have been asking for is that this process should be cut short. I think anything between six months to one year should be the reasonable period in which decision should be taken for a revival package because many of these companies can be revived with a little amount of investment."

7.26 Confirming this Shri R. Ganapathi, former Chairman, BIFR stated in evidence:—

> "I find that the cases which were being considered during my time — I retired four yeas ago — are still being considered. If, therefore, they say that it is taking only one-and-a-half years for disposal of

cases on average, it is hiding the facts. Some of the cases are very simple and they can be disposed of in one sitting. There are other big companies."

7.27 The most significant negative trend is sharp increase in the number of cases going into litigation after BIFR has given the award. Commenting on this phenomenon, the witness stated as follows:—

"There is an Appellate Authority for BIFR. There are also our Courts, the High Court and the Supreme Court. The BIFR has been given all the powers of the Civil Courts other than writ jurisdictions. As you know, writ jurisdictions are very liberally resorted to in our country. It is not that writ judgements are given only in a limited number of cases. So, if a person is not satisfied, he goes to the High Court with a writ petition or sometimes to the Supreme Court also."

The witness further elaborated:—

"I have known people who have gone to the High Court and the Supreme Court repeatedly, because the intention was to delay and, to prevent acquisition of the unit. Therefore, if you set up a judicial body you lay yourself open to the fact that such a judicial body cannot excercise writ jurisdictions of the High Court and the Supreme Court. So, knowing the condition of the pendency of the cases in various places, once you open the channels wide in this fashion, then it can take any amount of time, whereas the nature of the subject that you are dealing with are industry and employment and they are of such a nature that very expeditious judgement is called for.

7.28 Commenting on the delays, the Secretary, Ministry of Industry (Department of Heavy Industry) stated during evidence:—

"There cannot be any difference of opinion on the point that the delays that we have witnessed have not contributed to the health of these companies at all. Whatever steps that can be taken to reduce the delays would be welcome. Let me be very clear about these two or three things."

7.29 Emphasising that it is the time factor which is most important in the revival process, the Chairman, SCOPE and CMD, Hindustan Zinc Ltd. stated in evidence:—

"The process which is being followed, as I understand it, is that a package is made. There is an operating agency, and the BIFR looks into it. The administrative machinery gives its comments, it goes to various other Government bodies and then only some package is made. What we are going to suggest to them is that when a package has been made by particular public sector undertaking, it should go to the administrative machinery which becomes the nodal agency. It calls for comments, etc. so that before it goes to the BIFR, the administrative machinery and all others agree to it and as a result

> there is no duplication of work. One question has been asked as to whether the BIFR is the right body. In SCOPE's view, the essence is the time. It does not matter which agency looks into it. If the whole thing can be addressed to within six months time, then it does not matter whether it is referred to BIFR or not. We are going to suggest that the package would be dealt with by the nodal ministry rather than by the BIFR."

(e) The Role of Government and financial institutions

7.30 Stating that more often the undue delay is on account of lack of determination on the part of the Government, the President, NCOA stated in evidence:—

> "I would like to only limit myself to say that if you look at the minutes of the meetings of the BIFR with regard to sick PSUs you will find that all the adjournments are taking place because the Government is not clear as to what it wants to do. Ninety per cent of the adjournments have taken place because of that. My point is that the Government has got to make up its mind. Leave the BIFR and the restructuring that it needs for a moment."

The witness added further:—

> "All I would like to say from what we are seeing with respect to public sector is that the BIFR are not using the judicial part of their powers. The Joint Secretary comes and says that the Government has not taken any decision and so it is adjourned for three months. The Supreme Court does not do that. After three months a Joint Secretary will come and say that the Government has still not taken a decision and so adjourn for another three months. I think BIFR need to be pulled up a little, to be told that they are a semi-judicial body and they should exercise the judicial part of their powers."

7.31 It is observed that after a company has been referred to BIFR and revival/restructuring proposals are finalised the case comes back to the Administrative Ministry for tie up of necessary finances etc. The Ministry in turn has to seek the support of Ministry of Finance, Cabinet etc. and in the process not only in-ordinate delay takes place but the cost also further increases. It was pointed out that much of the delay is on account of delay in clearing of proposals/releasing of funds by the concerned Government Departments.

7.32 The General Secretary, AITUC was of the firm opinion that there should be single window clearance. The witness stated:—

> "Then, I come to the suggestion to improve the clearance of projects. There should be a single window for giving quick clearance of projects. All the necessary Ministries and the concerned Departments should sit together and give clearance. It should be a time bound clearance. They have to say either 'yes' or 'no'. Let them take six

months or one year or more, or take their own time rather than keeping it hanging".

7.33 Expressing his view on this, the Secretary, Ministry of Industry (Department of Heavy Industry) stated as follows:—

"As far as we are concerned, in the Department of Heavy Industry, we would welcome anything that would expedite decisions and if single window clearance would help expedite decisions, we do welcome it very clearly."

7.34 On what they have done in this regard, a representative of the Ministry of Industry (Department of Heavy Industry) stated as follows:—

"About the role of the Finance Ministry *vis-a-vis* Industries Ministry, what we have tried to do in this Department is to get professional consultants, merchant bankers and get revival schemes prepared through them, interact intensively with the company people down to shop-floor level and come out with some schemes having viability in terms of commercial viability, financial viability and technical viability. Finance comes in when this package involves either fresh funds or financial institutions. We have found that in a number of cases where consultants have said that these schemes are viable, the Finance Ministry has given its concurrence and we have been able to get Government approval. But the point you have made about delay, is very valid. It sometimes impinges on the viability of the scheme so that something that we thought of, if it is not implemented in terms then there will obviously be cost increase.

7.35 Narrating how the units suffer from the Government and the financial institutions after being referred to BIFR, the Secretary, CITU stated in evidence:—

"Sir, on the question of functioning of BIFR it has been a very long and sour experience. The moment a unit is referred to BIFR, what is the immediate consequence? The credibility of that particular unit is totally smashed. A tripartite Committee, under the Ministry of Labour has been constituted by the Government of India. Now, in that Committee we were categorically assured and it is also on record that firstly, units which have been referred to BIFR, the working capital of those units would be ensured: and secondly it would be ensured that the operations would continue. But the reality is that the working capital has been totally stopped from both the Government and the financial institutions. Thus, for being referred to BIFR these units are under serious attack from the Government as well as from the financial institutions."

7.36 The Chairman, Committee on Sick Industries, SCOPE and MD, Burn Standard Co. Ltd. also dealt with the issue in detail. The witness stated as follows:—

> "Sir, I would like to make a few submissions on this. You are right in pointing out the issue. As you know, the public sector companies which have been referred to the BIFR are facing troubles. Had there been the Sick Industries Act applicable at the time of the nationalisation or takeover, they would have been referred at that time itself. Most of these companies have started with a negative net worth. It is on the criteria that the net worth has become negative that the companies are mandatorily referred to BIFR. Take the cases of Burn Standard or Braithweight etc. They started with negative net worth. At that time the Government took the decision of keeping out of the BIFR and make an attempt of revival. However, enough funds were not brought in. Once you refer an industry to BIFR the stigma remains. It is circulated. The stigma attached gains importance and it becomes a public issue. Your creditors are not going to provide money. They cannot sue you legally to realise their money. There are the guidelines in this regard. If the companies are referred to BIFR then they are classified as 'C' group companies and are given this credit rating, they will be charged a higher rate for working capital which comes to approximately 21 per cent as against prior lending rate applicable to those industries classified as 'A' or 'B' group. They are charged 16 or 16.5 per cent interest only. In this way you are burdening the sick company with additional 4.5 per cent rate of interest.
>
> Then there is the guideline by the Government given through the R.B.I. that any cash credits being provided to companies referred to BIFR and classified as 'C' rating, then it has to be served by guarantee. If that credit is not served by guarantee by the promoter then that will be non-performing asset and the entire amount has to be provided in their books of accounts. Therefore, their losses increase. Therefore, the banks are not prepared to provide working capital unless the Government gives guarantee. On the other hand the Government says: All through you were managing without guarantee and why are you asking for it now? In this way they are not prepared to give guarantee. After a lot of persuasion when they agree, they give guarantee and charge one per cent per annum as a fee. The private promoters do not charge fee to their companies for giving guarantee. By doing in the above way, the cost increases with regard to companies referred to BIFR. It works out to 5 per cent extra cost. Once the company becomes sick and it is referred to BIFR, it should bear this additional five per cent interest on working capital. This is an added burden."

VIII. Rehabilitation of Sick PSUs

8.1 The ill effects of sickness of industrial enterprises has been a matter of great concern in view of its overall impact on the economy. Stating that if sickness is dealt with firmly, the problem can be overcome, the President, NCOA stated in evidence as follows:—

> "On the question of industrial sickness in public sector undertakings, the first remark that I would like to make is that there is no seriousness in dealing with sickness in industrial public sector undertakings. There are several reasons for industrial sickness in the public sector. Let us take the most obvious reasons. A very large number of units have been inherited by the Government from the private sector. Personally I believe that they were preserved like museums and then nothing much has been done. Let me draw a parallel between two sets of sick units which were taken over. There was a sick unit called Ramco Radios in Bangalore. I think the older people may recall Ramco Radios. Mr T. A. Pai was the Minister at that time and the BHEL took over that unit. The first thing they did was, they got rid of all the inventory and sold them off. After that, they liquidated their product line and converted it into industrial electronics. Today, the same work force is making industrial electornics in the same factory. So, Ramco is now liquidated and it is now merged into the BHEL. Their product line has gone. Let us compare it with the Cycle Corporation. Everything was preserved as it is. Its sickness was also preserved and now it has reached a stage where the BIFR has asked for liquidation. I will give just an idea of how a problem can be attended or not attended to. I believe in the first case, it was attended to and in the second case it was not attended to. Now, we have a whole lot of cycle units. It is not possible to club all of them together."

8.2 Suggesting the strategies for overcoming sickness in the public sector, the Secretary, Ministry of Industry (Department of Heavy Industries) stated in evidence as follows:—

> "We can talk about what exactly are our strategies I would group the strategy for attending to the sickness of companies into three or four groups. One is the financial restructuring. Secondly, infusion of funds. Third is, assistance for access to working capital. Without getting into the details of financial restructuring, I would submit essentially what we are doing. We are trying to convert some of the loan into equity. We are trying to waive some interest. When we talk of infusion of funds, there has been plan assistance for capital

purposes and non-plan assistance, and also assistance from the NRF for manpower restructuring. Finally, when I say a greater access to the working capital, I mean that bank guarantees have been provided by the Government. In a few cases, we have also provided margin money so that the present irregularities in the cash credit limit standing in the way of their access to working capital, could be taken care of up to a certain extent."

