

**COMMITTEE ON PUBLIC
UNDERTAKINGS
(1973-74)**

(FIFTH LOK SABHA)

FIFTY-FIFTH REPORT

**HINDUSTAN PHOTO FILMS MANUFACTURING
COMPANY LIMITED**

(MINISTRY OF INDUSTRIAL DEVELOPMENT)



**LOK SABHA SECRETARIAT
NEW DELHI**

April, 1974/Vaisakha, 1896 (Saka)

Price: Rs. 4.90

CORRIGENDA

Fifty-fifth Report of the Committee on Public
Undertakings (Fifth Lok Sabha) on Hindustan
Photo Films Mfg. Co. Ltd.

<u>Page</u>	<u>Para</u>	<u>Line</u>	<u>For</u>	<u>Read</u>
(iii)	-	1	Omit 'IX'	
(iii)	Under the heading 'SECRETARIAT' against Sl.No.2		'Soundarajan - Deputy Sectary	'Soundararajan - Deputy Secretary'
4	2.5	7	Januarry	January
8	2.17	8	Bauchers. The Committee were informed that	Bauchet of France for collaboration for
9	-	16&17	(e.g.) X-ray film	(e.g. X-ray film)
10	-	1	Chloromide	Chloro-Bromide
14	Table-Under Column 3	11	intested	tested
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15	2.35	9 from bottom	being	bring
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37	-	15	Delayed	Delay
38	-	7-8	public enter-prises	Public Enter-prises
41	4.11	1	pro	products
43	4.17	1	modification	modified
51	4.49	4	recommended	recommend
65	4.76	9	substraction	substration
66	-	4	substraction	substration

<u>Page</u>	<u>Para</u>	<u>Line</u>	<u>For</u>	<u>Read</u>
70	4.87		In table against 'Total' insert figures '6771.79' between the lines.	
75	4.99	20	valu	value
85	4.146	10	1973-74 (upto September,1973). The Management has been examining	the Bharat Gold Mines. The Committee would like to know the further
36	4.148	Table- under column 2 against item 'Film Base'	triacetale	triacetate
86	"	-do- column 4 against item 'Film-Base'	Properiatery	Proprietary
86	"	-do- against item 'Emulsion'	Pr-prietary	Pro-prietary
88	4.158	9	recover	recovery*
106	-	3	We feel that much stricter vigilance will have to be exercised	We have been telling them to do it. They are reviewing it.
106	5.27	9	in	to
107	5.32	10	liaason	liaison
114	5.56	Add '**' under the heading 'No. of complaints' after the bracket in last column of the table.	and omit the same	
116	5.62	14	areas stages	areas/stages
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149	6.61	10	recommended	recommend
153	7.5	3	of	or
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<u>Page</u>	<u>Para</u>	<u>Line</u>	<u>For</u>	<u>Read</u>
157	7.20	6	purchase of 97.83 M.tons.	tenders before placing order.
161	7.33	Table Column 2	urplus/absolute	surplus/obsolete
163	7.42	2	at end	at the end
178	9.16	5	vary	very
179	9.21	1	Government Bureau	Government/Bureau
199	-	11(from bottom)	Insert '5' in	column (1)
206	Under Column (3)	7	public enterprises	Public Enterprises
211	Against Sl.No.16 under Column(3)	13	substraction	substration
217	Against Sl. No.18 under column (3)	19	substraction	substration
223	Against Sl. No.25 under column (3)	19	areas stages	areas/stages
226	Against Sl. No.3 under column(3)	5&6 from bottom	quan-titaviely	quantitatively
230	Against Sl. No.34 under column(3)	3 from bottom	and extra	an extra
231	Against Sl. No.35 under column(3)	3	at end	at the end

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COMMITTEE ON PUBLIC UNDERTAKINGS

(1973-74)

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Shrimati Subhadra Joshi

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1. Shri Avtar Singh Rikhy—Joint Secretary.
2. Shri M. A. Soundarajan—Deputy Secretary.
3. Shri M. N. Kaul—Under Secretary

*Appointed to act as Chairman from 16-5-1973 to 11-7-1973 during the absence abroad of Shrimati Subhadra Joshi.

@Ceased to be a Member of the Committee consequent on his retirement from Rajya Sabha on 3-4-1974.

**STUDY GROUP IV ON TOURISM AND PHOTO FILMS OF THE
COMMITTEE ON PUBLIC UNDERTAKINGS (1973-74)**

1. Shri Lal K. Advani—*Convener*
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- *6. Shri Suraj Prasad
7. Shri T. H. Gavit

*Ceased to be a Member of the Committee consequent on his retirement from Rajya Sabha on 3-4-1974.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Fifty-Fifth Report on the Hindustan Photo Films Mfg. Co. Ltd.

2. This Report of the Committee is based on the appraisal of the working of the Hindustan Photo Films Mfg. Co. Ltd. as contained in the Report of the Comptroller and Auditor General of India for the year 1970-71—Union Government (Commercial) Part IX—and also on an examination in depth of the working of the Hindustan Photo Films Mfg. Co. Ltd. upto the year ended 31st March, 1973.

3. The Committee on Public Undertakings took evidence of the representatives of the Hindustan Photo Films Mfg. Co. Ltd. on the 25th and 28th January, 1974 and of the Ministry of Industrial Development on the 11th and 12th March, 1974.

4. The Committee on Public Undertakings considered and adopted the Report at their sitting held on the 26th April, 1974.

5. The Committee wish to express their thanks to the Ministry of Industrial Development, the Hindustan Photo Films Mfg. Co. Ltd. for placing before them the material and information they wanted in connection with the examination of Hindustan Photo Films Mfg. Co. Ltd. They wish to thank the representatives of the Ministry and the Undertaking who gave evidence and placed their considered views before the Committee.

6. The Committee also place on record their appreciation of the assistance rendered to them by the Comptroller and Auditor General of India in connection with examination of the Hindustan Photo Films Mfg. Co. Ltd.

SUBHADRA JOSHI,

Chairman,

Committee on Public Undertakings

NEW DELHI;

April 29, 1974.

Vaisakha 9, 1895(S).

INTRODUCTORY

Soon after independence, Government realised the need for ensuring regular supplies of cine films to the Indian Motion Picture Industry, X-Ray films to the Health Services and Defence Forces and special photographic materials to the professional and amateur photographers, all of whom were entirely dependent on imports. To make the country self-reliant in this regard, Government encouraged some private parties to set up a factory for manufacturing sensitised photographic materials with foreign collaboration but no significant progress could be made. The idea received fresh impetus when the Film Enquiry Committee set up by the Government to consider the state of Motion Picture Industry in India and its vital requirements stressed in 1951 the need for the setting up of a factory for manufacturing all photo sensitised materials in general and raw films for the Motion Picture Industry in particular. As no one from the private sector came forward, Government decided to set up the factory in the Public Sector.

1.2. Various manufacturers of Photo films like the West German Agfa, the East German Agfa, Kodak, Gevaert, Ferrania, Adox and Fuji were contacted. East German Agfa (ORWO) conducted a survey in 1955-56 for selecting a suitable place for the location of the factory and chose Ootacamund as the most suitable site. As negotiations with this firm did not eventually prove successful, Government held a number of discussions with other manufacturers during 1956 to 1959. Suitable offers were received from two firms, namely Bauchet et Cie of France and Adox of West Germany. Negotiations were conducted with these firms by the National Industrial Development Corporation Limited (a Government of India Undertaking) and the offer of M/s. Bauchet received on 21st November, 1959 was considered to be more advantageous "in view of the lower cost, easier payment terms and their wider experience in the field of cinema material and photographic paper." M/s. Bauchet also confirmed Ootacamund as the most suitable site for locating the factory from the point of view of an atmosphere free from dust and industrial pollution, availability of pure soft water in adequate quantities and of a relatively uniform dew point round the year.

1.3. Based on the above offer, the Government of India entered into a technical collaboration agreement with Messrs Bauchet et Cie (hereinafter referred to as the collaborators) on the 25th April, 1960; the agreement came into force on 17th October, 1960 after the sample of cine

positive film, one of the 10 products covered by the agreement, supplied by the collaborators was tested and accepted by Government and the collaborators communicated the acceptance of the French authorities for the deferred terms of payment. The Hindustan Photo Films Manufacturing Company Limited was incorporated on 30th November, 1960, as a wholly-owned Government Company for the implementation of the Project with the object of attaining self-sufficiency in the manufacture of photographic products—cine films, x-ray films, photographic bromide papers and other allied products to meet India's requirements in education, health and entertainment.

1.4. The Collaboration agreement was assigned to the Company on 5th April, 1961. Basically, it called for preparation of a Detailed Project Report for the Plant, including advice in selecting site, supply of machinery and equipment, including supervision of installation, provision for consulting and technical services and training of Indian Scientists and Engineers at the Collaborators' Factory. The Project envisaged the manufacture of photographic films starting from raw materials.

1.5. The Company has the following expansion proposals to be carried out:—

- (i) Creation of facilities for the manufacture of 5 m. sq. m. per annum of medical X-ray film polyester base and 1 m. sq. m. per annum of graphic arts film also on polyester base.
- (ii) Creation of facilities for production of colour films and cameras.

For implementing these schemes, the Company is currently negotiating with reputed foreign manufacturers.

II

AGREEMENT WITH COLLABORATORS

A. Collaboration Agreement

According to the agreement entered into between the Government of India and M/s. Bauchet of France on 25th April, 1960 (later on assigned to the Undertaking on 5th April, 1961), the collaborators were required to render the following services:—

- (i) Preparation of Progressive Detailed Project Report for the Plant.
- (ii) Delivery of machinery and equipment for the Plant, both from France and other countries.
- (iii) Supervision of the erection of machinery and equipment and assistance in the construction of the Plant.
- (iv) Consultancy and technical services for the establishment of the Plant and for production therein.

For the above services and supplies, a lump sum payment of U.S. \$ 60,81,632 (Rs. 2.93 crores approx.) free of Indian taxes was to be made in 10 equal half-yearly instalments (with interest at 6.5 per cent. per annum) commencing from 42 months after the coming into force of the agreement (*i.e.* 17th October, 1960), the last instalment being payable after the acceptance of the Plant by the Undertaking.

2.2. In addition, the collaborators were also to be paid 1½ per cent. of the net value of sales turnover in the plant or \$80,000, \$1,00,000 and \$ 1,20,000 (in French currency) for the third, fourth and fifth years after the commencement of production, whichever was lower, in consideration of the following further services:—

- (i) After-sales service for a period of five years from the date of acceptance of the plant and machinery on completion of tests.
- (ii) Deputation of mechanics/engineers to give technical advice for the repair of any defects and for the help in carrying out such repairs.
- (iii) Continued assistance, in the form of deputation of specialists for five years after the commencement of production, in the maintenance of production and the removal of difficulties therein.

The services at (i) to (iii) were to be provided at the cost of the Undertaking.

- (iv) Benefits of the technical development in their factory and laboratory as well as the facility for carrying out tests, experiment and research by mutual agreement.

2.3. In addition, it was agreed in May, 1969 that on the written request of the Undertaking the collaborators would depute at their cost two competent technicians of different specialities for a maximum period of 30 continuous calendar days, excluding travel, during each of the year 1969, 1970 and 1971. The collaborators also agreed to supply any additional information on quality specifications and testing methods for the range of products covered by the basic agreement which might become available and the results of test carried out from time to time at their consultant's plant (Ferrania at Savona) during the period of validity of article XIX of the basic agreement which are not of a secret or confidential nature.

2.4. Out of the lump sum of Rs. 2.93 crores (increased to Rs. 3.74 crores due to devaluation of rupee in June, 1966), a sum of Rs. 3.28 crores was paid in 9 instalments up to April, 1968 in accordance with the time schedule laid down in the agreement and the 10th instalment of Rs. 0.46 crore was paid on the 17th October, 1968 after the acceptance of the plant. In addition, interest amounting to Rs. 82.17 lakhs on account of deferred payment arrangements was also paid.

2.5. The production commenced in the plant on 9th June, 1967 and the following payments have been made for 'after-sales' services:—

Period for which payment made	Amount (Rs. in lakhs.)	Date of payment
9th June, 1969 to 8th June, 1970	5.41	January 1971
9th June, 1970 to 8th June, 1971	5.33	December, 1971
9th June, 1971 to 8th June, 1972	6.26	19th October, 1973

2.6. Asked about the considerations with which the selection of M/s. Bauchet of France, was made, the Undertaking stated that various manufacturers had been contacted by the National Industrial Development Corporation prior to the formation of HPF. Negotiations with ORWO had not been successful. The only two proposals that came up for consideration were from ADOX and Bauchet. Bauchet proposal was preferred, as apart from the first cost, it did not involve any heavy royalty payments; as compared to ADOX, who wanted 5 per cent royalty on sales for 25 years.

2.7. Asked what were the distinct advantages in the offer of M/s. Bauchet as compared to the offer made by ADOX the West German Company, it was stated by the Undertaking that in the case of Cine materials and paper, Bauchet had a wide range of products. X-ray was also included in the original agreement as an item for production at HPF during the 3rd year.

In the light of the above, Bauchet, on the face of it, sounded acceptable.

2.8. The representative of the Ministry stated during evidence as follows:

“Actually, efforts were made to entrust this job to a firm of repute. Eventually, three offers emerged. The major ones did not show any interest at that point of time even though we were very keen that such reputed firms as Kodak and Dupont would be entrusted with this job. I think one firm backed out and did not show any interest after giving its proposal. Eventually, we were left only with Adox and Bauchet. We actually selected the proposal of M/s. Bauchet because it was considered more advantageous to us. . . . It did not involve heavy payment of royalty and know-how. . . . Actually, if it were a question of choosing one between the two, naturally-even if the offers of the Kodak were higher and their terms were stiffer-the Government would have taken a view in view of the very special know-how that the Kodak had in a particular field. I think other considerations were taken into account. There was nothing very much to choose between these two parties on the basis of their names.”

2.9. The Committee desired to know whether NIDC was competent to judge the capability of the firm and whether they had the necessary expertise in this regard, the witness stated that:

“I would not say that they (NIDC) did not have any expertise in this particular field but actually they were entrusted with the work because in the country in those days, I don't think any other agency would have had any expertise in the field of manufacture of photo films. This being the agency within the Government it had some sort of general consul knowledge and experience, particularly in the matter of negotiations etc. with foreign parties and, therefore, they were chosen as an agency for handling this particular job.”

“It may be said that some other agency might have been entrusted with this work. Now that agency should have been an Indian agency because in India, we did not have any expertise in this

particular field. Then we could have also appointed some foreign consultancy firm at that point of time. But if we recall, in those days, I think there was some sort of reaction against the appointment of some foreign consultancy firm. After the appointment of one or two firms for steel plants—Rourkela and Durgapur—the feeling was that Indian consultants should be given the responsibility.”

2.10. The Ministry intimated (September, 1973) that they have not been able to locate their relevant file in which the feasibility study and the economics of the project were considered by the Government. However, a copy of the memorandum submitted by the National Industrial Development Corporation Limited (who were the consultants to Government for this project) to their Board of Directors for consideration in the meeting on 23rd January, 1960 was made available. This memorandum (extract at Appendix I) in the main relate to an analysis of the comparative merits, of the offers received. It was mentioned therein that the cost of production of various items after acceptance of Bauchet's offer would permit the factory's products to be competitive. The Ministry intimated (September, 1973) that “We are also making efforts to trace the records of this Ministry in which the feasibility study and the economics of the project were considered by Government. . . .”

2.11. Asked whether the file concerned was traced, the Special Secretary of the Ministry stated during evidence:—

“Unfortunately, we have not been able to trace that file and that is why we are not able to give a positive answer to this question as to how NIDC was selected. We would certainly make further attempts to try to trace that file and the relevant papers. But I have my doubts whether we would be able to do it.”

2.12. Asked about locating the untraceable file through the movement register, the representative of the Ministry stated that—

“Even that (movement register) is not traceable Sir. This was previously handled by the Chemical Section. That has gone to Petroleum and Chemicals Ministry. It came to us in 1964. They have not transferred the records to us prior to 1961. We have been trying to find out from them.”

The witness added:—

“It (The loss of file) was first discovered in September, 1973 when the Audit wanted the file. Before that nobody really bothered where the file was—whether it was in the Archives or not. I would certainly say that there is a case for fixing responsibility

but unless we know at what point of time it happened, everybody will say it was not when he was Incharge. If the approximate period when it was lost could be determined, then perhaps we can say that such and such a person was incharge and such and such was a clerk. It may be during the period between 1963 to 1973. It was admitted that Government on its own has not initiated action in this regard and that this would be done now.

2.13. Asked what were the reasons for the Undertaking going into losses if the Project was undertaken after a proper feasibility study, the representative of the Ministry stated:

“the feasibility study that was taken up was, perhaps not very accurate. We cannot say for certain because we are not able to find the file. But in view of the fact that this agreement was signed and perimeter was laid down even before D.P.R. was ready, we can safely say that the feasibility study was not very accurate. All the same even under the circumstances if the company can utilise its capacity to the optimum possible extent, I will say there is no reason why there should be any loss. If we can utilise the capacity and reduce rejections, I think we will be able not merely to minimise but completely cut out the loss at least for the future.”

2.14. Asked about the nature of assistance obtained from the collaborators in terms of the clause relating to after sales service, it was stated by the Undertaking that the collaborators rendered after-sale-service only to the extent sought for it. In 1969 Bauchet deputed two specialists one for the conversion Department and another for quality control; in 1970 two specialists for coating of Medical X-ray and analytical testing of materials and in 1971 two specialists for X-Ray emulsion and industrial engineering.

2.15. In addition, in 1963 M/s. Minnesota Mining and Manufacturing Company, USA (known as 3.M) bought Bauchet and later Ferrania a leading manufacturer in Europe. The technology and other facilities at Ferrania were made available to the HPF. During this period, Ferrania offered to extend help to HPF in base casting Bromide paper and X-ray to tackle specific problems in quality production and expansion. Thus the collaborator provided the undertaking with the benefits of technological developments in their factory and laboratory as well as the facility for carrying out tests, experiments and research etc., as also additional information of quality specifications and testing methods.

2.16. The Committee note that a Collaboration Agreement was entered into between the Government of India and M/s. Bauchet of France on

25th April, 1960 for the preparation of Detailed Project Report, Delivery of Machinery and Equipment, Supervision of erection of Plant and Machinery, assistance in the construction and consultation and technical services for establishment of plant and for production. The Agreement was later on assigned to the undertaking on the 5th April, 1961. The Committee find that collaborators were selected by the National Industrial Development Corporation Limited a consultancy organisation at that time within the Ministry which had some general consultancy knowledge and experience of negotiations with foreign parties.

2.17. The Committee are not however sure whether the NIDC had the necessary expertise in the photographic field to select foreign firms like Bauchers. The Committee were informed that the manufacture of photographic products. The Committee were informed that the Ministry had not been able to locate the relevant file containing the correspondence leading to the selection of the collaborators and in which the feasibility study and economics of the Project were considered by the Government. What is more surprising is the fact that the loss of file came to the notice of the Ministry only in September, 1973 when the Audit wanted the file.

2.18. The Committee were informed that the movement register relating to the file is also missing. Prima-facie this does not seem to be a case of mere negligence.

2.19. The Committee feel it would be difficult to come to a correct judgement about the propriety or otherwise of the selection of the collaborators, in the absence of this important document. The Committee would like Government to investigate and fix responsibility as to how an important file containing the feasibility study and the economics of the project was not kept with the care that it deserved as a permanent record for reference. The Committee would like this file to be traced by Government and responsibility for its being misplaced fixed. The Committee would also like to know what action Government have taken or proposed to take to ensure that all such important documents relating to Government departments or public undertakings are kept with utmost care for permanent reference and record.

B. Deficiencies in the Agreement

2.20. The ownership of the collaborating foreign firm changed hands in May, 1963 when the controlling interest was acquired by M/s. Minnesota Mining and Manufacturing Company, USA (Known as 3-M). The new management had a fresh look at the commitments made by the previous management with regard to the setting up of this project and felt

that the rights and obligations of each of the two parties to the agreement should be clearly brought out, particularly, when the agreement contained apparent contradictions e.g. the clauses relating to carrying out of acceptance tests were vague and could lend themselves to different interpretations; also in view of the current trends the product mix envisaged in the agreement required improvement. They were strongly of the view that it would be physically impossible to expect that a given formula and its manufacturing instructions could be faithfully reproduced in a different country with slightly different machinery, on the basis of the actual implementation of the project by the old management prior to the taking over of the collaborating firm by the new management, the undertaking also came to the conclusion that the former lacked the following:—

- (i) financial and technical resources;
- (ii) ability to design a very modern photographic plant;
- (iii) confidence in supplying the technical know-how for products not commercially produced by them at their plant (e.g.) X-ray film but which had been included in the agreement;
- (iv) a design and engineering organisation capable of coping with the problems that might arise during the setting up of the plant.

2.21. In view of inadequacies noticed in the agreement, as mentioned above, a series of discussions (15 times) were held between the new management and the Company during the period from June, 1963 to January, 1967. Besides resolving the pending issues the agreement was also modified with reference to the varieties and quantities of film and paper and acceptance tests as indicated below:—

Change in varieties and quantities of production

The agreement envisaged the production of the following:—

1. Positive Cine Film.
2. Sound Cine Film.
3. Negative Cine Film 100 ASA
4. Flat Cine Film 100 ASA
5. Roll Film 50 ASA and 100 ASA
6. Graphic Arts Film, Ortho-Chromatic and Non-ortho.
7. X-Ray Film rapid and screen types.
8. Aero Films for high altitude Photography.

9. Bromide, Chloromide and document copying papers in various grades of contrast.

10. Colour paper.

2.22. In addition, the production of colour positive, cine film and emulsion for nuclear research was also envisaged provided, by the time the plant went into production with other categories, the supplier had completed the development work in respect of these products and was ready to place these in the market.

2.23. During performance tests a minimum of 300 sq. metres of each of the products were required to be produced to establish characteristics and general quality. The new management of the collaborating firm informed the Company in February, 1964 that adaptation of all the products to local conditions would involve considerable developmental work and it would, therefore, take several years to achieve the characteristics and general quality of each of the products. They, therefore, suggested in February, 1964 that the agreement should be modified so as to confine the performance tests for characteristics and quality to only two products viz. Cine Film Positive and Medical X-ray Film, instead of each of the above products as originally provided for. After a number of discussions, the products were modified and divided into three categories. The collaborator's responsibilities were also modified as under:—

Products	Collaborators's responsibility
LIST 'A'	
Cine Film Positive (Black and White— one grade)	Two samples of 300 sq. m. each to be produced, start of production established and technological operation documentation to be supplied.
Medical X-ray Film (one grade)	
LIST 'B'	
Roll Film (one grade) Leica Film (one grade) Flat (Portrait) Film (one grade) Bromide paper (3 grades)	Two samples of 300 sq. m. to be produced for testing of characteristics of general quality and technological operation documentation to be supplied.
LIST 'C'	
Graphic Arts Film (Orthochromatic and non-ortho) Sound Cine Film Negative Cine Film Aero Films for high altitude Photography Chlorobromide paper (4 grades) Documents copying paper (by contract and by enlargement) Bromide paper (2 grades) Colour paper.	Only technological operation documentation to be supplied. However, the formula were not guaranteed as these were required to be developed and adopted to the local conditions by the Company.

2.24. The production of Colour Positive Cine Film and Emulsions for nuclear research which was envisaged in the original agreement was omitted as "Bauchet's present programme was not completed and did not envisage any development work in respect of these products." At this stage (1966), the Management also changed the production capacity of the plant from what was envisaged in the Detailed Project Report as indicated below:

(Figures in million sq. metres)

	Capacity as per Detailed Project Report	Revised capacity
Cine Film Positive (black and white)	2.98	2.45
Medical X-ray Film	0.50	1.00
Roll Film	0.22	1.45
Flat (portrait) Film	0.15*	0.05
Bromide paper (3 Grades)	1.50@	1.50
Graphic Arts Film		0.05
Sound Cine Film	0.24	0.30
Negative Cine Film	0.18	1.25
35 mm. Negative Film	0.02	0.10
	<u>5.79</u>	<u>6.15</u>

*Includes Graphic Arts Film also.

@Includes all photographic papers.

2.25. The original agreement envisaged that during the first two years production of Cine Film Positive only would be taken up; X-ray Film, some negative material and paper would be taken up only in the third year and full production reached in the fifth year. This, was, however, amended in November, 1966 when the collaborators agreed to initiate steps for the production of Medical X-ray Film immediately after the plant went into production and to make every reasonable effort to achieve the start of production of Medical X-ray Film as early as possible, actual production being commenced after the preparation of two samples for characteristics and general quality. The production of Roll Films was to be taken up by the Company after the start of production of Medical X-ray Film.

2.26. The management stated in March, 1967 that the following were the main considerations for accepting the above modifications:—

- (a) It was advantageous to concentrate greater attention on establishing full production of a limited number of products which commanded a good market.
- (b) The viability of the Project stood on a sounder footing by accepting the above modifications as the annual sale value of the products as per revised product mix was estimated at Rs. 10 crores (at the same level of prices) against Rs. 7.94 crores according to the original stipulations.
- (c) It was possible to establish the production of Medical X-ray Film two years in advance which was advantageous in the Company in view of the heavy demand from Defence Forces and Health services.
- (d) The possibility of establishing the production of Roll Films (another important product) soon after the production of X-ray Film (under certain conditions to be agreed upon) arose from the above agreement.

2.27. In July, 1973, the Ministry informed Audit that the change in product-mix had no relation with the modification of the basic agreement and that the collaborators had no responsibility for revised product-mix. According to them the revised product-mix was drawn up mainly for doubling the capacity for more delicate products such as X-ray, roll films etc.

2.28. It was stated by the Management during evidence that the revision in product-mix was done at the instance of HPF to increase the capacity for X-ray to meet the market demands. While the production capacity of X-ray Films had gone up from 0.5 million to 1 million sq. meters, the production capacity of Cine Film Positive has been reduced from 2.98 to 2.45 million sq. meters and that of Roll Films increased from 0.22 to 0.45 million sq. meters. It was also confirmed by the Undertaking that these capacities were established. During evidence it was further stated by the Management that the total capacity increased from 5.791 million sq. meters to 6.15 million sq. meters. The turn over was estimated to have increased from Rs. 7.94 crores to Rs. 10 crores. So on both these accounts, the charge was in the interests of HPF.

2.29. The lump sum amount of Rs. 2.93 crores to be paid to the collaborators for the various services to be rendered by them under the agreement was not changed despite the modifications in the range of products.

To have retained the same fee in spite of the increased turnover and in spite of the increase in production capacity of X-ray films (which was doubled) was to the advantage of the Undertaking.

2.30. Asked as to how the capability of the plant was ensured, the Management stated that, according to the agreement, the capacity was to be proved in the presence of representatives of the undertaking who were trained at Bauchet. Only on this basis, individual certificates of acceptance were given to Bauchet. "Under the circumstances we have to presume that the integrated plant capacity was proved."

It was also stated that "there is nothing on record where we have said that either the capacity was not established or the quality was not upto the standards laid down."

2.31. The actual production of different items as compared with the build up of capacity indicated in the DPR (i.e. prior to modified arrangement of November, 1966) for the first 5 years from the commencement of production is given in the Statement in Appendix IV. The build up of capacity was not revised even after the modification of the sequence of production.

C. Acceptance Tests

2.32. The position with regard to tests to be performed by the collaborators before the acceptance of the plant by the Company as stipulated in the agreement and as agreed to later on is indicated below:—

	As contemplated in the agreement	As finally agreed in February/ November, 1966
1	2	3
(i) For film base	<p>The performance tests were required to be made :—</p> <p>(a) during 24 consecutive hours as regards the quantity produced.</p> <p>(b) during 8 consecutive days as far as solvents consumption was concerned.</p>	<p>The base casting machines were to be tested for capacity and solvent recovery on film base for Cine Film Positive (black and white) during two tests of 24 hours each in respect of capacity and of 8 consecutive days (24 hours a day) each for solvent recovery.</p> <p>The coating machines were to be tested on Cine Film Positive (black and white) for two periods of 24 consecutive hours each. In regard to the other products the speed at which the two samples of 300 sq. metres</p>

1	2	3
		each were prepared for characteristics and general quality were to be taken as typical and the integrated coating capacity calculated therefrom. Emulsion preparation equipment was to be tested for 5 working days of 8 hours each for Cine Film Positive (black and white).
(ii) For emulsion .	(c) during 24 consecutive hours.	The finishing machines were to be tested for two periods of 8 consecutive hours each for Cine Film Positive (black and white).
(iii) For finishing . . .	(d) during 8 consecutive hours.	
(iv) For characteristics and general quality.	(e) on production of minimum three hundred sq.m. of each product.	Two samples of 300 sq. metres each were to be produced in respect of Cine Film Positive (black and white), Medical X-ray Film, Roll Film, Leica film, Flat film and Bromide paper. The quality of products was to conform in general to the quality of good commercial products as sold in the international market in 1965.

2.33. It will be seen from the above that the acceptance tests as stipulated in the modified agreement were restricted primarily to production of two samples of 300 sq. metres each in respect of Cine Film Positive, Medical X-ray Film, Roll Film, etc. without any reference to the inputs and the production cycle.

However, the Detailed Project Report indicated the input-output ratio and the norms of rejections. No records are available to indicate that in producing the 300 sq. m. of each product during acceptance tests, the actual input-output relationship and the rejections conformed to the anticipations made in the Detailed Project Report.

2.34. The Committee pointed out that the acceptance tests as stipulated in the modified agreement were restricted primarily to production of two samples of 300 sq. m. each in respect of cine-film positive, medical X-ray film, roll film etc., without any reference to the inputs and the production cycle and asked as to how such restrictive and inadequate provision for acceptance tests was agreed to and with such a provision for acceptance tests how it was proposed to test the capacity of the plant before acceptance. The Undertaking stated that in their opinion, the acceptance tests

were not unreasonable. By and large, the technical capability was established and production of 300 sq. metres of a quality product, means a quantity approximately equivalent to "two feature films" in the case of Cine film positive and about 3800 sheets of size 10" X 12" in the case of X-ray film. Besides these samples, the agreement also provided for establishment of capability of machines as given below:—

Base casting	2 tests of 24 hours each with respect to capacity.
Coating	2 Periods of 24 hours each.

Generally speaking, if the machines were not capable, it would not have been possible to produce in a continuous process, even 300 sq. metres of sophisticated photo sensitive products as X-ray and Cine positive.

2.35. In this connection the representative of the Ministry stated during evidence that:—

"I agree that 300 sq. meters look small but when one thinks that these 300 sq. meters of quality product means quantity approximately equivalent to two feature films in the case of cine positive and 3,800 sheets of 10" X 12" size X-ray film, one would, perhaps, take a view that it was not so small as 300 sq. meter figure would lead one to believe. Also our experience has been that the suppliers and the manufacturers seldom give sustained performance to prove their guarantee tests. It applies to all, whether it is a steel plant or fertilizers. The guarantee tests are related to short spell of time. That happens to be the international practice. I do not think that any reputed supplier would change the practice at our behest. Apart from this 300 sq. metre tests, other tests were also conducted with respect to capacity, recovery and coating.

The point is that if there are only patent defects in the equipment, these would come out during these tests. If there were other defects, perhaps even longer tests would not bring them out. They would come out only after operation of six months or one year.

One of the main reasons for this high rejection has been the nature and the quality of the raw materials that have been used. That also would not have come out with any of these guaranteed tests, whether they were for 300 metres or more or for 10-15 days. I do not think, on the face of it, we can consider these guarantee tests as very unreasonable."

2.36. Regarding the reasons for the non-availability of the basic records indicating the actual input-output ratios during acceptance tests, the Chairman, HPF stated during evidence that:—

“We fully agree that this is inexcusable as part of the Company management, we have to own responsibility. We have entered into a new technology, it was a long gestation period and the Company running in a loss. But I would like to ensure you all the same that this is a lapse. These only high-light a lack of proper system which have now been established.”

2.37. Asked as to why the records were not made available, the Chairman stated, “We accept our lapse.”

It was, however, stated by the Undertaking after evidence that records relating to input/output have now been traced.

2.38. The Committee pointed out that the input and output data, that has been given, pertained to the finishing stages and not the early stage of coating or conversion etc.

2.39. The representative of the Ministry stated during evidence that—

“If the data is not sifted properly, it was a Management failure. They should have at that point of time sifted it before discharging the responsibility of the collaborators and suppliers, but without looking at the data it would be difficult for me to make any comments. . . . Now that they have been able to trace the record, the question of fixing the responsibility does not arise. The question may be, whether the data was properly sifted or not, that is another thing.”

2.40. Asked as to how such defective Detailed Project Report was accepted by the Undertaking the Management stated during evidence:—

“We agree DPR has certain operating deficiencies. However, generally speaking Detailed Project Report cannot be taken as the bible; the original product mix, operating characteristics, raw material available will have an effect. . . . Every one of these variables has an impact on the capacity and wastage. We have to evolve our own norms of operating efficiency”.

It was added:—

“Now we have established a cell and we have every reasons to believe that within a shortwhile we will be able to give our

own norms and everyone of the operating characteristics and we do hope thus that this would even be in some respect better than the norms, which were spelt out in the original project report."

2.41. The Committee note that when the Management of the collaborating firm changed, the new management felt that the rights and obligations of each of the two parties to agreement, should be clearly brought out particularly when the agreement contained apparent contradictions. It was stated that clauses relating to carrying out of acceptance tests were vague, product-mix envisaged in the agreement required improvement etc. The Company also came to the conclusion that on the basis of the working of the project, there were inadequacies in the collaboration agreement, in that, the collaborator lacked the financial, technical resources, ability to design a modern photographic plant, confidence in supplying the technical know-how for the products included in the agreement, a design and engineering organisation capable of coping with the problems that might arise during the setting up of the Plant.

2.42. The Committee find that after a series of discussions between the new Management and the Company the agreement was modified in November, 1966 with reference to varieties and quantities of films and paper and acceptance tests. The Committee, however, find that the acceptance tests as stipulated in the modified agreement were restricted primarily to the production of two samples of 300 sq. m. each in respect of Cine film positive, medical X-ray film, roll film etc., without any reference to the inputs and the production cycle. Although the Detailed Project Report indicated the input-output ratio and norms of rejection, the Committee regret to observe that no basic records were maintained by the Management to indicate the actual input-output ratio and rejections during acceptance tests, with the result that the adequacy of the acceptance tests could not be verified and the responsibility of the collaborators in this regard could not be fixed. During evidence it was admitted that this was a lapse, and that the proper approach would be for the undertaking to evolve its own norms of efficiency on the basis of experience taking DPR as the guideline. The Committee have dealt with the deficiencies in the agreement in the subsequent Chapters of this Report.