8.3 Suggesting three areas which need special attention to improve the performance of the public sector, the Chairman, SCOPE and CMD, Hindustan Zinc Ltd. stated during evidence:—

"There are three or four areas which need careful attention. One is adoption of right technology and replacement of critical equipments. Number two which is most relevant is maintenance of the equipment. You are putting a new equipment and still there is no improvement. That means operations conditions have to be changed. So, you need a pool of good managers who can give the required leadership in maintaining. Third is marketing, you have to see whether your product is saleable or not. So, the revival package has to address itself to some of these priority areas before the money is put in. This is what is done in most of the industries. You cannot produce a product which in any case is not saleable. All these three aspects have to be taken into consideration before making the revival package. You have to see the managerial aspect as well. Managerial aspect is more important than finding money as we have seen in many of three companies."

8.4 Suggesting some measures for revival of the public sector, the Chairman, SCOPE and CMD, Hindustan Zinc Ltd. stated in evidence as follows:—

"How do we make them perform well? I will just give three or four points. Firstly, give them the freedom to operate. I do not think there is freedom even today for some of these units to operate on their own. I think, even today on paper we may say that they have a great deal of autonomy. But I do not think that autonomy has percolated down to the required level i.e. Board managed companies. It is on the paper that you must have professional Directors. I do not think that it is so.

Second is, adequate powers should be given to the Board to operate. The Government, through the Board of Directors, can influence the decision making. I think they should leave it to the Board to decide for themselves.

Third is, funds must be available to them. In fact SCOPE has been propagating to various fora that from the disinvestment which is taking place of the shares of the public sectors, a fund should be created. If not for the total amount but at least a substantial amount of fund should be created and this fund should be given to that Undertaking which requires money. That would be, I think, one of the quickest ways of disbursement of funds to the needy public sector companies. Most of the companies which are sick or potentially sick have made requests. There is a turn around strategy but the funds availability takes so much of time that this strategy has to be revised. Funds availability at the right time would be a good process.

Fourth is, we must somehow stop the flight of food people from public sector. After all any sector would require good people to man. If the future of public sector is not very certain in the country, you cannot expect either the young or not so young people to stay put in public sector when their career itself is in doubt. So we must stop it. One of the ways of stopping them is, we must be able to give them adequate compensation."

8.5 The Secretary, INTUC was of the opinion that as per the decision of the Special Tripartite Committee, if a rehabilitation is viable, Government should continue to give budgetary support and also write off loans. When there is a possibility, the Company should be revived and closure should be thought of only when there is no possibility of revival. The witness stated:—

"I can only say that in the Special Tripartite Committee there was an agreement that the union and the management would jointly prepare a rehabilitation package in the case of a sick unit in the public sector, which will be placed before the Government and wherever the rehabilitation is viable, the Government will continue to give budgetary support and also write off its past liabilities. But I am sorry to state that the Government has not stood by its assurance. Many of the public sector undertakings that could be revived are not being given the necessary budgetary support.

I can give you the example of Mandya Paper Mills in Karnataka and the Scooters India in Lucknow. The management and the unions of various units have submitted the viability reports. Why do you not call them, consult them and do something about it? If a unit is beyond rehabilitation, then close it. We are not against it. But when there is a possibility of its revival, the humane approach is not there, I want to ask you as to what for these economic reforms have been undertaken. Are they meant for the common people or for a few elite people? The economic reforms have been undertaken for raising the standard of living of the people. But will the policies which you are following now help in achieving that?"

8.6 Suggesting that the objective should be to revive a sick company, the witness stated:—

"Our objective should be to improve the performance and make it healthy. When a patient is lying on the sick bed, till the last minute my effort will be to save the patient. Similarly, I do not understand what is this exit policy. I would like to as one question: a mother has been given the right to give birth to a baby, but has she been given the right to kill a baby?"

8.7 Pointing out that in cases when closure might cost more than revival, efforts should be made to revive the unit, the Chairman, Committee on Sick Industries, SCOPE and Managing Director, Burn Standard Company Limited stated during evidence:—

"You will find that there are cases where the cost of closure are more than the cost of revival. Even if you calculate the cost of closure in terms of paying the retrenchment costs, in terms of paying other dues, we find many times that the cost of closure works out more than the cost of revival. In that case, it would be worth considering revival of the units by investing funds rather than paying a marginally higher money and closing them and laying off the people unemployed."

8.8 Mentioning that some of the PSUs which are making profit currently are in loss because of past liabilities, the President, NCOAC suggested during evidence that there should be arrangement for writing off past liabilities:—

"I do not think one should give a generalised solution to it. I think we should take each case separately. We should look at each case on merit, examine thoroughly, and then take a decision. But, I think, there is a case for writing off some of these liabilities so that they have a chance to recover. Many of these sick units are making current year profits but in spite of current year profits, they are also making heavy losses. It is because they have to take care of past years' liabilities also. Take the example of Scooter India. After it had gone to the BIFR, they have improved. Their productivity, turnover, and exports have improved. They have also reduced their wage bill as a percentage of their turnover. They have improved every indicator. But, they cannot achieve break-even because there is huge past liability. In case of Scooter India, they have shown good results. In the last four years, as a unit, they have shown good results. We are saying encourage them by writing off past liabilities."

8.9 On the other hand, the Chairman, SCOPE and CMD, Hindustan Zinc Ltd. felt that when a company is beyond revival, there is no point in pumping money into it. The witness stated:—

"There is no way you can keep a company with Rs. 20 crore turn over making Rs. 30 crore loss on and on. There is no point in pumping any money into it. It will become a case of good money chasing the bad money. Therefore you can take care of these people through a process of giving them voluntary retirement which is now available today. The equipment left in those companies can be offered firstly to other public sector companies, if they are interested, or otherwise they can be auctioned. As I said, there is no way these companies be kept going. A one-time drain on the exchequer is much better than a constant drain because the salary and maintenance of these people. I am making it very clear than when the money is paid to them, there should be a system by which a proper investment is made of the money that they get out this."

8.10 Expressing another view that BIFR should initiate action for sale rather than for winding up, Shri R. Ganapathi former Chairman, BIFR stated in evidence:—

"The BIFR must be told that they cannot pass winding up orders. If it is not a viable firm, then they may sell the unit as such without the liabilities in an auction and decide who will take it over. For this, time limit can be specified. There is a grave flaw in this and that flaw is this: there have been a few cases of change of management.

The witness stated further:—

"When I said, 'sale of the unit', the intention of the sale is to ensure continued production by the unit, though under different management and deduction of the liabilities."

8.11 Preferring change in management to winding up of sick company, Shri R. Ganapathi, Former Chairman, BIFR stated in evidence:—

The BIFR has been guided by two factors. One is, they have always tried to retain the existing managements and not attempted to change the managements. In some cases, changes of managements were effected and these are few and far between. Second is, there is an alternative. After all, what is the purpose? The purpose is to rehabilitate the units. A particular person may not have the resources financial or mental or industrial, to run the undertaking successfully. His place could then be taken by somebody else who could run the industry well. So winding up of the unit should be treated as a last resort. If a unit is not viable, it could be sold as such. If the liability is Rs. 100 crore, may be, you will get Rs. 10 crore by sale of the unit. But by selling the unit to a person who can then put in the resources and run it, you will ensure continuation of production, supply of commodity which is consumed by the public and employment to the workers. By passing a winding up order which has to be implemented by the High Court, this objective is not met. This is a very important point which I would like to emphasize."

The witness added:—

"Change of management is something which the BIFR should actively seek because if you change the existing management with a better management, you can get better managerial resources and better financial resources illustrate this."

8.12 Suggesting merger of sick units with healthy ones, the Secretary, CITU stated during evidence:—

"There is a provision in SICA that healthy and sick units can be merged. If you take the case of fertilizers, there are eight units which are under reference with BIFR. They are sick absolutely due to technological obsolescence. At the same time there are modern fertilizer units making huge profits continuously with thousands of crores of rupees of allocable surplus with them. In the case of fertilizers the group of Ministers approved a scheme to rehabilitate six fertilizer plants at a cost of Rs. 2,200 crores. That fund is being refused by the Ministry of Finance. The same healthy and profit making fertilizer companies are going abroad to set up fertilizer factories. They are not investing within our country."

PART—B

CONCLUSIONS/RECOMMENDATIONS OF THE COMMITTEE

1. The origin of the public sector in India can be traced back to the early years of planning. Independence set in an urge for rapid industrialisation. Domestic capital in the private sector was scarce and foreign capital was not easily available. To tide over the problems which were being faced by the country on economic, social and strategic fronts, the Industrial Policy Resolution of 30 April, 1956 laid down that all basic and strategic industries and public utilities should be in the public sector. Accordingly, the public sector was set up with the objective of strengthening the economy by entrusting to it the development of certain specified basic industries and services. Over the period of last four decades there has been a phenomenal growth of the public enterprises in terms of investment, scope, activities and overall development. As against 5 enterprises under the Union Government with an investment of Rs. 29 crores in 1951, there were as many as 243 Central public sector enterprises (excluding financial institutions and insurance companies) with an investment of Rs. 1,78,628 crores as on 31 March, 1996.

2. In terms of the objectives specified in the Industrial Policy Resolution, public enterprises have certainly established their dominance in basic and strategic industries like coal, petroleum, steel, non-ferrous metals, heavy engineering, etc. and a substantial presence in industries like machine tools, fertilizers, basic and intermediate chemicals, drugs, etc. However, eventually its coverage went far beyond the basic and heavy industries into light manufacturing, variety of consumer goods, electronics, high-tech products, construction, consultancy services and tourism and hotel industries. Notwithstanding the phenomenal growth, overall performance of the public sector has been far from being satisfactory, especially in terms of generation of resources and profitability. The public sector, as envisaged in the Industrial Policy Resolution, was to be run on commercial and business lines and contribute to the growth and development of the nation by providing surplus reinvestible resources. It was also deployed as an instrument of socio-economic development with a view to develop sound agricultural and industrial base, overcome economic and social backwardness, generate employment opportunities and balanced regional development. Obviously the public sector has played a tremendous role in expanding production, opening up new areas of technology and building up a reserve of technical competence in a number of areas. It has also played a vital role in the economic development, industrialisation and balanced regional development of our country. Nevertheless, it goes without saying

that a strong and vibrant public sector cannot be one with financially weak foundations. A number of PSUs have been making substantial losses continuously for a number of years leading to continuing drain on the exchequer and aggravating the problem of sickness in the public sector. Sickness, particularly in the public sector, has serious ramifications because of its direct impact on the national economy. It leads to various ill effects like loss of production, loss of revenue to the Government and locking up of investible funds. As such, the phenomenon of sickness in the public sector is a matter of serious concern to the Committee.

3. Although the percentage of net profit of PSUs to capital employed has increased from 2 in 1991-92 to 2.33 in 1992-93, 2.84 in 1993-94, 4.42 in 1994-95 and 5.68 in 1995-96, the number of loss making PSUs during the corresponding period was 102, 106, 116, 109 and 101 units and the amount of loss involved was Rs. 3723 crores, Rs. 4113 crores, Rs. 5223 crores, Rs. 4883 crores and Rs. 4826 crores respectively. The figures indicate that the malady of losses in public undertakings has only aggravated over the years. The Committee cannot but express their strong displeasure over the growing predicament of sickness in the public sector. Admittedly, one of the main factors responsible for this phenomenon is the recurring losses by many of those companies which were taken over by Government from the private sector, on account of the delay to go in for restructuring and modernisation. The cavalier and lackadaisical manner in which Government has been dealing with such a vital issue like restructuring of PSUs is, to say the least, deplorable. The Committee strongly feel that the situation is quite alarming and calls for concerted efforts by all concerned to check the phenomenon. The succeeding paragraphs of this Report deal with some of the common causes and other issues relating to sickness and the recommendations of the Committee.

(Recommendations S. No. 1, Paragraphs 1 to 3)

4. While the exact causes of sickness vary from undertaking to undertaking depending on its operations, technology, location, financial stability, etc., some of the common causes which have been identified are the impact of economic reforms, outdated technology, failure to carry out modernisation, resources crunch, managerial inefficiency, surplus manpower and lack of autonomy. Admittedly, the causes of sickness among PSUs are many and varied.

5. As a result of the economic reforms initiated by Government in 1991, the number of industries reserved for the public sector came down from 17 to 6. In many sectors where public sector enjoyed monopoly, domestic and multi-national private companies made a sudden entry. Advantages like budgetary support, protected market, support price, etc. which were thus far being enjoyed by PSUs were taken away all of a sudden. Many of the checks imposed on imports were removed leading to easier imports. In fact, many of the PSUs, especially those which were not healthy enough, were

caught napping, since they were not equipped to face the new situation. Those PSUs which were already beleaguered with outdated technology, financial crunch and low productivity, could hardly withstand the stiff competition from the multi-nationals without any financial support. What the Committee are more appalled over is the fact that while the PSUs were expected to meet this challenge there were certain controls and regulations of the Government which continued to apply to the public sector pushing some of them to a still more uncomfortable position. Having withdrawn most of the privileges which were being enjoyed by the public sector till liberalisation, the Committee are of the firm view that it was imperative for the Government to have ensured at least level play field for PSUs as compared to the private sector. Even if the removal of certain kinds of protection to PSUs was inescapable, it would have been more expedient had it been done in a methodical and phased manner instead of doing it in one go. Before throwing the floodgates open to the multi-nationals an environment should have been created for the public sector to face such a challenge or some breathing period should have been provided for the weaker PSUs to cope up with the new situation. Therefore any reforms in the economy should not be detrimental to the operations, growth and autonomy of the enterprises in the public sector. It indeed, is a matter of concern to the Committee that some PSUs, especially many of the sick ones, are yet to recover from the after effects of liberalisation. The Committee recommend that at least now special efforts should be made to rehabilitate those undertakings which have particularly been adversely affected by liberalisation. There can be no two opinions that the public sector in the Indian context is as relevant today as it has been in the past particularly in view of the role being played by it in the socio-economic development of the country.

(Recommendation S. No. 2, Paragraphs 4 & 5)

6. Failure in technology upgradation is one of the main factors causing sickness in the public sector, especially in the traditional industries like textiles and jute and financially weaker units. One of the sequels of liberalisation is the precedence being accorded to technological excellence. With many of the enterprises opting for the latest technology available in the market, the basic strength in the field of competition has emerged as superior technology. Technology is the touch stone of cost-efficiency, because older the technology, higher the cost. The Committee cannot therefore over emphasise the urgent need for technological upgradation by public undertakings. The main constraint coming in the way of technology upgradation is scarcity of funds for financing the huge sums of money required for modernisation. However, it is strange to note that although Government pleads its inability to finance modernisation of old plants, in most of the cases large amount of money is being made available to sustain the units after their financial health has deteriorated. Had this assistance been made available in a more planned way for the modernisation of the

Plants, the Committee are sure that the state of sickness in the PSUs would not have aggravated to this extent. The situation now calls for come sort of an arrangement for finding resources for modernisation of the public sector units. The Committee would therefore, suggest the creation of a public sector modernisation fund in which resources could be pooled together through loans, aid, etc. In this connection the Committee recommend that part of the money realised through disinvestment of Public Sector Shares should be made available for this purpose. The Committee desire that the decision taken in the matter be communicated to them within three months of the presentation of this Report.

Recommendation (S. No. 3, Paragraph 6)

7. Another major reason identified for industrial sickness is management failure. This seems to be all the more relevant in the case of public enterprises. The Committee note with concern that in a number of sick PSUs there is no full-time chief executive and also there have been frequent changes of the incumbent. There are also, reportedly, quite long intervals between one chief executive leaving the Company and the successor taking over on account of lack of effective succession planning. The damage is even more disastrous when it is a sick company. Surprisingly Government appears to be less concerned about finding regular chief executives for loss making PSUs as compared to the blue chip companies. However, it needs no emphasis that remaining headless for too long a period, frequent changes of the incumbent and undue delay in succession planning are all detrimental to the health of any enterprise and would only push the sick companies further into the red. The Committee have dealt with this aspect pertaining to top management in the public sector in several reports earlier. The recommendation of the Committee in their 49th Report (7th Lok Sabha) that "frequent changes of chief executives should be avoided and there should be a minimum tenure of five years subject to satisfactory performance" was accepted by Government. In their 10th Report (Eleventh Lok Sabha) on ITI Ltd. the Committee have recommended the Government to take advance action and ensure that the post of Chief Executive of an undertaking is filled up as and when it falls vacant. The Committee desire that this being a very vital issue for the efficient functioning of a company should receive focussed attention of the Government. The Committee should be informed of the number of posts of chief executives now lying vacant and time-bound action plan should be drawn up to fill up the post of chief executives in those Undertakings which are functioning without a full time incumbent. Efforts should be made also to ensure effective succession planning and continuity in top management.

Recommendation (S. No. 4, Paragraph 7)

8. Quite a lot of professional competence is required for the efficient management of the public sector. One of the factors responsible for managerial inefficiency in the public sector reportedly is appointment of

civil servants and others without any professional background to the top managerial positions in the PSUs. There are also instances of over-representation of Government Directors on the Board. The tendency of appointing civil servants to top posts in the public sector is fraught with various adverse effects. This deprives the undertaking of expert guidance of professionals at top managerial levels for the kind of specialised tasks carried out by the Company. One cannot ignore the fact that operations of some of the public sector enterprises are of a very technical and specialised nature. Besides being ill-equipped to manage technical and specialised tasks, it is observed that the non-professionals lack the required experience and skills. The Committee have gathered an impression that Government has not paid sufficient attention to forming of a strong management cadre for the public sector. Keeping in view the emerging need to have a very efficient management cadre for the public sector in the face of stiff competition being faced by it in the post liberalisation scenario, an urgent need is felt to review the existing procedure for selection of top executives for PSUs. The Committee desire that the whole procedure for selection of top executives for the public sector should be streamlined and necessary changes introduced. In order to have a pool of competent personnel at the senior levels of public sector management, they desire that a common management cadre for the public sector should be created.

Recommendation (S. No. 5, Paragraph 8)

9. A suggestion that has been made before the Committee for improving the working of PSUs is participative management. Workers' participation in industry at shop floor and plant level is something which was introduced in the public sector as far back as in 1975. The Committee suggest that the workers' participation in management should be reviewed in the light of the experience already gained in the last two decades with a view to make it more constructive and result oriented. They are of the view that consultation with workers on important matters and participative management including financial matters is essential. This becomes very relevant in respect of sick PSUs. The Committee recommend that as and when the PSUs show signs of sickness, the management should involve the workers in preparing joint revival scheme. Necessary instructions may be issued to all the PSUs in this regard.

Recommendation (S. No. 6, Paragraph 9)

10. Large scale employment by the public sector over the years has led to a situation where some of the enterprises are saddled with excess manpower resulting in low level of manpower productivity. This in turn has been a major cause of sickness, since it is an additional burden on the beleaguered PSUs. Not only that having been weighed down with sickness and surplus manpower, employees in these companies are being deprived of some of the benefits which were otherwise admissible to them. As a result of this, qualified and competent people are leaving the public sector undertakings

creating a vacuum especially in the management cadre. There is undoubtedly a need to pay greater attention to the rationalisation of surplus manpower. The Committee recommend that a system for productively redeploying the surplus labour should be evolved by Government. At the same time efforts also need to be made to check the exodus of experienced and talented persons from the public sector. The Committee note that the National Renewal Fund (NRF) was set up with the objective of helping rationalisation of workforce. However, it is seen that the budgetary allocation to NRF came down from Rs. 700 crores in 1994-95 to Rs. 300 crores in 1995-96. Even out of the allocation for the year 1995-96, an amount of Rs. 209.58 crores was spent for meeting expenditure on VRS and only Rs. 7.42 crores was spent for counselling, retraining, etc. Obviously the allocation to NRF is being used mainly for meeting expenditure on VRS. This is in a way defeating the very purpose for which the Fund was set up. The Committee are of the view that the Fund should be channelised proportionately for dealing with the various problems relating to surplus manpower in the public sector including their retraining and redeployment.