2.43. The Committee are concerned to note that neither at the time of the original agreement nor even at the time of its modification, sufficient care was exercised to provide for suitable acceptance tests so as to ensure input output relationship at every stage of production and the efficiency of the plant before its take over from the Collaborators. The Committee take a serious view of the failure of the management all along and recommend that this should be investigated and responsibility for the failure fixed.

2.44. According to clause 16 of Article XII of the agreement the Company was required to provide only clerical assistance and auxiliary labour

to help the collaborators' specialists in the installation of machinery and equipment, etc. However, the actual installation of equipment, machinery, etc. was undertaken by the Company at its own cost and contract awarded to a firm in June, 1963 for an amount of Rs. 7.14 lakhs (with the provision for free supply of electricity and water). The actual expenditure incurred amounted to Rs. 8.26 lakhs.

2.45. The legal opinion obtained by the Company in June, 1963 indicated that while according to Clause 3 of the preamble to the agreement the collaborators appeared to be responsible for the supervision of erection and for providing assistance in the construction of the plant, Clause 18 of Article XII of the agreement which stipulated the rates of daily allowance, etc. payable to the personnel (like erectors, foremen, technicians, skilled workmen, etc.) gave an indication that the actual installation of plant and machinery etc. was the responsibility of the collaborators. As the agreement was not clearly worded, the Company's counsel expressed the opinion that "...if the matter goes to arbitration, one cannot say with certainty what view the arbitrator may take."

In view of this opinion the Company did not take up with the collaborators the question regarding the recovery of the amount spent on installation of the plant, machinery etc.

2.46. The Committee note that according to Clause 16 of Art. XII of the Agreement the Company was required to provide only clerical assistance and the auxiliary labour to help the collaborators in the installation of machinery. However, the Company undertook the actual installation of equipment and machinery at its own cost and awarded the contract to a firm in June, 1963 for Rs. 7.14 lakhs against which it incurred an expenditure of Rs. 8.26 lakhs.

2.47. According to the legal opinion obtained by the Company, about the responsibility of the collaborators in this regard, while according to one clause the collaborators appeared to be responsible for providing assistance in the construction of the plant, according to another clause, the actual installation of plant and machinery was the responsibility of the collaborators. In view of the legal opinion, the Company could not recover the actual expenditure from the Collaborators.

2.48. The Committee regret to point out that this is one more instance of deficiency in the agreement, where the responsibility of the collaborators was not clearly spelt out.

D. Nonfulfillment of Obligations by the Collaborators

2.49. The agreement required the collaborators to spend as large a sum as possible in India for the purchase of equipment and machinery and to

accept payment therefor in rupees, without prejudice to the timely completion of work. For this purpose, the collaborators were required to indicate in the third Detailed Project Report the amount that they could so spend in India.

2.50. The Project Report provided a sum of Rs. 20.37 lakhs (out of the lumpsum payment to be made to the collaborators) for such purchases in India. The actual purchases, however, were to the extent of Rs. 7.05 lakhs only.

2.51. According to the Ministry (July, 1973) the primary reasons for such lower purchases were the higher cost of indigenous supplies, poor quality and long delivery periods.

2.52. The Committee desired to know the cost of such supplies ascribable to each of the causes. In a written note, the HPF stated that "The provision of Rs. 20.37 lakhs in the Project Report for purchases in India by Collaborators included items like Machine Tools, Telephones, Handling Equipment, Electricals Equipments (transformers) costing Rs. 5.44 lakhs which had been purchased in India by HPF under its own responsibility since the Company exercised option to purchase these items instead of leaving it to Collaborators' responsibility to purchase in India. The Collaborators had actually purchased in India equipments amounting to Rs. 7.05 lakhs. The balance represented the estimated cost of items that could not be purchased in India. Out of this, from the records available, the total value of items that had not been purchased in India on account of the three factors mentioned above in paragraph 2.51 was stated to be as follows:—

	Rs.
(a) High prices in India and longer delivery periods	2,15,120
(b) High price and not to technical specification	57,087
(c) Poor quality and non-availability	81,426
	<hr style="width: 100%; border: 0.5px solid black;"/> 3,53,633

2.53. It was stated by the Management that every endeavour was made by the Company to procure as much of the equipment as possible, within the country consistent with quality, cost and lead time.

2.54. The Committee note that the agreement with the collaborators required that the collaborators should spend as large a sum as possible in India for purchase of equipment and machinery and to accept payment therefor in rupees. Accordingly, the Project Report provided for Rs. 20.37 lakhs for such purchases in India. As against this, the actual purchases were of the order of Rs. 7.05 lakhs only.

2.55. The Committee were informed that collaborators could not purchase equipments to the value of Rs. 3.54 lakhs in India on account of higher cost of indigenous supply, poor quality and long delivery period. The Committee feel that Government/Management should have taken advance action for the procurement of these machinery and equipment taking into consideration the lead time required, so that these could have been made available to collaborators in time and payment therefor made in rupee currency.

E. Purchase of Optional Equipment and Machinery through Collaborators

2.56. Out of the plant and machinery required to be supplied by the collaborators under the agreement, it was agreed in November, 1959 that the Company could purchase items of machinery costing NF 6.75 millions (Rs. 66 lakhs approximately) from sources other than the collaborators if it so desired. This option was not fully exercised by the Company and only items valued at NF 2.09 millions (Rs. 20.5 lakhs approximately) were procured by it from sources other than the collaborators.

2.57. The Company decided in August, 1962 to procure the remaining items through the collaborators on account of foreign exchange difficulties and the fact that supplies from the collaborators also covered the cost of erection and performance guarantee for one year. Items of machinery which the Company was responsible to arrange by imports were also obtained through the collaborators at a cost of Rs. 17.25 lakhs even when their offer was slightly higher.

2.58. The Management have stated (January, 1972) that the following criteria were observed in the procurement of optional items:—

- (i) 'Availability indigenous at a reasonable cost consistent with the technical requirements.
- (ii) Delivery periods.
- (iii) Availability of foreign exchange for direct imports;
- (iv) Ability on our part to take technical responsibility.
- (v) Dilution of overall responsibility on the part of the Bauchet consequent on our exercising the option in our favour."

It has been further stated that individual cases were examined after taking into account the above factors.

2.59. The consolidated details of the machinery and equipment purchased through the collaborators on account of each of the above factors have, however, not been compiled by the Management.

2.60. Although the collaborators did not furnish the quotations received by them from the suppliers for these items, according to the Company's estimate they had added roughly 20 per cent to the sub-contractor's prices to cover the cost of design, selection, visits to manufacturer's shops, running tests etc.

2.61. The Company stated in this connection that attempts were made to purchase the special items of machinery and equipments from indigenous sources.

It was added that—

“Import of machinery through collaborators was restricted to specialised equipment, where the Company did not have the experience so as not to dilute the responsibility of the collaborators. Had we taken the responsibility, the Corporation was not certain whether this would have led to more problems in the long run. Some of the equipment which was standard, was purchased directly. All such purchases were made with the approval of the Board.

Photographic manufacture is very sophisticated and something new. By and large it, therefore, takes a relatively longer time, as compared to other established industries, to procure equipment indigenously. We had to, therefore, depend to a large extent upon imported equipment. It was reported that import clearance was given to HPF only, when all efforts to procure them indigenously were not fruitful.

As explained earlier we had purchased certain optional equipment directly and only equipment of a sophisticated nature were imported through collaborators.”

2.62. The Committee note that out of the plant and machinery required to be supplied by the collaborators under the agreement, it was agreed in November, 1959 that the Company could purchase items of machinery costing Rs. 66 lakhs approximately from sources other than the collaborators, if it so desired. The Company however, procured items of value of Rs. 20.5 lakhs approximately from sources other than the collaborators and decided to procure the remaining items through the collaborators on account of foreign exchange difficulties and also because the supplies from collaborators covered cost of erection and performance guarantee for one year.

2.63. The Committee find that the consolidated details of machinery and equipment purchased through the collaborators on account of various

reasons such as lack of availability of foreign exchange for direct import, lead period for indigenous supplies of materials, etc. have not been compiled by the management. It is also on record that the collaborators did not furnish the quotations received by them from the suppliers but according to the estimate made by the undertaking roughly there was a mark up of 20 per cent by the collaborators on the sub-contractors price. The Committee are not convinced that the undertaking exercised every care to ensure that the maximum equipment and machinery were procured indigenously by advance planning and that the mark up by the collaborators on the sub-contractors price was reduced to the minimum consistent with the service that the collaborators rendered. The Committee would like Government and the Undertaking to analyse the matter in greater depth in order to evolve measures to obviate recurrence of such imports through collaborators where there is an option for direct purchases being made of such equipment and machinery.

III PROJECT ESTIMATES

A. Project Estimates

In pursuance of the agreement entered into with them on 25th April, 1960, the collaborators submitted the Detailed Project Report (in three parts) by June, 1961.

3.2. The following table indicates the estimates of cost as per the Project Report and as revised by the Company from time to time alongwith the actual expenditure there against up to 31st March, 1973:

(Rs. in Lakhs)

Particulars	Cost as per Project Report (June, 1961)	Revised cost as per June, 1962 esti- mates (ap- proved by Govt. in Aug. 1962)	Revised cost as per May, 1964 esti- mates (ap- proved by Government in June/ September 1967)	Revised cost as per Feb. 1971 estimates (Approved by Government in Jan., 1973)	Actual ex- penditure as on 31st March, 1973
1	2	3	4	5	6
1. Plant and equip- ment	353.87	365.50	512.02	519.06	511.52
2. Land and build- ings	113.15	176.00	182.61	178.83	178.20
3. Local Services	51.37	77.45	128.03	141.94	146.49
4. Administrative expenses		12.85	94.72	96.54	96.54
5. Training Ex- penses . . . . .	..	6.00	6.45	5.58	5.58
6. Start up and training cost		10.00	16.45	15.00	15.00
7. Interest payable to collaborators	90.00	90.00	79.95	82.17	82.17
8. Interest on loan capital . . . . .	..	..	26.70	26.70	26.70
9. Township		100.00	100.00	85.70	86.27
10. New schemes . . . . .	..	..	17.48	18.71	18.71
	608.39	837.80	1164.41	1170.23	1167.18

3.3. The Project estimates of Rs. 608.39 lakhs were revised by the Company in June, 1962 to provide for items like township, storage buildings, administrative expenses and the training and start-up expenses, etc. and to account for the increase in the estimated cost of plant and machinery, factory buildings and local services.

3.4. The estimates were further revised in May, 1964 mainly on account of the provision for new schemes/additional equipment (Rs. 32.75 lakhs), interest on loan capital (Rs. 26.70 lakhs) increase in administrative expenses (Rs. 81.87 lakhs) and increase under local services (water supply, airconditioning and heating, effluent disposal, fluid distillation and insulation, etc.—Rs. 50.58 lakhs). While approving these estimates in September, 1967, Government also took into account the increase due to devaluation of the Rupee (88.91 lakhs).

3.5. The estimates were again revised in September, 1969 to Rs. 1258.05 lakhs mainly to provide for improvement in the plant and machinery and were submitted to Government in October, 1969 for approval. In January, 1971 Government advised the Company to finally close the revised project estimates and approach them separately for funds for improvements and modifications in the plant and equipment. Accordingly, the estimates were revised in February, 1971 to Rs. 1170.23 lakhs to provide for the increase in the cost of plant and equipment on account of difference in exchange rates (Rs. 1.40 lakhs) and cost of additional in-process control laboratory equipments (Rs. 2.20 lakhs) and also the additional liability of interest to collaborators on account of devaluation (Rs. 2.22 lakhs). The actual expenditure of Rs. 1167.18 lakhs was approved by Government on 2nd January, 1973 and the project estimates were closed.

3.6. It will be seen that the estimates of Rs. 608.39 lakhs as per the Project Report have gone up by Rs. 558.79 lakhs or 91.8 per cent (as per the latest approved estimates). According to the Management the delay in the completion of the project alone was responsible for an increase of Rs. 75.74 lakhs in these estimates (under the heads administrative expenses and interest on loan capital).

3.7. The Chairman, HPF stated during evidence that the delay of five years had made all the difference to the project and the cost of the project had itself gone up. There had been devaluation and there were also certain changes both in the land and buildings that were required. But, basically, the long gestation period had inevitably contributed, to at least some increase in cost.

3.8. He further stated that particularly with respect to cost and lead time, unless the company had PERT control and had made an analysis, as to what impact each change had, it would land them in a situation, where

the Company might not be able to bring back in a direction, which it had envisaged in the original project estimates.

3.9. In regard to the delay in Government approving the revised estimates the Ministry in a written note stated that:—"On the basis of actual experience, it was found that the original estimates were not sufficiently realistic. The Revised Estimates were, therefore, subjected to a detailed scrutiny in this Ministry, Ministry of Finance and in the Bureau of Public Enterprises, with a view to make the estimates fully realistic in the light of the expenditure already incurred, involving, in the process, collection of additional information and clarifications from the Company." The foreign exchange contents included in the original estimate also increased from Rs. 385 lakhs to Rs. 475 lakhs.

3.10. As regards the economics of the project due to revision of the estimate it was stated by the HPF that the effect of the increase in the project cost on the economics of the project was not assessed while approving the final revised estimates at Rs. 1167.18 lakhs. This should, however, have been done. The cost of improvements were not included as a part of the Project and new schemes relating to (i) Silver refinery (ii) Silver Nitrate and Recovery plants and (iii) Organic Laboratory had however, been included in the revised Project estimates.

3.11. The representative of the Ministry also admitted during evidence that the effect of increase in cost should have been assessed but this had not been done.

3.12. The Committee note that the Project Estimates originally prepared in June, 1961 for Rs. 608.39 lakhs were revised by the Company first in June 1962 for Rs. 837 lakhs and again in May, 1964 for Rs. 1164 lakhs and finally in February, 1971 for 1170 lakhs. The actual expenditure on the project for Rs. 1167 lakhs was approved by Government on 2nd January, 1973 and the project estimates closed. Thus the cost of the project has gone up by 91.8 per cent over the original estimates and the foreign exchange content included in the project cost increased from 385 lakhs to 475 lakhs.

3.13. According to the Management the delay in completion of the project and the long gestation period had contributed to the increase in cost besides addition of certain new schemes and additional components.

3.14. It has been admitted during evidence that the effect of increase in the project cost on the economics of the project was not assessed while approving the final revised estimates.

3.15. The Committee take a serious view that in spite of their repeated recommendations in several of their Reports particularly in paragraphs 1.7

and 1.9 of the Fiftieth Report of the Public Accounts Committee (Fourth Lok Sabha) on New Services and New Instrument of Service and reiterated in paragraphs 2.20 of the Thirty-ninth Report of C.P.U. (1972-73) on Pyrites, Phosphates and Chemicals Limited that the economics of the Project on account of revision of cost should be examined and new schemes etc., introduced should be specifically brought to the notice of Parliament. Government have neither considered the economics of the Project on account of revision of estimates nor brought such additions on account of new schemes specifically to the notice of the Parliament.

The Committee reiterate their recommendations in this regard and would like Government to bring the matter along with the financial implication thereof specifically to the notice of Parliament without further delay.

B. Delay in Completion of the Project

3.16. The agreement with the collaborators which came into force on 17th October, 1960 envisaged the following schedule for construction and completion of the project:—

	Period to be counted from the effective date of agreement i.e. 17th October, 1960.
(i) Beginning of the shipments of machinery and equipment.	15 months—January, 1962.
(ii) Start of installations.	18 months—April, 1962.
(iii) Putting up of machinery in Operation.	25 months—November, 1962.
(iv) Effective start of production	26 months—December, 1962.
(v) Final shipment of machinery and equipment.	31 months—May, 1963.
(vi) Complete installation and testing of all machinery and plant.	37 months—November, 1963.
(vii) Acceptance tests.	37 months—November, 1963.

3.17. In terms of the agreement the Company was required to undertake the construction of civil buildings for the completion of which the general time table was prepared by it on the basis of area indications, layout and style of construction indicated in the preliminary data furnished by the collaborators in April, 1961. However, on receipt of the Detailed Project Report in June, 1961 it was found that substantial changes had been made by the collaborators in respect of area, layout and style of construction. This necessitated not only extension of the time schedule of completion of the civil works but also the staggering of the target dates for the completion of different buildings. In addition, the schedule for the handing over of different sections of buildings as sent by the collaborators in April, 1961

also called for, in some cases, the completion of upper floors of the building before the completion of lower floor. Accordingly, the schedule for commencement of installation of the plant and machinery, its completion and testing, etc., was revised in March, 1963 (prior to the transfer of ownership of the collaborating firm to the new management) as follows:—

Name of Section	Date for start of installation	Date by which machinery will be ready for part operations	Date of completion and testing of machinery
1	2	3	4
1. Maintenance Workshop	..	..	15-4-1963
2. Boiler and substation	1-4-1963	1-8-1963	1-8-1963
3. Refrigeration	1-8-1963	1-12-1963	1-12-1963
4. Stand-by set	1-2-1964 ¹	1-4-1964	1-4-1964
5. Collodion base casting, substratum preparation and solvent recovery	1-4-1963	1-1-1964	1-7-1964
6. Film scrap recovery	1-1-1964	1-2-1964	1-3-1964
7. Coating	1-9-1963	1-4-1964	1-10-1964
8. Emulsion	1-12-1963	1-7-1964	1-9-1964
9. Finishing	1-9-1963	15-2-1964	15-5-1964
10. Acceptance tests	1-10-1964		

NOTE :—Completion of item 1 was the Company's responsibility whereas other items were to be completed by the collaborators.

3.18. In agreeing to the revised schedule, the Company as well as the collaborators waived their respective rights to claim compensation on the basis of the earlier time schedule; the waiver of this right by the Company was on the assurance given by the collaborators that all outstanding drawings and specifications would be made available during the period from March, 1963 to July, 1963.

3.19. The date of completion of the entire project was, however, further revised (in January, 1964) to December, 1964 and again to October, 1965 (in April, 1965) and finally of late 1966 (in November, 1966).

3.20. The performance tests of 'Cine Film Positive' began in June, 1966 and the commercial production was established in June, 1967. These tests for all the products were completed by September, 1968 and the plant was finally handed over to the Company in October, 1968. The delay in

the completion of the project has been attributed by the Management to the following factors:—

- (i) The Company had to contend with a very tight time schedule which did not take into consideration the extremely difficult working conditions in a remote hill station like Ootacamund. It may, however, be mentioned that in August, 1963 the Company expressed the opinion that although the time schedule was tight, it was not impracticable.
- (ii) Difficulty in driving piles to rock level and consequent redesigning of emulsion block.
- (iii) Difficulties in transporting the building materials and equipments from the plains, the limited working season and monsoonish weather for most part of the year.
- (iv) Pace of erection of machinery had to be slowed down considerably in certain areas because of the delay in civil construction occasioned by the change in the design of Emulsion Coating Building and the consequent change in the design of some of the production equipment. The delicacy and complexity of the installation in narrow enclosed places inside the building presented a few problems.
- (v) With the change in the ownership of the collaborating firm, a series of discussion had to be held with the new management in order to sort out certain pending issues and the difference of opinion regarding the interpretation of some of the clauses of the agreement. Some of the equipments supplied by the old management of the collaborating firm were found to be defective necessitating rectification (at the collaborator's cost) by importing special equipment; the new management also suggested changes in the design of major equipments in order to improve manufacturing process and to discharge more satisfactorily their obligations under the agreement. All these developments caused delay in the completion of the project.
- (vi) There was delay of about 26 months in the installation of plant and machinery, etc., by a contractor. No penalty could, however, be levied as according to the Company the delay did not occur due to any omission or commission on the part of the contractor but was occasioned by the delays in the completion of buildings.

3.21. Asked about the extent of delay attributable to each of the causes mentioned above and to what extent and whether these could not have been foreseen, the HPF stated in written reply that:—

“We agreed that items like difficult working conditions in Ooty, and difficulty in transportation of equipment should have been foreseen at the time of entering into the contract. It must be appreciated that this is the first project of this kind in the Nilgiris and with the preference we had given to local labour, a certain amount of delay is inevitable.

It is not easy, in a project of this nature, to analyse the delay under each of the causes and that is the reason why no such analysis was prepared.”

3.22. In this connection the Ministry stated in a written reply that Government were, however, of the view that if proper managerial competence had been available, much of the delay could have been avoided.

3.23. With regard to outstanding drawings and specification, the HPF stated in a written note that the Civil Engineering drawings were received by July, 1963. Most of the drawings for equipments and services were received during the period December, 1963 to April, 1964. As the delay was attributed to the redesigning of Block II and due to successive changes that had to be made in the drawings, collaborators could not be held responsible.

3.24. The Committee enquired the reasons for establishing commercial production one year after the start of performance tests for Cine Film Positive, the HPF stated in a written reply that the gestation period only highlights the sophistication in technology required for manufacture of photo sensitive goods. Being an integrated process, with common processing equipment namely the base costing equipment as common to Cine, X-ray and Roll Films as also the Tunnel and Festocn coating machines, the delay in establishing commercial production was inevitable. In addition, problems due to raw materials also cropped up contributing to the delay.

3.25. The delay in the completion of the project and the commencement of production resulted in a loss of production of Rs. 38.25 crores with reference to the scale of production indicated in the Detailed Project Report or Rs. 17.67 crores on the basis of targeted production during the period from June, 1967 to 31st March, 1971. The Management stated (March, 1967) that as the responsibilities of the Company and collaborators overlapped at several points, it was neither easy nor tenable to apportion the delay in the discharge of various obligation under the agreement between the two parties.

3.26. The HPF informed the Committee in a written note that "We have nothing on record to prove that the collaborators have not conformed to the terms of the agreement, and it was also rather difficult to pin down the collaborators due to overlapping of responsibilities. The major areas where there was overlapping of responsibility were building construction, erection of equipment, capability of machines and acceptance certificates."

3.27. During evidence, the Chairman HPF informed the Committee that:—

"There was a lengthy correspondence to see in what way we can pin down the responsibility and ultimately I understand that both the basis of records these attempts were made perhaps the that it is much better to waive it rather than continue with this."

3.28. The Special Secretary of the Ministry stated during evidence that:—

"The point is that the entire project was delayed and there were many factors which contributed to the delays. Some of them are entire extraneous and some of them were as a result of the Project authorities' failure or inability to perform certain things; some of them were the result of the collaborators also not being able to do certain things. In such an event, it is extremely difficult to fix responsibility for the purpose of claiming damages or things like that from the suppliers or collaborators because there would always be some contributory factor which would protect (if not exonerate) one party or the other from the payment of any claim or damages as a result of their failure. That is why it was not possible to try and fix or apportion the responsibility of the different authorities including the collaborators and try to get any compensation or damages out of them."

3.29. Asked about the penalty clause in the contract, the representative of the Ministry stated that:—

"There were some clauses. In regard to Article 16 (Appendix II) there are certain clauses relating to compensation for shortfall in production, compensation for high consumption of the material, compensation for insufficient recovery, compensation for failure to fulfil quality guaranteed and compensation for delay and short production of course this was limited to a certain amount of US dollar for a complete month of delay. So, there were some clauses in regard to compensation."

3.30. Asked whether at any stage the Company tried to invoke this clause on any ground, the witness stated that:—

“At least from the record I have not come across as such case which would tend to show that attempts were made to invoke this clause.”

He further added:—

“I doubt very much, Sir. But if we had tried it, we would have found physically impossible to put into effect this clause because there would always be some shortfall or the other. For example, let us take the Railways in the matter of movement and so in the matter of providing something or the other it makes the whole thing infructuous. So far as the overlapping of responsibilities are concerned, the point is whether or not this could have been remedied in 1966 itself. There were quite a lot of changes and lacunae in the initial agreement. Attempts were made in November, 1966 but so far as these were concerned, I think most of them were over or nearly over by that time like the construction of building, erection of equipment, etc., and so perhaps it was not worthwhile for them to take up this issue with the collaborators in November, 1966 because production started in 1967 and hardly there was a question of making any changes in regard to these items, at that point of time.”

3.31. The Committee pointed out during evidence that there were many items mentioned which contributed to delay in completion of the project.

3.32. With regard to invoking the penalty clause in such cases the witness stated that:—

“They could have at least made a *prime facie* attempt to invoke the compensation clause. But I agree that there is nothing that on the basis of records these attempts were made perhaps the management could have made an attempt where the position was very clear cut.”

3.33. The Committee note that though the agreement with the Collaborators envisaged a time schedule for the construction and completion according to which the acceptance tests should have been completed in 37 months i.e. by November, 1963, there has been a delay of about 5 years in the completion of the acceptance tests and the plant was finally handed over to the Company in October, 1968.

3.34. The Committee were informed that the delay in completion of the project and commencement of production resulted in loss of production to the extent of Rs. 38 crores with reference to scale of production indicated in DPR.

The delay in completion of the project has been attributed to several factors like extremely difficult working conditions in a remote hill station like Ootacamund, pile foundations, difficulty in transporting materials, delay in civil construction, finalisation of the collaboration agreement with the new management defects in the equipment supplied by the Collaborators which had to be rectified etc.

3.35. The Committee are not convinced of the reasons adduced for the delay, as the problems connected with the location of site were already known to the Management even before the selection of site and as admitted by the Management that these should have been foreseen at the time of entering into the contract.

3.36. The Committee fail to understand as to why these could not have been taken into account and realistic targets fixed for construction and commissioning of the Plant.

3.37. The Committee also regret to note that no analysis of the delays was done by the Company and no attempt was made to invoke the clauses in the agreement relating to compensation for delay in completion shortfall in production etc. since according to the Management many areas in the agreement were overlapping and it was difficult to pin-point responsibility on the collaborators.

The Committee see no reason why all these factors could not have been got remedied in the modified agreement which was finalised in 1966.

3.38. The Committee recommend that Govt. should investigate into the matter and fix responsibility for the lapses of the Management in safeguarding public interest at various stages. The Committee would like to be informed of the action taken in the matter.

Increase in the areas of factory building

3.39 Against an area of 14,100 sq. metres for the construction of factory buildings at an estimated cost of Rs. 41.77 lakhs indicated by the collaborators in their offer of November, 1959, the detailed drawings furnished by them in June, 1961 were for an area of 35,161 sq. metres involving a cost of Rs. 148 lakhs. According to the Management, the increase in the floor area was made to meet the requirements for more storage space, workshop facilities and installation of balancing equipment.

3.40 Asked why total requirements and specifications of building were not taken into account before determining the area of floor space etc. the HPF stated in a written reply that:—

“We concede this point. However, by way of explanations, we submit that these could have been overcome had we established a strong project team right at the beginning of the Project.”

3.41 The Committee were informed by HPF that the cost indicated in 1959 towards buildings was Rs. 41,77 lakhs for 14000 sq. metres. However, in the DPR the cost was indicated as Rs. 113.15 lakhs for 35161 sq. metres. While working out the details of the plan for buildings, the estimate was revised to Rs. 148 lakhs as against 113.15 lakhs. The actual expenditure as on 31.3.1972 was Rs. 178.20 lakhs, and this meant an increase of Rs. 65.05 lakhs.

3.42 The Committee note that one of reasons which contributed to the delay in completion of the project was increase in the area of factory building.

In terms of the agreement, the Company was required to undertake the construction and completion of civil buildings on the basis of area indications, lay-out and style of construction indicated in the preliminary data furnished by collaborators.

3.43 The Committee note that against the area of 14100 sq. m. for the construction of factory building at an estimated cost of Rs. 41 lakhs indicated by the Collaborators in November, 1959, the detailed drawings furnished by them in June, 1961 were for 35161 sq. m. for Rs. 148 lakhs involving substantial changes in respect of area, lay-out and style of construction. The actual expenditure was, however, Rs. 178 lakhs.

3.44 The Committee note that the changes necessitated not only extension of the time schedule of carrying out of civil works but also the staggering of the target dates for completion of different buildings.

3.45 The Committee are convinced that had the Collaborators correctly assessed the requirement of the Project initially and in time, much of the delay in the construction of the project could have been avoided.

3.46 The Management conceded that, had the Company established a strong project team right from the beginning of the project, this situation would not have arisen. The Committee can see no valid reason for failure of Govt./Company to see that there was in position a strong team of management to handle a sophisticated project of this dimension. The

Committee would like Government to ensure that such a lapse does not recur.

Delay in the receipt of plans:

3.47. Against the stipulated date of 17th April, 1961, the basic plans for the factory buildings were submitted by the collaborators in June, 1961 and these were also found to be incomplete necessitating frequent changes and modifications. As a result, the construction of the factory buildings could commence only in April, 1962 i.e. the date by which the erection of the machinery in these buildings should have actually commenced as per the schedule. These buildings were actually completed in August, 1965.

3.48. Asked about the reasons for the delay in the completion of the buildings, the HPF in a written reply stated that according to the Agreement; though construction of factory buildings was the responsibility of HPF, the basic plans were to be supplied by the Collaborators. These plans were received from the collaborators in stages upto 17th April, 1961; as per the time table stipulated in the Agreement. Thereafter the Company appointed a firm of Architects in May, 1961, soil conditions of the site were studied, detailed estimates and working drawings prepared and tenders called for. After scrutiny of tenders and completing other formalities, the contract for pile driving was awarded in October, 1961 and the contract for the General Builders' work in February, 1962. The actual civil works started only in April, 1962. While the progress of general builders' work was slow, one building which required pile driving was still slower as it was found practically impossible to drive piles to rock level a step considered necessary to avoid differential settlement between the buildings as required by the Collaborators. Therefore, a decision was taken to redesign the building as a 4 storey building on raft foundations, eliminating piles. While changes in the drawings already supplied by the collaborators were called for, the Company was not in a position to categorically say that this contributed to a delay in the construction of the buildings. The work of this building finally started only in April, 1963. Besides, many other factors like the short-comings of the particular civil contractor to whom the contract for both the pile driving and general builders' work was awarded, difficulties in transporting building material and equipment from the plains, limited working season and monsoonish weather for the better part of the year, non-availability of local labour for building and other common problems and hurdles encountered in undertaking such a large and complex piece of work in an out of the way hill station like Ootacamund, also contributed to the delay of the project schedule. The two main production buildings were finally ready only in January, 1965 and July, 1965 respectively.

3.49. Asked whether the delay was on the part of the Collaborators, it was stated by the Management that with the best of collaborations, some changes are inevitable. The factors to be considered in such changes are the cost of the change and the lead time required for the change. In the light of the discussion that had to take place from time to time, between HPF and the collaborators and the changes in the plans, it is difficult to attribute the delay only on the part of the collaborators."

3.50. In this connection, the Ministry in a written reply stated:—

"These delays occurred mainly because of the uniqueness of the project located in a remote hill area and the lack of adequate technical and managerial competence at that time. However, Govt. have not undertaken any detailed investigation into the causes for these delays."

3.51. The Committee note that against the stipulated date of 17th April, 1961 for supply of basic plans, the collaborators submitted the basic plans for the factory buildings only in June, 1961 and these were also found to be incomplete necessitating frequent changes and modifications. As a result, construction of the factory buildings could commence only in April, 1962 by which date the erection of the machinery in these buildings should have actually commenced as per the schedule. The buildings were actually completed in August, 1965.

3.52. During construction, a decision was taken to redesign the building eliminating pile foundation because of difficulties in pile driving and this necessitated changes in the drawings already supplied by the collaborators. While changes in the drawings already supplied by the collaborators were called for, the Company was not in a position to categorically say that this contributed to a delay in the construction of the buildings. The work on the building started in April, 1963 and the two main buildings were finally ready in January, 1965 and July, 1965 respectively.

The Committee are unhappy to find that because of technical difficulties the Management could not fix the responsibility on the collaborators for the delay in supply of drawings which ultimately led to the delay in the completion of the project.

Defects in the soil testing

3.53. As a result of trial borings, the State Public Works Department indicated in early 1961 that the sub-soil of the site selected for the project was mainly clay and that boulders were scarce; it could bear the factory load up to four floors but would require pile foundations for a building having more floors.

3.54. At the time of selecting the site, the impression was that the highest building would not have more than four floors but in the course of

correspondence with the collaborators, after the receipt of the project report, it became clear that the highest building would have six floors in addition to the ground floor and the basement. The Central Building Research Institute, Roorkee advised in August, 1962 that pile foundation should be driven up to rock level.

3.55. The work of pile foundations was awarded to a firm, on the basis of open tenders, on 26th February, 1962 at a cost of Rs. 4.70 lakhs and was to be completed by July, 1962. It, however, ran into serious difficulties due to unpredictable characteristics of soil and terrain which according to the undertaking did not come to light during trial borings. As the firm was not in a position to complete the work and no other contractor came forward, the work was abandoned and the collaborators were asked in July, 1962 to re-design the layout of the building for which an amount of Rs. 2.18 lakhs was paid to them. The building was finally completed in September, 1964 against the expected date of July, 1962 as per the original schedule.

3.56. On being asked whether it was not the responsibility of the undertaking to assess characteristics of the soil and nature of terrain before the contract was awarded for pile foundation and whether the building was ultimately constructed without any pile foundation, the Management of HPF stated in a written note:—

“We concede that this should have been checked. However we would like to add that some trial borings were done for erection of the building with pile foundation. The Central building Research Institute advised that pile foundations should be driven to rock level. On this basis the contract was awarded to a firm.”

It was also stated that:

The building was constructed without pile foundation with 4 floors only. The actual cost was Rs. 55.81 lakhs against estimated cost of Rs. 53.50 lakhs. The infructuous expenditure was Rs. 9401/- paid to the architects, as cost of the pile driving was waved by the contractors.

3.57. Government also in the post evidence reply admitted that the expenditure incurred as a result of the abandonment of the pile foundation work was rendered infructuous.

3.58. The Committee regret to note that on the basis of advice of the collaborators to have a building with more than four floors, the contract for the work of pile foundations was awarded to a firm for Rs. 4.7 lakhs

to be completed by July, 1962, without assessing the characteristics of the soil and nature of the terrain. The result was that the work had to be abandoned and the collaborators asked in July, 1962 to redesign the layout of the building for which an amount of Rs. 2.18 lakhs was paid to them. The Committee were informed that ultimately the building was constructed without pile foundation and having four floors only in September, 1964 after more than 2 years thus delaying the entire schedule, at an actual cost of Rs. 55.81 lakhs as against the estimated cost of Rs. 53.50 lakhs. The Committee regret to observe that on account of the incorrect advice of the collaborators and failure of the Management in not assessing the characteristics of soil and terrain in advance payment made to the architects towards cost of pile driving was rendered infructuous. The Committee would like that matter should be investigated with a view to pinpoint the lapses on the part of the management.

Delayed in the construction of administration, laboratory and social centre buildings

3.59. In response to tenders invited in November, 1962, 2 offers were received. One of the tenderers was a private firm who quoted an amount of Rs. 32.92 lakhs while the National Building Construction Corporation Limited—a Government Undertakings, gave a quotation of Rs. 31.81 lakhs. The tender of M/s. National Building Construction Corporation Limited was rejected on the ground that they had no organisation at site and would take a couple of months to get acquainted with the same. The work was awarded to the private firm at a negotiated amount of Rs. 31.89 lakhs. There was a delay of 18 months in the completion of the work; it was completed in August, 1965 against the stipulated date of February, 1964. No penalty could, however, be levied on the contractor as, according to the Company, detailed drawings were not supplied in time and many changes were made subsequently.

3.60. In justification for not awarding the work to the N.B.C.C. it was stated in a written reply that:—

“The Board had fully considered the position; in our anxiety to complete the project early, time was taken as a critical factor for award of the project.”

3.61. The Committee are perturbed to find that even though the tender of M/s. National Building Construction Corporation, a public sector undertaking, was lower than that of another private firm, the offer of M/s. N.B.C.C. the public sector undertaking was rejected on the ground that they do not have an organisation at site and require a few months to get acquainted with the same. The Committee would like to point out that

the private firm to whom the contract was entrusted delayed completion of the work by as much as 18 months. The Committee understand that the building in question was a simple construction and therefore the management of Hindustan Photo Films should have given preference to the National Buildings Construction Corporation, a sister public undertaking.

In the opinion of the Committee the plea of the Company that since National Buildings Construction Corporation wanted a few months to set up a site office and get acquainted with the area and therefore the work was not awarded to them, does not seem to be tenable in the face of the delay of 18 months by the private firm in completing the work. The Committee also see no justification why penalty was not levied on the private contractor who delayed the completion of the building by as much as 18 months. The Committee would like Government undertaking to fully investigate the matter in order to fix responsibility as to why the work was not given to a public sector undertaking when their quotation was the lowest and secondly why penalty was not imposed on the private contractor who was given work in preference for delay of as much as 18 months in completion of the building.

The Committee would also like Government Bureau of public enterprises to issue general directions to the public undertakings that ordinarily there should be no question of rejecting the offer of another public undertaking specially when its rates are the lowest or most competitive and that before the work is entrusted in preference to any private body or organisation, detailed reasons therefor should be recorded and reviewed by the Management to obviate recurrence of lapses noticed in the present case.

IV

PRODUCTION PERFORMANCE

A. Process of manufacturing

The Factory consists of four major production Departments. The first is a Film Base Department in which cellulose tricetate dissolved in a mixture of solvents—Methylene Chloride and Methanol—is continuously cast on a belt of stainless steel into films of different thickness (from 0.090 mm to 0.200 mm, depending on the product) on six machines. The resultant safety film is then treated in a substrating operation to ensure perfect adhesion of light sensitive layer and rolls of film base of about 1.2 metre wide and about 450 metres to 650 metres long, depending upon the product, are made ready for coating.

In the Emulsion Department, emulsion of silver nitrate is prepared by adding it to a solution of alkali halides and gelatin. The finished emulsion is sent to the Coating Department where emulsion is coated on to the substrated base (alongwith a top coat or protective layer coating wherever necessary). Finally the coated film is sent to the Conversion Department where Cine Film is slit to the required width, perforated and wound on plastic covers, while X-ray Film and sheet film are slit and cross cut into the required size before being packed in boxes. Roll Films are slit to the required width, cut to length and spooled.

4.2. The dates of commencement and completion of performance tests in the various processes as per the agreement are given below: --

	Date of commencement	Date of completion
(a) Film base manufacture	28.11.1966	13.2.1967
(b) Emulsion casting	13.2.1967	4.5.1968
(c) Finishing	8.6.1966	27.4.1967
(d) Characteristics and general quality	9.6.1967	16.9.1968

4.3. On completion of the tests, the plant was finally handed over to the company in October, 1962. However, the production of Cine Film Positive and Medical X-ray Film had been established during June, 1967 and May, 1968 respectively.

4.4. A statement showing the rated capacity, the targets fixed by the Management and the actual production during the years 1967-68 to 1972-73 is given at Appendix III.

The above data will indicate that—

- (i) The actual production of all the products was always less than the rated capacity;
- (ii) the actual production was also less than the targets (both original and revised) upto 1972-73 except 1971-72. During 1971-72, however, it exceeded the original as well as the revised targets in the case of Cine Film Positive, Graphic Arts Film and Sound Cine Film. It was also in excess of the revised targets, though less than the original targets in the case of Medical X-ray Film and was just equal to both original and revised targets in respect of Roll Film, Flat (Portrait) Film and Negative Film (35 mm).
- (iii) Although the production gradually increased up to 1969-70 in respect of all the products, it came down during 1970-71 so far as Cine Film positive, Medical X-Ray Film, Roll Film, Sound Cine Film and other items are concerned. During 1971-72 the production slightly increased in the case of Cine Film Positive. Medical X-ray Film, Roll Film, Bromide Paper and Sound Cine Film but there was further decrease in respect of Flat (Portrait) Film and Negative Film (35 mm). During 1972-73 the total production was less than that during 1971-72. The production of Cine Film Positive, Medical X-ray film and Bromide Paper was less in 1972-73 than during the previous year. Production of Sound Cine Film and Medical X-ray was, however, more during this year;
- (iv) the production of Cine Film Negative was not taken up at all till the end of 1972-73;
- (v) the original targets were always lower than the rated capacity (except in respect of Bromide Paper for 1971-72 and 1972-73) These were, however, revised downward during the course of the years;
- (vi) although by 1971-72 the Company started the production of 8 items, a major portion of the total production (about 99 per cent) was contributed by three items only viz., Cine Film Positive (black and white), Medical X-ray Film and Bromide Paper (including all photographic paper).

4.5. In June, 1972 the Management stated that—

“in a highly sophisticated industry like ours and manned entirely by Indian personnel, achieving the rated capacity is a gradual

and time-consuming process and hence the targets have to be necessarily, lower than the rated capacity."

4.6. Asked as to why the production of Cine Film Negatives was not taken up at all till the end of 1971-72, the HPF stated in a written reply that in the revised product mix, there were three categories of products. For products under list 'C' only technological and operational documentation were provided by the collaborators. First the Company wanted to stabilise production for Cine Positive, X-ray and Bromide Paper before it took up development items like Cine Negative included under list 'C'.

4.7. The Company formed a separate cell for new product development in order to produce Cine Negative in 1975-76.

4.8. During evidence the representative of the HPF stated that—

"Our view is regardless of what steps we had taken before it is essential for the company to ensure that quality products should be made available. Before we enter into a new project for cine negatives, it would be very necessary for us to ensure hundred per cent quality. If these are found defective, the producers cannot call the troupe for shooting once again. We have, therefore, decided to take up this item in 1975-76. We have also resolved that for any new project, in future, we should get samples, institute a test sampling in the market, study the market reaction and after that ensure that the production is on economical basis, and a continuing basis. On that basis, we have drawn up for the 5th Plan a complete pattern of the products on a gradual and orderly basis and the decision to defer the cine negative to 1975-76 has to be viewed on this basis."

4.9. In regard to downward revision of targets during 1971-72, the HPF stated that it had to be done in the light of the trend of performance of the project.

4.10. In this connection the Ministry informed the Committee in a written note as follows:—

"Though the Government are satisfied with the reasons given by the HPF which called for a downward revision of targets during 1971-72, Government are not satisfied with the trend of performance of the Company which should have been better."

4.11. The Committee note that the rated capacity of the different pro in the plant has been increased in the modified agreement with the collaborators except with regard to cine film positive, Flat (portrait) film where the capacities have been reduced from 2.98 million sq. metres to 2.45 million sq. metres and from 0.15 m. sq. metres to 0.10 m. sq. metres respectively.

As indicated earlier in paragraph 2.23 of the Report, the original agreement with the Collaborators envisaged that during the first two years, production of cine film positive only would be taken up and production of X-ray and some negative material and paper could be taken up only in the third year and full production reached in the fifth year. This programme was however amended in the new 1966 agreement according to which production of medical X-ray film and roll film would also be started as early as possible. The Committee find that even after the lapse of six years from the commencement of production in the case of cine film positive and 5 years in respect of medical X-ray, the actual production was much less than the rated capacity.

4.12. The Committee also find that the targets of production were fixed much lower than the capacity envisaged in the Modified Agreement. Even these targets were revised downwards twice a year from 1967-68 to 1971-72. The actual production has been less than even the reduced targets and thus much less than the rated capacity. The Committee deprecate the fixing of targets very much less than the rated capacity and revising even those reduced targets downwards. The Committee have discussed the shortfalls in production vis-a-vis the capacity and targets (product-wise) later in this Chapter.

B. Actual production vis-a-vis Build up of capacity

4.13. The actual production of different items is compared in Appendix IV with the build-up capacity as indicated in the Detailed Project Report (i.e. prior to modified arrangements of November, 1966) for the first five years from the commencement of production. The build up of capacity was not revised even after the modification of the sequence of production.

4.14. It will be seen from the table at Appendix IV that the actual production was always less than the build-up of capacity except in the case of Medical X-ray Film, Portrait Film (including Graphic Arts Film), Roll Film, Negative Film (35mm), Photographic Paper and other items where the production started earlier than it was envisaged in the Detailed Project Report on account of the sequence of production agreed to between the Company and the new management of the collaborating firm. But in these cases also, the actual production during 1971-72 was lower than the build-up of capacity indicated in the Detailed Project Report.

4.15. In a written reply HPF admitted that the programme for the build-up of the revised capacity of the plant should have been revised so as to evaluate the actual performance, while modifying the agreement with the collaborators.

4.16. The Ministry also admitted in a written note that this should have been done by the Company.

4.17. The Committee note that the modification agreement entered into with the collaborators in November, 1966, provided for an increase in the capacity of the plant for the production of medical X-ray film and roll film from 0.5 million sq. mts. to 1 million sq. mts. and 0.22 million sq. mts. of roll films to 0.45 million sq. mts. respectively while the production capacity for Cine-Film Positive was reduced from 2.98 million sq. mts. to 2.45 million sq. mts. The Committee regret to note that in spite of the modification of the sequence of production in the agreement with the collaborators in 1966, the programme of build-up of capacity was not correspondingly revised to enable the management to evaluate the performance with reference to such revised capacity.

4.18. The Committee have in an earlier chapter given their recommendations in this regard. The Committee find that except in the case of Medical X-ray film, Portrait film, Roll Film, Negative Film, Photographic paper where the production started earlier than it was envisaged in D.P.R. the actual production in the case of Cine Film Positive, Cine Film Sound, Cine Film Negative, Graphic Arts Film and others was always less than the build up capacity.

4.19. The Committee would like Government to investigate why the revised build up of capacity was not incorporated simultaneously in the modified agreement and fix responsibility for the lapses in this regard.

C. Reasons for shortfall in production

4.20. The general reasons for shortfall in production during the various years, as attributed by the Management; were :

- (i) The design of the plant and equipment was made by the collaborators who were not quite familiar with the technology which was built into the design. The collaborators also furnished know-how for delicate products like X-ray Film which they had themselves not produced in their own plant.
- (ii) The plant was essentially designed for the production of Cine Film Positive though it is also intended to manufacture different types of photographic films and papers.
- (iii) The plant and machinery were subjected to a series of improvisations by the collaborators and did not incorporate a set process. This apart, the project suffered serious machinery break-downs which delayed the commencement of production.

- (iv) The Company embarked upon a vigorous programme of accelerated import substitution. In some cases the Company met with significant success while in other serious technical problems were faced.
- (v) The Indian consumers being accustomed to the use of high grade imported brands from the established suppliers were insistent on the Company upgrading the quality even from the very beginning, thus necessitating development work being started simultaneously with commercial production, with a tight schedule to carry out improvements expeditiously.
- (vi) The determination of the rated capacity assumed certain levels of rejection whereas the actual rejections were much higher.
- (vii) There were teething troubles in the development of certain processes. As a result, there has been an imbalance between one set of process and another.
- (viii) Some amount of under-utilisation of capacity was due to non-receipt of raw materials from abroad, namely methylene chloride and gelatin during 1967-68 and cellulose triacetate in 1967-68 and 1970-71.
- (ix) It is one of the peculiarities of the photographic industry that the entire equipment for all products including those to be developed in future had to be installed in the factory premises at the very beginning itself before any equipment is commissioned. In the past a large part of under-utilisation of equipment has occurred on this account because the products for which the equipment was intended were still to be developed or were in the process of development or teething troubles.
- (x) If the finished output has not reached the rated capacity, it is partly due to some of the products being rejected for not fulfilling the specifications and partly due to production difficulties in certain operations.

4.21. With regard to the contention of the Company (vide item II of para. 4.20) that the plant was essentially designed for the production of Cine Film Positive, it may be mentioned that the revised agreement entered into in 1966 with the new management of the Collaborating firm provided for the production of Medical X-ray Film also immediately after the plant went into production. Further along with the production of Cine Film Positive (vide para 4.13), the production of Medical X-ray Film and Photographic Paper was actually taken up.

4.22. In reply to a question as to how shortfall in production is attributed to the design of the plant being essentially meant for production of the Cine Film Positive. The HPF stated in a written note as follows:—

“In the DPR itself it has been stated that the plant is essentially designed for production of Cine Film Positive and that X-ray will be taken up during third year after commencement of production. However, in view of the fact that X-ray production was also simultaneously taken up during the first year itself with Ferrania Formulations of 1965 technology this point of view is not wholly justified.”

4.23. The Committee were informed by the Ministry as follows:—

“As indicated in the DPR, the plant was essentially designed for the production of Cine Positive, though certain changes in the product-mix were made subsequently. In the circumstances, though the contention of the Company would not be wholly correct, it could be argued that one of the reasons for shortfall in production was that the plant was, in the first instance, essentially designed for production of the Cine Film Positive.”

4.24. It has been pointed out that the design of the plant and equipment was made by the collaborators who were not quite familiar with the technology, which was built into the design. The collaborators also furnished know-how for delicate products like X-ray Film which they had themselves not produced in their own plant. The plant and machinery were subjected to a series of improvisations by the collaborators and did not incorporate a set process. This apart, the project suffered serious machinery break-downs, which delayed the commencement of production.

4.25. The agreement with the collaborators contained the following provisions:—

“After the expiry of the guarantee period in respect of machinery and equipment (6 months following the performance tests of each manufacturing section) and until the completion of five years from the date of acceptance of the plant and machinery, the collaborators would provide ‘after sales’ service at the cost of the company and would send mechanics and/or engineers to give technical advice and to suggest remedial measures for repair of any defects.

The collaborators would also provide continued assistance for five years, after commencement of production, for the maintenance of production and removal of difficulties encountered or defects in production. For this purpose they would depute specialists when required by the Company.”

4.26. The services of specialists were obtained by the Company during the years 1969 to 1971. The specialists are stated to have solved the technical problems referred to them with the exception of the three problems mentioned below:—

- (i) Remelting of emulsion and gelatin layers, dark coating lines and minus density bands in Bromide Paper referred to the collaborators in September, 1967.
- (ii) Appearance of discontinuous white lines on the coated material in respect of Cine Film Positive referred to the collaborators in June, 1969.
- (iii) Appearance of black point with diffused circular edges in X-ray sheets and low speed in several batches referred to the collaborators in February, 1970 and June, 1970 respectively.

4.27. The Management stated in March, 1973 that the above three problems have been solved by the Company's technicians.

4.28. In regard to the loss of production arising from the continuance of these problems till their solution, the HPF stated that the problems were so multifarious that it was difficult at that stage, to segregate loss of production, cause-wise.

4.29. Problem arose in manufacture of photo sensitive products, due to several reasons, lack of procedural control and uniformity and complete absence of system control in the manufacturing operation all of which could not be attributed to the collaborators. Factors like clearliness, atmospheric pollutions or contaminations in the raw materials could produce problems. The collaborators endeavoured to investigate and render whatever help was possible. This did not mean that the company could pin them down for all the problems at HPF.

4.30. During evidence the Chairman of HPF stated that, "What has really happened is this. We had specialists over here, while we had the technical collaboration. We should have made the best use of them rather than to look around for other collaborations. This has also disinterested the existing collaborators. In 1968-69, we were going round the world for technical collaboration Ferrania and 3 M got an impression that we were not interested in their services. In that situation, their response will necessarily be different. Every time a problem was posed to them, they came back with a suggestion and solution. They have always been willing to depute technicians to work with us."

4.31. Asked as to whether the causes for serious breakdown of plant and machinery were gone into the HPF stated in a written reply that:—

“The breakdown of base casting machinss occurred during initial production. The collaborators had taken the full responsibility to set right the defect at their cost. As such the question of claims does not arise.”

4.32. In this connection the representative of the Ministry stated during evidence that:—

“The management at that time did not employ systematic approach of tackling the problems that used to arise. That means taking the problems on a regular systematic basis and then on a system approach try to solve the problem. Whenever some problem arose they would try to solve that problem without anticipating what else would happen later on. It was a different type of approach rather than a concerted systems approach. That was one of the reasons why this project had suffered.”

4.33. The Committee were also informed that there was labour trouble in the supplying firm during May, 1970 to November, 1970. The value of production lost was approximately Rs. 28 lakhs.

4.34. As regards procurement of indigeneous poor quality of spools, HPF stated in a written reply that:—

“Indigenous spools were procured from Bhupendra Plastics, Madras. No responsibility could be fixed, as samples approved before bulk supply were commenced. Fire accident took place with another supplier—Podar Plastics. Details of damage in the vender's premises are not known.”

4.35. The Committee find that according to the Management one of the reasons for shortfall in production was that the design of the Plant and equipment was made by the collaborators, who were not familiar with the technology. The plant and machinery were subject to series of improvisations by collaborators and did not incorporate a set process. The Committee also note that the agreement with the collaborator stipulated that the collaborators should provide for after-sales service at the cost of the company, to give advice and to suggest remedial measures, for repair of any defects. The undertaking categorically invoked these provisions during 1969-71 to get the technical problems resolved by the Collaborators. However, three technical problems, viz. Remelting of emulsion and gelatine layers, dark coating lines, appearance of discontinuous white lines in cine films positive and appearance of black print in X ray sheets which were ultimately responsible for rejections could not be resolved by the Collaborators.

4.36. The Committee were informed that these problems were subsequently solved by the technicians of the Undertaking in 1973. According to the Management, the existence of technical problems in the plant resulted in shortfall in production from the time of taking over the plant from the collaborators in October, 1968 till March, 1973. These problems were further aggravated by the absence of systems control in the manufacturing operations. The Committee feel that the problems have not been tackled with a sense of urgency they deserved with the result that there was persistent loss in production.

Switch-over from Imported Cellulose Triacetate to the indigenous material

4.37. As regards the switch over from imported cellulose triacetate to the indigenous material it has been stated (March, 1970) that. When the Mysore Acetate and Chemicals Company Limited a private sector concern, were negotiating for the setting up of a triacetate plant in early 1960 for the manufacture of Gevaert type of materials, samples were sent by M|s. Gevaert, at the request of Hindustan Photo Films Manufacturing Company Limited, for test at the Bauchet factory.

4.38. As M|s. Bauchet did not bring out any feature requiring consideration, the Mysore Acetate and Chemicals Company proceeded with the project. Extensive trials undertaken by HPF with the first lot of indigenous triacetate made available in December, 1968 indicated that the elongation characteristics of the base were inadequate for Cine Positive. Further trials were carried out with various blendings and a decision was taken in 1969 to accept the Mysore Acetate and Chemical Company's triacetate for regular use on the basis of trials confined to the process of making raw base.

4.39. Before finalising the running contract for 1969-70 the undertaking applied in November, 1968 for import licence for 700 tonnes of cellulose triacetate but reduced it to 120 tonnes in March, 1969 and the DGTD was informed that the balance quantity would be obtained from indigenous sources. In reply to an enquiry, the company also confirmed to Government in May, 1969 that the quality and suitability of the indigenous cellulose triacetate had been tested in its plant and was found usable without major problem excepting for a few minor variations in characteristics as compared with the imported material and thus necessitating slight changes in the existing manufacturing process. It was also confirmed that the change over from imported material to indigenous material was not expected to affect the rate of production.

4.40. When the indigenous cellulose triacetate was actually utilised in June, 1969 in combination with the imported material in the ratio of 50:50

the elongation of the base cast was found to be poor as compared with that obtained from the exclusive use of imported material. By the end of July, 1969, when the base made with indigenous material reached the subsequent stages of production, the following further problems, not anticipated earlier, became apparent apart from the continuation of the problem of elongation:—

- (i) Poor quality of X-ray material
- (ii) Static marks on X-ray Films.
- (iii) Accumulation of film base dust on perforating machines causing scratches on Cine Film.

4.41. In order to overcome these problems extensive trials were undertaken to carry out improvements in the plant. As a result, two out of six base casting machines were modified and the remaining four machines de-aerated a cost of Rs. 1.61 lakhs (up to September, 1970) and Rs. 2.33 lakhs respectively (up to 30th November, 1971). In addition, non-recurring expenditure of Rs. 14.99 lakhs on trials (Rs. 7.37 lakhs) and extra scrap arisings (Rs. 7.62 lakhs) was incurred besides engagement of additional operators to operate the modified machines. The filtration loss, the solvent loss and the maintenance expenditure etc. also increased resulting in additional recurring expenditure of Rs. 8.98 lakhs per year. Despite these modifications, the rate of rejections increased during 1970-71 in respect of all products. The Company's expectation that the indigenous cellulose triacetate could be used without major problems which was based on tests instead of full evaluation of the use of the material from the first stage to the last stage of production, has not, therefore, materialised.

4.42. The Committee enquired about the reasons for which the plant for the production of cellulose triacetate to be used as raw material by the only photo films manufacturing company in the country was allowed to be set up in the private sector. The Chairman, HPF stated during evidence that—

“.....it was set up in the private sector, to our knowledge, it is now in the joint sector of the Mysore Government with a large equity, but I am afraid so far as this item is concerned, the Ministry has to reply.”

4.43. Asked whether any commitment was made either by the Company or the Government that irrespective of quality of the triacetate produced by the private firm it would be lifted by the Company for its use, the representative of the HPF stated during evidence that—

“We have not made any such commitment. All our specifications prescribed relevant quality standards. We have a standard specifications.”

4.44. The Committee enquired as to how the suitability of indigenous triacetate was certified to Government in the face of the elongation problem already encountered during trial tests conducted in December, 1968 which again cropped up in June, 1969.

The HPF stated in a written reply that—

“As the elongation factor was marginally less than the minimum specified, we felt that we should be able to manage the manufacturing problems, without much difficulty. We did give clearance to Government on the basis of this assessment for which we are responsible.”

4.45. The Committee enquired whether any responsibility had been fixed for the lapse. In a written note the Ministry have stated as follows:—

“Government feel that this is a case of genuine error of judgement and as such, it is not necessary to fix responsibility for this lapse.”

4.46. On being asked whether the Company or the Ministry considered the desirability of asking the private firm to bear the entire or a part of the expenditure incurred or to be incurred on the improvements in the plant so as to make it fit for the use of indigenous triacetate, it was stated that—

“Attempts were made by HPF to get M/s. Mysore Acetate agree to bear the full cost or a good proportion of the cost of modifying the six base casting machines but without much success. Government have not pursued the matter with the firm as it feels that no useful purpose would be served in view of the stand taken by the firm earlier.”

4.47. The Committee note that one of the reasons attributed by the Management for the shortfall in production was the switching over from imported Cellulose Triacetate to the indigenous material.

The Committee have been informed that the present indigenous Cellulose Triacetate has not been found suitable for manufacturing processes in the company and that the company had to suffer great losses on this account. The Committee would like in this context to recall briefly the facts of the case which are that as early as 1960 the company had got samples of the Cellulose Triacetate which was supposed to be manufactured by the private company for supply to Hindustan Photo Films. These samples were got tested by Hindustan Photo Films at the factory of the collaborators in France who did not bring out any feature requiring consideration. The firm

was therefore allowed to proceed with the project. In December, 1968, when the first lot of the indigenous triacetate was made available, the undertaking after extensive trial found that elongation characteristics of the base were inadequate for cine positive. After several trials, a decision was taken in 1969 to accept the indigenous triacetate of this firm for regular use. The Committee note that the Undertaking before finalising the rate contract with DGS&D for the supply of indigenous Cellulose Triacetate, confirmed to the Government in May, 1969 that the quality and suitability of the indigenous products had been tested and found usable without major problem, except for minor variation in characteristics as compared to the imported materials. It was also confirmed that change-over from imported material to the indigenous one was not expected to affect the rate of production. The Committee are therefore unable to appreciate the statement now made by Hindustan Photo Films that when indigenous Cellulose Triacetate was actually used in production the elongation of base cast was found to be poor and that it also created other problems. The Committee regret to note that to overcome these problems, the Undertaking had to incur an expenditure of about Rs. 19 lakhs on modifications of the plant extra scrap arising etc. besides engagement of additional operators to operate the modified machines. There were also increases in filtration and solvent loss and maintenance expenditure resulting in additional recurring expenditure of about Rs. 9 lakhs per year. Despite these modifications, the rates of rejections of the products also increased.

4.48. The Committee are perturbed at the casual manner in which the management agreed to switchover to the use of Cellulose Triacetate to be manufactured by a private party without a conclusive evaluation of the quality and suitability of the material which not only resulted in major modifications to the plant at a cost of over Rs. 19 lakhs but also committed the Undertaking to recurring loss of Rs. 9 lakhs per year with consequential losses. The management admitted during evidence that "as elongation factor was marginally less than the minimum specified we felt that we should be able to manage the manufacturing problems without much difficulty. We did give clearance to Government on the basis of assessment for which we are responsible."

4.49. The Committee are surprised to find that the question of recovering any portion of the cost of modifying the machines to make them suitable for using from the private firm the material supplied by them was also not pursued earnestly. The Committee recommended that the entire matter should be investigated and responsibility for the lapses of the management at the different stages fixed. The Committee also find that because of a indecision over the quality of indigenous triacetate there has been a delay in obtaining the import licence for procuring the requisite material from abroad with consequential loss in production.

4.50. The Committee also recommend that the Management should draw a lesson from their experience and at least now make sure about the physical and chemical characteristics of Triacetate in consultation with Research Institutes and other experts in the field before entering into further commitments for the purchase of indigenous material from the private firm. The Committee would like to make it clear that while they are for import substitution and for attainment of self-reliance they cannot too strongly stress the need for ensuring proper coordination so that the raw material and other goods required for manufacture by a public undertaking become available in time and do not in any manner affect adversely the production.

D. Rejections

4.51. One of the main reasons for shortfall in production is the heavy in-process rejection. The following table indicates the percentage of actual rejections on output vis-a-vis those envisaged in the Detailed Project Report in respect of the three major products:—

For a proper appreciation of the stage-wise rejections a table indicating the actual input, output, rejections and percentage of rejections on input in respect of these three products is given below:—

	1968-69				1969-70			
	Input	Output	Rejection	Percentage of rejection on input	Input	Output	Rejection	Percentage of rejection on input
	m ³	m ³	m ³		m ³	m ³	m ³	
Cine Film Positives								
Base	20,75,985	17,76,466	2,99,319	14.42	28,77,788	22,74,028	6,03,760	20.98
Substratum	17,78,772	15,32,471	2,46,301	13.85	22,22,215	20,11,771	2,10,444	9.47
Coating	15,14,301	13,76,679	1,37,622	9.08	21,23,190	19,97,709	1,25,481	5.91
Conversion	13,33,537	9,77,483	3,56,054	26.70	20,18,872	16,18,126	4,00,746	19.85
Aggregate				50.86				46.05
X-ray Film								
Base	5,36,406	4,17,658	1,18,748	22.12	10,81,660	7,18,222	3,63,438	33.60
Substratum	4,20,608	3,86,188	34,420	8.17	7,70,193	6,08,838	1,61,355	20.95
Coating	3,34,375	2,71,151	63,224	18.90	6,47,683	5,47,875	99,808	15.41
Conversion	2,99,893	1,68,480	1,31,413	43.82	5,45,490	3,56,641	1,88,849	34.62
Aggregate				67.41				70.97
Bromide Paper								
Coating	1,65,347	1,27,913	37,434	22.63	2,29,949	2,03,160	26,789	11.65
Conversion	1,30,694	1,00,352	30,342	23.21	1,71,706	1,41,898	29,808	17.36
Aggregate				40.59				26.99

1970-71

1971-72

	1970-71				1971-72			
	Input	Output	Rejection	Percentage of rejection on input	Input	Output	Rejection	Percentage of rejection on input
	m ³	m ³	m ³	m ³	m ³	m ³	m ³	m ³
<i>Cine Film Positive</i>								
Base	28,23,881	18,12,325	10,11,556	35.82	30,29,285	22,12,772	8,16,513	26.95
Substratum	18,17,907	14,40,084	3,77,883	20.78	21,87,883	19,74,957	2,12,926	9.73
Coating	14,76,016	14,34,505	41,511	2.81	19,52,035	18,85,861	66,174	3.39
Conversion	13,19,083	10,57,229	2,61,854	19.84	19,21,879	16,15,664	3,05,915	15.92
Aggregate . . . . .	.	.	.	60.39	.	.	.	46.43
<i>X-ray Film</i>								
Base	14,97,279	9,96,470	5,00,809	33.45	7,99,422	6,12,898	1,86,524	23.30
Substratum	7,60,619	6,14,998	1,45,621	19.15	7,20,452	6,46,614	73,838	10.25
Coating	4,91,299	4,01,883	89,416	18.19	6,51,791	5,59,041	92,750	14.23
Conversion	3,64,735	1,52,224	2,12,511	58.26	5,48,073	3,36,024	2,12,049	38.69
Aggregate . . . . .	.	.	.	81.63	.	.	.	63.80
<i>Bromide Paper</i>								
Coating	12,07,188	11,58,453	48,735	4.00	15,55,469	14,75,207	80,262	5.16
Conversion	11,86,742	10,65,633	1,12,109	10.20	14,93,692	13,20,424	1,73,268	11.60
Aggregate . . . . .	.	.	.	13.79	.	.	.	16.16

Medical X-ray Film

Cine Film Positive

	DPR		DPR	
	1968-69	1970-71	1970-71	1971-72

Final output	100.00	100.00	100.00	100.00	100.00	100.00	100.00
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Rejection at the end of conversion	6.00	36.43	24.77	24.76	18.93	12.00	78.00	52.94	139.60	63.11
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	106.00	136.43	124.77	124.76	118.93	112.00	178.00	152.94	239.60	163.11
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Rejection at the end of coating	2.12	13.63	7.84	3.61	4.17	8.96	41.47	27.86	53.31	27.06
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	108.12	150.06	132.61	128.37	123.10	120.96	219.47	180.80	292.91	190.17
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Rejection at the end of substration	3.24	24.11	13.87	33.68	13.27	6.05	19.53	47.92	69.36	21.72
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	111.36	174.17	146.48	162.05	136.37	127.01	239.00	228.72	362.27	211.89
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Rejection at the end of base casting	—	29.35	38.89	90.44	50.31	—	67.87	115.76	182.11	64.37
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	111.36	203.52	185.37	252.49	186.68	127.01	306.87	344.48	544.38	276.26
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Total rejections as on output	11.36	103.52	85.37	152.49	86.68	27.01	206.87	244.48	444.38	176.26
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Bromide Paper

DPR 1968-69 1969-70 1970-71 1971-72

Final output	100.00	100.00	100.00	100.00	100.00
Rejection at the end of conversion	6.00	30.22	21.01	11.36	13.12
	106.00	130.22	121.01	111.36	113.12
Rejection at the end of coating .	3.18	38.10	15.96	4.64	6.15
	109.18	168.32	136.97	116.00	119.27
Rejection at the end of sub- stitution.					
Rejection at the end of base casting					
Total rejections as on output .	9.18	68.32	36.97	16.00	19.27

It may be seen that the percentage of actual rejections is more than that envisaged in the D.P.R. in respect of all the three products and at all the stages of production and that the rejections were highest in 1970-71 in respect of Cine Film Positive and Medical X-ray Films. While the rejections have come down in 1971-72 in respect of these two products, they have shown an increase in respect of Bromide Paper.

1972-73

1973-74 (upto 30-9-1973)

	Cine		X-ray		Paper		Cine		X-ray		Paper	
	Sq.m.	%	Sq.m.	%	Sq.m.	%	Sq.m.	%	Sq.m.	%	Sq.m.	%
Output at conversion	100.00		100.00		100.00		100.00		100.00		100.00	
Rejection at the end of conversion	13.06		55.47		11.44		19.33		19.33		51.51	
	<u>113.06</u>		<u>155.47</u>		<u>111.44</u>		<u>119.33</u>		<u>119.33</u>		<u>151.51</u>	
Rejection at the end of coating	8.67		45.68		9.96		3.52		4.20		16.88	
	<u>121.73</u>		<u>201.15</u>		<u>121.40</u>		<u>123.53</u>		<u>123.53</u>		<u>168.39</u>	
Rejection at the end of substratum	14.34		23.67				10.35		12.78		19.77	
	<u>136.07</u>		<u>224.82</u>				<u>136.31</u>		<u>136.31</u>		<u>188.16</u>	
Rejection at the end of Base Casting	23.15		61.64				48.48		66.08		84.65	
	<u>159.22</u>		<u>286.46</u>				<u>202.39</u>		<u>202.39</u>		<u>272.81</u>	
Total Rejection as a % on output	59.22		186.46		21.40		102.39%		172.81%		28.28%	

It will be seen therefrom that—

- (i) in respect of Cine Film Positive, the rejections have shown a marked increase at base casting and substrating stages during 1970-71;
- (ii) in respect of Medical X-ray Film, the rejections were heavy at coating and conversion stages during 1970-71;
- (iii) rejections were the heaviest at base casting and conversion stages in respect of all the years; and
- (iv) an analysis of the actual input-output position of different processes indicates that the substrating, coating and conversion departments had spare capacity to take large inputs which, however, was not utilised on account of the inability of the base casting department to feed the subsequent processes. The inability of the base casting department was mainly due to high rejections and partly due to under-utilisation of the capacity. The following data would show that even the available input was not processed in the coating and conversion departments during 1970-71:—

	(Sq. Meters)	
	Medical X-Ray Film	Cine Film Positive
Output of base casting	9,96,470	
Input of substrating	7,60,619	
Output of substrating	6,14,998	
Input of coating	4,91,299	
Output of coating		14,34,505
Input of conversion		13,19,083

The high percentage of rejection at the conversion stage would indicate that either it was not revealed till the conversion stage or the quality control at the earlier processes was not adequate. A review of the analysis of causes of rejections at conversion stage, as made by the Management for the year 1971-72, in respect of Medical X-ray Film and Cine Film

Positive indicates that bulk of the rejections arose as a result of processing defects in the earlier stage vide details given below:—

	Medical X-ray Film		Cine Film Positive	
	1971-72	1972-73	1971-72	1972-73
Percentage of total rejections at conversion stage.	38.69	35.68	15.92	11.55
Percentage of rejections arising from defects at conversion stage.	22.01	18.28	3.03	8.21
Percentage of rejections arising from defects at earlier stage.	16.68	17.40	12.89	3.34

4.52. The high rejection at the conversion stage in respect of Medical X-ray Film were also partly the result of additional edge waste (8.31 per cent) arising from constraints on the size of the final products.