Recommendation (S. No. 7, Paragraph 10)

11. The public sector has been set up with a complex mix of socio-economic objectives which endow on it certain social obligations like balanced regional development, generation of employment, integrated rural development, development of small scale industries, etc. Immediately after independence, neither was sufficient private investment available nor were the investors willing to come forward to invest in those spheres where risk was involved. The country had no other option to tide over the problems which were being faced on economic, social and strategic fronts other than to deploy the public sector as an instrument to develop sound agricultural and industrial base, overcome economic and social backwardness, generate employment opportunities and promote balanced regional development. It is beyond doubt that the public sector has proved to be a powerful agent of the Government in discharging social responsibilities. The Committee have dealt with social responsibilities of public undertakings in detail in their 24th Report and 38th Action Taken Report (Tenth Lok Sabha). The Committee reaffirm that being potent instruments of the State, the public sector has a significant role to play in meeting social objectives. However, they desire that public undertakings should not undertake social responsibilities to the extent of undermining their financial health. The Committee would, therefore, suggest that PSUs which are declared sick or have been in the red consecutively for a period of three years should not take up fresh social responsibilities till their turn around.

Recommendation (S. No. 8, Paragraph 11)

12. In the process of growth, the public sector has spread into all spheres including the non-infrastructure and non-core areas. This is stated to be yet another cause of diluting the role of public sector and leading to poor

performance. However, the Committee note that in the Eighth Five Year Plan Document, the Planning Commission has observed that "the public sector should make investments only in those areas where investment is of an infrastructural nature which is necessary for facilitating growth and development as a whole and where private sector participation is not likely to come forth to an adequate extent within a reasonable time perspective". The Committee are of the view that while it might not always be necessary for the public sector to invest outside the reserved sector in future the Government should not desist from making such investment in cases when it involves rehabilitation of sick public sector unit.

Recommendation (S. No. 9, Paragraph 12)

13. Another aspect to which the Committee would like to draw attention is the need for operational autonomy to public undertakings. The Committee have dealt with this question in detail in their 32nd Report (Eighth Lok Sabha). For any enterprise to function efficiently, it needs to operate in an environment of autonomy. Without autonomy accountability has no meaning. Public enterprises are expected to function with a good deal of autonomy as per existing policy guidelines. However, the Committee find that in actual practice the freedom of operation of the management is often curtailed by formal and informal Government interventions. While the PSUs are expected to earn profits comparable to that earned by the private sector, they are denied the freedom enjoyed by the latter. Even in less important matters the chief executive of a PSU is required to take clearance from the Ministry. While some of these arise from the general nature of our economic structure, others stem from poor managerial practice within the enterprises and undue interference by Government. The Committee wish to emphasise that in an environment of stiff competition in the post-liberalisation era, the public sector cannot function efficiently with sufficient freedom of operation. Giving autonomy to PSUs would mean that the Ministry is responsible for the formulation of policy and the public sector management for the implementation of that policy. The interaction should be only to facilitate overall Government supervision without impairing the efficiency of operation of the enterprise. The Committee note with concern that lack of autonomy has played havoc with the working of the public sector. They recommend that an organisational pattern should be evolved which would reduce the points of intervention by Government in the management of the PSUs without minimising Government's right to have needed information for evaluating their performance. The Committee would like to be apprised of the steps taken by Government in this regard.

Recommendation (S. No. 10, Paragraph 13)

14. The Committee took up Indian Drugs & Pharmaceuticals Ltd. (IDPL) and Hindustan Fertilizer Corporation Ltd. (HFC) for case study in the context of the horizontal study on sickness in public undertakings. IDPL is a

glaring example of a public sector enterprise having been crippled with industrial sickness. It is alarming to observe that the Company has been incurring losses since its inception except for a brief period of five years from 1974-75 to 1978-79. As on 31 March, 1996 the accumulated loss of the Company was provisionally estimated at Rs. 690.15 crores as against the paid up capital of Rs. 267 crores. Some of the main reasons for sickness identified were incidence of social objectives, certain regulations on manufacture and sales, price control, high employment cost, interest burden, etc. The Company was declared sick by BIFR on 12 August, 1992. It is a matter of grave concern that except for nominal operations in Gurgaon and Madras, production in the plants of IDPL has been discontinued. The Company has not been able to pay even the salaries of their employees regularly.

15. The Committee note that a revival package prepared by IDPL was implemented in 1994-95 with the approval of BIFR. An assistance of about Rs. 120 crores required for the restructuring was given by Government. However, the revival package failed to yield the expected results. Against the targeted gross profit of Rs. 52.35 crores for the year 1994-95, the Company incurred a loss of Rs. 25.88 crores. Against a targeted reduction of manpower of 3300 persons, only a reduction of 2059 persons could be achieved. As regards the exact reasons for non-realisation of the targets there seemed to be difference of opinion between the Ministry and the Company. A modified revival package submitted by IDPL requiring further allocation of funds was not accepted by Government. M/s A. F. Ferguson was appointed consultant by the operating agency, IDBI, for techno-economic viability study of the revival of IDPL. According to the report of M/s A. F. Ferguson the revival of IDPL has not been found feasible. The Secretary, Ministry of Chemicals & Fertilizers (Deptt. of Chemicals & Petrochemicals) informed the Committee that in the light of this, the Ministry has suggested to the Cabinet that IDPL is not revivable any longer and that Government might tell BIFR that it would not like to continue as the chief promoter. Once this is approved by the Cabinet, BIFR would have to seek other options.

16. The Committee express their deep concern over these developments. They have strong apprehensions that in the light of the report and the view taken by the administrative Ministry, IDPL might ultimately be privatised or closed down. It is disheartening to find such a casual approach on the part of the Ministry while taking a major decision on the future of a crucial company like IDPL. The Committee strongly feel that the future of IDPL should not be decided on the basis of a single opinion that too given by a private agency. On the question of obtaining a second opinion before taking any final decision on the future of IDPL, the Secretary, Ministry of Chemicals & Fertilizers (Deptt. of Chemicals & Petrochemicals) only gave an evasive reply: "Sir, I will have to seek instructions on that." The Committee have taken strong exception to the callous attitude of the

Government. They desire that before any final decision is taken on the question of change in ownership of IDPL a second opinion, preferably by a public sector consultancy, should be taken promptly under intimation to them.

(Recommendation S. No. 11, Paragraphs 14 to 16)

17. Yet another public sector undertaking under the spell of sickness is HFC. Performance of Namrup I, Namrup II, Barauni and Durgapur units of the Company has not been satisfactory. Revamping of Haldia Project was found to be not feasible. Capacity utilisation in HFC's plants was only 17.8%, 16.11% and 19.21% from 1993-94 to 1995-96 respectively. Net loss incurred by the Company was Rs. 375.07 crores, Rs. 412.07 crores and Rs. 485.22 crores during these years. HFC was registered as a sick company with BIFR on 30 June, 1992. The Committee on Public Undertakings had in their 5th Report and 14th Action Taken Report on HFC (Tenth Lok Sabha) recommended that in view of the serious financial constraints being faced by the Company, the proposals for revamping and rehabilitation of its plants should be expedited. The Committee are constrained to observe that although a revival package to revamp Durgapur, Barauni and Namrup units of the Company was formulated by the Ministry and it received approval of the Government on 20 April, 1995, it has not been implemented so far because funding arrangements of the order of Rs. 464.93 crores have not been tied up. Besides, a proposal for untied loan from the Export-Import Bank of Japan is pending for want of certain information from the Government. HFC informed the Committee that the Company would interact with EXIM-J to quantify the extent of funding facility likely to be available. However, during evidence, the Secretary, Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) informed the Committee that ICICI, which was appointed operating agency by the BIFR, has come out with a package which would be examined and sent for inter-ministerial consultation.

18. The Committee express their strong displeasure at the lack of seriousness on the part of the Government in tackling the problem of sickness in HFC. Time is being wasted in getting one proposal after the other prepared for revamping the units without any serious efforts being made to arrive at any final decision on those proposals. This has only helped the Company's production and financial performance go from bad to worse. The Committee find that to a great extent, Government itself is responsible for the present state of affairs in the Company. They desire that at least now a final decision should be taken on the revival of HFC's plants. Conscientious efforts need to be made for tying up the necessary finance and implementing the rehabilitation package without any further loss of time. The Committee would like to be apprised of the actual steps taken in this direction within three months.

(Recommendation S. No. 12, Paragraphs 17 & 18)

19. Industrial sickness is more rampant in the PSUs in textile and jute sector. Most of the units in the textile sector have been incurring continuous losses over the years. NTC which has 120 mills managed by nine subsidiary corporations was set up with the main objective of managing the affairs of the sick textile mills taken over by the Government. The Committee are dismayed to observe that out of 120 mills, 117 have been incurring continuous losses from 1993-94 to 1995-96. Except NTC (Tamil Nadu & Pondicherry) all the subsidiaries of NTC have been referred to BIFR. This subsidiary has also been incurring losses since 1992-93 and it might also be referred to BIFR in case it incurs losses during 1997-98 also. The accumulated losses of British India Corporation Ltd. (BIC), another public sector company in the textile sector, was Rs. 257.85 crores as against the total networth of Rs. 212.69 crores as on 31 March, 1996. Both subsidiaries of BIC namely, Elgin Mills Company Ltd. and Cawnpore Textiles Ltd. have also accumulated losses amounting to Rs. 411.05 crores and Rs. 56.35 crores as against total networth of Rs. 409.81 and Rs. 55.72 crores respectively at the end of 1995-96. According to the Ministry of Textiles the main external factor for sickness in NTC was the growth of powerloom in cloth production which has increased considerably over the last decade. On the other hand, mill production has dwindled from 25% in 1985 to 7% after a decade. The internal factors causing sickness are obsolete technology, delay in modernisation and discontinuation of budgetary support. The Secretary, Ministry of Textiles was candid enough to admit before the Committee that the objectives of taking over the mills had not been achieved. The condition of NTC and BIC mills even after several years of their taking over is nothing more impressive than what it was before. The Committee have come to the inescapable conclusion that failure to take adequate and timely steps for revival of these units is mainly responsible for the present situation.

20. Government had approved a Turn Around Strategy for NTC in 1992 which included phasing out and merger of some units and the modernisation of 55 mills at an investment of Rs. 532.78 crores. In 1993, a special Tripartite Committee was appointed to review the Turn Around Strategy. The Ministry of Textiles appointed 4 premier Textile Research Associations of the country to draw up fresh plans for revival of NTC mills. Based on the revival plans prepared by the Textile Research Associations and the recommendations of the Special Tripartite Committee thereto, the Turn Around Strategy was approved by the Cabinet in May, 1995 which included modernisation of 79 mills at an investment of Rs. 2005 crores. It was expected that on implementation of the revised Turn Around Strategy, the Company would earn an overall profit of Rs. 114.47 crores per annum. The entire funding for modernisation was proposed to be made from out of the sale of surplus land and buildings available with NTC mills.

21. The Committee regret to note that the revised Turn Around Strategy has not been implemented so far since no progress could be made in effecting the sale of land. The delay is stated to be on account of non-cooperation of the State Governments, especially the Government of Maharashtra from where 80% of proceeds of sale was expected to come. Government is understood to have appointed another Committee of officials to look into the matter and on the basis of its Report the Ministry of Finance is understood to have recommended closure of 107 mills of the Corporation. The Committee are to say the least, disappointed at the manner in which Government has proceeded with the revival of NTC mills. No serious efforts were made by Government to expedite the process of revival of the mills which has been hanging fire over the past several years. Even after the Cabinet approved a Turn Around strategy in May, 1995 which included modernisation of 79 mills, no serious efforts seem to have been made by Government to effact the sale of surplus land for raising the funds. The Committee note with concern that the latest move of closure of 107 mills of the Corporation would render more than one lakh employees jobless. This would be a very hard option by the Government. The Committee urge that Government should earnestly try to implement the Turn Around Strategy which has already been approved. The matter relating to sale of surplus land should be pursued with State Governments at the highest level. The Committee would like to be kept apprised of the steps being taken by Government in this regard within three months.

(Recommendation S. No. 13, Paragraphs 19 to 21)

22. The Committee are strongly of the view that Companies like IDPL, HFC (Hindustan Fertilizer Corporation Ltd.), FCI (Fertilizar Corporation of India Ltd.) and NTC should be saved from being closed down. They recommend that necessary funds should be made available on urgent basis by Government for sustaining their operations till such time the revival packages are implemented.

(Recommendation S. No. 14, Paragraphs 22)

23. In the jute sector there are three public sector undertakings, namely National Jute Manufacturers Corporation Ltd. (NJMC), its subsidiaries, Birds, Jute & Exports Ltd. and Jute Corporation of India Ltd. (JCI). NJMC was registered with BIFR on 12 August, 1992. After the initial investments in 1984, no steps were taken for modernisation of the NJMC mills. A package involving Rs. 253.92 crores has already been prepared for modernisation of the mills. The Company is stated to be geared up for the implementation of the revival package which is yet to be sanctioned. Though JCI has been making continuous losses it was not declared sick since it is engaged in price support operations of raw jute and the losses are reimbursed by Government. The Secretary, Ministry of Textiles was of the view that JCI should go out and purchase raw jute from the market and start commercial operations to tide over the problem of increasing losses. The Ministry was stated to be in the process of arranging some working

capital for the Company so that it could start commercial operations. The Committee desire that since JCI is already geared up for implementation of the modernisation package, it should be finalised and implemented without any further delay. Steps might also be taken to make necessary working capital available to JCI for commencing procurement of raw jute.

(Recommendation S. No. 15, Paragraph 23)

24. In view of the alarming growth of sickness in industrial enterprises and the hurdles coming in the way of their speedy rehabilitation. It became a pragmatic compulsion on the part of the Government to enact the Sick Industrial Companies (Special provisions) Act. 1985 (SICA) for the rehabilitation of sick industrial companies in the private sector. In pursuance of the Industrial Policy Statement on 24 July, 1991 SIC Act was amended to bring Central and State Government Undertakings under the purview of the Board for Industrial and Financial Reconstruction (BIFR). BIFR was set up in 1987 as a fast facilitation agency with a single point reference and rapid disposal. The Board consists of a Chairman and a maximum of 14 members appointed by the Central Government. The Chairman has the power to constitute benches consisting of not less than two members. There is also an appellate authority called the Appellate Authority for Industrial and Financial Reconstruction (AAIFR) for hearing appeals against the decisions of the Board. BIFR functions as a quasi-judicial body. Initially there were only four benches in the BIFR. The Board was expected to have experts from different fields as its members for efficient functioning. Taking into account the large number of sick industries being referred to BIFR, it is felt that the number of Benches in the Board need to be increased and experts need to be inducted as members. In their 15th Report (Ninth Lok Sabha) on BIFR, the Estimates Committee had recommended that the role of BIFR needed to be redefined and the Board suitably restructured to enable it to tackle the problem of industrial sickness more effectively. The Committee desire that in the light of the performance of BIFR so far, its role and structure should be reviewed and necessary restructuring should be done to facilitate more efficient and speedier functioning of BIFR. A Bill has already been introduced in Lok Sabha with a view to replace the SIC Act, 1985. The Committee desire that the recommendations made in the succeeding paragraphs of this Report on BIFR should also be taken into consideration before passing legislation on the subject.

(Recommendation S. No. 16, Paragraph 24)

25. Another issue that has been brought to focus before the Committee is the question of desirability of referring sick PUSUs to the BIFR. What the Board is expected to determine in respect of sick public undertakings is whether the company is really sick, whether it is in public interest to revive the Company and whether it is techno-economically viable to revive the same. Most of the witnesses who appeared before the Committee in

connection with examination of the subject were of the view that Government has at its disposal all the expertise needed to determine these issues. On the other hand, BIFR has to depend on Government or an operating agency to determine these things. Moreover, BIFR has no mandatory powers to enforce its decisions either on the Government, the undertaking or the financial institutions. It also happens that what is acceptable to one may not be acceptable to the others. What BIFR has to go into are mere technicalities, since policy decisions can be taken only by the Government being the chief promoter. Quite a lot of delay also occurs on account of the long time taken by Government to take decisions on revival package.

26. Special Tripartite Committees/Industrial Committees had been formed for Labour, Textiles, Jute, Chemicals, Engineering, etc. who have been assigned role of reviewing the working of the public undertakings in these sectors particularly the sick enterprises. Some of the witnesses felt that instead of referring to BIFR, sick PSUs should be referred to the Special Tripartite Committees/Industrial Committees who could take decisions on such matters. The Inter-Ministerial Group can also take the advice of such Special Tripartite Expert Committees. Many witnesses felt that the BIFR channel was not required for the public sector. They were of the view that its role could be discharged more effectively by other agencies. They suggested that the real impact that the BIFR has been able to make while dealing with sickness in the public sector should be assessed in the light of the Board's performance so far. It would be worthwhile to evaluate the benefits which have actually been derived by the public sector since the time it was decided that rehabilitation of the PSUs would be done through the BIFR channel.

27. The Committee desire that the whole question of referring the sick public enterprises to the BIFR should be reviewed. They recommend that a decision should be taken on the question of referring sick PSUs to BIFR after assessing the merits and demerits of the existing arrangement. They desire the Government to take necessary steps in this regard in right earnest in the light of such assessment under intimation to the Committee.

(Recommendation S. No. 17, Paragraphs 25 and 26)

28. A major factor coming in the way of BIFR in stemming industrial sickness is the delay in disposal of cases. According to the Chairman, SCOPE there have been instances when the Board has taken more than three years to dispose of cases. Various procedures like consultation with references to Government Departments, operating agency, financial institutions as also resorting to frequent litigations have all contributed to such delays. Obviously such delays make the revival all the more difficult. During the period of reference to BIFR, the sick company suffers on various accounts like lack of working capital, higher interest rates charged by banks, lack of orders, denial of incentives to employees, etc. The Secretary,

Ministry of Industry (Department of Heavy Industry) admitted before the Committee, "There cannot be any difference of opinion on the point that the delays that we have witnessed have not contributed to the health of these companies at all. Whatever steps that can be taken to reduce the delays would be welcome." The Committee express their displeasure about such inordinate delays in disposal of cases by BIFR which have been detrimental to the rehabilitation of sick companies. On account of such delays the very objective of referring sick PSUs to BIFR is defeated. The Committee are of the considered view that the entire procedure of processing revival of sick units should be streamlined with prescribed time limits so that the whole exercise could be completed within a period of six months to one year. They would like to be informed about the corrective measures taken by Government in this regard.

(Recommendation S. No. 18, Paragraph 28)

29. It has been brought to the notice of the Committee that more often than not, the delays in revival of sick units are on account of exceptionally long time taken by Government in the process of decision making. BIFR meetings are often adjourned because of the failure of the Government to come out with any clear-cut package. Surprisingly, BIFR has also not been using its judicial powers to check such tactics of delay by the Government. The requirement of obtaining approval from Government Departments, Cabinet, etc. at various stages of finalisation of restructuring proposals has also been causing inordinate delay besides increase in the cost of revival. In this context, the initiative taken by the Ministry of Industry (Department of Heavy Industry) to act as a nodal agency for obtaining approval from all concerned agencies for the revival scheme in respect of PSUs under their administrative control is commendable. In view of the undue delay involved in the existing arrangement of obtaining separate clearance from different Government Departments/agencies, the Committee recommend that a system of single window clearance should be introduced for obtaining approval of revival packages for sick industries in order to expedite the process of decision making.

(Recommendation S. No. 19, Paragraph 29)

30. After a company is referred to BIFR it suffers from acute shortage of working capital. The Committee note with concern that the interest rate charged by the creditors for companies referred to BIFR goes up to 21% because the company gets listed in 'C' group, as against 16% and 16.5% interest rate charged for 'A' and 'B' group companies. There is also a requirement of Government guarantee for availing credit from the banks by these companies which entails one per cent extra fee charged towards the guarantee. These are all in fact additional burdens which are required to be borne by the sick companies after they are referred to BIFR. Apparently, this is quite irrational since it only adds to the woes of the sick company and makes the whole process of the revival still more difficult. The

Committee therefore, suggest for a review of these regulations in the light of the hardships experienced by the sick enterprises when they stand referred to BIFR.

(Recommendation S. No. 20, Paragraph 30)

31. The Committee are surprised at the stance taken by the Ministry of Finance that the Planning Commission should preallocate funds for revival of sick units. In the absence of such preallocation the Government is unable to finance any revival plan for want of funds. However, it appears to the Committee that Government has not formulated any long term strategy for the revival of sick public sector undertakings to facilitate allocation of funds by the Planning Commission during a Five Year Plan period. In the absence of such clear policy of the Government one cannot expect the Planning Commission to preallocate funds for the revival of sick units. The Committee, therefore, recommend that Government should first decide upon the units which are to be rehabilitated, formulate the revival plans and convey the requirement of funds to the Planning Commission so that the funds could be allocated for their revival. They would like to be informed of the details of the units in respect of which proposals have been finalised by Government and request of funds communicated to Planning Commission for the Ninth Five Year Plan.