4.53. Out of 1140 mm. of coated base both in respect of Cine Film Positive and Medical X-ray Film, the Company has been utilising 1120 mm. and 1070 mm. respectively thereby resulting in a wastage of 20 mm. and 70 mm. of coated base. The coated width of the base in the case of Medical X-ray Film was, however, reduced to 1090 mm. with effect from February, 1972 which in turn reduced the waste from 70 mm. to 20 mm.

4.54. In a written note HPF stated that the reason for non-utilisation of Base Casting machines in 1970-71 was due to the fact that the company had to modify 2 Base Casting machines to make use of the indigenous cellulose triacetate and the balance facility could be utilised only to the extent of the availability of imported cellulose Triacetate. In January, 1974 the Company were running 5 out of the 6 base casting machines and would also be commissioning the sixth machine in February, 1974.

4.55. In reply to a question as to why the available input was not processed in the coating and conversion departments during 1970-71, the HPF stated that X-ray production was suspended due to technical problems and the production could be stopped up only gradually. Hence the available material could not be entirely processed further. Such a situation had not arisen in subsequent years.

4.56. About the possibility to increase the speed of the base casting machine it was stated that the Company had been experimenting with preparation of low vis-cosity collodion with a view to further increase the speeds. However, it had not been possible to increase the speeds earlier to the modifications.

4.57. In a note submitted after the evidence the HPF stated that:—

“The high rate of rejecting at conversion stage was mainly due to the defects arising during coating operation. The defects are mainly due to improper coating and drying and the physical damage to the sensitized emulsion, etc. These defects are generally noticed during coating operation by the In-process Control Laboratory situated in the Coating Section. Each roll is tested for these defects as soon as it is coated and the information is fed to the Coating Section so that preventive action can be taken. But it is not possible to reject such defective material during coating operation as the defective portion is only a part of the full roll, and therefore these defectives have to be necessarily rejected during cutting, i.e. during conversion operation. It is, therefore, clear that the high rejections at conversion stage was not due to the inadequate quality control but that is the only stage where the defectives that are arising from the previous operations can be removed.

If any full roll was found to be defective at any earlier stage such material will get rejected at that stage without allowing it to come to the final stage.”

4.58. Asked as to why the coated width of the base in the case of Medical X-ray film was not reduced earlier than February, 1972 so as to minimise the waste, the HPF in a written reply stated that reduction of coating width required certain modification to the coating troughs of the festoon machines and hence this could not be implemented earlier. The Undertaking at present continued to coat X-ray at the width of 1090 mm.

4.59. The Management have indicated (April, 1973) the normal scrap (edge cuttings and trimmings) stage-wise as follows:—

	Cine Film Positive	Medical X-ray film	Paper
Base casting	5%	6%	..
Substration	1.3%	1%	..
Coating	3%	7%	5%
Conversion	2%	7%	5%

4.60. In this connection, the Management have stated (March, 1973) that “due to the deficiencies in the equipment and in the technology and as the responsibilities of the collaborators were limited to demonstrating the capacity and quality during short runs without any obligations towards

production build-up, the rejection levels were very high affecting also the output of the finished products. The operations of the Company also received a further set-back due to the utilisation of the indigenous cellulose triacetate which was heterogeneous in character while the base casting machines were designed for the use of homogenous triacetate.

4.61. As regards norms for scrap the HPF stated:—

“That the norms were in existence from the beginning, though they were not clearly laid down. In the case of X-ray coating, the rejection level was changed when the Coating width was reduced in February, 1972.”

The standards and actuals for 1972-73 for edge trimmings are as follows:—

	Cine		X-ray		Paper	
	Std.	Act.	Std.	Act.	Std.	Act.
	1972-73					
Base casting	5%	5.18%	6%	5.74%	..	..
Subbing	1.3%	1.3%	1%	1%	..	..
Coating	3%	3%	7%	7%	5%	5%
Conversion	2%	2%	7%	8.47%	5%	(X)

The standards for other products are as follows:—

	Cine Sound	Roll Film	Aerial Film
Base Casting	6%	6%	6%
Subbing	2%	2%	2%
Coating	3%	3%	3%
Conversion	2%	3%	*

* 15.35% for 9½", 2% for 5½" and 7.63% for 7½". "

4.62. As regards high rejection levels a reference is invited to para 2.20 wherein the defective provision for acceptance tests without co-relating the finished products to the inputs at different stages of production and provision of too short a test run to prove efficacy of the plant, in the modified agreement have been brought out. The Management were also not making any cause-wise analysis of the rejections at different stage of production.

4.63. It has been stated that the cause wise analysis of rejection levels together with output is reviewed once a week in a meeting presided over by the Managing Director. The minutes of these meetings and the nature of corrective action taken are not on record.

4.64. It was, however, observed that minutes of the weekly meetings held by the Production Manager from July, 1969 onwards were available which indicate only the percentages of rejections. From September, 1971 these minutes indicate cause-wise details of rejections only at the conversion stage in respect of Cine Film Positive and Medical X-ray Films but do not indicate the corrective action taken. The following improvements are reported to have been carried out or are under implementation (March, 1973) by the Management to reduce the rejection levels:

- (i) Modifications to the base casting machines and to the collodion system so as to achieve higher elongation using entirely the indigenous cellulose triacetate and to increase the operating speeds for meeting the additional requirements of X-ray Film.
- (ii) Provision of static eliminator so as to minimise the incidence of static and dust at the subsequent operations.
- (iii) Provision of additional solvent recovery plant so as to minimise the loss of solvent while using the fibrous type of indigenous triacetate.
- (iv) Improvements to the feeding system of the substrating machines so as to reduce the rejection levels.
- (v) Provision of equipment and instruments for better control of emulsion preparations to improve the consistency.
- (vi) Modifications of technology of emulsion preparation so as to cut down the time and labour as also the water consumption and improve the consistency and also for enabling high speed coating.
- (vii) Improvements in festoon coating machine which had some severe deficiencies on account of the inexperience of the collaborators in the manufacture of X-ray Films.
- (viii) Development of the air-knife coating technique which has doubled the speed of coating and has brought down the rejection levels.
- (ix) Procurement of two modern perforators to improve the perforation quality.

4.65. It is, however, seen from the progress report of improvements as made available by the Management that the corrective measures were initiated only towards the close of 1971-72.

4.66. HPF admitted in a written reply that cause wise analysis of rejections at different stages of production was absolutely necessary and was being done from September, 1971 onwards.

4.67. During evidence the representative of HPF stated that:—

“As far as control system is concerned, it calls for a much deeper study. This is a major problem. You will be pleased to note that we have sorted this out. We have a full report for the last nine months on the quality control. I may also submit that the Board of Directors are getting every quarter the rejection reports. We are also seeing what the trends are.”

4.68. In this connection, the Special Secretary of the Ministry stated during evidence that:—

“We agree that cause-wise analysis of rejections at different stages is vital in an industry like this. It is understood that this analysis has been done by the management from 1971 onwards and they claim that as a result of this analysis, they have been able to reduce the rejections. In several cases, they have come down considerably.”

4.69. About the record of the minutes of the weekly meetings the HPF stated in a written reply that:—

“We agree that this is a lapse. However, we have now introduced proper documentation at all stages. We are also recording the minutes of the operating Committee and Quality Control review meetings for effective follow-up action.”

4.70. In this connection, Additional Secretary of the Ministry of Finance stated during evidence that:—

“Now, we have introduced a system by which at every meeting of the Board every month, they will indicate rejections in the production during the months. We are giving them the targets and they indicate the actual performance mentioning as to why these have been varied from the prescribed targets. Now we have got a record. Every Month, we get a report on production as well as rejections. We have been getting it for the last 10 months regularly.”

4.71. In reply to a question as to why the corrective measures were not initiated earlier than 1971-72 when difficulties were being faced right from the beginning and more than Rs. 5 crores were already lost, the HPF stated that:—

“Measures were initiated in 1971-72 to reduce rejection levels. As these improvements involved a considerable amount of investigation and data collection, it is difficult to say at this stage, whether it could have been foreseen earlier.”

4.72. The Company has incurred an expenditure of Rs. 29.15 lakhs so far (September, 1973) and expects to incur an additional expenditure of Rs. 16.37 lakhs to complete these improvements. The Management have stated (September, 1973) that "it is expected that a gradual reduction in wastage will be brought during 1973-74 which will contribute for a better performance during later half of 1973-74."

4.73. HPF intimated that the total expenditure incurred upto 1973 for various capital improvement programme was Rs. 37.14 lakhs (excluding modification of base casting machines and deaeration) and the Undertaking expected to incur an additional expenditure of Rs. 14 lakhs to complete the improvement programme. Subsequently, in a written reply, it was stated by HPF that the improvements had mostly been fully carried out.

4.74. The rejectional levels were stated to be as follows:—

	1970-71	1971-72	1972-73	1973 Oct.	1973 Nov.	1973 Dec.
<i>Cine Positive</i>						
Base Casting .	35.32	26.95	14.54	15.21	15.22	15.88
Subbing .	20.78	9.73	10.54	7.26	4.25	4.33
Coating . .	2.81	3.39	7.12	2.23	2.77	1.97
Conversion ■	19.84	15.92	11.65	13.91	10.41	11.29
	60.39	46.43	37.19	33.81	32.75	29.98
<i>X-ray</i>						
Base Casting . .	33.45	23.30	21.52	40.29	23.23	20.05
Subbing . .	19.15	10.25	10.53	8.54	3.42	13.95
Coating . .	18.19	14.23	23.71	4.01	3.99	9.60
Conversion . .	58.26	37.69	35.62	32.24	21.38	14.15
	81.63	63.80	65.09	64.48	52.02	46.60

While furnishing the above information the H.P.F. stated that:—

"It could however be seen that there has been a gradual, orderly and progressive improvement during October—December, 1973.

During April—September, 1973, due the shortage of Methylene chloride, production was interrupted off and on with the result that the rejection levels were highly fluctuating and do not indicate any representative picture and hence figures for this period have not been furnished.

During the first quarters of 1974 we have every confidence of attaining budgeted levels of scrap."

4.75. In this connection the representative of the Ministry informed the Committee during evidence as follows:—

"So far as rejections were concerned, they were also very much higher than the norms prescribed. Here we have seen some of the most sophisticated plants run by Kodak, etc. and there also I have found sometimes rejections do go up fairly high but in those places the rejections do not remain at a high level for a continuous period. It comes down fairly quickly because immediate action is taken again on the basis of the systems approach. Action would be taken to rectify those cases which had created those rejections. So, instead of trying to tackle the problem which probably had arisen in the base casting side, they tried to rectify it on the finishing side. That is why the rejections also remained comparatively high because the system approach was not applied. Then there was some under-utilisation of capacity. I would not give very great importance to this reason, but, certainly, this was one of the reasons. Another reason was premature switchover to indigenous Cellulose Triacetate material from imported material and this required a lot of work to be done to stabilize production. There was so much difference in physical property that stabilization took a long time.

As a result of Statistical Quality Control Study, many of these problems particularly the base casting machine have been overcome. Let us hope that they have been permanently overcome. The adjustment in the formulations and optimising of the conditions have also helped in stabilization. So far as these particular aspects are concerned, things have improved. Thus taking into account everything, the problems that had arisen and are likely to arise should be tackled."

4.76. The Committee find that one of the reasons for the shortfall in production is the heavy percentage of inprocess rejections. The Committee note that during 1968-69 to 1971-72 the percentage of rejections ranged from 85 to 152 per cent in the case of Cine Film Positive, 176 to 444 per cent in the case of Medical X-Ray Films and 16 to 68 per cent in the case of Bromide Papers with reference to final output against the norms of 11.36 per cent, 27.01 per cent and 9.18 per cent prescribed for these in DPR. The Committee find that in respect of cine positive the rejections have shown a marked increase at base casting and subtraction stages in 1970-71, the rejections were heavy in regard to medical x-ray

films at the coating and conversion stages. The rejections were the heaviest at the base casting and conversion in respect of all the years. An analysis of the input and output position of the different processes indicated that the subtraction, coating and conversion departments had spare capacity to take larger inputs, which however, was not utilised on account of the inability of the base casting department to feed all the subsequent processes. The inability of the base casting department was mainly due to the high rejections and also due to under-utilisation of the capacity.

4.77. The Committee regret to note that no attempt were made to locate the problem from the base casting side and increase the production at the base casting unit by increasing the speed of the base casting unit nor to analyse the causes of rejection at that stage. Even the available input was not processed in the coating and conversion departments.

4.78. The Committee feel that in spite of these heavy rejections at different stages, no cause-wise analysis of the rejections was done by the Management. The Committee are left with an impression that the high rejection levels may also be due to the defective provision for acceptance tests without co-relating the finished products to the inputs at the different stages of production and provision of too short a test-run to prove the efficacy of the plant in the Modified Agreement. It is surprising that even after the Management had known about these rejections in the working of the plant through the years it was only towards the close of 1971-72 that they initiated corrective action to effect improvements, when the cumulative loss of the plant was over Rs. 11 crores and the entire capital of the Company was wiped off. The Undertaking has already incurred an expenditure of Rs. 29 lakhs upto September, 1973 and expects to incur an additional expenditure of Rs. 16 lakhs to complete the improvements. According to Management though this is expected to secure a gradual reduction in wastage during 1973-74, the effect will be felt only in the latter half of 1973-74. The Committee are not sure whether these modifications etc. would really result in reduction in the percentage of rejection and improve the quality. The Committee cannot but express their feeling of dissatisfaction that the Undertaking has allowed matters to drift thereby causing heavy losses to the Undertaking year after year. The Committee recommend that the matter should be thoroughly investigated with a view to fixing responsibility for the failures at various stages and to take remedial measures without further loss of time, to achieve best production results and eliminate losses on account of heavy rejections.

E. Recovery and accounting of silver

4.79. Silver is one of the raw materials used in the manufacture of products. Out of the total value of Rs. 327.70 lakhs of materials consumed during 1971-72, the value of silver amounted to Rs. 99.93 lakhs. The total value of materials consumed during 1972-73 was Rs. 462.28

lakhs, out of which, the silver amounted to Rs. 141.70 lakhs. The corresponding figures for 1973-74 (upto 30th September, 1973) were Rs. 177.47 lakhs and Rs. 63.19 lakhs respectively.

4.80. The Management proposed in April, 1961 to set up a plant for the production of silver nitrate of photographic quality from bar silver as well as from silver recovered out of factory waste. The Board of Directors, however, deferred the proposal pending further examination at a later stage.

4.81. The proposal was again revived in March, 1963 and the Board of Directors approved the setting up of silver nitrate and silver recovery plants at an estimated cost of Rs. 12.10 lakhs. The plants were commissioned in 1966-67 at a total cost of Rs. 13.33 lakhs.

4.82. Commercial silver is melted in the Silver Nitrate Plant, cast into slabs and refined electrolytically before it is converted into silver nitrate. After nitration and purification by recrystallisation, crystalline silver nitrate is issued for use in the preparation of emulsion for coating.

4.83. Residual silver can be recovered from the slag resulting from the process of melting, the spent electrolytes and also from the liquid left behind after crystallisation of silver nitrate. Silver can also be recovered from the rejected coated products, water used to wash the emulsion and from rejected and waste emulsion. The silver content in these materials is concentrated by a process of flocculation and filtration to a sludge which is calcined to form granules. These granules are smelted and the silver is recovered.

4.84. The initial contemplation was to meet the requirements of silver nitrate from outside. No provision was made for the recovery of silver from wastes and scrap; nor was the value of the silver recoverable quantified. However, it was mentioned in the Detailed Project Report that the value of silver actually recovered would augment the profitability of the Company. Before the regular production was stated in June, 1967, the Silver Nitrate Plant and the Silver Recovery Plant had actually been set up. At this stage, it was expected that out of the total actual requirement of 45 tons of silver nitrate or about 28 tonnes of silver metal, 12 tons of silver nitrate would go as waste which if recovered would yield 7.5 tons of silver metal representing about 25 per cent of the silver used. In other words, the expectation at the time of setting up of the Silver Nitrate and the Silver Recovery Plants was that almost the entire silver content from the wastes would be recovered. The recovery of silver from sludge and granules was not made on regular basis till 1969-70. Upto March, 1970, 857.30 Kgs. of silver were recovered. Upto the accounts for 1969-70,

the consumption of silver was worked out on the basis of silver content in the finished products and in the work-in-progress. The balance of the input was shown as recoverable from sludge, granules wastes scrap, slag etc, (excepting 75.76 Kgs. in 1968-69 and 48.80 Kgs. in 1969-70). However, in so estimating the full recovery of silver from the sludge, granules and coated scraps, varying percentages were estimated to be recoverable during 1968-69 and 1969-70 as indicated below:—

	1968-69	1969-70
Sludge (percentage)	10.37	10.25
Granules (percentage)	46.36	55.10
Coated scrap (Grams per sq. m.)		
(i) Cine Positive	4.0	4.31
(ii) Medical X-ray	11.6	13.97
(iii) Paper	1.6	2.04

The quantity of silver recovered from April to December, 1970 was 137.65 Kgs. while 2528.18 Kgs. were recovered during January to March 1971. On the basis of consumption figure derived in the manner indicated earlier and on the basis of the following percentage of recovery expected from sludge, granules, etc., 5580.99 Kgs. of silver valued at Rs. 28.28 lakhs were treated as lost for the purpose of annual accounts for 1970-71 and charged to the accounts by reduction of the closing stock of silver in process.

	1970-71
	(Percentage)
Sludge	8.72
Granules	57.1
Coated scrap (Gms. per sq. m.)]	
Cine Positive	4.0
Medical X-ray	11.43
Paper	1.5

This adjustment in the accounts for silver deemed to have been lost amounting to Rs. 28.28 lakhs was made without relating the silver content in the closing stock to actual recovery from different elements. During

1970-71 a Task Force stated to have been appointed indicated the following process loss of silver at different stages:—

Silver Refinery Section	0.8%
Calcining and smelting	1.62%
Nitration section	0.68%
Washing loss	0.58%
Handling loss in emulsion	3.5%

On this basis, the loss of silver (Department-wise) was worked out by the Management as per details given below:

Loss in Silver Sludge Recovery Plant	Kgs. 1209
Loss in Silver Nitrate Plant	1131
Loss in coating and emulsion process	3240
	5580

NOTE :—No analysis of loss of silver was made till 1969-70.

4.86. During 1971-72 similarly 4089.26 Kgs. of silver valued at Rs. 21.85 lakhs were deemed to have been lost and adjusted in the accounts. This was done with reference to the *ad-hoc* norms (stage-wise) indicated by the Plant Managers *vide* details given below:

	Quantity (Kgs.)	Value (Rs. in lakhs)	Remarks
Loss of silver in Sludge Recovery Plant	310.75	1.66	On the basis of computed recovery.
Loss in Silver Recovery Plant	1823.84	9.74	Do.
Loss in Silver Nitrate Plant	470.82	2.52	Do.
Emulsion and coating pipeline loss	719.13	3.84	On estimated basis.
Overcoating of silver	764.72	4.09	Balance treated as loss on overcoating.
	4089.26	21.85	

4.87. During the year 1972-73, 6,771.79 Kgs. of silver valued at approximately Rs. 37.52 lakhs were deemed to have been lost and adjusted in the accounts, the break-up details which are as below:

	Quantity (Kgs.)
Loss of silver in Sludge Recovery Plant	4849.52
Gain in Silver Recovery Plant	2524.85
Loss in Silver Nitrate Plant	1370.74
Loss in Emulsion and Coating	3076.38
Total	<u> </u>
Approx. value Rs. 37.52 lakhs.	

4.88. Even though the Company conducted laboratory tests for coating since beginning, the actual extent of over/under coating was not worked out as the results of such tests were not summarised annually. It was, however, stated that the assessed thickness of coating did not vary from the thickness as ascertained by laboratory tests of coated jumbo roll cuttings. The Management stated in August, 1973 that the loss on account of over coating of silver, as shown above, must be due to losses in the various stages of emulsion and coating processes. The emulsion and coating pipeline loss is, however, stated to have arisen on account of the omission to connect the pipelines to sludge recovery section; this was rectified in June, 1972. During this year again the estimated recovery of silver varied as follows:—

Sludge (Percentage)	9.21
Granules (Percentage)	45.0
Coated scrap (Grams per sq. m.)	
(i) Cine Positive	4.0
(ii) Medical X-ray	12.7
(iii) Paper	1.9

4.89. The silver entrapped in the slag from the furnaces and the crucibles was also not recovered upto the end of 1971-72. The slag arisings were accumulated from year to year and an *ad-hoc* quantity was assessed as irrecoverable in the process of smelting, etc., the balance being presumed as available for recovery from the slag and included in the closing stock of silver-in-process.

4.90. The HPF admitted in a written note that the results of laboratory tests for coating should have been summarised annually in order to work out the actual extent of over/under coating of their products.

4.91. As regards, the assessing of actual thickness of coating, the HPF stated that:

“Two samples at the beginning and end of a jumbo are taken. Silver estimation in the samples was being done by the chemical titration method, whereby silver halides in a known quantity of film is volumetrically estimated. We have recently (4th October, 1973) installed an X-ray detractometer by which the Silver content of the film is analysed. The X-Ray beam falls on a specimen of coated film and counts are measured. The number of counts depends upon the amount of silver that is present in the sample.”

4.92. In regard to the locating of the missing connection of the pipelines with sludge recovery section, he stated that:—

“a group of people were assigned (in October, 1972) specifically to check item by item. New suitable action has been taken. . . . About 70 to 100 Kgs. over all the years put together *i.e.* about Rs. 50,000 from the beginning had been lost due to the missing connection in the pipe lines.”

4.93. In a written note H.P.F. intimated that the cost of rectification had been Rs. 10,000.

4.94. In this connection, the Special Secretary, Ministry of Industrial Development during evidence expressed the following views:—

“I would not say that it is a very good explanation but it may be that it has so happened that the actual extent of over/under coating was not worked out as the results of such tests were not summarised annually. However, the actual recovery has tallied more or less and I will certainly say that it is the most scientific method of silver coating process.”

4.95. The table below indicates the opening balance, the input, the consumption and the closing balance of silver metal and the silver-in-process (both in manufacturing and recovery processes) at the end of each year:—

(Quantity in Kgs.)

(Value in lakhs of rupee)

	1969-70		1970-71		1971-72		1972-73	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Opening stock-in-process and scrap	14,676.725	67.78	18,911.976	87.24	22,800.893	115.45	16,414.58	85.70
Input	16,938.921	78.23	17,331.270	96.23	10,907.84	64.66	17,784.83	99.88
Consumption including loss written off	12,703.670	58.67	13,442.353	68.12	17,295.16	92.41	19,805.20	109.60
Closing stock in process	18,911.976	87.34	22,800.893	115.45	16,414.57	87.70	14,393.21	75.98

Notes: Figures for 1967-68 and 1968-69 are not available.

4.96. As mentioned earlier, no recovery of silver was made from the slag for which no facility also existed in the Company. The quantity of slag and the silver recoverable therefrom as estimated by the Management widely varied from the actual quantity. As on 31st March, 1972, 1141.63 Kgs. of silver was estimated to be recoverable from the slag without ascertaining the quantity of slag. In October, 1972, 20 tonnes of slag was stated to be in stock from which 700 Kgs. of silver was estimated to be recoverable indicating a recovery of 35 Kgs. per tonne. In the first week of October, 1972, 57 tonnes of slag was reported to have been sent to Bharat Gold Mines Limited/another Government of India Undertaking, for recovery of silver. Subsequently, some more slag was also sent. Up to June, 1973, 1540 Kgs. of silver was actually recovered by the Bharat Gold Mines Limited out of 65 tonnes of slag indicating a recovery of 23.7 Kgs. per tonne. The Management have stated (August, 1973) that lower quantity was indicated to Bharat Gold Mines Limited as otherwise it was feared that they might not undertake the processing of the slag. As on 31st March, 1973, 2119.79 Kgs. of silver was shown to be recoverable from the slag arising upto that period without indicating the quantity of slag. Out of the slag arising upto 31st March, 1973 silver was recovered from 65 tons of slag as already indicated above. The quantity of silver now expected to be recovered from the remaining 10 tonnes of slag still in stock (August, 1973) and from the fines of the processed slag of 65 tonnes lying with the Bharat Gold Mines Limited, another quantity of 1247.29 Kgs. are expected to be recovered. Thus the total recovery from the slag as on 31st March, 1973 is expected to be 2787.29 Kgs. as against 2119.79 Kgs.

4.97. Even though physical verification of silver in-process stock was conducted in all the years, the quantity of silver in catchpit sludge and calcined anode bags was not verified during 1971-72; granules were not verified during 1969-70, 1970-71 and 1971-72 and slag during 1970-71 and 1971-72. Silver content in all these items was on an estimated basis.

The following position emerges from the foregoing:—

- (i) Recovery of Silver was not regularly made till January, 1971.
- (ii) No stage-wise analysis of the loss of silver was made till 1969-70.
- (iii) No analysis of actual recovery of granules from sludge and silver therefrom has been made.
- (iv) No norms for losses arising in the process of recovery from the plant were fixed upto 1969-70.
- (v) The quantity of silver recoverable from the slag was indicated without indicating the quantity of slag itself.

- (vi) Varying percentages of recovery were estimated from year to year.
- (vii) Physical verification of certain items was not done in certain years.
- (viii) While upto 1969-70 almost the entire silver was expected to be recovered, from 1970-71 accounting adjustments were made for silver deemed to have been lost without relating it to the actual recovery made from different elements.
- (ix) Even after reported fixation of standard process loss in January, 1971, loss in excess of standard was not investigated. On the other hand, loss during 1971-72 attributed to over-coating could not be established.
- (x) There was not proper system for the collection, weighing and expeditious disposal of the wastes.
- (xi) There was no arrangement for periodical stock taking of all the silver-bearing wastes.
- (xii) The procedure observed as a whole did not secure an effective system of internal control over consumption, recovery and accountal of silver.

4.98. The various aspects connected with consumption, recovery and adjustment in accounts of silver were not brought to the notice of the Board of Directors. In June, 1973 the Board was informed of loss of silver amounting to about 5100 Kgs. valued approximately at Rs. 30 lakhs in respect of the year 1972-73. The Directors expressed grave concern at the casual manner in which the shortages were handled and requested the Company Auditors to arrange for a fresh inventory of all stocks of the Company as on 1st June, 1973 and also to evaluate the liability of the company on all counts before the accounts for the year ending March, 1973 were closed. Considering the serious nature of the position and the urgent need to expedite, the closing of annual accounts, the Board directed that the Managing Director should investigate the shortage thoroughly without any further delay and submit a detailed report as to the actual shortage of silver and the reasons thereof. It has been reported by the Management that independent physical verification of in-process stock was conducted during 13th to 15th June, 1973 and a loss of 7618.98 Kgs. valued at Rs. 42.14 lakhs (including standard process loss of 3118.40 Kgs. based on the norms estimated by the company in January, 1971) was established for the year 1972-73. On this basis, the total loss of silver for the years 1968-69 to 1972-73 would work out to Rs. 92.85 lakhs. The Management have stated (August, 1973) that

“the statutory auditors are now conducting the physical verification of all inventories, the detailed report of which is awaited”.

4.99. The losses charged in the accounts as per re-calculations made by the Company were stated to be as follows:—

	Quantity	Value Rs. lakhs
1966-67	..	..
1967-68	..	..
1968-69	73	0.37
1969-70	49	0.22
1970-71	55.81	28.28
1971-72	4089	21.85
1972-73	6772	37.52
		<u>88.24</u>

“Based on the investigation conducted by the Statutory Auditors the losses established year-wise were as follows:—

	Quantity	Value Rs. lakhs
1966-67	852	4.35
1967-68	1829	9.34
1968-69	462	2.36
1969-70	1114	5.14
1970-71	5107	25.88
1971-72	4276	22.85
1972-73	6772	37.52
		<u>107.44</u>

4.100. While furnishing the above information H.P.F. stated that till 1970-71, no process losses of Silver had been charged off, except very small quantities indicated above. Hence the figures for 1970-71 were progressive.

4.101. Asked when the input-output procedure for assessing the process losses to compare the same with the norms arbitrarily fixed was adopted, the Chairman, HPF stated during evidence, “this was during 1970-71. Where the loss is beyond arbitrary norms, it was treated as abnormal loss written off in the accounts. On the basis, the accounts

for 1970-71 and 1971-72 were closed and this has resulted in a loss which is equivalent to the process loss and the abnormal loss dependent on the arbitrary norms we have fixed for the process loss plus the inventory of the finished stocks and the silver content in the stocks as the exact quantum of silver content was itself not accurately assessed.

4.102. The representative of HPF during evidence asserted that the test in regard to assessment of loss during 1971-72 with reference to *ad-hoc* norms had not gone wrong. Actually the recovery had been quite good and their assumption had proved right in that case.

4.103. In a note furnished after evidence Management stated that during October, 1972, with the drive the management instituted to clear the inventories of recoverable silver on a crash programme basis, the inventories have registered a sharp fall. As the closing stocks of recoverable silver in process has declined, the effect of errors in estimates of opening stocks of the previous year was felt in terms of a heavier losses in 1972-73 which could be carried over losses from the previous years also.

4.104. Seized of the problem, the Board had initiated the following steps:—

- (i) Documentation at each control point be determined on a daily/weekly/monthly basis the process losses.
- (ii) Determination of silver content on a scientific and comprehensive sampling basis.
- (iii) Physical verifications of all items periodically.
- (iv) Starting with the norms for process losses evolved by the statistical quality control section of Indian Standard Institution to up-date these norms from data made available as above. Taking all the factors into consideration, it is difficult to determine whether the losses are entirely due to process losses during the year or due to any other cause and whether any portion of the loss of 1972-73 relates to previous years also.

Under the circumstances no worthwhile conclusion can be drawn until such time.

1. We determine process losses on past performance on a scientific and reliable basis.
2. Inventories and silver content are accurately assessed.

4.105. The HPF confirmed in a written note that the working out of the consumption of silver on the basis of silver content in the finished products and in the work in progress was the correct and scientific method

so long as the quantities in various forms and the quantum of silver therein was correctly assessed.

4.106. In regard to fixing of norms for process losses the Chairman HPF admitted during evidence that there had not been any norms fixed in this regard earlier as it was presumed that the whole Silver had been recovered. He added that "(Now that norms had been fixed) we will be able to determine the process loss within 3 or 4 months. We will have a historic record, on a scientific basis. That is very important. Secondly, inventories and silver content are accurately assessed. We have devised a system by which every thing, including the laboratory report, is signed every day. We have an independent check at every level. Now that this is being done, this can be investigated further during April, 1974".

4.107. In reply to a question as to why up to this time no study about the recovery of silver had been made and no kind of internal audit or anything of that type was done and how was it that this escaped attention, the Chairman HPF stated during evidence that "May I say that one of the fundamental reasons why this organisation was incurring losses was that we did not find in the operating management the feeling that they were dealing with public funds and they had to do everything humanly possible to see that they justified the confidence that had been reposed on them? In other words, as long as that sense of accountability is not there, I do not see why anybody should bother whether silver is lost or anything else is lost. For instance in the history of this company for the last seven years, there was not one case where any increment was stopped, and not one manager was asked why the performance was not what it should be, but what actually happened was that people had been promoted." He added that "It was a whole lack of systems control. That has, what has led to these many problems of which silver was one."

4.108. Asked if the above loss had been reported to Government, the Chairman HPF stated during evidence that: "For the year ending March, 1973, we said that if it was carried over, it would not be a true reflection of the accounts of the Company; so, whatever came to light upto that time, we had written off. By the end of March, we had written off defective stocks which were in the inventory running to about Rs. 50 lakhs and something relating to silver; both of them were written off, even though the loss shown is higher, because I think it is much more healthy to face facts rather than carry it for some more years."

4.109. The Committee enquired as to why responsibility was not fixed in the matter and in spite of that, the losses had been written off, the Chairman HPF stated during evidence that—"The first point is that a task force was appointed about two years back; they gave no written report, but apparently they have evolved certain norms; that means that they were trying to investigate into the problem.

4.110. In 1970-71 and 1971-72 the losses were considered to be about the same as that of the norms tentatively suggested by the Task Force constituted for the purpose and certain excess losses were explained by the Departmental Managers. Hence the Management did not consider it necessary at that time to investigate. In 1972-73, the losses were higher than the norms and hence a reference was made to the Management and to the Board by the Finance Division. Since then this matter has been thoroughly investigated and silver consumption norms have been fixed, control points established and documentations tightened."

4.111. The Committee found from the minutes of the 78th meeting of the Board of Directors held on 8th June, 1973 that—

"The Directors expressed grave concern at the casual manner in which the shortage had been handled, although it had been assessed at about Rs. 30 lakhs.

The Board accordingly requested the Company auditors to arrange for a fresh inventory of all stocks of the Company as on June 1, 1973, in liaison with the Manager, Finance Division, to ensure that the true state of affairs of the Company are known and also evaluate the liability of the Company on all counts, before the accounts for the year ending March, 1973 are closed."

4.112. The Committee enquired as to why the silver could not be recovered from sludge and granules till 1969-70 when the Silver Nitrate Plant was set-up in 1966-67. The HPF stated that the Silver Nitrate plant had been set up for production of silver Nitrate/Silver Recovery. Though sludge was calcined to attain granules, recovery of Silver from Granules could not commence due to technical difficulties in crucible furnace and low output.

4.113. Asked if the Ministry's help was sought for the import of crucibles required for recovering the silver from granules, the HPF stated that since the import of crucibles had been banned, no approach was made to the Government for an import licence. Every endeavour was however, made to see if a suitable source of supply could be located which could satisfactorily meet their requirements.

4.114. Asked whether indigenous crucible would not stand the corrosive effect, the representative of HPF stated during the evidence that:—

"Our problem was, the indigenous crucibles would withstand one heating. The second time they were heated, they would split into pieces and the silver would flow out. Because of that difficulty, we have acquired a new furnace and we are doing this job on that. We have limited the use of imported

crucibles to melting silver we receive from the Calcutta refinery. With the old process, we could not do enough whereas with the new Skelner process, we have been able to use practically all the accumulations. We were (also) able to recover more quantity, much faster. About the efficiency, we are closely studying it now. With crucibles we were very inefficient. We were losing silver. This was much better."

4.115. The Committee enquired as to why the smelting furnace was not installed earlier, the representative of the Ministry stated that:—

"They tried methods and when they found that the other methods were not working satisfactorily, they tried this particular method and found that this worked much better. This is a sort of improvisation in the process of trying to effect improvement."

4.116. Asked whether the recovery of silver from slag was included in the Detailed Project Report, the HPF in a written reply stated that though the DPR mentioned about collection of sludge for purposes of recovery of silver, no specific mention had been made about recovery of silver from slag. Silver content in slag had been estimated prior to and in October, 1972 as the difference between input and output of silver and an estimated process loss. HPF were not aware of the facilities available with BGML for the recovery of silver from slag.

4.117. In regard to recovery of silver from slag by BGML the representative of HPF stated during evidence that:—

"once silver recovery has become a priority then we were looking around. We had accumulation of stocks. We were not aware whether Bharat Gold Mines were in a position to recover. When in October the task force decided that nothing should be left, we went to the Bharat Gold Mines."

4.118. About the mode of recovery in the DPR, the representative of the Ministry stated during evidence that:—

"I think that this matter was not taken up with the Government, because silver recovery was not a part of the Detailed Project Report and that is why at that point of time it was not taken up. So far as the collection of sludge recovery of silver was concerned, there was a mention in the Report but there was no mention about the recovery of silver slag. As I said, so far as this technology was concerned, they did not think of including the recovery of slag as a part of this technology."

4.119. In reply to a question as to why the Ministry help was not taken in making a regular arrangement with Bharat Gold Mines Limited for the recovery of silver from slag the HPF stated that:—

“Bharat Gold Mines, having helped HPF as an interim measure felt that a special set up is necessary, if it were to process the slag on a long term basis. As such this is being negotiated and this is expected to be finalised in the near future. If we fail in our efforts, we shall approach the Ministry.”

4.120. During evidence the Committee desired to know if there was pilferage at any stage, the Chairman, HPF stated that:—

“Frankly, I cannot comment on that. Pilferage can be there in any industrial plant. There was an extensive survey done in the United States to find out why they have about 1 per cent or $\frac{1}{2}$ per cent a negligible value of loss and they finally failed to find out an answer. This is an accepted thing in large organisations. But, I prefer to be silent, till we really investigate the whole problem. I feel in the process as such there is no scope for pilferage. But the process from silver to silver nitrate is in a secluded area and that is the area where it has to be checked up. I think it is not far really to say that there is pilferage unless we have substantial evidence to prove it. Let us give them the benefit of doubt till we prove it to the contrary.”

4.121. The HPF admitted in a written reply that silver in process stock during 1969-70 to 1971-72 in catchpit sludge, anode bags and slag were not verified.

It was added that:—

“The norms for losses which may be termed as arbitrary were fixed during 1970-71 for guidance. Silver was estimated on this basis. Being a continuous cycle, the accuracy of any such calculation (regarding actual loss) could only be verified when the stocks of recoverable silver are relatively small.”

4.122. In reply to a question as to why process losses/scrap arisings at each of the stages were not reported to the Board prior to September, 1972, when a detailed cost centre-wise budget was prepared, the HPF stated that they could not report the silver losses earlier. Scrap per cent were now reported monthly and silver losses on a weekly/fortnightly basis.

4.123. It was added that “since silver content in the work-in-progress of various departments can only be an estimate for the purpose of annual accounts, pending establishment of norms on a scientific basis, we had no alternative but estimate the silver content, which, in the opinion of the

Company, could be considered as reasonable. The statutory auditors were asked to investigate the subject and submit a report. The Statutory auditors have completed physical inventories of stocks. According to the auditors, it is difficult to determine whether the losses relate to the current year or earlier years and the justification for the losses in the absence of norms for process losses."

4.124. The Management informed Audit in July, 1973 the loopholes observed in the system of collection, weighing and expeditious disposal of the wastes were being reviewed for taking effective steps in future. About the results of review the HPF, stated in a written note that proper documentation and reporting had been introduced with effect from 15th November, 1973.

4.125. During evidence the Special Secretary, Ministry of Industrial Development stated in this connection that:—

"The Company has now deputed a Special Officer to make a detailed study of the various stages through which silver is processed and to establish norms. The position is that in the earlier years the production was also very low. Now the production has gone up considerably and simultaneously the losses have also gone up. The fact that the amount of loss had gone up is not a real indication because the production has also gone up very considerably during this period. But, as I have said, we are very much concerned with the quantum of losses in this particular undertaking because this undertaking has not been able to stabilise production over a long period even though, according to the collaborators and according to the Project Report it should have taken five years from the inception of production, to stabilise production. That is why we have tried to get the help of exports from outside to improve the managerial efficiency. We have been trying to get a better Management for the Corporation."

4.126. He added that in this connection special officer had also been appointed in 1973 and his report was still awaited.

On being asked about the responsibility of Government in regard to the continuing losses being incurred by HPF and the Special responsibility of the Official nominee on the Board of Directors for reporting about the state of affairs of the Company, the representative of the Ministry, stated during evidence, that:—

"Government is responsible but it has to function through the Management and one thing that the Government can do is to keep on changing the Management and try to get a proper Management, but it will be appreciated that managerial talent

is very scarce in the country and it is not possible to get the best Management in many of the undertakings and this is one of those unfortunate undertakings where we have not been able to stabilise not only the production but also the Management. I won't say that the Ministry was callous about this undertaking; otherwise the Government would not have made so many changes in the Management in an attempt to get a better Management.

The processing losses were not reported to the Government specifically in the past. They are officers of the Ministry. All the Directors are appointed by the Government and not a single Director is appointed by anybody else. If there is anything radically wrong, it is their job to keep the Government informed and they have, as a matter of fact, been telling the Government that the Management of this particular organisation is not satisfactory. That is why, not only the Ministry of Industrial Development but the Ministry of Finance and the Bureau of Public Enterprises have made various studies to find out how the Management can be improved."

4.127. During evidence the representative of Ministry of Industrial Development informed the Committee that at the time of setting up of the Silver Nitrate and the Silver Recovery Plant it was assumed that almost the entire silver content would be recovered from the waste. Wastes did not however cover everything. Silver was to be recovered from the slag, from the rejected products, from the water used—wash emulsion, waste emulsion, etc. Whether it could be recovered 100 per cent or near 100 per cent from that he had his doubts.

4.128. The Committee observed that the purpose of the Project Report was to mention all those things.

4.129. The representatives of Ministry of Industrial Development informed the Committee during evidence that a specialist-technologist was going into the losses of silver year by year. He was going through the 32 stages and in the question of standards also. If it was found that there was anything which gave a suspicion of criminal nature, he would not hesitate to take action.

4.130. The Committee note that the undertaking set up a plant for the production of Silver Nitrate and a Silver Recovery Plant at a cost of Rs. 13 lakhs in 1966-67. The expectation at the time of setting up of Silver Nitrate and Silver Recovery Plants was that almost the entire Silver content from the waste would be recovered. For accounts upto 1969-70, the consumption of silver was worked out on the basis of silver content in the finished product and in the work in progress and the balance of input was shown as recoverable from sludge granules, waste-scrap etc.

4.131. The Committee, however, find that recovery of Silver from Sludge and granules was not made on regular basis till 1969-70.

4.132. The Committee note that it was only during 1970-71 that certain ad hoc norms were fixed by a Task Force appointed by the Management.

4.133. The Committee find that on the basis of consumption figures derived in the above manner and on the basis of the ad hoc norms, silver of value Rs. 28 lakhs was treated as lost for purposes of annual accounts for 1970-71 and charged to the account by reduction of the closing stock of silver-in-process without relating it to the actual recovery made from the different elements.

4.134. During 1971-72, the Committee find that Silver valued at Rs. 22 lakhs was deemed to have been lost and adjusted in accounts with reference to the ad hoc norms fixed by the management.

4.135. During 1972-73 silver valued at Rs. 38 lakhs was considered to have been lost and adjusted in the accounts.

4.136. The Committee note that the silver entrapped in the slag from the furnaces and crucibles was not recovered and the slag arisings were accumulated and an ad hoc quantity was treated as irrecoverable in the process of smelting etc. and the balance was presumed to be available for recovery from slag and included in the closing stock of silver in process. It was only in October, 1972 that a certain quality of slag was sent for the first time to Bharat Gold Mines Limited for recovery of silver. It was admitted during the evidence by the Management that they were not aware whether facilities were available under Bharat Gold Mines Limited for recovery of silver from slag.

4.137. The Committee were informed that even after the reported fixation of ad hoc norms no attempt was made for investigating losses in excess of these norms and they were treated as abnormal losses and written off in the accounts. The Committee find also that the loss attributed to over coating could not be established.

4.138. There was also no arrangement for periodical stock-taking of all the silver bearing wastes and silver in catchpit sludge, anode bags and slags was not verified during 1971-72. There was also no proper system for collection, weighment, and expeditious disposal of wastes.

4.139. The Committee are surprised to find that it was only in June, 1973 when the losses were higher than the ad hoc norms, that the matter was reported to the Management and Board by the Finance Division. The Directors expressed grave concern at the casual manner in which the shortages were hand-led even though the losses were as high as Rs. 30 lakhs in

respect of 1972-73 alone. The Board requested the Company Auditors to arrange for fresh inventory of all stocks as on 1st June, 1973 in liaison with the Manager Finance Division to ensure that the true state of affairs of the Company were known and to evaluate the liability of the Company on all counts before the accounts for 1972-73 were closed. The Board also directed that the Managing Director should investigate the shortage thoroughly and submit a detailed report thereon. The Committee were informed that, since then, the matter had been thoroughly investigated, silver consumption norms had been fixed, control points established and documentation tightened.

4.140. According to the Report of the Management, a loss of 7619 Kgs. of silver of the value over Rs. 42 lakhs was established for the year 1972-73 on the basis of independent verification and norms estimated by the Company in 1970-71 and on the basis of the total loss of silver from 1968-69 to 1972-73 would work to Rs. 93 lakhs.

Investigations conducted by the Company Auditors, however, revealed that the total loss from 1966-67 to 1972-73 exceeded Rs. 1 crore.

4.141. The Committee were informed that a special technologist was going into the losses of silver year by year and also the question of standards.

4.142. It was admitted by the Undertaking during evidence that:—

“... we did not find in the operating management the feeling that they were dealing with public funds. In other words, as long as the sense of accountability was not there, I do not see why anybody should bother whether silver is lost or anything else is lost. . . . It was a whole lack of systems control. That has, what led to these many problems of which silver is one.”

4.143. From the fore-going analysis, the Committee are convinced that the procedure observed as a whole did not secure an effective system of internal control over consumption, recovery and account of silver. The Committee cannot but express their grave dissatisfaction over the negligence on the part of the Management to not only keep an effective control over the use of such a costly raw material like silver, but to have been failed to bring the facts to the notice of Board immediately after the loss was known to them.

4.144. The Committee recommend that the entire matter should be investigated by a High Level Committee to pin-point the lapses on the part of Management and all others concerned and to ascertain as to how far the loss of silver was consequential to normal utilisation and whether the

loss was not due to other causes like avoidable wastages, pilferage etc. and to fix the responsibility for the same.

Pending investigation at high level as suggested by the Committee in the foregoing paragraph Government may consider the question of issuing guidelines to other public undertakings so that adequate care is taken in the use of precious metals, chemicals and other raw materials required for manufacture to obviate losses in storage and handling and that norms of their consumption/wastage in processing should be precisely laid down on the basis of the best expert advice available so as to obviate any chances of pilferage, wastage etc.

4.145. There should also be proper management control to ensure that important data about consumption and wastage of these precious metals, chemicals, raw-materials etc. in manufacture are reported to the management together with the prescribed norms and where the losses are of a substantial nature, these are reported specifically without delay to the Board of Directors and Government.

4.146. The Committee find that in the first week of October, 1972 the Undertaking sent slag to Bharat Gold Mines Ltd., another Government of India Undertaking, for recovery of silver. The Committee note that out of 65 tons of slag which arose upto 31st March, 1973, silver to the extent of 1540 kg. was actually recovered by the Bharat Gold Mines upto June, 1973 indicating a recovery of 23.7 kgs. per ton although, silver to the extent of 2120 kgs. was shown to be recoverable from the slag arising upto 31st March, 1973 without indicating the quantity of slag. The Committee understand that a further quantity of 1247 kgs. are expected to be recovered by 1973-74 (upto September, 1973). The management has been examining developments in the case.

F. Consumption of raw materials

4.147. The main processes involved in the production of all types of products are:

- (i) Base casting;
- (ii) Substrating;
- (iii) Coating; and
- (iv) Conversion and packing.

4.148. The following table indicates the important raw materials used in different sections alongwith the sources of supply:

Section	Raw materials used	Source of supply	Remarks
Film Base	Cellulose triacetate	Mysore Acetate and Chemicals, Bangalore.	Proprietary item Private Company.
	Methylene chloride	Mettur Chemicals	"
	Methanol	Fertilizer Corporation of India Ltd.	Proprietary item Govt. Corporation.
	Acetone	National Organic Chemicals.	Private Company.
	Triphenyl phosphate	Many sources	Imported.
Silver Nitrate	Silver	Many sources	Indigenous
Emulsion	Gelatin	Many sources	Imported
	Saponine	Food Industries, England	Imported Proprietary.
Coating	Baryta coated paper	Many sources	Imported
Conversion	Aluminium Foils	India Foils	

4.149. The manufacturing process consists essentially of the following four stages:—

- (i) Production of substrated Cellulose Triacetate safety base.
- (ii) Preparation of Photo sensitised silver emulsion.
- (iii) Coating of sensitised emulsion on the acetate film base or in the case of photographic paper on Baryta coated paper.
- (iv) Converting the coated film or paper to the sizes required and packing them.

4.150. The following table indicates the input, the recovery and the loss of solvent as also the loss per Kg. of base prepared vis-a-vis the norms.

indicated in the agreement, during 1968-69 to 1973-74:—

Year	Solvent input (Litres)	Solvent recovered (Litres)	Solvent loss (Litres)	Percentage of recovery	Filtration loss (Lit.)	Total loss (Col. 4-6) per Kg. of base	Actual
						as per Agreement (Kg.)	
1	2	3	4	5	6	7	8
1968-69 . .	39,37,827	33,40,125	5,17,702	84.8	..	1.00	1.41
1969-70 . .	54,31,034	46,99,824	7,31,210	86.5	3,31,585	1.00	1.51
1970-71 . .	54,16,819	44,84,059	9,32,760	82.8	3,24,248	1.00	1.56
1971-72 . .	40,38,757	33,01,159	7,37,598	81.7	3,72,638	1.00	1.82
1972-73 . .	41,23,885	34,79,930	6,43,955	84.4	5,23,150	1.00	1.77
1973-74 . . (upto 30-9-73)	12,38,103	10,70,287	1,67,816	86.4	2,44,696	1.00	*

NOTE.—According to the Management, filtration loss is not recoverable at all and hence shown separately. However, this is taken into account while working out the loss per Kg. of base.

* 1.93. for 6 months upto 30 September, 1973 currently 1.44 per Kg. of base.

4.151. It will be seen that the solvent loss upto 1971-72 was always more than the norms indicated in the collaboration agreement and has been increasing from year to year. The decrease in the solvent recovery efficiency was attributed by the Management (January, 1972), to the use of indigenous triacetate.

4.152. The monetary loss on account of low recovery of solvent for the four years ending 1971-72 was Rs. 81.18 lakhs.

4.153. The monetary loss on account of low recovery of solvent during the year 1972-73 was Rs. 22.43 lakhs and Rs. 8.59 lakhs during 1973-74 (upto September, 1973). The management has been examining proposals for recovery of solvents lost during substration process.

4.154. The Management ordered an equipment on 7th July, 1972 for installation by August 1973 at a cost of Rs. 14 lakhs for improving the solvent recovery efficiency to about 95 per cent. The equipment was installed in September, 1973.

4.155. The Company has also been consuming solvent in the substration section from which no recovery is made. The value of solvents thus lost in substration section amounted to Rs. 22.90 lakhs during

1968-69 to 1971-72. The equipment now ordered is only for improving the efficiency of solvent recovery in base casting section. This will not improve the efficiency of recovery at the substraction stage.

4.156. The Management have stated (September/October, 1973) that solvents could not be recovered at the substraction stage as there was no provision for a sub-system in the original equipment for the recovery of solvents at this stage. "A study is being conducted for installation of sub-system for recovery of solvent at the substraction stage."

4.157. The Committee were informed by HPF in a written note that the monetary loss on account of low recovery of solvents in 1972-73 was Rs. 22.43 lakhs and was due to the fact that the equipment viz., Solvent recovery Plant could be ordered in 1971-72 and installed in September, 1973 only as that required a detailed study.

4.158. It was added that they were making every endeavour to improve the efficiency of solvent recovery, and the same had actually improved as could be seen from the following table:—

The % of recovery of solvent is stated to be as follows:—					
	71-72	72-73	Oct.	Nov.	Dec.
Loss in terms of Kg. per Kg. of base	1.82	1.77	1.57	1.44	1.40
% of recovers	81.7 %	84.4%	77.0%	78.60%	79.60%

*The per cent recovery shown upto 1972-73, is the recovery efficiency excluding filtration loss since the facilities available at that time did not envisage recovery of solvent in filtered media. With the installation of Solvent Recovery Plant, Solvents are expected to be recovered even from the filtered media. Hence during the period October, 1973 to December, 1973 the solvent Recovery efficiency has to be on the basis of the total solvents used and recovered including losses in filtration. The comparative recovery efficiency including filtration loss during 1972-73 would be 74 per cent. It may be seen that the recovery efficiency has shown an improvement since installation of the Solvent Recovery Plant.

4.159. During the evidence, the representative of the HPF stated that:—

"The monetary loss on account of low recovery of solvents, during 1973-74, upto September, 1973 was 8.5 lakhs. Solvent recovery plant itself has been commissioned only now. The moment we eliminate the losses due to interruption in production due to non-supply of raw materials, I think we should come to figure of one kg. of solvent per kg. of waste produced."

4.160. Asked if solvents in substration stage were recovered, the representative of HPF stated during evidence that:—

“We have taken it up for examination. It was revealed that we have to spend about Rs. 20 to 22 lakhs and the material we recover would be of the order of Rs. 3 to 4 lakhs whereas in the primary solvents which is very beneficial to us the value of recovery in this is substantial. Cost of the plant is higher because we have got three solvent mix in all methanol, Acetone and methylene chloride and the third is the triacetate. These products are there. To distill them individually we have to spend more money.”

4.161. With regard to break-up of total expected loss (as per agreement) per Kg. of base into solvent/filtration loss, the representative of HPF stated during evidence that:—

“We do not have this break-up. It is not in the Agreement. It is given as a total for the whole department. As a matter of fact filtration loss we encountered when we started using indigenous acetate. At the time when we were using imported acetate it was not a problem. As such, it was not provided for in the DPR.”

4.162. In a written note the HPF intimated that the Solvent loss in subbing stage during 1972-73 was Rs. 6.81 lakhs and that a study for installation of sub-system for recovery of solvent at the substration stage had been undertaken as part of Cost Improvement Programme in 1973-74, cost benefit of which was being worked out. It was added that the Study had not been taken up earlier as they wanted to study the impact of solvent recovery in Base Casting Section.

4.163. Asked whether the monetary loss on account of low recovery of solvent was brought to the notice of Government and if so action taken by them, the representative of the Ministry stated during evidence that:—

“As I have explained, the losses as such were not brought to the notice of the Government. The losses were not normal, the Government was aware of that.

There has been an improvement, but I do not think, the improvement is complete. Further improvements are necessary. It was 1.82 Kg. in 1971-72 and 1.30 Kg. in January, 1974. Further improvements are necessary.”

(b) The following table indicates the consumption of raw materials per litre of collodion, the consumption of collodion per Kg. of base, the consumption of raw materials in substration process and the consumption

of silver nitrate for different products during the years 1968-69 to 1973-74 (upto 30th September, 1973):—

Unit	As per DPR/ revised agree- ment	Actual consumption					
		1968-69	1969-70	1970-71	1971-72	1972-73	1973-74 (upto 3-9-73)
(i) Consumption of raw materials per litre of collodion							
Cellulose triacetate	Gram	124	130	131	132	134	154
Triphenyl phosphate	Gram	20	21	22	22	22	25
(ii) Consumption of collodion per Kg. of base							
	Litre	8.34	7.28	6.36	6.43	6.17	5.80
(iii) Consumption of raw materials in substration process (per Sq. metre)							
Methylene chloride	Gram	21	6	9	19	19	19
Methanol	Gram	16	21	18	21	21	34
Acetone	Gram	40	46	38	44	50	39
(iv) Consumption of silver nitrate (per Sq. metre)							
Cine Film Positive	Gram	6.7/7.5	6.9	6.8	7.5	6.4	7.1
Medical X-ray Film	Gram	30.0/22.0	20.2	22.0	21.6	1.77	21.9
Paper	Gram	3.0/4.0	3.3	3.2	3.3	3.2	3.5

4.164. It will be seen that the consumption of raw materials per litre of collodion has generally increased while the consumption of collodion per Kg. of base has decreased. The consumption of raw materials at substration stage upto 1971-72 has also shown an increasing trend from year to year. The consumption of silver nitrate was almost equal to the norm indicated in the DPR except in the case of X-ray Film wherein it was less than the norm. The variations in the consumption of raw materials are not being analysed by the Management.

4.165. In this connection the management stated that:—

“Since we have changed over to the preparation of high viscosity collodion, more raw materials would be required for its preparation per litre. But, one litre of collodion produces more base and in the overall there is a gain. It would be appre-

ciated that with this change in technology we are operating the machine at higher speeds with gains in physical output.”

4.166. About the variations in the consumption of raw materials the HPF stated in a written reply that:—

4.167. The norms were fixed based on past experience and taken as the basis for budget 1972-73 and 1973-74. With regard to collodion, there could not be much variation as the input of raw materials depends on the viscosity of Collodion. In 1973-74 since the undertaking had changed over to high viscosity collodion, more raw materials would be required per litre, (154 gms. of CTA against 134 gms. in 1972-73). But one litre of Collodion produce more base (5.80 kgs of collodion per kg. of base against 6.17 kgs. per kg. of base in 1972-73).

4.168. In Silver Nitrate the coating weight depended upon the sensitometric characteristics achieved in the film. However materials were now being issued in terms of standard quantities.

4.169. In regard to Silver and Silver nitrate the Chairman, HPF stated during evidence that:—

“This requires not only a very efficient silver recovery plant but also at every point what are the inputs and the outputs determine the production losses. Without any established norms on this we will only be making generalisation on the extent of silver that is consumed. It is very difficult to determine to what extent the loss is attributable entirely due to the process losses or due to other processes. The Board of Directors seized with the problem suggested two or three steps. The first was to evolve immediately process norms as a guideline pending our instituting more rigorous checks. There were pipes which were loose and now not even a drop of solution is let out. There is a data that is being communicated every day at every station as to what is the input and what is the output. You would be happy to hear we are now getting the data on daily basis and correlated on weekly basis and we hope during the next quarter we will have absolute control on this problem. We have also taken an inventory of all our materials and audit report was done and the audit have also investigated. With all these efforts we will know more about the subject and control it effectively.

Now, we have tightened it up everywhere. We have introduced a new method of estimation as to how much silver is there in the X-ray. With that our controls would be better as to how much we have put on the coated material and how much we could have lost.”

4.170. In regard to heavy process rejections, increasing solvent loss, loss of recovery of silver and lack of proper accounting, the representative

of the Ministry stated during evidence that the Ministry were not aware of the above inadequacies before the receipt of the Audit Report. The witness added that in a study conducted by the Bureau of Public Enterprises it was pointed out that in the working of the HPF one of the major shortcomings was the absence of proper management information reporting.

4.171. He further stated that—

“Apparently, even the Board was not aware of many of these deficiencies and shortcomings, what to speak of the Government. While some improvement has taken place in the management information system, I certainly would not say that the organization has been able to develop a really proper and reliable one. I had to point out to the Chairman verbally that that system was very inadequate and needs further improvement; and that Government should also be kept informed of the major happenings in the company. I have hopes that the Chairman will take effective steps now to further improve that system. There has been some improvement in some areas.”

4.172. On being asked the responsibilities of the Government nominee on the Board of Directors in regard to the reporting about the state of affairs of the company the Special Secretary, Ministry of Industrial Development stated during evidence that—

“There is a bit of controversy about it, and we have discussed it very often in the Government, *i.e.* whether the Government’s directors are part of the Management or whether they should function as the watch-dog of the Government. The general view taken is that they are not to function as the watch-dog. They bring in a certain type of expertise when function as part of the management; they also bring in their experience about the Government’s way of thinking, their knowledge of Government’s procedures etc. Even within the Board, the management information system was such that the Board was not properly kept informed. It was definitely a case of management failure.”

4.173. Asked about the responsibilities in particular of Finance Ministry’s nominee on the Board of Directors of HPF the representative of the Ministry of Finance stated during evidence that:—

“Constitutionally, as a director of the Board, we function in the same manner as other Directors. Our aim is only to bring into the deliberations of the Board, different points of view in any case financial point of view, reflecting the thinking of the

Government policy on imports and exports etc. The periodical reports of the Company, submitted to the Government bring out the financial results.

The working results of the Company were known. The total losses incurred by the Company were known but itemised losses specifically in respect of these three categories were not brought to the notice of the Government as such. The total loss was much more than this figure. We know of the total loss but there are other factors like less utilisation of the capacity, probably the pricing factor, heavy interest burden, etc. The only thing is that we did not go into these three items. As early as in 1971, these were, however, rectified. Before we called for a special investigation to be done, certain corrective steps had been taken and a new system had been introduced from the middle of November."

4.174. Asked about new Information Reporting System in HPF, the representative of Ministry of Industrial Development stated during evidence that:—

"I asked the Chairman to devise a proforma for this particular organisation and on which to give the Government once in a quarter all this information. He has not yet been able to devise the proforma but he hopes from the next financial year, he would be able to do it. They have a proforma on which they are reporting but that is not bringing out all the relevant points. So, I have asked him to devise a new proforma which will bring out all the various points and that should be obvious to the people in the Ministry. Unless it is brought to the notice of the Government representative, for him to report back to Government becomes a little difficult. But now with this new reporting system, it is hoped irrespective of Government representative's presence or otherwise Government would be in a position to get the information once in a quarter."

4.175. In regard to the delay in the preparation of a new Information Reporting Proforma the representatives of Ministry of Industrial Development added during evidence that:—

"I had been asking him for the last three or four months. I have been telling him that we should have a proper reporting system and that all salient features in regard to these losses and the production cost should be sent once in a quarter."

4.176. The Committee regret to note that the Undertaking suffered a cumulative loss of Rs. 104 lakhs because of low recovery of solvents during the period from 1968-69 to 1972-73. The Committee note that the solvent loss was in excess of the norms indicated in the Collaboration Agreement. The solvent loss increased from 5.97 lakh litres in 1968-69 to 9.33 lakh litres in 1970-71 and then came down to 6.43 lakh litres in

1972-73. The filtration loss increased from 3.31 lakh litres in 1969-70 to 5.23 lakh litres in 1972-73. According to the Management though the filtration loss was not recoverable at all, this is taken into account while working out the loss per Kg. of base. The Committee find that the loss per Kg. of base has increased from 1.41 Kg. in 1968-69 to 1.77 Kg. in 1972-73 against the norm of 1 Kg. prescribed in the agreement.

4.177. The Committee also find that the solvent are consumed in the substration section also from which no recovery is made. The solvent loss in substration section amounted to Rs. 23 lakhs during 1968-69 to 1971-72.

4.178. The Committee are surprised to find that inspite of the huge loss of over Rs. 1 crore the Management has failed to bring it to the notice of Government.

4.179. The Committee fail to understand as to why, when the Management/Government was aware of the abnormal losses no timely action was taken to introduce effective measures to arrest such losses and improve the recovery efficiency. The Committee would like that the responsibility for failure to take timely action in the matter should be fixed.

4.180. The Committee note that while the equipment now installed may improve the efficiency of solvent recovery in the base casting, it will not improve the efficiency of recovery in the substration stage. The Committee were informed that a study in this regard has revealed that the Undertaking has to spend about Rs. 20 to Rs. 22 lakhs while the recovery would be of the order of Rs. 3 to Rs. 4 lakhs in substration stage. The Committee like that this aspect may be carefully gone into before final decision is taken in the matter.

G. Machine utilisation

4.181. The Company was not compiling the data regarding the total available hours and the actual utilisation of machines there against up to 1969-70. The table at Appendix V indicates the utilisation of machines in the various departments during 1970-71 and 1971-72 vis-a-vis the available time.

4.182. The Management have stated (September, 1973) that "though records are available indicating the daily downtime data, a consolidated statement indicating the cause-wise downtime analysis for the whole year was not being compiled each year."

4.183. One automatic spooling machine purchased in January, 1969 at a cost of Rs. 6.05 lakhs and installed in 1969-70 has not been utilised so far (September, 1973) as the hand spooling machine was found adequate to cope with the relatively low production of Roll Films; data regarding its utilisation during 1969-70 was not compiled.

4.184. Regarding the purchase and utilisation of automatic spooling

machine, the HPF stated in a written reply that:—

“The automatic spooling machine was purchased as it was intended to manufacture roll films to meet the entire requirements of the country. We hope to utilise this machine fully during the year 1974-75 when we expect to attain optimum production of roll films.”

4.185. With regard to the indication of cause-wise analysis of downtime, the HPF stated in a written reply that:—

“Downtime data is now being systematically collected. This is being submitted to the Board regularly. The measures taken to reduce rejection levels and action taken to ensure free flow of raw materials will result in optimum utilisation of machines in the ensuing year.”

4.186. The downtime data for the years 1972-73 and 1973-74 (upto September, 1973) furnished by HPF are at Appendix V.

4.187. The HPF admitted that they had not compiled the data necessary for assessing the efficiency of the working of machines and stated in a written reply that:—

“We agree this was not done. This is due to the fact that our rejections were on the higher side during the earlier years, resulting in lower utilisation. We have, therefore, been concentrating on technical problems, to reduce the level of rejection, before we considered the desirability of implementing a system control for collection of data on machine utilisation.”

4.188. The Committee note that the Undertaking has not been compiling data regarding utilisation of machinery upto 1969-70, although such statements are compiled in the various Departments from 1970-71. The Committee find from the Statement that total downtime in respect of basecasting was maximum in 1971-72 (21396 hrs.). In the Substrating, it was maximum in 1970-71 (17339 hrs.). In respect of Coating Tunnel the down time (3532 hrs.) was maximum during 1972-73. In regard to Coating Festoon the maximum downtime was in 1970-71. In the coating Perforators the downtime was maximum in 1970-71. In the case of Reslitting X-ray and bromide the maximum downtime was in 1972-73. The Committee regret to note that a consolidated statement showing the cause-wise downtime analysis for the year was not being compiled. Management admitted that they had not compiled the data for the working of the machines on the ground that the rejections were on high side resulting in poor utilisation of machinery.

4.189. The Committee need hardly stress the importance of maintenance of records showing utilisation of machinery so that the management may be in a position to judge the efficiency of their working and to enable them to take timely action.

PRICING POLICY AND SALES PERFORMANCE

A. Pricing Policy

5.1. Prior to the commencement of regular production in June, 1967, the Company was importing cinema films and other photographic goods and was fixing their selling prices in the following manner since October, 1961:—

- (i) The selling price of the Cine Films was fixed on the basis of the prices fixed for imported competitive products and the maximum margin permitted by the Chief Controller of Imports and Exports.
- (ii) The selling prices of the photographic materials were fixed on the basis of prices determined by the Chief Controller of Imports and Exports.

5.2. After the commencement of production in June, 1967, the Company has been fixing the selling prices of its products with reference to the prices fixed by its competitors.

5.3. In December, 1968 the Government of India laid down the following guidelines to be followed by the Public Sector Undertakings in regard to pricing policy:—

- (i) No guidelines were laid down where goods are subjected to regulations voluntary, domestic or international, and where these had to be sold in competition with other domestic products.
- (ii) In respect of undertakings which operate under monopolistic conditions, the landed cost of comparable imported goods (net CIF prices) would be the ceiling within which the undertaking is free to fix its own selling prices taking into account the appropriate return on capital.

5.4. The Company is of the view that in the majority of its products excepting Cine Film Positive (35 mm) it is neither enjoying the absolute monopolistic nor a semi-monopolistic position as it was required to sell the products in competition. The above view is based on the following reasons given in November, 1970:—

- (1) Photographic Paper (including document paper) accounts for roughly 25 per cent of the Company's total rated production, (in terms of quantity) and will always be sold in competition with domestic producers.
- (2) Until the Company's expansion schemes are complete, X-ray Film will have to be sold in competition with imported products to the extent of about 50 per cent to 60 per cent of the country's requirement. The Company's present share (1971-72) in the total requirements is however, of the order of 36.1 per cent.
- (3) The monopolistic character or otherwise of an enterprise should be judged not on the basis of one or more of its products but by taking the enterprise as a whole.