(Recommendation S. No. 21, Paragraph 31)

32. The Committee find that while on the one hand attempts have been made to enter the international arena and globalise the economy, on the other hand there has been lack of resolve and initiative on the part of the Government to deal with the menace of sickness in the public sector. They are of the strong opinion that globalisation would be successful only when the country's economy has a strong foundation supported by steadily growing industry. Regrettably nothing much has been done to set the house in order. Even after a lapse of many years there has been no major initiative to revive the sick units which were taken over by Government from the private sector. It needs no reiteration that what is required is firm determination, bold initiatives and pumping in of required finances for embarking upon rehabilitation of sick enterprises in a massive way. It calls for a number of definite strategies like undertaking financial restructuring, providing of working capital, adoption of the right technology, modernisation, having efficient managerial personnel, giving sufficient autonomy, evolving an effective marketing strategy, etc. In Committee's view the most efficacious method to deal with sickness is to take prompt steps to revive the enterprise as soon as sickness in detected. If rehabilitation is viable, every effort should be made to revive the company by providing working capital and even writing off loans, if so required.

(Recommendation S. No. 22, Paragraph 32)

33. On the question of rehabilitation of sick public undertakings, various suggestions have been placed before the Committee by different witnesses. It was felt that when closure of a unit might cost more than its revival, it would be only logical to revive the unit by investing the required funds rather than closing it down. Thus before taking any winding up decision the replacement cost and the opportunity cost for creating equivalent employment should be worked out. It has been brought to the Committee's notice that there have been instances when PSUs referred to BIFR started making profits in the subsequent years. However, the Company continued to be in the red because of past liabilities. For instance, Scooters India Ltd. improved its financial performance after it was referred to BIFR. In such cases there is a solid ground for writing off the past liabilities so that the company could come out of the red. A view was expressed that there might be instances when a bold decision is required to be taken to sell or close down a unit if it is found to beyond revival. It was also felt that when a unit is not viable efforts should be made for its sale rather than closure so that the unit would continue to operate under a new management which might have the required resources to take it back to the right track. Another suggestion was to facilitate merger of sick units with healthier ones to cope with the problem of sickness as per the existing provisions in the SIC Act. The Committee would suggest that these proposals be kept in view while reviewing the strategy for dealing with sickness in public undertakings.

(Recommendation S. No. 23, Paragraph 33)

34. After completion of the horizontal study on sickness in public undertakings, the Committee have arrived at the inevitable conclusion that industrial sickness of PSUs is a matter of grave concern and serious magnitude which needs to be addressed by Government. Other than introducing the legislative measure for referring the sick PSUs to BIFR, no major initiatives have been taken by Government to cope with sickness in the public sector. This is a clear indication of the lack of resolve on the part of the Government to deal with the problem. While expressing their grave displeasure for the lack of initiatives on the part of the Government in dealing with the problem, the Committee would urge that concerted efforts should be made to evolve a comprehensive strategy to face the herculian task of overcoming sickness in the public sector. Delaying Government's action any further would be catastrophical to the very concept and role of the public sector in the country. What is required first and foremost is a firm resolve on the part of Government tc deal with sickness in PSUs. It calls for an effective, well-defined and time-bound strategy for timely detection of the sick and potentially sick companies and implementation of remedial measures for their rehabilitation. The Committee desire the

Government to, at least now, view the problem of sickness in public undertakings in the right perspective and draw up a time-bound action plan for the rehabilitation of sick public sector undertakings.

(Recommendation S. No. 24, Paragraph 34)

NEW DELHI;
July 28, 1997

Asadha 6, 1919 (S)

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

APPENDICES

I

MINUTES OF THE 23RD SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (1995-96) HELD ON 19TH SEPTEMBER, 1995

The Committee sat from 1500 hrs. to 1715 hrs.

CHAIRMAN

Sqn. Ldr. Kamal Chaudhry

MEMBERS

2. Smt. Sheela Gautam
3. Prof. (Smt.) Savithri Lakshmanan
4. Dr. A.K. Patel
5. Shri Syed Sahabuddin
6. Shri Pius Tirkey
7. Shri Jagesh Desai
8. Shri Deepankar Mukherjee
9. Shri Krishan Lal Sharma
10. Smt. Kamla Sinha

SECRETRIAT

1. Smt. P.K. Sandhu — *Director*
2. Shri P. K. Grover — *Under Secretary*

WITNESS

1. Prof. Kamal Nayan Kabra,
   Indian Institute of Public Administration, New Delhi.

2. The Committee took evidence of Prof. Kamal Nayan Kabra in connection with the horizontal study on "Sickness in Public Undertakings with special reference to sickness in textile industry".

3. A copy of the verbatim proceedings of the sitting has been kept on record.

The Committee then adjourned.

II

MINUTES OF THE 24TH SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (1995-96) HELD ON 20TH SEPTEMBER, 1995

The Committee sat from 1100 hrs. to 1300 hrs.

CHAIRMAN

Sqn. Ldr. Kamal Chaudhry

MEMBERS

2. Prof. Susanta Chakraborty
3. Shri Oscar Fernandes
4. Smt. Sheela Gautam
5. Dr. A.K. Patel
6. Shri Syed Sahabuddin
7. Shri Pius Tirkey
8. Shri Jagesh Desai
9. Shri Deepankar Mukherjee
10. Smt. Kamla Sinha

SECRETRIAT

1. Smt. P.K. Sandhu — *Director*
2. Shri P.K. Grover — *Under Secretary*

WITNESS

1. Shri M. R. Virmani,
Secretary General,
Centre for Public Sector Studies.

2. The Committee took evidence of Shri M. R. Virmani, Secretary General, Centre for Public Sector Studies in connection with the horizontal study on "Sickness in Public Undertakings with special reference to sickness in textile industry".

3. A copy of the verbatim proceedings of the sitting has been kept on record.

The Committee then adjourned.

III

MINUTES OF THE 33RD SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS' (1995-96) HELD ON 28TH NOVEMBER, 1995

The Committee sat from 1500 hrs. to 1700 hrs.

Chairman

Sqn. Ldr. Kamal Chaudhry

MEMBERS

2. Prof. Susanta Chakraborty
3. Smt. Sheela Gautam
4. Shri Anna Joshi
5. Prof. (Smt.) Savithiri Lakshmanan
6. Shri Syed Sahabuddin
7. Shri Pius Tirkey
8. Shri Krishan Lal Sharma

SECRETRIAT

1. Shri G.C. Malhotra — *Joint Secretary*
2. Smt. P.K. Sandhu — *Director*
3. Shri P.K. Grover — *Under Secretary*

WITNESS

1. Shri K. Ashok Rao,
President,
National Confederation of Officers
Association of Central Public
Sector Undertakings.

2. The Committee took evidence of Shri K. Ashok Rao, President, National Confederation of Officers Association of Central Public Sector Undertakings in connection with the horizontal study on "Sickness in Public Undertakings with special reference to sickness in textile industry".

3. A copy of the verbatim proceedings of the sitting has been kept on record.

The Committee then adjourned.

IV

MINUTES OF THE 34TH SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (1995-96) HELD ON 29TH NOVEMBER, 1995

The Committee sat from 1500 hrs to 1750 hrs.

CHAIRMAN

Sqn. Ldr. Kamal Chaudhry

MEMBERS

2. Prof. Susanta Chakraborty
3. Smt. Sheela Gautam
4. Shri Anna Joshi
5. Prof. (Smt.) Savithiri Lakshmanan
6. Shri Syed Sahabuddin
7. Shri Sanjay Dalmia
8. Shri Deepankar Mukherjee

SECRETARIAT

1. Shri S.N. Mishra — *Additional Secretary*
2. Shri G.C. Malhotra — *Joint Secretary*
3. Smt P.K. Sandhu — *Director*
4. Shri P.K. Grover — *Under Secretary*

REPRESENTATIVES OF FEDERATION OF INDIAN CHAMBERS OF COMMERCE AND INDUSTRY (FICCI)

1. Shri A.K. Rungta — President
2. Shri Y. P. Srivastva — Dy Secretary General

2. The Committee took evidence of the representatives of Federation of Indian Chambers of Commerce and Industry (FICCI) in connection with the horizontal study on "Sickness in Public Undertakings with special reference to sickness in textile industry".

3. A copy of the verbatim proceedings of the Sitting has been kept on record.

The Committee then adjounred.

MINUTES OF THE 35TH SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS HELD ON 7TH DECEMBER, 1995

The Committee sat from 1500 hrs. to 1715 hrs.

Chairman

Sqn. Ldr. Kamal Chaudhry

MEMBERS

2. Smt. Sheela Gautam
3. Prof. (Smt.) Savithiri Lakshmanan
4. Dr. A.K. Patel
5. Shri Syed Sahabuddin
6. Shri Deepankar Mukherjee
7. Shri Vayalar Ravi
8. Shri Krishan Lal Sharma

SECRETARIAT

1. Shri G.C. Malhotra — *Joint Secretary*
2. Smt P.K. Sandhu — *Director*
3. Shri P.K. Grover — *Under Secretary*

WITNESS

1. Shri R. Ganapati
   Former Chairman,
   BIFR.

2. The Committee took evidence of Shri R. Ganapati, Former Chairman, BIFR in connection with the horizontal study on "Sickness in Public Undertakings with special reference to sickness in textile industry".

3. A copy of the verbatim proceedings of the sitting has been kept on record.

The Committee then adjourned.

VI

MINUTES OF THE 37TH SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (1995-96) HELD ON 13TH DECEMBER, 1995

The Committee sat from 1500 hrs. to 1750 hrs.

CHAIRMAN

Sqn. Ldr. Kamal Chaudhry

MEMBERS

2. Prof. Susanta Chakraborty
3. Shri Oscar Fernandes
4. Prof. (Smt.) Savithiri Lakshmanan
5. Shri Deepankar Mukherjee
6. Shri Krishan Lal Sharma

SECRETARIAT

1. Shri G.C. Malhotra — *Joint Secretary*
2. Smt. P.K. Sandhu — *Director*
3. Shri P.K. Grover — *Under Secretary*

REPRESENTATIVES OF STANDING CONFERENCE OF PUBLIC ENTERPRISES (SCOPE)

1. Shri A.C. Wadhawan, Chairman, SCOPE & CMD, Hindustan Zinc Ltd.
2. Shri R.P. Singh, MD, Burn Standard Co. Ltd.

REPRESENTATIVES OF ALL INDIA TRADE UNION CONGRESS (AITUC)

1. Shri A.B. Bardhan Gen. Secy
2. Shri B.D. Joshi, Dy. Gen. Secy

2. The Committee took evidence of the representatives of SCOPE and AITUC in connection with the horizontal study on "Sickness in Public Undertakings with special reference to sickness in textile industry".