5.5. The selling prices of the different products fixed by the Company *vis-a-vis* the actual cost of production during 1970-71 to 1971-72 are given below:—

Product	Unit	1970-71		1971-72	
		Cost of Production	Selling Price	Cost of Production	Selling Price
1. Cine Film Positive-35-mm	Sq. m.	25.73	14.71	25.13	14.71
2. Medical X-ray Film	.	113.35	36.95	62.52	36.95
3. Roll Film	.	Insignificant production			
4. Flat (Portrait) Film	.	No Production			
5. Bromide Paper (including all photographic paper)	.	11.09	12.62	11.35	11.99
6. Graphic Arts Film	.	No production			
7. Sound Cine Film	.	Insignificant production			
8. Negative Cine Film	.	No production			
9. 35 mm Negative Film	.	Do.			
10. Others	.	Do.			

NOTE—Actual cost of production was not worked out during the years 1967-68 to 1969-70. Actual costs for 1970-71 were attempted only for 3 products *vis.* Cine Film Positive (35 mm), Medical X-ray Film and Bromide Paper but these were not reconciled with the financial accounts.

5.6. The data for the year 1972-73 and 1973-74 (upto 30th September, 1973) are as below:—

Product	Unit	1972-73		1973-74 (upto 30-9-73)	
		Average cost of production	Average selling price	Average cost of production	Average selling price
Cine Positive	Sq. m.	23.51	15.06	35.91	17.09
X-ray		55.31	37.00	67.60	37.59
Paper		12.25	11.36	13.63	11.65
Cine Sound		29.85	18.90	31.20	21.55
(Cost of production per roll of					
Cine Positive —Rs. 250.97					
Cine Sound —Rs. 318.65)					

5.7. About the pricing policy, it has been stated by HPF that:—

“All these years HPF’s prices had to be matched with the prices of imported competitive brands with no relevance to cost of production. Some of the raw materials which HPF procures are 3-4 times higher in cost when compared to the prices at which they were available to manufacturers abroad. Even though it is the Company’s desire to merchandise photo-sensitized goods at reasonable prices to give the best value of money spent by the consumers, the prices should match the raw material, labour and manufacturing costs. The Company is now in the process of rationalising its prices with a view to recover the full cost of production.”

5.8. Asked how the selling prices of HPF products fixed after the commencement of production in June 1967 compared with the actual costs for 1967-68 to 1969-70, the HPF in a written reply stated that in the total cost of production for the years 1967-68 to 1969-70 product-wise had not been worked out since the Company was adopting the marginal costing system whereby the contribution made by each of the products was only ascertained.

5.9. During evidence the Committee enquired whether the Ministry agreed with the views of the Management in regard to the categorisation of HPF products as falling in the competitive range, the Special Secretary, Ministry of Industrial Development stated that:—

“We do feel that there is competition in regard to bromide paper from internal products; and in the case of others like X-ray, the competition is from imported materials; but looking at the

present position, we feel that there may not be any competition in regard to these two items.”

To a further question as to how the price is fixed when there is no competition, the representative of the Ministry of Finance stated that:—

“Uptil now there has been no difficulty, because we could fix the price on the basis of price of imported products. The problem will arise next year when we will become more or less self-sufficient. But our prices are comparable to imported prices. Hitherto we have been fixing the prices on a comparative basis, as a matter of policy. We cannot use our monopolistic position to fix prices arbitrarily.”

5.10. The Special Secretary of the Ministry of Industrial Development added that:—

“In such cases, normally the guidelines are that the price should be on the basis of landed cost which will exclude customs duty and sea freight. If it is found that for some reason this is not possible, it will, at the most be landed cost, plus 10 per cent. As on date, the imported material is available and there is competition. So, they have to sell in competition with the imported raw material. . . . Occasionally, particularly where lot of imported raw materials is used, that formula (Cost of production plus sea freight plus import duty) does not satisfy the producer, due to very good and valid reasons; and then the matter is examined. But normally, this particular formula is able to cover all the costs.”

5.11. The Committee note that according to the guidelines laid down by the Government of India regarding the pricing policy to be followed by the Public Undertakings, in respect of Undertakings which operate under monopolistic conditions the landed cost of comparable imported goods would be the ceiling within which the undertaking can fix its own selling prices taking an appropriate return on capital. According to Management, the majority of the products of the undertaking except cine film positive (35MM) are neither enjoying the absolute monopolistic or semi-monopolistic position and have therefore to be sold in competition. The committee were however informed that judged from the present market position there may not be any competition in regard to Bromide paper and X-ray. The Committee note that the Undertaking has been selling its products at less than the cost of production during 1970-71 to 1972-73. The Committee were informed that the undertaking is now in the process of rationalising its prices with a view to recover the full cost of production.

5.12. The Committee stress that undertaking should take immediate steps to rationalise the price structure of its products so that the selling prices are really competitive.

B. Marketing Organisations

5.13. An Advisory Committee (consisting of experts in the film and photographic field) set up by Government in January, 1961 with a view to provide best possible guidance to the Company from the prospective users of its products suggested that it would be desirable for the Company to set up its own sales offices at different places so that by the time the factory went into production, the distribution and service facilities could be gradually built up. The Company accordingly decide in April, 1961 as follows:—

- (i) The imported films would be stocked in cold storage initially at Madras where the Company had an office.
- (ii) Supply of Cine Films should, as far as possible, be allocated to those producers who, because of their standing in the industry, would be able to assess the films and recommend their general use as well as advise the company on any modification of the emulsion required.

5.14. In pursuance of the above decision, the Company further decided in July, 1961 that the distribution of photo materials should be handled directly by the Company and that distribution of Cine Film Positive should be entrusted to a sales organisation for a period of 3 years with option to extend the arrangements for another period of 2 years. Accordingly the Company appointed, after negotiations, in January, 1963 the Ghia Organisation as the sole stockists and agents for Cine Film Positive up to 31st December, 1964. The selling arrangements were reviewed by the Board of Directors in June, 1964 and in view of the difficulties likely to be faced in taking over the sales of Cine Film Positive at the initial stage, it was decided to extend the distribution arrangements with Ghia Organisation (renamed as M/s Rege Cine Films Limited) for a period of 3 years i.e. up to 31st December, 1967; these arrangements were further extended by another 5 years i.e. up to 31st December, 1972.

5.15. The distribution of Medical X-ray Films was entrusted to the three distributors in June/July, 1967 for a period of 3 years, subsequently extended up to December, 1970 (one of them was M/s. Rege Cine Films Limited who were also the sole distributors for Cine Film Positive) for the four zones of Bombay, Madras, Calcutta and Delhi on account of the following reasons:—

- (i) 90 per cent of X-ray business was conducted all over India on credit basis and it took one to three months to collect dues

from private radiologists and six months to one year from Government hospitals.

- (ii) All importers had offices and cold vaults for distribution purposes in Madras, Bombay, Delhi and Calcutta.
- (iii) Consumers of X-ray Films also required constant contract through fieldmen, both for effecting collections and for providing technical services.
- (iv) Direct sale of Medical X-ray Films by the Company's sales organisation could be considered after the plant was well established, had overcome the teething troubles and built up a good technical service capacity.

5.16. In March, 1970 the Board of Directors decided that the distribution arrangements for Medical X-ray Films might be continued for three more years from 1st January, 1971 on account of the following reasons:—

- (i) As imported rival brand of X-ray Films would be abundantly available in the market for the next year or so on account of liberal issue of licences by Government, the Company would require efficient distributing arrangements.
- (ii) As distributors had so far to face only the problems and had to meet expenses on the introduction and establishment of a new product in the market, they did not have enough opportunity to secure reasonable gains through the agency.
- (iii) The distributors had rendered excellent services. Accordingly, the distribution arrangements were extended (in October, 1972) upto June/December, 1975.

5.17. In justification of the appointment of distributors for Cine Film Positive and Medical X-ray Films, the Company further stated in November, 1971 as follows:—

- “(a) In the early stages of our manufacture this arrangement enabled us to concentrate upon the manufacturing problems which were numerous.
- (b) The selling of Cinema Positive and X-ray Films demand a fairly intimate knowledge of people in the movie industry and people in the radio-logical field. Since there were several private business houses which had this familiarity and were available for being utilised, it was to our advantage to utilise the services of such firms rather than assemble the requisite expertise within the Company. This had the advantage of convenience as well as time saving.
- (c) Marketing of the two products also involves maintenance of cold storage room and grant of credit facilities, in addition to

maintaining sizable business offices with trained staff. At a time when the Company was just beginning its manufacturing programme, it would have been very difficult to set up such a net work. Moreover this would have meant monetary outlay which could be more appropriately utilised on productive facilities.

- (d) By having the services of a good selling agency we had the benefit of being able to review more effectively any complaints that were received from the field. This is because we were able to segregate complaints that were purely due to marketing factors from those which could be attributed to technical factors.
- (e) If we had decided to avoid distributors and sell directly to custo-through our own offices, our expenditure would probably have been the same as the present expenditure on commission. It may be mentioned here that the private firms who are our distribution agents have a great amount of flexibility in appointing their staff which we do not possess.
- (f) Essentially, our present distributors are retailers who deal directly with customers. They are not in the nature of wholesalers who provide a middle stage between ourselves and the retailers. For company with a very large manufacturing plant with its own problems, it does seem undesirable to handle retail distribution of its products. Having a group of retailers to sell products brings benefits in terms of decentralised service to the customers."

5.18. For the sale of photographic materials other than Cine Film Positive and Medical X-ray Films, which was to be handled by the Company itself the Company opened sales offices at Madras, Bombay, Calcutta and Delhi in September, 1961, September, 1963, July, 1967 and September, 1967 respectively with a view to familiarise the Public with the products to be produced and to introduce its brand 'INDU', besides the appointment of distributors in certain areas.

5.19. The existing arrangements for distribution of all the products were reviewed by the Management in October, 1971 when it was proposed that the Company's own marketing division should take over the distribution of Cine Film Positive and Medical X-ray Films from January, 1973 and that of other photographic materials from April, 1974. The comparative economics of the proposals made in October, 1971 at the instance of the Board of Directors indicated an annual saving of Rs. 40 lakhs to Rs. 42 lakhs so far as the taking over of the distribution of Cine Film Positive and Medical X-ray Films was concerned. However, in July, 1972 the Board of Directors decided to continue the existing distribution arrangements upto 30th June, 1973 as it was considered inadvisable to

take over the distribution work in view of the various production problems. In October, 1972 it was further decided to extend these arrangements up to June, 1975 in the case of Cine Film Positive and Medical X-ray Film and upto December, 1975 in other cases, subject to periodic review of performance.

5.20. One of the considerations for continuing the distribution arrangements for Medical X-ray Films for three more years from 1st January 1971 was the non-availability of enough opportunity to the distributors in the past to secure reasonable gains through the agency. To an enquiry of the Committee whether it was desirable to take this as one of the criteria for continuing the distribution arrangements, the HPF replied that this "should not be the criterion for continuing the distribution agreement."

5.21. In a written reply HPF justified the continuance of the distribution arrangements for the 3 main products of the Company upto June/December, 1975 despite the huge recurring savings indicated by its own calculations as follows:—

"Our Marketing Organisation is not yet tuned to take up the direct distribution of finished products. Pending the re-organisation of the Marketing Division, and strengthening the set up by way of air conditioned storage space throughout the country for taking up direct sales, we thought it advisable for the Company to sell through the distributors. This will enable us to reduce our inventory and improve the cash-in-flow and ways and means position. Further, in the field of photographic products, technical service is an essential feature and we can compete with established distribution channels of our competitors, only when we have a good Marketing Organisation. The re-organisation of the Marketing Division is now under way and once this Division is well established and our cash-in-flow improves, we shall investigate the desirability of changing the pattern of distribution. Pending this set up, the economies, as projected, are not realistic."

5.22. About the company's own marketing and distribution arrangement the Ministry of Industrial Development stated that it took generally two to three years to set up proper distribution net work. The Company did not take any steps in this direction earlier. Now that the undertaking had taken up the re-organisation of the Marketing Division, Government were hopeful that the Undertaking would change the pattern of distribution after the distribution arrangements already entered into by the Undertaking expired in 1975.

5.23. The Company opened four sales and distribution offices in Madras in September, 1961; in Bombay in September, 1963; in Calcutta in July, 1967 and in Delhi in September, 1967. The main function of these sales and distribution offices is to keep liaison with the distributors and to

sell photographic materials other than Cine Film Positive and Medical X-ray Film.

The expenditure incurred in running these offices and the sales effected by them (area-wise) during the years 1968-69 to 1972-73 are indicated below:—

Year/Place	Expenditure (Rs. in Lakhs)	Total Sales (Rs. in Lakhs)	Direct Sales included in col. 2 (Rs. in lakhs)	Percentage of expenditure to direct sales. % of (3) to (1)
	1	2	3	4
<i>Madr^{as}</i>				
1968-69	1.72	125.79	6.51	26.26
1969-70	2.07	174.30	6.36	32.54
1970-71	2.34	163.56	30.92	7.56
1971-72	5.97	195.85	46.86	12.74
1972-73	9.80	235.49	7.25	135.16
<i>Bombay</i>				
1968-69	0.57	65.52	1.01	56.43
1969-70	0.60	120.77	4.76	12.60
1970-71	0.69	111.14	32.34	2.13
1971-72	3.96	113.50	23.00	17.21
1972-73	5.82	147.37	23.80	24.45
<i>Calcutta</i>				
1968-69	0.05	15.18	0.58	8.62
1969-70	0.40	41.34	3.61	11.00
1970-71	0.72	43.00	22.43	3.20
1971-72	2.08	51.56	24.56	8.46
1972-73	3.64	63.66	10.49	34.70
<i>Delhi</i>				
1968-69	0.09	23.96	0.91	9.89
1969-70	0.39	35.32	2.81	13.87
1970-71	0.56	51.09	29.78	1.88
1971-72	2.27	75.45	26.75	8.48
1972-73	3.70	82.65	17.00	21.76

NOTE : Gross Sales include sales to distributors.

Year	Place	Expenditure (Rs. in lakhs)	Total sales (Rs. in lakhs)	Direct sales (included in total sales) (Rs. in lakhs)	Percentage of expenditure to total sales
1968-69	Madras	1.72	125.79	6.51	1.37
	Bombay	0.57	65.52	1.01	0.87
	Calcutta	0.05	15.18	0.58	0.33
	Delhi	0.09	23.96	0.91	0.37
1969-70	Madras	2.07	174.30	6.36	1.19
	Bombay	0.60	120.77	4.76	0.50
	Calcutta	0.40	41.34	3.61	0.97
	Delhi	0.39	35.32	2.81	0.10
1970-71	Madras	2.34	163.56	30.92	1.43
	Bombay	0.69	111.14	32.34	0.62
	Calcutta	0.72	43.00	22.43	1.67
	Delhi	0.56	51.09	29.78	1.10
1971-72	Madras	5.97	195.85	46.86	3.05
	Bombay	3.96	113.50	23.00	3.50
	Calcutta	2.08	51.56	24.56	4.03
	Delhi	2.27	75.45	26.75	3.01
1972-73	Madras	9.80	235.49	7.25	4.2
	Bombay	5.82	147.37	23.80	3.9
	Calcutta	3.64	63.66	10.49	5.7
	Delhi	3.70	82.65	17.00	4.5

NOTE : Gross sales include sales to distributors.

5.24. The reasons for increase in the percentage of expenditure to direct sales has been explained by the Management as follows:

“Due to the implementation of the Wage Agreements, the expenditure had gone up. However, this position is being reviewed to implement all possible economies in expenditure.”

5.25. The Special Secretary of the Ministry of Industrial Development, however stated during evidence that—

“We were not satisfied with that explanation (of HPF that increase in expenditure was due to implementation of wage agreements).

We feel that much stricter vigilance will have to be exercised in controlling the cost on sales.

We feel that much stricter vigilance will have to be exercised Unless the volume of sales goes up, the cost on sales will remain at the particular level. The real solution is to provide more material otherwise the percentage will not go down. That is the only corrective measure.”

5.26. The Committee enquired as to why in spite of the experience gained, the Management preferred to extend the distributorship for the sale of Cine Film positive and medical X-ray film, instead of taking over the marketing itself. The Management replied as follows:—

“We are of the opinion that the marketing set-up as it stands today without trained Sales and Service representatives and air-conditioned storage space, is not adequate to take up distribution.”

5.27. The Committee note that an Advisory Committee set up by Government in January, 1961 suggested that it would be desirable for the undertaking to set up its own sales offices at different places so that by the time the factory went into production, the distribution and service facilities could be gradually built up. Accordingly the Undertaking decided in April, 1961 that supply of cine films should be allocated to producers, who would be able to assess the films and advise the Company on any modification. In July, 1961 the Undertaking decided that the distribution of cine film positive should be entrusted in a sales organisation for a period of three years with option to extend the arrangements for another period of two years. Accordingly the Undertaking appointed in January, 1963, a private firm as sole stockists and agents for cine film positive upto 31st December, 1964. These arrangements were reviewed by the Board periodically and the arrangements have been extended from time to time and are now due to expire in June, 1975.

5.28. In regard to medical X-ray films the Committee find that the distribution of X-ray film was entrusted to three distributors in June-July 1967 for a period of three years. This was extended from time to time till June, 1975.

5.29. The Committee also find that sales of photo materials was handled directly by the Undertaking in certain areas and for this purpose four Sales Offices—one each at Bombay, Calcutta, Delhi and Madras were established with a view to familiarise the public with the products of the Undertaking. The Committee note that one of the reasons justifying the continuance of the existing distribution arrangements was that marketing of these products involved maintenance of cold storage rooms, grant of credit facilities and sizable business offices manned by trained personnel which the Undertaking found difficult to set-up concurrently with the existence of their production problems.

5.30. The Committee also note that the existing distribution arrangements were reviewed by the Management in October, 1971 when it was proposed that the Undertaking should take over all the distribution in phases by April, 1974.

5.31. The Committee find that the implementation of these proposals and taking up of the distribution arrangement for Cine Film Positive and Medical X-ray film by the Undertaking would result in an annual saving of Rs. 40 lakhs to Rs. 42 lakhs. The Committee are surprised that in spite of these savings the Board favoured the continuance of the existing distribution arrangements till June, 1975.

5.32. The Committee were informed that the marketing organisation was not yet tuned to taking up the direct distribution of finished goods. The Committee see no justification for the continuance of existing arrangements for distribution. The Committee recommend that the management should review the present distribution arrangements and further the feasibility of taking up distribution of the product directly after the expiry of the present arrangement in 1975. The Committee note that the Corporation has sales and distribution offices at the four metropolitan cities—Bombay, Calcutta, Madras and Delhi to deal with direct sales of photo materials and also keep liaison with the public.

5.33. The Committee find that the percentage of expenditure on the maintenance of these offices to the direct sales effected by them from 1968-69 to 1972-73 ranged from 7.56 per cent to 135.16 per cent in Madras, 2.13 per cent to 56.43 per cent in Bombay, 3.20 per cent to 34.70 per cent in Calcutta and 1.88 per cent to 21.76 per cent in Delhi, although on the basis of the overall sales, percentage of expenditure on total sales ranged from 1.19 per cent to 4.2 per cent in the case of Madras, 0.50 per cent to 3.9 per cent in Bombay, 0.33 per cent to 5.7 per cent in Calcutta and in Delhi 0.37 per cent to 4.5 per cent. The Committee also note that the Undertaking is required to deal only with a limited number of customers in the case of Cine-Positive Films. The Committee recommend that the Sales Offices already set up should be utilised for taking up direct sales and distribution of two products of the undertaking so as to keep the expenditure on sales over-heads to the minimum.

C. Commission paid to distributors

5.34. The distribution arrangements with the private firms provided for the payment of commission at different rates for different materials. The arrangements with the three distributors for the distribution of X-ray films also gave option to the Company to effect direct sales to Defence Departments and other State institutions but a commission of 5 per cent was payable to them even on such sales as against 10 per cent allowed on other sales. No such option was, however, available to the Company

under the distribution arrangements for Cine Film Positive although the commission payable on sales to Government departments was fixed at a lower rate as compared with that payable on sales to private parties.

5.35. The following table indicates the total commission allowed to the distributors for Cine Films Positive and X-ray Films and that allowed on sales to Government departments:—

(Rs. in lakhs)

Year	Cine Film Positive		X-Ray Films	Paper
	Total Commission allowed	Commission allowed in respect of sales to Government Departments		
1968-69	10.05	1.83	7.14	
1969-70	16.14	2.93	11.74	
1970-71	10.00	2.60	9.29	
1971-72	11.30	0.35	14.28	
1972-73	16.55	8.11	15.30*	7.39
		15.82	57.75	

NOTE : 1. Although the Company had the option to make direct sales of X-Ray Films to Government departments, no such sales were made.

2. Figures of commission allowed on sales of Cine Film Positive to Government departments during 1971-72 is upto May, 1971 as the differential rates of commission were withdrawn from June, 1971 on account of the distributors agreeing to the reduction of credit period from 90 days to 60 days.

5.36. In this connection the following features deserve mention:—

- (1) The Government of India suggested in October, 1970 that the Company should discontinue the system of giving quotations to D.G.S. & D. through the distributors, but the Management did not agree to this suggestion on the ground that the sale of goods to Government also involved costs like cost of selling and after-sales service, cost of paper work, collection work, collection expenses, credit facilities etc. besides, Collection of outstandings from Government Departments was considered to be the main problem in making direct sales to them.
- (2) The Government of India also directed, at the instance of the Company, the D.G.S.&D. in January, 1972 to issue ins-

tructions to all the purchasing authorities, both at the Centre and in the States, to patronise the Company's products.

- (3) The Government of Tamil Nadu directed all its purchasing departments to buy only the Company's Medical X-ray Films without calling for tenders and regardless of price.

5.37. Although the Company had the option to make direct sales of X-ray films to Government Departments, no such sales were made. In July, 1973, the Management stated that "after careful consideration of the economics of such direct sales and other overriding considerations such as cost of financing of debtors, cost of after sales service, etc. the Board of Directors decided to have the sales of X-ray made through distributors only." The H.P.F. further explained the decision as follows:—

"Lacking a merchandising set up which can effectively render service to customers, we are left with no alternative but to continue the existing distribution set up. The long time taken by Government departments to effect payment, stands in the way of our dealing with them direct, more so, in the light of our difficult cash flow position. However, this will be constantly watched for review."

5.38. Asked about the reactions of the Ministry in the matter with regard to arrangement of giving quotations through distributors to D.G. S.&D. the representative of the Ministry stated:—

"This really is part of management's delegated function and really the Government cannot give any direction. So the Government did make a suggestion. Since the Company did not accept it, there is nothing the Government could do about it. At that point of time, since the Government did not take any further action, Ministry accepted this as sufficient."

5.39. The Special Secretary of the Ministry however added:—

"My personal views would be so far as DGS&D is concerned, there is no particular reason that the quotations should go through the distributors."

5.40. As regards sales of X-ray film to Government Departments through Distributors, the Special Secretary of the Ministry of Industrial Development stated that:—

"So far as the sale of X-rays to the various Government departments, hospitals, etc. are concerned, unless the Company itself

has put up a retail net-work, I do not think the Company should take the responsibility including after-sale service because it is not like DGS&D rate contract. Here one has to reach the hospitals which are now at far ruling areas. If the Company is not able to put up its retail sale, it is better to use the distributors."

5.41. Regarding issue of instructions by DGS&D for patronising the Company's products, the representative of the Ministry stated during evidence that:—

"A request was made to the DGS&D. So far the DGS&D have not issue any such instructions to purchasing authority but we have issued the circular on the 10th of July, 1973 to all State Governments and other Ministries and Departments of the Government requiring them to give preference to products of HPF."

5.42. He further added: "The Company are not having any difficulty and their products are being sold."

5.43. The Committee pointed out on 10th July, 1973, the Director General Supplies & Disposal issued a circular asking all State Governments to patronise the products of H.P.F. in pursuance of a directive from the Government of India, and enquired about the impact of these instructions. The Ministry of Industrial Development stated in a written reply as follows:—

"It is too early for the company to assess precisely the impact of these instructions on their sales. It may be added that these instructions are not in the nature of a directive."

5.44. The Ministry further stated that in order to improve the Sales of the Company's products, it was decided to discontinue the import of X-ray and Roll film in finished form. Instead, the Company would be implementing their production of these products by the conversion of imported jumbos.

5.45. In regard to direct sales of Medical X-ray films to the Departments of the Government of Tamil Nadu, the Ministry of Industrial Development stated that due to difficult cash flow position, inadequate trained sales and service representatives and absence of air-conditioned storage space, it had not been possible for the undertaking to effect direct sales to the Departments of the Government of Tamil Nadu. However, the position was being carefully watched by the undertaking and as soon

as the Undertaking stabilises its merchandising set up, the possibility of effecting direct sales to Government departments might be considered.

5.46. The Company was not following uniform pattern of mark-up allowable to the dealers for different grades of Bromide Paper sold through them. In March, 1971 the Company increased the price chargeable to the dealers by lowering the mark-up to a uniform level of 25 per cent with the intention that the impact of additional price charged to the dealers is not passed on to the consumers. It may be mentioned, however, that the Company is neither exhibiting the retail prices on the cartons nor is advertising the recommended retail prices. Thus the possibility of dealers charging a higher price during shortage of supplies is not ruled out.

5.47. In this connection, the HPF stated in a written reply that:—

“We are not convinced that the exhibition of retail prices be itself, is an assurance of supply at normal prices, Demand and Supply will determine the price levels. However, we are examining the pros and cons of introducing this concept when we merchandise roll films in a big way.”

5.48. The Ministry of Industrial Development stated a written reply that the marking of prices on cartons was a desirable practice.

5.49. The Committee note that though the Company had the option of making direct sales of X-ray films to Government departments, no such sales were made by the Undertaking. The Committee were informed that after careful consideration of economies of such direct sales and other overriding considerations such as cost of financing etc., the Board decided to have the sales of X-ray films made through distributors only. The Committee are not convinced of the justification in this regard and feel that the payment of commission in regard to sales to Government departments is avoidable.

5.50. The Committee find that in spite of the instructions of Government, that quotations for rate contracts by DGS & D should not be through the distributors, the Undertaking has not been giving such quotations directly but routing them through distributors which ultimately result in payment of commission to the distributors. The Committee feel that, as admitted by the representative of Government during the evidence, there is no particular reason that quotations should go through the distributors. The Committee recommend that the procedure may be reviewed and quotations whenever asked for the products of the Under-

taking may be given directly by the Undertaking thereby obviating the necessity of the payment of commissions to distributors.

5.51. As admitted by Ministry, Government|Undertaking should consider marking of the prices on carton so that the customer may be in a position to know the prescribed price and does not pay more than that.

5.52. During the course of evidence, it was pointed out that the Board of Directors of the Undertaking approved an increase in price for the Cine-Positive Films with effect from 1st February, 1973, but allowed the stocks to be cleared at the previous prices upto 25th March, 1973. The Committee enquired as to how far this action of the Undertaking was justified. In a note furnished after the evidence, Chairman of the Undertaking stated:—

“Taking into cognizance the large inventory which had considerably affected the cash flow position at that time, with difficulties in ways and means and also doubtful quality of a substantial part of the stock, the Board adopted the marketing strategy of announcing the price increase on February 1, 1973 and extending the time limit till March 25th for disposal of the existing stocks of cine positive at the old prices. The normal convention is to give a special discount for clearance of old stocks. Instead, the Company has been able to clear the existing stocks at the same price without a discount. This would not have been possible, had it not been for the marketing strategy adopted by the Company and this was considered to be in the best interests of HPF. Also, the benefit of extending the time limit was intended to be passed on to the consumers and not to the distributors. It has since been reported that, in fact, it was actually so.”

“Instead of giving a special discount for disposal of large accumulated stocks, they were sold at the prevailing prices, provided goods were sold to the actual consumers before 25th March, 1973 or until such time the old stocks, lasted, whichever was earlier. Announcement of a price increase from 1st February, 1973 and extension of time limit for sales to consumer at the old prices within a stipulated time limit is a marketing strategy approved by the Board for clearance of large inventories of cine positive films.”

5.53. In this connection the representative of the Ministry however stated during evidence that:—

“The normal rule is to give special discount for clearance of the old stock but that was not done. Instead the Company has been able to clear the old stock at the same price. This would not have been possible, had the Company not adopted marketing strategy that was considered to be the best arrangement at that time.”

5.54. The Committee were given to understand that the Board of Directors decided to increase the price of Cine-Positive Films with effect from 1st February, 1973 but allowed extension of time limits for sale to consumers at the old prices till 25th March, 1973 for disposal of the existing stocks of Cine-Positive Films. The Committee were informed that the Board adopted this market strategy after taking cognizance of large inventory which had considerable effect on the cash flow position of the undertaking at that time and also doubtful quality of substantial portion of the stock.

The Committee were assured that the benefit of extending the time limit was intended to be passed on to the consumers and not to the distributors alone and this was actually so. The Committee are not sure whether this strategy achieved and desired results as envisaged by the Board of Directors and the consumers were not adversely affected by the increase in prices. The Committee would like that this matter may be gone into in depth so as to verify that the procedure has not given any undue benefit to the distributors resulting in payment of higher prices by consumers.

D. Complaints

5.55 In terms of their agreements, the distributors are required to attend to all complaints received from consumers and make efforts to settle them satisfactorily on the spot. They are also required to report to the Company the nature of each complaint alongwith the action taken thereon. In those cases where the distributors propose to make a claim on the Company for the defective materials, samples of used and unused stock as well as the details and circumstances under which the defects were noticed are also required to be sent to the Company. In respect of sales made by the Company's own sales and distribution offices, the complaints from customers are attended by them.

5.56. The products are tested on the basis of random sampling before despatch for sale. The number of complaints received from customers and the value of credit notes issued during the years 1968-69 to 1972-73 are indicated in the following table:—

	1968-69		1969-70		1970-71		1971-72		1972-73	
	No. of comp-laints.	Value of credit Notes.	No. of Comp-laints.	Value of credit notes.	No. of comp-laints.	Value of credit notes.	No. of Comp-laints.	Value of Credit notes.	No. of comp-laints.	Value of credit notes.
		Rs.		Rs.		Rs.		Rs.		(Rs. in lakhs)*
Cine Film Positive	141	6,376	114	11,338	114	79,390	152	1,54,518	113	0.58
Medical X-ray Film	99	1,26,193	260	5,394	336	2,60,415	250	1,52,298	240	1.92
Bromide paper	51	7,632	75	91,716	67	69,786	152	92,676	650	8.58
Roll Film (120) and Portrait Film	52	3,104	78	2,774	190	43,667	35	49,341	63	0.20
	343	1.43	527	1.11	637	4.53	589	4.48	1066	11.28

*The figures pertain to defective stock only.

5.57. The consolidated cause-wise analysis of the complaints received up to 1970-71 is not available with the Company. The analysis of the causes of complaints received during 1971-72 and 1972-73 is furnished below:—

Products		Nature of complaint			
		Sensitometry %	Coating %	Black point and lines %	Perfo- rator %
Cine Film Positive .	1971-72	8.24	44.98	—	46.78
	1972-73	—	48.71	3.94*	42.35
Medical X-ray Film	1971-72	91.33	7.65	1.02	—
	1972-73	75.07	20.32	4.61**	—
Bromide Paper	1971-72	96.07	3.93	—	—
	1972-73	99.86	—	0.14†	—

5.58. A formal procedure for accounting of defective/damaged finished goods returned by the customers was first drawn up by the Company in October, 1967. This was subsequently revised/amended in December, 1969 and December, 1971. It is proposed to revise the procedure further so as to have effective control over the movement of defective/damaged finished goods also by keeping a stock movement register for such defective material till such time they are finally disposed of either by scrapping and recovering the material or by selling them at a reduced rate.

5.59. As regards increase in the number of complaints over the years, the HPF stated in a written reply that:—

“We do not consider the number of complaints as too high for our range of photo sensitive products. This does not, however, mean that the company can afford to be complacent in improving the quality of its products.

Complaints are bound to occur even after a full fledged Quality Control system. We concede there were some lapses in the past but the present systems control has definitely reduced rejections”.

5.60. The Committee pointed out that there had been some complaints about “Indu” from the Ministry of Information & Broadcasting. Admitting

*Black points and black lines mainly.

**Emulsion peeling (base defect) mainly.

†Packing defects mainly.

that there had been complaints about the poor quality, early sign of deterioration etc. of HPF products from the Ministry of Information & Broadcasting, the Special Secretary of the Ministry stated during evidence that—

“As a matter of fact I had a discussion with the Minister of Information and Broadcasting regarding positive black and white and he had also informed me that there have been complaints. We somewhat prefer an imported thing rather than an indigenous one. I would say, perhaps, HPF has not been able to reach the same level in regard to quality compared to the quality of the manufacturers who have been in the field for the last forty to sixty years. In some cases there have been complaints regarding holes, emulsion, specific patches. The main complaints are black points, black lines in the paper, and about packing that was not done properly. The percentage of the complaints is of the order of .2 per cent in the case of cine positive, .3 per cent in the case of X-rays, and paper 4.43 per cent.”

5.61. As regards disposal of complaints the representative stated that—

“We have evolved a system by which the nature of the complaint is investigated independently in the factory. There had been some cases in which it was found that the complaint was not justified”.

5.62. The Committee regret to note that the number of complaints received from the consumers has increased from 343 in 1968-69 to an all high figure of 1066 in 1972-73. The value of credit notes issued in 1972-73 alone amounted to Rs. 11.28 lakhs. The Committee also find that the number of complaints has increased particularly in the case of Bromide paper; where the number has gone up from 51 in 1968-69 to 650 in 1972-73. The Committee regret to note that in spite of the large number of complaints, the undertaking had not been making any cause-wise analysis of the complaints till 1970-71. It has been admitted that there were some lapses in the past but the present system control has definitely reduced rejections. The Committee were informed that the nature of the complaint is independently investigated in the factory. The Committee recommend that a careful analysis of the causes of Sales returns should be made so that the areas stages from where there are large rejections could be identified and suitable remedial measures taken to prevent recurrence of the same.

E. Export

5.63. The Company felt in 1967-68 that the installed capacity for Cine Film Positive (black and white) was more than that required within the country on account of swift change of demand from black and white to colour film. Accordingly it commenced exploring the export possibilities

in neighbouring countries and also sent teams for studying market conditions in South East Asia. During 1969-70 selling agents were also appointed in Ceylon and Burma for the sale of Cine Film Positive, Medical X-ray Film and Photographic Paper.

5.64. The following table indicates the value of exports and the loss incurred during 1969-70 to 1972-73:—

	Rolls	Value	Loss
1969-70	1,782	Rs. 1.61 lakh	65,801
1970-71	2,838	2.58 lakh	1,25,666
1971-72	2,697	2.49 lakh	12,714
1972-73	2,690	3.37 lakh	48,923

5.65. It will, however, be seen from paragraph 3.77 that the Company was not in a position to meet the country's demand for Cine Film Positive in full and as a result substantial quantities were imported. It will also be seen from paragraph 8.3 that by the end of 1975 the demand for Cine Film Positive within the country is expected to be 2.88 million sq. meters as against the installed capacity of 2.45 million sq. meters thereby indicating the necessity for expansion of the existing capacity.