3. A copy of the verbatim proceedings of the sitting has been kept on record.

The Committee then adjourned.

1960/LS/F—7-A

VII

MINUTES OF THE 38TH SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (1995-96) HELD ON 21ST DECEMBER, 1995

The Committee sat from 1500 hrs. to 1745 hrs.

CHAIRMAN

Sqn. Ldr. Kamal Chaudhry

MEMBERS

2. Prof. Susanta Chakraborty
3. Shri Oscar Fernandes
4. Smt. Sheela Gautam
5. Dr. A. K. Patel
6. Shri Jagesh Desai
7. Shri Deepankar Mukherjee
8. Shri Krishan Lal Sharma
9. Smt. Kamla Sinha

SECRETARIAT

1. Smt. P. K. Sandhu — *Director*
2. Shri P. K. Grover — *Under Secretary*

WITNESSES

1. Shri S. N. Rao, Secretary,
   Indian National Trade Union Congress (INTUC)
2. Shri S. Dev Roye, Secretary,
   Centre of Indian Trade Unions
3. Shri R.K. Bhakt, President,
   Bhartiya Mazdoor Sangh

2. The Committee took evidence of the representatives of Indian National Trade Union Congress, Centre for Indian Trade Unions and Bhartiya Mazdoor Sangh in connection with the horizontal study on "Sickness in Public Undertakings with special reference to sickness in textile industry".

3. A copy of the verbatim proceedings of the sitting has been kept on record.

The Committee then adjourned.

1960/LS/F—7-B

MINUTES OF THE 3RD SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (1996-97) HELD ON 25TH OCTOBER, 1996

The Committee sat from 1500 hrs. to 1800 hrs.

CHAIRMAN

Shri G. Venkat Swamy

MEMBERS

2. Shri Qamarul Islam
3. Shri Priya Ranjan Das Munshi
4. Shri Banwarilal Purohit
5. Shri Manabendra Shah
6. Shri Brij Bhushan Tiwary
7. Shri S.S. Ahluwalia
8. Shri Kishore Chandra S. Deo
9. Shri Vayalar Ravi
10. Shri Solipeta Ramachandra Reddy

SECRETARIAT

1. Smt. P.K. Sandhu —— *Director*
2. Shri P.K. Grover —— *Deputy Secretary*
3. Shri Cyril John —— *Assistant Director*

REPRESENTATIVES OF THE MINISTRY OF INDUSTRY (DEPTT. OF PUBLIC ENTERPRISES)

1. Shri P.G. Mankad, Secretary (PE)
2. Shri Anoop Mukherjee, Joint Secretary (HI)
3. Shri S. Talwar, Joint Secretary (PE)

2. The Committee took evidence of the representatives of the Ministry of Industry (Department of Public Enterprises) in connection with the horizontal study on "sickness in Public Undertakings with special reference to sickness in textile industry".

3. A copy of the verbatim proceedings of the sitting has been kept on record.

The Committee then adjourned.

IX

MINUTES OF THE 10TH SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (1996-97) HELD ON 6TH JANUARY, 1997

The Committee sat from 1500 hrs. to 1800 hrs.

CHAIRMAN

Shri G. Venkat Swamy

MEMBERS

2. Shri Parasram Bhardwaj
3. Shri Somjibhai Damor
4. Shri Pramod Mahajan
5. Shri Banwarilal Purohit
6. Shri Manabendra Shah
7. Smt. Sushma Swaraj
8. Shri Brij Bhushan Tiwary
9. Shri S.S. Ahluwalia
10. Shri Kishore Chandra S. Deo
11. Shri Solipeta Ramachandra Reddy
12. Smt. Kamla Sinha
13. Shri Maheshwar Singh

SECRETARIAT

1. Shri J.P. Ratnesh — Joint Secretary
2. Smt. P.K. Sandhu — Director
3. Shri P.K. Grover — Deputy Secretary
4. Shri Raj Kumar — Assistant Director

REPRESENTATIVES OF THE MINISTRY OF TEXTILES

1. Shri Prabhat Kumar, Secretary
2. Shri Vinod Malhotra, Joint Secretary
3. Smt. Rukmani Haldea, Joint Secretary
4. Shri Subodh K. Keshava, Director
5. Shri V. Balasubramanian, CMD, NTC (HC) Ltd.
6. Shri K.L. Koul, Director (Technical), NTC (HC) Ltd.
7. Shri Bimal Pandey, Jute Commissioner
8. Shri L.K. Tripathy, CMD, NJMC
9. Shri A. Sanyal, CMD, JCI
10. Shri R. Balasubramanian, Director (Finance) JCI

2. The Committe took evidence of the representatives of the Ministry

of Textiles in connection with the horizontal study on "Sickness in Public Undertakings with special reference to sickness in textile industry".

3. A copy of the verbatim proceedings of the sitting has been kept on record.

The Committee then adjourned.

X

MINUTES OF THE 11TH SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (1996-97) HELD ON 7TH JANUARY, 1997

The Committee sat from 1100 hrs. to 1330 hrs.

CHAIRMAN

Shri G. Venkat Swamy

MEMBERS

2. Shri Tariq Anwar
3. Shri Parasram Bhardwaj
4. Shri Somjibhai Damor
5. Shri Qamarul Islam
6. Shri Priya Ranjan Das Munshi
7. Shri Banwarilal Purohit
8. Shri P. N. Siva
9. Shri Brij Bhushan Tiwary
10. Shri Kishore Chandra S. Deo
11. Shri Solipeta Ramachandra Reddy
12. Shri Maheshwar Singh

SECRETARIAT

1. Smt. P. K. Sandhu — *Director*
2. Shri P. K. Grover — *Deputy Secretary*
3. Shri Raj Kumar — *Assistant Director*

REPRESENTATIVES OF THE MINISTRY OF TEXTILES

1. Shri Prabhat Kumar, Secretary
2. Shri Vinod Malhotra, Joint Secretary
3. Smt. Rukmani Haldea, Joint Secretary
4. Shri Subodh K. Keshava, Director
5. Shri V. Balasubramanian, CMD, NTC (HC) Ltd.
6. Shri K. L. Koul, Director (Technical), NTC (HC) Ltd.
7. Shri Bimal Pandey, Jute Commissioner
8. Shri L. K. Tripathy, CMD, NJMC
9. Shri A. Sanyal, CMD, JCI
10. Shri R. Balasubramanian, Director (Finance) JCI

2. The Committee took further evidence of the representatives of the Ministry of Textiles in connection with the horizontal study on "Sickness in Public Undertakings with special reference to sickness in textile industry".

3. A copy of the verbatim proceedings of the sitting has been kept on record.

The Committee then adjourned.

XI

MINUTES OF THE 15TH SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (1996-97) HELD ON 3RD MARCH, 1997

The Committee sat from 1500 hrs. to 1745 hrs.

CHAIRMAN

Shri G. Venkat Swamy

MEMBERS

2. Shri Priya Ranjan Das Munshi
3. Shri Banwarilal Purohit
4. Shri Brij Bhushan Tiwary
5. Shri Ram Kripal Yadav
6. Shri S.S. Ahluwalia
7. Shri Deepankar Mukherjee
8. Shri Solipeta Ramachandra Reddy

SECRETARIAT

1.	Shri J.P. Ratnesh	—	*Joint Secretary*
2.	Smt. P.K. Sandhu	—	*Director*
3.	Shri P.K. Grover	—	*Deputy Secretary*
4.	Shri Cyril John	—	*Assistant Director*

REPRESENTATIVES OF MINISTRY OF CHEMICALS & FERTILIZERS (DEPTT. OF CHEMICALS & PETROCHEMICALS) AND INDIAN DRUGS & PHARMACEUTICALS LIMITED (IDPL)

1.	Shri N.R. Banerjee,	Secretary
2.	Shri Shantanu Consul,	Joint Secretary
3.	R.K. Dewan,	Director (F) & CMD I/C. IDPL

REPRESENTATIVES OF MINISTRY OF CHEMICALS & FERTILIZERS (DEPTT. OF FERTILIZERS) AND HINDUSTAN FERTILIZERS CORPORATION LTD. (HFC)

1. Shri Anil Kumar, Secretary (Fertilizes)
2. Shri K.K. Jaswal, Jt. Secretary (Fertilizers)
3. Shri G.B. Purohit, Advisor (Fertilizers)
4. Shri A.V. Singh, CMD, HFC

2. The Committee took evidence of the representatives of (i) the Ministry of Chemicals & Fertilizers (Department of Chemicals & Petrochemicals) and Indian Drugs and Pharmaceuticals, and (ii) Ministry of Chemicals & Fertilizers (Department of Fertilizers) and Hindustan Fertilizers Corporation Limited in connection with the horizontal study

on "Sickness in Public Undertakings with special reference to sickness in textile industry".

3. A copy of the verbatim proceedings of the sitting has been kept on record.

The Committee then adjourned.

XII

MINUTES OF THE 16TH SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (1996-97) HELD ON 4TH MARCH, 1997

The Committee sat from 1500 hrs. to 1730 hrs.

CHAIRMAN

Shri G. Venkat Swamy

MEMBERS

2. Shri Priya Ranjan Das Munshi
3. Shri Brij Bhushan Tiwary
4. Shri Deepankar Mukherjee
5. Shri Solipeta Ramachandra Reddy

SECRETARIAT

1.	Smt. P.K. Sandhu	—	*Director*
2.	Shri P.K. Grover	—	*Deputy Secretary*
3.	Shri Cyril John	—	*Assistant Director*

REPRESENTATIVES OF THE MINISTRY OF INDUSTRY (DEPTT. OF HEAVY INDUSTRY)

1. Shri Prabir Sengupta, Secretary (HI)
2. Shri A.K. Mohapatra, Joint Secretary
3. Shri D.C. Samant, Joint Secretary
4. Shri Anup Mukherji, Joint Secretary

2. The Committee took evidence of the representatives of the Ministry of Industry (Department of Heavy Industry) in connection with the horizontal study on "Sickness in Public Undertakings with Special reference to sickness in textile Industry".

3. A copy of the verbatim proceedings of the sitting has been kept on record.

The Committee then adjourned.

XIII

MINUTES OF THE 17TH SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (1996-97) HELD ON 11TH MARCH, 1997

The Committee sat from 1500 hrs to 1525 hrs.