5.66. Asked about the reasons for exporting the products at a loss, it was stated by HPF that this was more on an experimental measure to test quality of the products in international markets. The volume of sales was too insignificant, to make any sizable impact. HPF had made realistic assessment of the demands for Cine Positive Film, Black & White, and would be in a positive to meet the country's demand.

5.67. Asked as to how far exports at a loss are justified when there is internal demand of HPF products, the Ministry in a written note stated that:

"Government are of the opinion that for any undertaking to gain foothold in the international markets, token exports even at a loss in the initial stages may not be unjustified."

5.68. The Committee regret to note that the Undertaking had to incur a loss of about Rs. 2.5 lakhs as a result of exports of Cine-Positive Films during 1969-70 to 1972-73. The Committee were informed that these exports were of an experimental nature to test the quality of products for the international market. The Committee do not appreciate the efforts of the Undertaking to export its products at a loss even as an experimental measure when it had not been able to stabilise its production in the plant, improve its quality and meet the internal demand of Cine-Positive Films within the country.

F. Credit Control

5.69. The following table indicates the volume of sales made and the book debts outstanding for the five years ending 31st March, 1973:—

(Rs. in lakhs)

As on	Sales	Book debts outstanding		Percentage of total debts to sales
		Considered good	Considered doubtful	
31st March, 1969	228.38	75.06	—	32.9
31st March, 1970	372.12	95.98	—	25.8
31st March, 1971	365.71	88.72	—	24.3
31st March, 1972	436.36	119.40	0.46	27.5
31st March, 1973	529.17	229.53	0.46	43.5

Out of the total debts of Rs. 119.40 lakhs as on 31st March, 1972 a sum of Rs. 88.61 lakhs was due from the distributors. In terms of the agreement, the distributors are entitled to credit facilities up to a period of 60 days for the sale of Cine Films, 75 days for X-ray films and 30 days for other photographic materials. The total outstandings as on 31st March, 1972, however, represented about 100 days sales and in some cases the distributors had delayed payments up to 2 months but no action could be taken by the Company in the absence of a suitable provision in the agreement.

The Management have stated (July, 1973) that out of doubtful debts amounting to Rs. 0.46 lakh as on 31st March, 1972, a court decree for Rs. 0.24 lakh has been obtained and a further sum of Rs. 0.12 lakh realised. Action to recover the balance amount is in hand.

5.70. It was stated that against the total outstanding of Rs. 229.53 lakhs as on 31-3-1973, hundies drawn on distributors and discounted during March and April, 1973 but remained outstanding as on 31-3-1973 was Rs. 224.34 lakhs. This represented 150 days sale.

5.71. The amount of doubtful debts outstanding as on 31-3-1973 was Rs. 0.46 lakhs. A court Decree had been secured in one case for an amount of Rs. 0.23 lakhs which was to be executed. Besides a sum of Rs. 1740 had been received, vigorous following up action for recovering the balance outstanding was being taken.

5.72. While on the one hand heavy amounts were outstanding from the sundry debtors, on the other hand the Company could not make timely

payment to its creditors with the result that penal interest to the extent of Rs. 2.34 lakhs had to be paid to the Silver Refinery at Calcutta in respect of the supply of silver up to September, 1970 besides making a provision of Rs. 6.85 lakhs and Rs. 10.67 lakhs in the accounts for 1970-71 and 1971-72. A provision of Rs. 1.39 lakhs was made towards payment of penal interest during 1972-73.

5.73. The Committee enquired, Silver Refinery at Calcutta being a Central Government Department, whether it would not be possible to have better terms of payment with them through the intervention of the Ministry, so as to avoid payment of penal interest. The undertaking stated in a written note that these were the standard terms of payment with Silver Refinery and the undertaking had no alternative but to comply with the conditions.

5.74. In this connection the Ministry stated that the undertaking had to pay penal interest in accordance with the standard terms of payment laid down by the Silver Refinery. Government could not possibly interfere in the normal business practice adopted by a Government Department in commercial operations.

5.75. The Committee regret to note that as on 31-3-1973 a sum of Rs. 229 lakhs was pending realisation representing about 150 days' sales. The Committee also note that in some cases, the distributors had delayed payment upto 2 months but no action could be taken by the undertaking in the absence of a suitable provision in the agreement.

5.76. The Committee also note that while on one hand heavy amounts are outstanding from sundry debtors, on the other hand the Company could not make payment to its creditors in time with the result that it had to pay penal interest to the extent of Rs. 2.34 lakhs to the Silver Refinery at Calcutta in respect of supply of silver upto September, 1970 besides making provision for liabilities to the extent of Rs. 6.85 lakhs, Rs. 10.67 lakhs and Rs. 1.39 lakhs in the account for 1970-71, 1971-72 and 1972-73. The Committee recommend that a review of the distributorship agreements should be undertaken to rectify any lacuna in the agreement, which stand in the way of realisation of dues in time so that the undertaking is not put to difficulties in honouring its commitments.

G. Sales performance

5.77. (a) *Company's share in the total requirement of the country.*—The regular production of the first product (Cine Film Positive) commenced in June, 1967. During 1971-72 the Company produced 8 products but about 99 per cent of the total production was contributed by Cine Film Positive (black and white), Medical X-ray Film and Photographic Paper. The total

requirements of the country for these 3 products and the Company's share therein during 1968-69 to 1972-73 are indicated below:—

Figures in Sq. metres)

Year	Imports	Other domestic production	Company's production	Total demand	Percentage of Company's production to total requirement _s
<i>Cine Film Positive</i>					
1968-69	1,782,725	Nil	977,483	2,760,208	35.4
1969-70	788,381	Nil	1,618,126	2,406,507	67.2
1970-71	956,907	Nil	1,056,178	2,013,085	52.4
1971-72	726,935	Nil	1,615,664	2,342,599	69.0
1972-73	510,000	Nil	1,390,000	2,030,000	68.0*
<i>Medical X-ray Film</i>					
1968-69	490,000	Nil	168,480	658,480	25.6
1969-70	554,000	Nil	356,079	910,679	39.2
1970-71	912,000	Nil	320,053	1,232,053	26.0
1971-72	612,000	Nil	345,556	957,556	36.1
1972-73	1,100,000	Nil	680,000	1,250,000	54.0
<i>Photographic Paper</i>					
1969	6,62,000*	18,63,000	1,42,000	26,67,000	5.32
1970	7,54,000*	18,66,000	10,65,000	36,85,000	28.90
1971	5,08,000*	19,94,000	13,20,000	38,22,000	34.54
1972-73	4,10,000	20,00,000	7,30,000	33,40,000	22%

5.78. The foreign exchange spent on the imports of these products during 1968-69 to 1972-73 amounted to Rs. 398.24 lakhs, Rs. 419.36 lakhs, Rs. 409.10 lakhs, Rs. 424.65 lakhs and Rs. 486 lakhs respectively.

The Company expects to meet the total demand of the country for Cine Film Positive during 1973-74.

(b) Sales vis-a-vis production

5.79. As already mentioned, the Company commenced regular production in June, 1967. The production (productwise), the sales and the closing stock during 1967-68 to 1972-73 are indicated in the statement at Appendix-VI.

* Figures are in respect of calendar years.

NOTE :—1. The total yearly demand in the country has been assumed to be the total of imports and domestic production.

2. The figures of imports represent those made by agencies other than the Company. The Medical X-ray Films made out of jumbo roll imported by the Company are, however, included in the figure of Company's production.

5.80. It will be seen that the sale of Cine Film Positive and Bromide Paper (including all photographic paper) have not kept pace with the production and the stock in hand, particularly during 1971-72, when the closing stock appreciably increased as compared with 1970-71. The Management explained in April, 1972 that the trade requires Bromide Paper in soft, normal and hard grades in suitable combinations which the Company could not provide. Moreover, large quantities of Bromide Paper were imported in 1970 to meet the internal demand out of which stocks were available in the market at cheaper rates.

5.81. The lesser volume of sales of Medical X-ray Films during 1970-71 has been attributed by Management in June, 1972 to availability of large quantities of imported stock at cheaper rates. As regards Cine Film Positive, the lesser sale during 1970-71 and 1971-72 has been attributed to lesser output resulting from the shortage of imported cellulose triacetate and availability of large quantities of imported stock at lower price.

Bulk of company's earnings are from the sales of Cine Film Positive (black and white), Medical X-ray Film and Photographic Paper. The sale of these products accounted for 83.9 per cent, 97.7 per cent, 97.4 per cent 97.4 per cent and 96.8 per cent of the total sales during the five years ending 1971-72.

5.82. Prior to the commencement of production the Company was importing jumbo rolls for conversion into Medical X-ray Films and for sale within the country. It continued to import jumbo rolls for Medical X-ray Films even thereafter. The quantity and value of jumbo rolls imported and the trading results thereof are indicated below:—

Year	Quantity imported (Sq. metres)	Value of imports (Rs. in lakhs)	Quantity sold (Sq. metres)	Loss/profit on sale of imported quantity (Rs. in lakhs)
1967-68 and 1968-69	193,935	56.76	168,774	(+)07
1969-70 . . . . .	..	..	..	..
1970-71 and 1971-72	199,620	50.07	177,361	(+)16.36
1972-73	269,383	81.74	113,555	(+)4.58

NOTES : 1. The difference between the quantity imported and that sold represent the wastage in conversion.

2. The quantity imported in 1967-68 was converted and sold in 1968-69. Similarly, the quantity imported in 1970-71 was converted and sold in 1970-71 and 1971-72.

3. No X-ray jumbo were imported during the six months ended 30-9-1973.

5.83. Justifying the imports of X-ray film which created problems for HPF to dispose of their stocks, the representative of the Ministry stated during evidence that—

“There was a time when Government was not fully certain whether or not it would be possible for HPF to produce upto the targets fixed for that particular year, as the experience had been that in the past the targets had to be lowered on several occasions and X-ray films being an item connected with the health of the country. Government felt that it might not be advisable to restrict imports purely on the promises or targets that have been fixed by the Company and that was why there was somewhat liberal licensing in regard to import of X-ray films. There was a certain amount of extra quantity of X-ray films available at that point of time and I do not think the Company had large stocks which could have caused difficulty to them.”

5.84. The Committee pointed out that the figure for 1970-71 was almost double of what the Company imported in 1969-70 and in 1972-73, the import of medical X-ray was the highest. The Special Secretary of the Ministry of Industrial Development stated during evidence that

“.....There must have been some accumulated shortfalls so that it was decided to import fairly large quantities at that point of time.

Since the production was not going up at that point of time (1972-73), it was obviously felt that certain large doses of imports will be necessary to meet that shortfall.

From 1969 to 1971-72, the production of X-ray films remained, more or less, stationary.”

5.85. With regard to lower sales of X-ray films due to availability of imported stocks at cheaper rates the representative of the Ministry stated that—

“The cost of production of the Company was much higher, because they were not utilizing the full capacity. The imported stock was available and the quality of the imported films was preferred by the Medical profession, and if the rates were the same or lower, the medical profession would prefer that. But I do not think, this has really caused a great deal of accumulation of stock. They have been able to dispose of their stocks, more or less. This might have caused some temporary difficulties in the matter of sales, but certainly it did not completely dislocate the market.”

The representative of the Ministry added that—

“Once we find that the Company would improve in its performance and would be able to keep to its targets, naturally we would give them all support. If we find next year that they are doing so well that they would be able to meet all the requirements of the country in regard to X-ray films, we would stop import of the processed X-ray films and allow only the import of jumbos. But we should be convinced first. The hospital should not be made to suffer as a result of any action on our part. We have to be very careful.”

586. In regard to stoppage of import of cine film positive, the representative of the Ministry stated that—

“We consider these things sympathetically. We certainly don't want to import provided we are reasonable certain that the film industry on the one hand, and the hospitals and the medical profession on the other, don't get completely upset as a result of the stoppage. I think that so far as X-ray is concerned, in 1974-75 we will certainly consider stoppage of all types. As a matter of fact, we have more or less taken a decision that we will not import X-ray except in Jumbo form. Actually, even earlier the company had itself indicated that they had very serious technical problems resulting in intolerable rejections; and that is why we allow a certain amount of cushion to the various projections.”

5.87. The Committee pointed out that the decision to import Jumbo instead of film could have been taken earlier, the witness stated that—

“We could have taken the decision, but the point is whether the manufacturers would have been willing to supply at that point of time or are willing to supply it only from last year.

The Company were themselves not certain at that point of time. Even now, in the processing line it is not fully met by the company's own production. They had so many technical troubles and managerial troubles. I would not blame the company if they were not confident at that time.”

5.88. *Customer composition.*—As already mentioned, the major portion of the total production is represented by Cine Film Positive, Medical X-ray Film and Bromide Paper (including photographic paper). While the entire sales of Cine Film Positive and the Medical X-ray Film are made through distributors, the other photographic materials are partly sold through the Company's own offices at Madras, Bombay, Calcutta and Delhi and partly through the distributors appointed in certain areas.

5.89. The break up of sales as between Government departments and private parties in respect of Medical X-ray Film and other photographic materials is not available with the Company. The details of total sales of Cine Positive Film to sole distributors and further sales by them to Government departments during 1968-69 to 1972-73 are given below:—

Year	Total sales to sole distributors (including export sales)	Sales to Government Departments by the sole distributors
1968-69	148·14	30·33
1969-70	229·87	46·83
1970-71	156·35	48·13
1971-72	172·39	6·32 (April—May, 1971)
1972-73	485·32	156·44
1974		

NOTES : 1. The Company exported photographic materials for the first time in 1969-70. The value of export included in the above figures amounted to Rs. 1·61 lakhs, Rs. 2·58 lakhs and Rs. 2·49 lakhs respectively.

2. Figures of sales to Government departments from June, 1971 onwards are not available for the reasons stated in Note 2 under para 5·35.

5.90. The Ministry have stated (July, 1973) that as the sales of Medical X-ray Film and Bromide Paper are mostly through distributors the break up of sales between Government departments and other parties is not available. However, such break up for Cine Film Positive was available up to May, 1971 on account of the payment of differential rates of commission; from June, 1971 full commission is paid even on sales to Government departments and, therefore, the break up was not maintained. However, arrangements are being made with the distributors of all products that this information is furnished in future.

5.91. The Committee note that against the total requirement of photographic products, in 1972-73 the undertaking's share in the case of cine positive is 68 per cent, Medical X-ray-54 per cent and photographic paper 22 per cent. The Committee also find that the sale of cine positive, Bromide paper including all photographic paper have not kept pace with production. It has been explained that the quality of Bromide paper produced by the Company does not quite satisfy the market requirement. In regard to Medical X-ray, the difficulty was due to larger availability of imported X-Ray Films.

5.92. The Committee find that sale of cine positive and Medical X-Ray are made through Distributors while other photographic products are sold partly through distributors and partly through the undertaking's own offices. The Committee regret to note that no records are maintained to give the break-up of sales of Medical X-Ray and Bromide paper separately to the private parties and Government departments. The Committee also find that in the case of Cine Film Positive full commission is being paid from June, 1971 even for sales to Government Department in view of the distributors having agreed to the reduction of credit period from 90 days to 60 days.

5.93. So far as sales to Government Departments through distributors are concerned, the Committee have already made their observations elsewhere in this report. The Committee see hardly any justification for routing the sales to Government Departments through the distributors thus entailing payment of avoidable commission. The Committee would like Government to go into the matter earlier with a view to taking the conclusive action and ensure that sales in Government Departments are made directly by the Undertaking.

5.94. The Committee regret to note that because of heavy short fall in production, Government had to import Jumbo Rolls for conversion into medical X-ray films and for sale within the country. While the imports during 1967-68 to 1971-72 were of the order of 3.92 lakhs sq. metres for Rs. 107 lakhs the import during 1972-73 alone accounted for 2.69 lakhs sq. metres for Rs. 82 lakhs which were almost three times the annual import in terms of quantity. This was stated to be due to production not going up in 1972-73 and production for 1969 to 1972 remaining more or less stationery. The Committee need hardly stress that unless the undertaking steps up its production and improves the quality Government will have to go in for larger imports with an out-go of greater amount of foreign exchange.

VI

FINANCIAL MATTERS

A. Capital Structure

6.1. The authorised capital of the Company as on 31-3-1973 was Rs. 632 lakhs which has been fully subscribed and paid up by the Government of India.

The Company had obtained from time to time unsecured loans from the Government of India are as follows :—

	(Rs. in lakhs)		
	Upto 1971-72	1972-73	1973-74 (Upto 30-9-1973)
Capital expenditure	715.17	736.92	736.92
Working capital	47.00	47.00	47.00
Reimbursement of cash losses	368.20	368.20	455.20
Payment of instalments of Government loans	607.78	933.88	968.91
Payment of interest on Government loans	251.34	343.23	350.36
TOTAL :	1989.49	2429.23	2558.39
Less : Conversion of Capital loans into equity shares		50.00	50.00
		2379.23	2508.39

The amounts outstanding towards principal and interest as on 31-3-72 and 31-3-73 were 1389.02 and Rs. 1441.60 respectively.

6.2. The undertaking paid penal interest amounting to Rs. 7.14 lakhs up to 31st March, 1972 (including Rs. 6.01 lakhs forming part of the amount of Rs. 251.34 lakhs provided by Government in the shape of loan) on account of default in repayment of principal and payment of interest; in addition a further provision of Rs. 5.28 lakhs has been made in the accounts towards penal interest due up to 31st March, 1972. The main reasons for default in repayment of principal and payment of interest were the project over-run both in cost and time and the recurring losses suffered by the company.

6.3. The undertaking provided penal interest amounting to Rs. 7.02 lakhs upto 31st March, 1973 besides a provision of Rs. 7.13 lakhs has been made in the accounts towards interest accrued and due. The latter amount has since been paid to Government by book adjustment.

6.4. The undertaking has also entered into a deferred credit arrangement with Messrs. Ferrania, Italy for the supply of X-ray jumbo rolls.

The balances outstanding on this account as on 31st March, 1972, 31-3-1973 and 30-9-1973 were Rs. 44.03 lakhs, Rs. 38.16 lakhs and Rs. 33.67 lakhs respectively.

6.5. The Cash Credit limit obtained from State Bank of India against hypothecation of raw materials, semi-finished goods, stores and spares and book debts and guaranteed by the Government of India was Rs. 375 lakhs. The outstanding balances as on 31-3-1973 and 30-9-1973 were Rs. 404.14 lakhs and Rs. 383.45 lakhs respectively. The amount outstanding on Bill Discounting account as on 31-3-1973 and 30-9-1973 was Rs. 186.59 lakhs and Rs. 144.97 lakhs.

6.6. The debt equity ratio for the Company has gradually become unfavourable as indicated below:—

31st March, 1969	1.45 : 1
1970	1.76 : 1
1971	1.96 : 1
1972 $\frac{3}{4}$	2.46 : 1
1973	2.36 : 1

6.7. The accumulated loss of the Company upto 31-3-1973 was Rs. 1485.95 lakhs against the paid up capital of Rs. 632 lakhs *i.e.*, about 235.11 per cent of the equity capital.

6.8. In August, 1971 the Board of Directors considered the reorganisation of capital structure and authorised the Company to approach the Government for writing off the loans released in re-imbusement of cash losses and for payment of interest charges. In October, 1971, however, the Management suggested deferment of the consideration of reorganisation of capital structure in view of the thinking of Government in the case of two other public sector undertakings (Heavy Electricals) India Limited and Heavy Engineering Corporation Ltd.) that moratorium on interest charges and write off of losses were *prima facie* undersirable and that a reorganisation of capital structure like conversion of portion of loans into redeemable preference shares might be entertained by Government more favourably if it was done after the break-even point was reached and not before. Accordingly, the Board of Directors decided in October, 1971 that it would be preferable to reconsider the question of reorganisation of the capital structure of the Company after some more time when it attained a better financial position.

6.9. The Management have stated (July, 1973) that the matter regarding waiver of interest on loans received up to 31st March, 1973 on account of cash losses has since been taken up with Government.

6.10. The Committee pointed out that Rs. 51.14 lakhs was for payment of penal interest because of delay in repayment of loan. The Management explained that while it was possible to obtain fresh loans in time and avoid payment of penal interest.

“There were some delays both on the part of Company in approaching the Government for the fresh loans and for the Government to grant them. We are making every endeavour to see that they do not recur”.

6.11. Asked about the precise delay on the part of the Company in approaching the Government for the grant of fresh loans and the time taken by Government to consider the request and grant fresh loan to the Company, the Ministry in a written reply stated that:

“It has been explained by the Company that till the year 1968-69, they were not aware of the procedure to be followed in respect of repayment of Government loan instalments/payment of interest on Government loans in the absence of any internal resources available within the Company for such payments. Accordingly they did not approach the Government for making necessary provisions for the repayment of loan instalments (Principal) falling due during the year 1967-68 and also for the payment of interest due on Government loans during the year. It was only during the year 1968-69 when they came to know of the procedure to be followed, they requested the Government to make necessary provisions for the repayment of principal loan instalments including the defaulted instalments for the year 1967-68. The sanction orders for the book adjustment of the Principal loan instalments and the interest on Government loans which fell due during the years 1967-68 and 1968-69 were issued by the Government by the end of March, 1969. In view of the defaults in payment of Principal loan instalments and in the payment of interest on Government loans during the years 1967-68 and 1968-69, the Company had to pay a penal interest of Rs. 6.01 lakhs. However, from the year 1969-70 onwards, the Company have been approaching the Government in time for making necessary provisions for the payment of Principal loan instalments and the interest amounts due on Government loans.

The Company included proposals seeking provisions for the grant of fresh loan in their Revised Estimates for 1968-69 submitted on 23-11-68. After examination of the proposal in this Ministry and in the Ministry of Finance the actual sanction releasing the funds was issued on 28-3-1969.”

6.12. Asked about the position regarding reorganisation of the capital structure of the Company, the representative of the Ministry stated during evidence that—

“The Company has really not approached us with complete details; but had approached us on the question of waiver of interest on loans. The Government have not agreed to it upto 31st March, 1973, but agreed that the company may be granted moratorium. So far as the the restructuring of the capital is concerned. This is not the only company involved. There are various proposals of writing down capital loans which are being processed in the Finance Ministry. I think that they feel that we should not go in for complete re-structuring of capital loans in this manner just like writing off of a part of equity or, capital loans; but assistances like moratorium on interest etc. for a comparatively long period of say, 3 years or more, would certainly help a particular undertaking to better utilize its resource position when it is given to undertakings like the HEIL.”

6.13. The Committee note that the cumulative loss suffered by the undertaking till the end of 31st March, 1973 was of the order of Rs. 14.86 crores as against the paid up capital of Rs. 6.32 crores i.e. about 235 per cent of the equity capital and that there has been default in repayment of loans taken by it from the Government of India for financing its expenditure. The Committee note from the capital structure of the Undertaking that the debt equity ratio has been gradually becoming unfavourable. While the ratio was 1.45 : 1 on 31st March, 1969, the position on 31st March, 1973 was stated to be 2.36:1.E. The Committee understand that the question regarding the re-organisation of the capital structure of certain other public undertakings like Heavy Electricals (India) Ltd. and waiver of interest on loans granted on account of cash losses incurred by the undertakings are under the consideration of the Government of India. The Committee desire that a decision in this regard should be taken expeditiously. The Committee need hardly stress that the real solution lies not so much in the reorganisation of the capital but in the full utilisation of the capacity and reduction, if not elimination, of the rejections.

B. Financial Position

6.14. The following table indicates the financial position of the Company during the years 1967-68 to 1972-73 :
(Rs. in Lakhs)

	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73
Liabilities						
(a) Paid-up capital	535.00	582.00	582.00	582.00	582.00	632.00
(b) Reserves and Surplus						
(c) Borrowings						
(i) From the Government of India	637.84	816.46	1004.02	1085.78	1389.02	1455.74
(ii) From Banks	155.54	203.88	291.60	372.06	386.39	590.74
(iii) Deferred payment Liabilities	116.57	28.67	25.29	52.77	44.03	38.16
(d) Trade dues and other current liabilities (including provisions)	67.75	154.93	162.59	296.05	254.98	268.57
	<u>1512.70</u>	<u>1785.94</u>	<u>2065.50</u>	<u>2388.66</u>	<u>2656.42</u>	<u>2985.21</u>
Assets						
(e) Gross block	107.20	1062.17	1064.96	1078.08	1070.07	1086.65
(f) Less : Depreciation	126.56	206.13	285.76	365.85	438.32	518.42
(g) Net fixed assets	920.64	856.04	779.20	712.23	631.75	568.23

(Rs. in Lakhs)

	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73
(h) Capital works-in-progress (including machinery and equipment under inspection and in transit)	0.83	0.25	3.25	2.98	6.85	9.91
(i) Investments	1.63	1.63	0.09	0.09	0.12	1.66
(j) Current assets, loans and advances	296.78	430.78	597.13	703.71	798.41	904.12
(k) Miscellaneous expenditure including losses	292.82	497.24	685.84	969.65	1219.29	1501.29
TOTAL	1512.70	1785.94	2065.50	2388.66	2656.42	2985.21
Capital employed	1149.67	1131.19	1213.74	1119.89	1175.42	1203.78
Net worth	242.18	84.16	(-)103.84	(-)387.65	(-)637.29	(-)869.29

NOTE.—1. Capital employed represents net fixed assets plus working capital.

2. Net worth represents paid-up capital less in tangible assets.

C. Working Results

6.15. The Company started the commercial production of its first product *viz.*, Cine Film Positive in June, 1967 and gradually undertook the production of other items in later years. It has been incurring losses from inception and the cumulative loss as on 31st March, 1972 amounted to Rs. 1,188.61 lakhs which works out to about 204 per cent of the paid-up capital of Rs. 582 lakhs. It was Rs. 1485.95 lakhs against the paid-up capital of Rs. 632 lakhs *i.e.*, about 235.11 per cent of the equity capital as on 31-3-1973.

6.16. The Management have attributed the unfavourable working results to the following reasons:—

- (i) Release of funds by Government in the form of loans even before the commencement of production. As a result, interest had to be paid from the very start of production even though the build-up of full production was envisaged in the Detailed Project Report during a period of 5 years.
- (ii) Depreciation rates for plant and machinery had to be fixed high on account of rapid change in technology in the industry.
- (iii) Under-utilisation of equipment during the period of build-up of production as the entire equipment not only for the products envisaged in the Detailed Project Report but also for those to be developed in future had to be installed in the very beginning.
- (iv) Plant and equipment underwent many break-downs and set-backs during the commissioning stage apart from being the result of a somewhat chequered design carrier.
- (v) The Company had to embark on import substitution almost from the beginning when the collaborators had barely demonstrated the capacity of the equipment for the use of imported raw materials.
- (vi) On account of competition in the market the selling prices of the product could not be fully adjusted to the cost of production.

6.17. In regard to heavy losses incurred since inception, the HPF in written note stated that the losses of the Company were attributable to:—

“(i) *Low utilisation of capacity:*

One of the major factors which had an impact on the progress of the Company so far is the non-utilisation of optimum capacity. Utilisation of capacity was only of the order of 36 per cent in 1970, and fluctuated between 45 to 50 per cent since then.

(ii) *Short recovery of prices:*

As HPF could not meet the entire requirement of the country, imports had to be allowed. Consequently, the selling prices had to be related to those of the imported brands without fully recovering the cost of production, in spite of the wide disparity in prices of raw materials.

(iii) *Excess Scrap:*

The level of rejections in production was high resulting in heavy losses.

(iv) *Low recovery of waste material:*

One of the reasons which contributed to the losses was the comparatively low recovery of waste materials like solvents in the Film Base Department and silver from sludge. This includes excessive process losses of silver.

(v) *Heavy Interest Burden:*

The Company has a low equity base and very heavy burden of loans. Even before the commencement of production, part of the funds were released by Government in the form of loan, as a result interest had to be paid from the very start of production even though the build-up of production was envisaged over a period of 5 years."

6.18. In this connection, the Special Secretary, of the Ministry of Industrial Development stated during evidence that:—

"There have been several reasons for such heavy losses. The first was the low utilisation of capacity; the second was the erratic production both quantitatively and qualitatively; the third was too much rejection and excess of scrap, the fourth was low recovery of waste material; the fifth was that, as the capacity was not utilised to the full, the prices charged were not giving as good return to the company as they would have done if the capacity had been utilised to the full because it would have been spread over a bigger volume of production, and because of the smaller volume of production the cost of production was higher than the price that could be recovered; the last one which is actually the result and not the cause—was heavy investment because the losses had to be made up by giving further loans and the interest kept on accumulating, thereby adding to the losses."

6.19. The Committee pointed out that the main reasons is perhaps the management inefficiency. In reply the representative of the Ministry stated that:—

“These things may quite likely be due to management inefficiency also, because of good Management would naturally have spotted the shortcomings and taken remedial action. I agree that Management efficiency comes in first because everywhere there would be teething troubles—some major and some minor—and whether they are major or minor, the defects would have to be located and remedial action would have to be taken; that goes without saying.”

6.20. The Special Secretary of the Ministry fully agreed with the opinion of the Committee that ‘it is only with the efficient and better management that the losses could be reduced and stated during evidence that—“unless the management is vigilant and alert and unless the management tackles its particular problems—whether technological or managerial problems—in the right manner, it cannot wipe out the loss. It is really the job of the management to take remedial steps and what the Government can do is to help the Company by way of changing the management and giving responsibilities to the new management. In this particular case, I do not mind saying it that we have changed the management and we have given them responsibilities and duties and we do hope that with the present change, we will be able to tackle the various technological and managerial problem and we will be able to get rid of the deficiencies and the defects. I need not go into the details of the particular steps the management is taking. We hope that the Company can produce according to the targets fixed for 1974-75, but certainly the question of wiping out the earlier losses and all that would come up later. At least for the current production after meeting all the costs both variable and fixed and taking care of the interest on depreciation and keeping a little reserve, let us hope the company can give to the Government some dividend. Once they reach that stage, then we can think in terms of further improvement. But 1974-75 will be the crucial year because if they are able to reach the targeted production, we have every hope, we will be able to break even.”

6.21. Regretting that the unfavourable factors given at items (i), (ii) and (iii) of paragraph 6.16 had not been taken into consideration at the time of preparing the Feasibility Report for the project, the Ministry of Industrial Development in a written reply stated that—

“Government are satisfied with the reasons advanced by the Company for its unfavourable working results.”

6.22. The following table indicates the operational results of the Company (value of production, contributed value, conversion expenditure and loss) during the last six years:—

	(Rs. in lakhs)					
	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73
(i) Sales (less commission).	88.63	228.38	372.12	365.71	436.36	529.17
(ii) Closing stock of finished goods and working process.	134.57	135.79	154.60	248.30	272.71	338.90
(iii) Opening stock of finished goods and working process.	18.63	134.57	135.79	154.60	248.30	272.71
(iv) Value of production.	204.57	229.60	390.93	459.41	460.77	595.36
(v) Less Excise duty		0.59	9.69	6.83	7.17	10.29
(vi) Net value of production.	204.57	229.01	381.24	452.58	453.60	585.07
(vii) Consumption of raw-materials.	154.99	191.61	280.08	363.06	327.70	462.28
(viii) Contributed value	49.58	37.40	101.16	89.52	125.90	122.79
(ix) Conversion expenditure :						
(a) Salaries, Allowances, Bonus, Gratuity and other Employees benefits.	44.25	54.50	69.27	88.45	101.78	115.03
(b) Electricity charges.	12.30	11.42	12.36	13.85	15.25	18.39
(c) Administrative and other expenses	19.29	30.74	50.39	75.78	67.30	70.84
(d) Interest	43.73	63.44	74.80	97.35	116.77	140.73
(e) Depreciation	75.49	76.32	77.03	77.23	75.90	76.35
(f) Social overheads expenditure (net)	9.25	12.57	12.90	14.04	12.81	9.70
(g) Miscellaneous (net).	(-)-4.39	(-)-7.17	8.35	21.97	1.07	(+)-10.91
	199.92	241.82	305.10	388.67	390.88	

(Rs. in lakhs)

	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73
(x) Loss (ix-viii)	151.34	204.42	203.94	299.15	264.98	297.34
(xi) Percentage of :						
(a) Contributed value to value of production	24.2	16.4	26.5	19.8	27.8	20.5
(b) Conversion expenditure to contributed value	403.2	645.5	301.6	434.2	310.4	342.2
(c) Consumption of raw materials to value of production	75.7	83.6	78.5	80.2	72.2	77.7

6.23. It will be seen that while the value of production in all the years fully covered the cost of direct materials and direct wages (excepting 1968-69) the extent of coverage of other expenditure differed from year to year. It will also be seen that the consumption of raw materials, accounted for a major portion of the value of production and gradually, decreased from 83.6 per cent in 1968-69 to 72.2 per cent in 1971-72 (with a set-back in 1970-71) on account of reduction in the wastage and scrap arisings. The extent of actual material content in the value of production of the three important products viz. Cine Film Positive, Medical X-ray Film and Bromide Paper is compared below with the assumptions made in the Detailed Project Report:—

Products	As per DPR	(Percentage of actual material content value of production)						
		1967-68	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74 upto 30-9-73
Cine Film Positive	37.09	NA	64.00	72.60	66.10	72.70	55.22	69.8
Medical X-Ray Film	47.69	NA	47.60	71.30	102.50	81.10	77.45	83.5
Bromide Paper	43.07	NA	56.30	67.80	53.20	52.00	54.51	64.0

The trend of some of the important items of conversion expenditure during the last five years is indicated below —

(Rs. in lakhs)

	1968-69	1969-70	1970-71	1971-72	1972-73
Salaries and allowances	54.50	69.27	88.45	101.78	115.03
Insurance	6.90	8.75	10.95	9.46	8.41
Repairs and maintenance	3.60	6.75	13.22	13.74	19.09
Technical fee to collaborators		9.03	17.95	21.47	1.04

6.24. The Management have attributed the increase in these cases to the following factors:—

- (i) **Salaries and allowances:** Gradual increase in the number of staff, grant of interim relief, payment of arrears as per NPC wage structure and provision for bonus during 1970-71 increase in the minimum bonus and contribution to provident fund during 1971-72.
- (ii) **Insurance:** Increase in the value of stock holding during 1969-70 and increase in premium rates during 1970-71.
- (iii) **Repairs and maintenance:** Plant shut-down for maintenance and machinery overhaul in all production departments for the first time in 1970-71 after start of production.
- (iv) **Technical fee to collaborators:** Calculation of income tax on technical fee at 70 per cent during 1970-71 as compared with 50 per cent in the previous year and increase in sales during 1971-72 resulting in the payment of higher fees.