CHAIRMAN

Shri G. Venkat Swamy

MEMBERS

2. Shri O. Bharathan
3. Shri Manabendra Shah
4. Shri Brij Bhushan Tiwary
5. Shri Kishore Chandra S. Deo
6. Shri Deepankar Mukherjee
7. Shri Solipeta Ramachandra Reddey

SECRETARIAT

1. Shri P.K. Grover — *Deputy Secretary*
2. Shri Cyril John — *Assistant Director*

REPRESENTATIVES OF MINISTRY OF FINANCE

1. Dr. M.S. Ahluwalia, Finance Secretary
2. Shri C.M. Vasudev, Additional Secretary (Banking)
3. Shri Vinod dhall, Additional Secy. (Expnediture)
4. Shri J.S. Mathur, Additional Secretary (Budget)
5. Dr. Tarun Das, Economic Adviser
6. Shri A.K. Jain, Joint Secretary (Banking Div.)
7. Shri D.K. Tyagi, Director (Banking Div.)

2. The Committee took evidence of the representatives of the Ministry of Finance in connection with the horizontal study on "Sickness in Public Undertakings with special reference to sickness in textile industry".

3. A copy of the verbatim proceedings of the sitting has been kept on record.

The Committee then adjourned.

MINUTES OF THE 18TH SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (1996-97) HELD ON 19TH MARCH, 1997

The Committee sat from 1500 hrs. to 1700 hrs.

CHAIRMAN

Shri G. Venkat Swamy

MEMBERS

2. Shri Banwarilal Purohit
3. Shri Manabendra Shah
4. Prof. (Smt.) Rita Verma
5. Shri S.S. Ahluwalia
6. Shri Kishore Chandra S. Deo
7. Shri Deepankar Mukherjee
8. Shri Vayalar Ravi

SECRETARIAT

1.	Shri J.P. Ratnesh	—	*Joint Secretary*
2.	Shri P.K. Sandhu	—	*Director*
3.	Shri P.K. Grover	—	*Deputy Secretary*
4.	Shri Cyril John	—	*Assistant Director*

REPRESENTATIVES OF MINISTRY OF FINANCE

1. Dr. M.S. Ahluwalia, Finance Secretary
2. Shri C. Ramachandran, Secretary (Expenditure)
3. Dr. Tarun Das, Economic Adviser
4. Shri A.K. Jain, Joint Secretary (Banking Div.)
5. D. K. Tyagi, Director (Banking Div.)

2. The Committee took further evidence of the representatives of the Ministry of Finance in connection with the horizontal study on "Sickness in Public Undertakings with special reference to sickness in textile industry".

3. A copy of the verbatim proceedings of the sitting has been kept on record.

The Committee then adjourned.

MINUTES OF THE 20TH SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (1996-97) HELD ON 2ND APRIL, 1997

The Committee sat from 1100 hrs. to 1230 hrs.

CHAIRMAN

Shri G. Venkat Swamy

MEMBERS

2. Shri Parasram Bhardwaj
3. Shri Somjibhai Damor
4. Shri Qamarul Islam
5. Smt. Sushma Swaraj
6. Shri Brij Bhushan Tiwary
7. Prof. (Smt.) Rita Verma
8. Shri Ram Kripal Yadav
9. Shri S.S. Ahluwalia
10. Shri Kishore Chandra S. Deo
11. Shri Deepankar Mukherjee
12. Shri Solipeta Ramachandra Reddy
13. Shri Maheshwar Singh

SECRETARIAT

1. Smt. P. K. Sandhu — *Director*
2. Shri P. K. Grover — *Deputy Secretary*
3. Shri Raj Kumar — *Assistant Director*

REPRESENTATIVES OF CONFEDERATION OF INDIAN INDUSTRY (CII).

1. Shri N. Kumar, Vice President, CII
2. Shri Deepak Singh Chairman, CII Public Policy Committee
3. Shri R. C. Bhargava, Chairman, CII Economic Affairs Committee
4. Shri V.K. Mathur Member, CII
5. Shri J.K Bhattacharya Member, CII National Task Force Cte. on Public Sector Restructuring
6. Shri R. Pratap Member, CII National Task Force Cte. on Public Sector Restructuring

2. The Confederation of Indian Industry (CII) made an audio visual presentation on public sector restructuring. Thereafter the Committee had a discussion with the representatives of CII on the horizontal subject

"Sickness in Public Undertakings with special reference to sickness in textile industry".

3. A copy of the verbatim proceedings of the sitting has been kept on record.

The Committee then adjourned.

MINUTES OF 3RD SITTING OF COMMITTEE ON PUBLIC UNDERTAKINGS (1997-98) HELD ON 15TH JULY, 1997

The Committee sat from 1500 hrs. to 1540 hrs.

CHAIRMAN

1. Shri G. Venkat Swamy

MEMBERS

2. Shri Parasram Bhardwaj
3. Shri O. Bharathan
4. Shri Somjibhai Damor
5. Shri Qamarul Islam
6. Shri Priya Ranjan Das Munshi
7. Shri Manabendra Shah
8. Shri Brij Bhushan Tiwary
9. Prof. (Smt.) Rita Verma
10. Shri Ram Kripal Yadav
11. Shri Dipankar Mukherjee
12. Shri S.S. Ahluwalia
13. Shri Ajit P.K. Jogi
14. Shri V. Kishore Chandra S. Deo

SECRETARIAT

1. Shri J.P. Ratnesh — *Additional Secretary*
2. Shri P.K. Grover — *Deputy Sectetary*
3. Shri Cyril John — *Assistant Director*

2. The Committee considered the draft report on "Sickness in Public Undertakings". It was decided that members should be given more time so that they could go through the report thoroughly and suggest modifications wherever felt necessary.

3. The Committee also decided to hoid their next meeting on 22 July, 1997 for further consideration and adoption of the draft Report.

The Committee then adjourned.

XVII

MINUTES OF FOURTH SITTING OF COMMITTEE ON PUBLIC UNDERTAKINGS (1997-98) HELD ON 22ND, JULY, 1997.

The Committee sat from 1100 hrs. to 1145 hrs.

PRESENT

1. Shri G. Venkat Swamy — *Chairman*

MEMBERS

2. Shri Parasram Bhardwaj
3. Shri Manabendra Shah
4. Shri P.N. Siva
5. Smt. Sushma Swaraj
6. Shri Brij Bhushan Tiwari
7. Shri Ram Kripal Yadav
8. Prof. Ram Kapse
9. Shri Dipankar Mukherjee
10. Shri V. Kishore Chandra S. Deo.

SECRETARIAT

1. Shri P.K. Grover — *Deputy Secretary*
2. Shri Cyril John — *Assistant Director*

2. The Committee further considered the draft report on "Sickness in Public Undertakings" and adopted the same with the modifications as shown in Annexure I.

3. The Committee authorised the Chairman to finalise the Report on the basis of factual verification by Ministries/Department concerned and to present the same to Parliament.

The Committee then adjourned.

MODIFICATIONS TO THE DRAFT REPORT ON 'SICKNESS IN PUBLIC UNDERTAKINGS'

Page	Para	Line		
1	2	3	4	5
93	5	18	For	"Therefore, any reforms, though welcome"
			Read	Therefore any reforms in the economy.
95	6	4&5	For	"Even money....for the purpose"
			Read	"In this connection the Committee recommend that part of the money realised through disinvestment of Public Sector Shares should be made available for this purpose.
96	7	10-11	For	"They would urge....fill up the post of"
			Read	"The Committee should be informed of the number of posts of chief executives now lying vacant and time-bound action plan should be drawn up to fill up the post of"
97	8	15—17	For	"changes introduced . in order .....management"
			Read	"changes introduced. In order to have a pool of competent personnel at the senior levels of public sector management, they desire that a common management cadre for the public sector should be created".
98	9	1—3	For	"participative management.....working of the undertaking".
			Read	"participative management including financial matters is essential. This becomes very relevant in respect of sick PSUs. The Committee recommend that as and when the PSUs show signs of sickness, the management should involve the workers in preparing joint revival scheme. Necessary instructions may be issued to all the PSUs in this regard."
100	11	2—7	For	"However they had...out of the red."
			Read	"However, they desire that public

1	2	3	4	5
				undertakings should not undertake social responsibilities to the extent of undertaking their financial health. The Committee would, therefore, suggest that PSUs which are declared sick or have been in the red consecutively for a period of three years should not take up fresh social responsibilities till their turnaround."
100	12	12—19	For Read	"In view of...... priority areas." "The Committee are of the view that while it might not always be necsary for the public sector to invest outside the reserved sector in future, the Government should not desist from making such investment in cases when it involves rehabilitation of sick public sector units."
109	21	7	After para 21 Add a new Para and renumber the subsequent paras.	"This regard" Add "within three months." "The Committee are strongly of the view the Companies like IDPL, HFC (Hindustan Fertilizers Corpn. Ltd. (Fertilizers Corpn. of India) and NTC should be saved from being closed down. They recommend that necessary funds should be made available on urgent basis by Government for sustaining their operations till such time the revival packages are implemented."
112	25 (Existing Para)	9—12	For Read	"The Inter-Ministerial Group....advice of expert Committees." "The inter-ministerial group can also take the advice of such Special Tripartite/Expert Committees."
112	25	15—17	Delete	"The Committee desire....reviewed."
112	25 (Existing Para)	17	For Read	"They Suggested" "They Suggested"

1	2	3	4	5
113	25 (Existing Para)	2	After	"channel" Add "The Committee desire that the whole question of referring the sick public enterprises to the BIFR should be reviewed."
113	25 (Existing Para)	2	After	"channel". Start a new para and renumber the subsequent paras.
115			After the existing Para 28 Add a new para and renumber the subsequ-ent Paras.	"The Committee are surprised at the stance taken by the Ministry of Finance that the Planning Commission should pre-allocate funds for revival of sick units. In the absence of such pre-allocation the Govt. is unable to finance any revival plan for want of funds. However, it appears to the Committee that Govt. has not formulated any long term strategy for the revival of sick public sector undertakings to facilitate allocation of funds by the Planning Commission during a Five Year Plan period. In the absence of such clear policy of the Govt. one cannot expect the Planning Commission to pre-allocate funds for the revival of sick units. The Committee, therefore, recommend that Govt. should first decide upon the units which are to be rehabilitated, formulate the revival plans and convey the requirement of funds to the Planning Commission so that the funds could be allocate for their revival. They would like to be informed of the detials of the units in respect of which proposals have been finalised by Government and request of funds communicated of Planning Commission for the Ninth Five Year Plan."
116	30	6	After	"funds rather than closing it down." *Add* "Thus before taking any winding up decision the replacement cost and the opportunity cost for creating equivalent employment should be worked out."