6.25. The reason for the increase in expenditure in 1972-73 under the head "Salaries and allowance" and "Repairs and Maintenance" are due to:—

- (i) **Salaries and Allowances:**—Consequent on the agreement reached with the Union on the question of D.A. and pay protection, increased expenditure on D.A. and pay protection had been incurred.
- (ii) **Repairs and Maintenances:**—Major repairs have to be incurred for the boilers besides the increased upkeep and maintenance of the machinery consequent on ageing of such machines.

Besides the above, the following two important extraneous factors have occurred:

- (i) A net deficit of 6,772 kgs. of silver valued at Rs. 37.52 lakhs has been treated as loss and has been written off in the accounts.
- (ii) Based on the recommendations of the sub-committee appointed by the Board for the disposition of sub-standard and defective materials a provision of Rs. 23.50 lakhs has been made in the accounts.

6.26. As already mentioned, major portion of the total production is contributed by the three products viz. Cine Film Positive, Medical X-ray Film and Bromide Paper.

6.27. It will also be seen from para 10.01 of A.R. that while the Company was losing in the production and sale of Cine Film Positive and Medical X-ray Film, it was making profit in Bromide Paper in 1971-72. The contribution made by each of these items of products to the total loss of the Company during 1971-72 and 1972-73 is given below:—

(Rs. in lakhs)

Products	1971-72	1972-73
1. Cine Film Positive	(—)154.36	(—)118.95
2. Medical X-Ray Film	(—)85.64	(—)81.37
3. Bromide Paper (including all photographic paper)	(+)7.50	(—)6.28
4. Total	(—)232.50	(—)206.60
5. Total loss of the Company	(—)264.98	(—)297.34
6. Percentage of 4 to 5	87.74	69.48

NOTE : Similar information for earlier years cannot be given as the actual cost of production of the products was not being worked out by the Company.

6.28. The Ministry in a written note after evidence stated that the following measures have been taken by the Company to make it economically viable:—

- (i) *Maximum utilisation of capacity:*

To improve the machine utilisation, all the base casting machines were modified for utilisation of indigenous Cellulose Triacetate. The Company is now thus poised for optimum utilisation of capacity. During the year 1973-74 the Company were affected by the power-cut imposed by the Tamil Nadu Electricity Board and the critical position of an important raw

material—Mathylene Chloride. These problems have since been got over and the Company is now in a position to utilise its capacity to the fullest extent.

(ii) *Jumbo Roll Conversion Programme:*

To improve machine utilisation, the Company has also gone in for a Jumbo Roll Conversion Programme for X-ray films, roll films and colour positive films and with the full implementation of this programme, the rate of machine utilisation will improve considerably. It has been decided that as a policy, the cine colour film, roll film, graphic arts film and X-ray film to supplement the Company's own production should be improved in Jumbo rolls for conversion at HPF plant in view of the considerable savings in foreign exchange that would result therefrom for the country and it would also enable the company to utilise its finishing capacity to the fullest extent and also make a base line for manufacture of a wide range of products. Agreements have been concluded by the Company with ORWO of GDR for the supply of X-ray film, roll film and colour film in Jumbo form for the next 3 years for conversion at HPF.

(iii) *Reduction in scrap levels:*

A number of steps were taken by the Company to bring down the rejection levels, like improvements to the equipment and process, additional instrumentation and control facilities. The Statistical Quality Control Unit of the Indian Statistical Institute have been engaged on a special assignment to establish process controls at all important operations with quicker feedback on scrap and causes thereof for timely remedial action. A committee has been set up to formulate realistic product and process specifications.

(iv) *Adoption of realistic pricing policy:*

All these years HPF's prices had to be matched with the prices of imported competitive brands with no relevance to cost production. Some of the raw materials which HPF procure are 3-4 times higher in cost when compared to the prices at which they are available to foreign manufacturers. Even though it is the company's desire to merchandise photo sensitized goods at reasonable prices to give the best value of money spent by the consumers, the prices should have relation to the raw material, labour and manufacturing costs. The Company is now in the process of rationalising its prices with a view to recover the full cost of production.

(v) *Adoption of a suitable industrial relations policy:*

Labour unrest has afflicted this industry over the last several years with periodic losses in production. An agreement has been concluded with all the labour unions in satisfactory settlement of most of the pending issues. A grievance procedure and Employee Suggestion Scheme were also imple-

mented. Active steps are being taken to impart training to all layers of workers and upgrade the skills of supervisors.”

D. Profitability Analysis

6.29. According to the Detailed Project Report (which did not contain the profitability analysis), the Company was expected to achieve full production (prior to the revision of product-mix in a period of 5 years from the date of the commencement of production *i.e.*, by the end of 1971-72. In September, 1966 the Company prepared a tentative forecast for 5 years from 1966-67 to 1970-71 according to which full production was to be achieved from 1969-70. This forecast was revised in August, 1968 after taking into account the results of market survey conducted by the Marketing Research Corporation of India in 1966 and the market assessment made by the Raw Film Advisory Committee in 1967; according to the revised forecast the Company was expected to make a profit from 1970-71 and achieve full production from 1971-72.

In the light of the problems encountered during 1967-68 and 1968-69 the Management prepared a revised forecast for 7 years from 1969-70 to 1975-76 according to which the Company was expected to make profit from 1971-72 and attain full production from 1972-73. One of the assumptions made in this forecast was that the consumption of raw materials per unit of different finished products would be on the same scale as for 1971-72. The details of the forecast are given below:—

(Rupees in lakhs)

Year	2	3	Working expenses		6	7	8
			Production in million sq. m.	Sales* (Value of production)				Material	Others	Total	Profit(+) Loss (-)	Percentage of material cost to sales
1969-70	2.772	510.59	444.76	298.69	743.45	(-)232.86	87.11
1970-71	4.340	874.39	645.13	364.07	1009.20	(-)134.81	76.06
1971-72	5.700	1389.37	849.31	389.75	1239.06	(+)150.31	61.13
1972-73	6.150	1531.60	945.33	387.45	1332.78	(+)198.82	61.72
1973-74	6.150	1531.60	954.39	366.70	1321.29	(+)210.31	62.33
1974-75	6.150	1531.60	963.85	357.95	1321.80	(+)209.80	62.93
1975-76	6.150	1531.60	973.12	348.35	1321.47	(+)210.13	61.92

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NOTE: *The forecast assumed that the entire production would be sold during the year.

6.30. In the light of experience gained the Management updated the forecast in November, 1970 as shown below:—

(Rs. in lakhs)

Year	Working expenses						Total	Profit(+) / Loss(-)	Percentage of material cost to sales
	Production (Million Sq.m.)	Sales Value of Production	Material	Others	5	6			
1970-71	3.25	524.05	371.16		354.94	731.10	(-)207.05	70.82	
1971-72	5.18	1087.64	674.83		404.84	1079.67	7.97	62.04	
1972-73	6.15	1520.04	941.33		409.23	1350.56	169.48	61.93	
1973-74	6.15	1520.04	950.54		439.73	1320.27	199.77	62.53	
1974-75	6.15	1520.04	959.78		377.71	1337.49	182.55	63.11	
1975-76	6.15	1520.04	969.01		368.98	1337.99	182.05	63.75	
1976-77	6.15	1520.04	978.25		361.88	1340.13	179.91	64.36	

6.31. This forecast was made more or less on the same assumptions as were made in the previous forecast except that the consumption of raw materials was calculated on the basis of estimates for 1972-73 instead of 1971-72.

The actual performance during 1969-70 to 1972-73 as compared with the forecasts is given below:—

(Rs. in lakhs)

	1969-70		1970-71		1971-72		1972-73	
	Forecast	Actual	Forecast	Actual	Forecast	Actual	Forecast	Actual
(1) Production (in million Sq. m.)	2.772	2.249	3.25	2.54	5.18	3.31	3.834	2.933
(2) Sales	510.59	381.24	524.05	452.58	1087.64	453.60	745.86	529.17
(3) Working Expenses								
(a) Material cost	444.76	280.08	371.16	363.06	674.83	327.70	558.72	462.28
(b) Others	298.69	305.10	354.94	388.67	404.84	390.88	368.58	364.26
	743.45	585.18	731.10	751.73	1079.67	718.58	927.30	826.54
(4) Profit (+)/Loss (—)	(—)232.86	(—)203.94	(—)207.05	(—)299.15	7.97	(—)264.98	(—)181.44	(—)397.37
(5) Percentage of material Consumption to sales	87.11	73.5	70.82	80.2	62.04	72.2	74.91	87.4

6.32. It will be seen that the main reasons for increased losses during 1970-71 and 1971-72 as compared with the forecasts were the low production and excess consumption of materials which in turn was mainly on account of heavy rejections.

The HPF stated in this connection that—

“During 1972-73 the actual production was 2.93 M.Sq.m. valued at Rs. 566.85 lakhs against the forecast of 6.15 M.Sq.m. valued at Rs. 1531.60 lakhs envisaged in November, 1970. A revised five year forecast was prepared in April, 1973 according to which we will achieve a production of 5.00 M.Sq.m. in 1973-74 and will break-even. However, due to circumstances beyond the control of the company such as power cut, shortage of major raw material (Methylene Chloride and Methanol) we were not so far able to achieve the targeted levels.”

6.33 The Committee regret to note that the undertaking has been incurring losses right from inception and the loss has increased from Rs. 204.42 lakhs in 1968-69 to Rs. 297.34 lakhs in 1972-73; the cumulative loss as on 31-3-1973 was Rs. 14.86 crores against the paid up capital of Rs. 6.32 crores i.e. about 235 per cent of the equity capital.

6.34. The Committee find that low utilisation of capacity, erratic production both qualitatively and quantitatively, excessive rejections, excess of scrap, excess consumption of materials, low recovery of silver and solvents have mainly contributed to the loss. Besides the loss on account of silver to the extent of Rs. 22 lakhs in 1971-72, the contribution made by the products to the total loss in 1971-72 was to the extent of Rs. 154 lakhs by cine film positive, Rs. 85 lakhs by medical X-ray film and a small profit of Rs. 7.5 lakhs by bromide paper. The contribution towards loss during 1972-73 was about 119 lakhs under Cine Film, Rs. 81 lakhs under Medical X-ray and Rs. 6 lakhs on account of Bromide paper, and the loss on account of silver was to the extent of Rs. 38 lakhs.

6.35. The Committee find that while the value of production in all the years fully covered the cost of direct materials and direct wages excepting 1968-69 the extent of coverage of other expenditure varied from year to year. It is surprising that though Government and Management were in the know of losses no effective action has been taken to arrest the losses. It has been admitted by the representative of the Ministry that it is only with efficient and better management that the losses could be reduced.

6.36. The Committee note that the DPR did not contain the profitability analysis. In September, 1966, the Company prepared a tentative forecast which was revised in August, 1968. In the light of problems encountered, another revised forecast was prepared for 7 years from 1969-70 to 1975-76 which was updated in November, 1970. The actual performance of the Company during 1969-70 to 1972-73 did not, however, come up to the level expected in these forecasts.

6.37. The Committee were informed that the Management has since initiated certain measures to improve the working of the undertaking like maximum utilisation of capacity Jumbo Roll conversion programme for X-ray films, roll films and colour films, reduction in scrap levels, additional control facilities, adoption of realistic pricing policy and adoption of suitable industrial relations.

6.38. The Committee feel that unless concerted measures are taken to step up quality production by reducing rejections, economising in consumption of materials, adopting cost reduction methods and rationalising its programmes of production and distribution consistent with market demands, the financial viability would seem to be far remote thus entailing greater volume of imports coupled with increased outgo of foreign exchange.

E. Costing System

6.39. The Company follows the system of process costing. There are four processes involved in the production of each of the products viz. base-casting, substrating coating and conversion and packing.

The commercial production of the first product viz. Cine Film Positive commenced in June, 1967. Upto the end of December, 1968 the Company prepared monthly cost statements indicating full cost of each product showing *inter alia* the direct material cost, direct wages and overheads. From January, 1969 onwards the monthly presentation was changed so as to indicate only the material cost and the contribution made by each product. This system was followed up to March, 1971. In addition, statements of full cost were prepared on half yearly basis for 1969-70 and yearly basis for 1970-71 (for the period up to February, 1971 only) allocating the overheads of the basis of rated capacity.

6.40. The Management have stated (September, 1973) that "... This system was followed mainly with a view to focus attention on the main item of cost namely, direct material cost which constitutes roughly 70 per cent of the total cost. Further, the overheads being mostly fixed of which interest and depreciation alone constitute a major portion, are not of a controllable nature. It was felt that such direct cost analysis will clearly show the plant performance on the material front while if a total cost

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statement is worked out, which would include allocations of fixed overheads on various basis, the cost thus presented might obscure the performance of the Company with regard to materials.”

6.41. A costing manual was issued and a revised system of costing was introduced with effect from April, 1971 so as to compile the total cost of each product. According to the costing system presently followed, the costs are collected under the headings “material, labour and overheads”. The raw materials are issued at standard prices and are allocated to various products on the basis of material content in the raw base and price variations, if any, are adjusted at the end of the year. Labour and overheads are allocated initially to the various departments and then to the products on the basis of machine hour rate. Selling and distribution expenses are allocated on the basis of value of sales. The standard costing system was introduced from 1st April, 1973.

6.42. Asked as to how in the absence of actual cost of production having been worked out prior to 1970-71 control on cost was exercised the HPF stated that—“The total cost of production prior to 1970-71 product-wise has not been worked out since the Company was adopting the marginal costing system, by which control was exercised on the major elements of cost, namely, material, which constituted more than 70 per cent of the total cost. Since the remaining costs are more or less fixed, it was not considered necessary at that time to work out the total cost of production by allocating overheads to each product.”

6.43. In this connection, the Ministry in a written reply stated that—“Government feel that this was not the best method of determining and regulating costs.”

6.44. The Company have been fixing the selling prices of one of their products, namely, Bromide Paper with reference to the prices fixed by their competitors. In regard to Cine Positive, Cine Sound, X-ray and Roll Film where imports were simultaneously taking place, they have been fixing the prices with reference to the prices at which the imported brands were being sold by their competitors.”

Analysis of Costs

6.45. The Detailed Project Report submitted by the collaborators in June, 1961 indicated the estimated cost of production for each product. As, however, the Company was not compiling the actual cost of production for each product during 1968-69 to 1970-71, a comparison between the cost of production indicated in the Detailed Project Report and the actual cost of production was not possible.

6.46. The Management have stated (September, 1971) that as the entire manufacturing technology and the product-mix have been changed, a comparison of the actual costs with those indicated in the Project Report was not possible.

6.47. In this connection, in a written note HPF informed the Committee that—“Since we have not achieved stability in production and the cost of production was fluctuating, we could only compare our cost of production with the averages of the previous periods to effect control. The budgeted costs were not worked out as Standard Costing System was not in vogue at that time.”

6.48. The following table indicates the actual cost of production for each product and the estimated cost as indicated in the Detailed Project Report for the years 1971-72 to 1973-74 (upto 30-9-73)—

Product	Unit	Cost of production as per DPR (Rs.)	Actual cost of production.		
			1971-72 (Rs)	1972-73	1973-74 (Up to 30-9-73)
1. Cine Film Positive	Per roll	61.00	268.26	250.97	384.34
2. Cine Film Negative	per roll	75.00	No. production	No production	..
3. Roll Film	per roll	0.75	Not worked out due to insignificant production.	Do.	..
4. X-ray Film	per sq. m.	16.00	62.52	55.31	67.60
5. Sheet Film	per sq. m.	11.00	No production	No production.	..
6. Paper	per sq. m.	4.40	11.35	12.25	13.63

6.49. The reasons for variations in the cost of production have not been analysed by the Management.

6.50. The increase in cost of production during 1973-74 is due to the power cut imposed by Government of Tamil Nadu till July, 1973 and the increase in wastage levels in the Base Casting Department due to frequent stoppages on account of short supply of methylene chloride.

6.51. The Company did not work out the budgeted cost of each item of products (up to 1972-73) and therefore, the comparison of actual cost with budgeted cost cannot be made.

6.52. The Management have stated (July, 1973) as follows:—

“...the cost of production indicated in the Detailed Project Report is no guide since the raw material cost taken at French price plus 15 per cent is totally inaccurate. The Indian prices of the raw materials are three times higher than the French price. Besides, the interest charged to product as per Detailed Project Report calculation is very much on the low side. Presumably, interest on working capital only were taken as against

the heavy interest liability of the Company on capital loans from the Government. Lastly, the overhead expenses on Accounts, Administration etc. were not allocated to the products as per Detailed Project Report calculation. Under these circumstances to compare the actual cost of production with Detailed Project Report cost of production will be misleading and will not be a proper guide, in our opinion.”

6.53. The Committee note that though the undertaking went into commercial production in June, 1967, only monthly statements of costs were prepared till December, 1968. From January, 1969, the system of marginal costing was adopted by which control of cost was exercised on the main element of cost namely material which constituted 70 per cent of the costs and not on the total cost of production, with the result that a comparison with the cost of production in the DPR was not possible. A costing manual was issued and a revised costing system was introduced in April, 1971 so as to compile the total cost of each product under the headings labour, materials and overheads. The contention of the Management was that the cost in the DPR could not be taken as guide since the manufacturing technology and product-mix have been changed. The Ministry have admitted that this was not the best method of determining and regulating costs.

6.54. The Committee feel that at least the budgeted costs should have been worked out so that the management may have a yard-stick for assessing the reasonableness of costs and to exercise control thereon.

6.55. The Committee feel perturbed to note the absence of a proper system of cost control which has in a measure contributed to the loss incurred by the undertaking.

6.56. The Committee find that standard costing system has been introduced in April, 1973. The Committee feel that now at least with the introduction of standard costing system, it should be possible for the Management to work out the cost of the products at each stage of the process, analyse the cost and bring to the notice of the top management variance analysis to enable them to take suitable corrective action in time.

F. Delay in Claiming the Refund of Customs Duty

6.57. Article V(5) of the agreement with collaborators provided that any unusual tools, instruments and equipment specially required for the erection of any particular item of machinery would be procured and brought to site by the collaborators at their cost but the customs duty in respect thereof would be paid by the Company. The customs duty was refundable if the tools and equipment were re-exported by the collaborators within a stipulated time limit.

6.58. The Company paid a sum of Rs. 56,302 towards customs duty on the tools and equipment brought by the collaborators for the erection of plant and machinery. Because of non-availability of details regarding re-export of these tools and equipment, the Company could not claim the refund of customs duty amounting to Rs. 51,565.

6.59. The HPF in a written reply conceded the lapse on their part for not keeping the details of re-export of tools and equipment.

6.60. In a subsequent note the HPF stated that the Collaborators supplied a list of erection tools, which were likely to be re-exported.

6.61. The Committee note that according to the terms of agreement with the collaborators customs duty for any unusual tools, instruments, etc. specially procured for erection and brought to the site by the collaborators would be paid by the undertaking. The duty would be refunded if the tools and equipments were re-exported by the collaborators within a specific time. The Committee regret to note the undertaking has to incur a loss of Rs. 51,565 as it could not claim refund of custom duty in the absence of details of re-export of tools and equipment by the collaborators. The Undertaking had conceded the lapse on their part for not keeping the details. The Committee recommended that Government/Undertaking should fix responsibility for the lapse with a view to taking departmental action.

G. Foreign exchange savings

6.62. The net approximate saving indicated by the Management in terms of foreign exchange as a result of the items manufactured by the Company from its very inception up to 31st March, 1973 is shown below:—

		(Rs. in lakhs)
Expenditure in foreign exchange		Earnings
1. Cost of imported raw materials (excluding jumbo rolls) consumed	274.78	CIF value of imports corresponding to the Company's production. 1267.19
2. Value of imported X-ray jumbo roolls consumed	188.57	
3. Depreciation on imported machines	275.45	
4. Technical fee paid	49.48	
5. Net savings in foreign exchange	478.91	
	1267.19	1267.19

NOTE : --The effect of creation of a self reliant production capacity is not however, capable of evaluation in precise monetary terms.

VII

PURCHASE PROCEDURE AND INVENTORY CONTROL

A. Purchase procedure

7.1. According to the procedure formulated by the Company in 1967 for the purchase of raw materials and other stores, proprietary items or items of particular 'brand' are purchased on the basis of quotations obtained from the suppliers of that particular brand. As far as possible such supplies are purchased directly from the manufacturer or their authorised distributors/agents after getting a quotation from them. As regards other items, quotations are invited from at least eight suppliers on the approved list maintained by the Company. Purchases on the basis of open tenders are made only in exceptional cases after obtaining the specific orders of the Managing Director. To the extent possible, articles are purchased through the Director General of Supplies and Disposals or by placing orders on D.G.S.&D. rate contract holders.

7.2. The following table indicates the number of purchase orders of more than Rs. 10,000 each placed by the Company and their value during the five years ended 31st March, 1973:—

	1968-69		1969-70		1970-71		1971-72		1972-73	
	No. of P.Os.	Value (Rs.)	No. of P.Os.	Value (Rs.)	No. of P.Os.	Value (Rs.)	No. of P.Os.	Value (Rs.)	No. of P.Os.	Value (Rs.)
I	2	3	4	5	6	7	8	9	10	11
1. Indigenous purchases—										
(a) Through open tender	..	..	..	..	..	..	..	..	..	..
(b) Through D.G. S&D rate contracts	4	2,57,538	5	1,16,620	4	1,42,453	2	83,246	..	..
(c) Through single tender enquiries (non-proprietary items)	6	16,75,305	11	9,91,825	18	61,42,328	4	8,57,748	..	..
(d) Through single tender enquiries (Proprietary items)	6	5,91,663	14	3,42,91,832	8	45,65,964	8	87,53,388	11	90,21,934
(e) Through limited tender enquiries	45	12,82,542	68	54,38,257	96	37,54,570	61	29,07,591	73	50,26,539
2. Foreign purchases—										
(a) Through limited tender enquiries	..	..	1	19,530	..	..	13	78,42,430	9	5,01,53,389
(b) Through single tender enquiries (non-proprietary items)	2	2,82,868	5	9,64,569	15	49,56,141	10	25,27,366	..	..
(c) Through single tender enquiries (Proprietary items)	1	24,72,600	19	1,29,42,777	8	17,61,214	2	21,67,490	11	14,94,870
TOTAL	64	65,62,516	123	5,46,76,410	149	2,13,22,670	100	2,51,39,259	104	6,56,96,732

It will be seen that none of the purchase orders was placed on the basis of open tenders. In some cases even nonproprietary items were purchased on the basis of single tender enquiries.

7.3. The Ministry have stated (July, 1973) as follows:—

“The major raw materials required for production of films are cellulose triacetate, methylene chloride, methanol, acetone, silver, etc. and these constitute about 70 per cent of the total requirement of materials. The above materials are purchased from single sources of supply to whom industrial licences for manufacture have been issued by Government of India. These materials together with the items that are presently being imported, such as triphenyl phosphate, gelatines of various grades, mucochloric acid, baryta coated paper, yellow interleaving paper etc. constitute about 90 per cent of our total requirement. The other materials for which the procedure regarding tender is applied, is therefore, not very significant. . . . Since the materials purchased are of very stringent specifications involving testing of samples at various stages before bulk supplies are accepted and many of these items, particularly production raw materials, are to be specially manufactured to photographic grades which the Indian industries are yet to get thoroughly familiarised, it is essential that supplies are drawn only from reliable suppliers who from our experience can give products which are uniformly consistent in quality. In view of the stringent specifications of the materials required for the manufacture of films, it has been prescribed by the Company that the normal mode of purchase of stores should be only through tenders received from approved suppliers and purchase through advertised tender should be restored to in exceptional cases where the details of any known suppliers are not available with the Company.”

7.4. In reply to a question as to how the list of approved suppliers is updated when open tenders are not invited in any case thereby debarring the new manufacturers/suppliers getting the chance of offering their products and the justification for purchasing even non-proprietary items through single tender enquiries, the HPF, in a written note, stated, that—

“the economic prices at which purchases are made are not necessarily through system of tendering. The list of potential tenderers is constantly reviewed and enquiries are made for supply of materials to our rigid specifications at economic

prices. For a manufacturing industry, time is as essential factor and as long as the most economical buy is made tendering need not necessarily be the only procedure through which such purchases have to be made."

7.5. The Committee note that the Undertaking has been purchasing its requirements of proprietary items or items of particular brand direct from the manufacturers of the authorised distributors/Agents after getting a quotation from them.

Purchases on the basis of open tenders are made only in exceptional cases after obtaining specific orders from the Managing Director.

7.6. The Committee find that in respect of major purchase orders of value exceeding Rs. 10,000 placed by the Company during the five years 1968-69 to 1972-73, none of the orders was placed on the basis of open tenders and even non-proprietary items were purchased on single tender basis.

7.7. The Committee have pointed out in a subsequent section of this Chapter how the procedure of Single Tender has put the undertaking to a loss.

7.8. While the Committee can see some justification for adopting this procedure of single tender directly from Manufacturers or from authorised agents in regard to specialised items with stringent specifications including imported items, the Committee fail to understand why open tenders should not be invited at least in the case of balance of items which are not of a proprietary or specialised nature. The Committee recommend that the Undertaking should follow the well recognised procedure of making purchases through open tenders in the interest of securing the most competitive rates.

Purchase of methylene chloride

7.9. In February, 1967, the Company placed an order on M/s. Vulcan Trading Company, USA for the purchase of 97.83 M. tons of methylene chloride at US \$ 0.508 per lb. FOB, New York. The purchase was finalised on the basis of single tender for the following reasons:—

- (i) This was one of the major and important raw materials required for the photographic industry necessitating a high standard of purity so as to meet the strict specifications.
- (ii) By the time, the Company got the import licence there was already a good deal of urgency for the product.
- (iii) The material was scheduled to be manufactured by M/s. Mettur Chemical and Industrial Corporation in collaboration with this foreign supplier. The Company was, therefore, anxious to use,

as early as possible, a product as closely similar as possible to the one which would in future be supplied indigenously so that process could get attuned in advance to the material to be manufactured at Mettur.

7.10. Two months later, in April, 1967, the Company invited tenders for the supply of 180 M. tons of methylene chloride and placed an order on M/s. Allied Chemical Corporation, USA at the rate of US \$ 0.0985 per lb FAS, New York ignoring the other two lower quotations as the product of this firm appeared to be of pure grade and the other lower offers were for unacceptable technical grades. In this connection, the India Supply Mission, Washington through whom the purchase was made stated in April, 1967 that M/s. Vulcan Trading Company when contacted on phone, advised that they would be in a position to supply the material at \$0.13 per lb FAS, New York.

7.11. The product of Allied Chemical Corporation was accepted by the Company within a period of two months of the placement of the order on M/s. Vulcan Trading Company. On the basis of the rate obtained by inviting tenders, the extra expenditure incurred on the purchase of 97.83 M. tons of methylene chloride in February, 1967 works out to Rs. 84,599.

7.12. While explaining the reason for placing another order within 2 months on a different supplier for the Methylene Chloride on the basis of open tenders, the HPF in a written reply stated that:—

“Purchase at a lower price from another vender, at a later date, does not imply that our first purchase price was high; however, this was necessitated due to our anxiety to buy the material from the collaborator of Mettur Chemicals who were setting up a manufacturing plant in India. This is the only explanation we can offer.”

7.13. Despite lower offer received from another tenderer after placing the order for the supply of Methylene Chloride it was admitted by HPF in a written note that no attempt was made for getting the price reduced from M/s. Vulcan Trading Company.

7.14. In this connection the Ministry of Industrial Development stated in a written note that the Government was not satisfied with the justification by the Management, the Company should have invited open tenders before placing an order on the U.S. Company in February, 1967.

7.15. It was also stated that M/s. Mettur Chemicals and Industrial Corporation Ltd., had been producing Methylene Chloride since September, 1967 and the undertaking had been purchasing solely from them since that date.

7.16. In regard to the purchase of Methylene Chloride from sources other than M/s. Mettur Chemicals and Industrial Corporation Ltd. and its use the HPF stated that:—

“The material against order placed on Vulcan Trading was received at site in July 1967 and those placed on Allied Chemicals Corporation was received in October, 1967.”

7.17. The details of quantities of Methylene Chloride received in 1967 from the three firms were as under:—

Name of the Suppliers	When received	Quantity received
1. M/s. Vulcan Trading Co. USA.	July, 1967	98.5 tonnes.
2. M/s. Allied Chemicals Corporation	October, 1967	177.00 tonnes
3. M/s. Mettur Chemicals & Industrial Corporation Ltd.	December, 1967 to March, 1968.	182.00 tonnes.

It was stated that all these materials had been used up in production without any difficulty.

7.18. In a written note furnished after the evidence, the undertaking stated that:—

“Methylene Chloride is one of raw materials used in the manufacture of film base for the supply of which we depend upon a single source in the country, i.e. M/s. Mettur Chemical & Industrial Corporation, Mettur Dam who obtain their requirements of raw material, namely, Methanol from Fertilizer Corporation of India. As against our monthly minimum requirement of 150 tonnes of Methylene Chloride to operate all the

six Base Machines, the actual receipts from January, 1973 to December, 1973 were as follows:—

January '73	126 tonnes	July '73	92 tonnes
February	98 tonnes	August	109 tonnes
March	65 tonnes	September	75 tonnes
April	65 tonnes	October	138 tonnes
May	70 tonnes	November	73 tonnes
June '73	65 tonnes	December '73	72 tonnes

Against our requirements of 2000 tonnes for the period January—December, 1973 (150 tons per month plus 200 tons buffer stock) we have received only 1048 tons i.e., about 50 per cent.

The extent to which HPF production has been crippled can be seen from the following table for the period July to December, 1973.

Month	Planned capacity hours	Utilised capacity hours
July '73	4464	1670
August '73	4464	2140
September '73	4320	1580
October '73	4464	3276
November '73	4320	2072
December '73	4464	1481

Against planned capacity of about 26,500 hours for the period July, to December, 1973, we could utilise only 12,219 hours i.e., about 45 per cent.

The Consequences have been as follows:—

Short output of film base for the manufacture of various products.

Higher solvent losses and scrap due to repeated stoppages and start-up/stabilisation of base casting machines several times during the year.

Due to short supplies of base, lower utilisation of capacity and consequent reduced output in all other operating departments viz. Emulsion, Coating and Conversion.

Continuing losses to the Company, which could have been avoided, with a profitable picture.”

7.19. The Committee note that the Undertaking placed an order in February, 1967 for purchase of 97.83 M. tons of Methylene Chloride at a higher price of US \$ 0.1508 per lb FOB, New York on a single tender basis although within two months of the same order it got a lower offer from another firm at the rate of US \$ 0.0985 per lb FAS, New York after invitation of tenders. Even after receipt of this lower offer and when the former company agreed to reduce its rate to 0.13 \$ per lb FAS, New York, the undertaking did not make any attempt to secure any reduction in price.

7.20. The Committee were informed that this was on account of the anxiety of the undertaking to buy the material from the collaborators of Mettur Chemicals who were setting up a manufacturing plant in India. It has been admitted by the Ministry that Government were not satisfied with the justification given by the Management who should have invited open purchase of 97.83 M. tons.

7.21. The Committee regret to observe that because of non-invitation of tenders in the first instance and placing the order on a single tender basis, the undertaking had to incur an extra expenditure of Rs. 84,599 on the purchase of 97.83 M. tons.

7.22. The Committee also find that the undertaking had been taking its requirement of Methylene Chloride from Mettur Chemicals from September, 1967. The Committee find that even in 1973 against the requirement of 2000 tons of the material from January to December, 1973 the Mettur Chemicals could supply only 1048 tons i.e. about 50 per cent of the requirement with the result there had been under utilisation of the capacity of the plant, reduced output and consequent losses to the undertaking.

7.23. The Committee do not appreciate the hasty action of the Management in having placed an order on the basis of single tender at a higher rate first on the collaborators of an Indian firm and thereafter switching over to the Indian firm who on account of its failure to meet the demand of the undertaking in full had put the undertaking to further losses.

B. Inventory Control

7.24. The following table indicates the comparative position of inventory and its distribution at the close of the last five years:—

	(Rs. in lakhs)				
	1968-69	1969-70	1970-71	1971-72	1972-73
1. Raw materials (including in-transit)	140·35	230·63	219·32	268·65	176·40
2. Stores and spares (including intransit)	55·35	82·31	90·65	106·31	121·73
3. Tools	1·66	1·50	1·03	0·84	0·62
4. Work-in-progress	105·29	116·22	161·08	110·25	141·90
5. Stock-in-trade	30·50	38·38	87·22	162·46	197·01
6. Stock of Stationery & Stamps	0·32	0·30			
	333·47	469·34	559·31	648·51	637·66
<i>Less</i> : Provision for obsolescence		1·00			
Provision for write down of sub-standard & defective materials		23·50			24·50
				TOTAL:	613·16

NOTE : Closing stock as on 31st March, 1971 includes 2,31,643 spools valued at Rs. 28,631 out of 3,00,000 spools purchased in September, 1966 for Roll Film (size 120 from M/s. Bhupendra Plastics, Madras. These have not been used as light penetrates into the rolls which fogs the films.

7.25. The stock of raw materials represented 3.4 months' consumption in 1972-73, 9.8 months' consumption in 1971-72, as compared with 7.2 months' in 1970-71, 9.9 months' in 1969-70 and 8.8 months' in 1968-69. Stock in trade represented about 3.9 months sales in 1972-73, 4.5 months' sales in 1971-72 as compared with 2.9 months' in 1970-71, 1.2 months' in 1969-70 and 1.6 months' in 1968-69.

7.26. In March, 1967 Government decided that the excessive inventories of Public Sector Enterprises and their system of inventory control should be examined by high level committees. In pursuance of this decision, a committee known as 'Fourth Committee on Inventory Control' was appointed by Government in August, 1970 which examined the in-

ventory holding of this Company and *inter alia* made the following important observations in August, 1971:—

(i) The Company should limit its inventories for principal items of raw materials as under :—

(a) Cellulose Triacetate	60 days
(b) Silver Nitrate	41 days
(c) Methylene Chloride	7 days
(d) Gelatin	12 months (for impor)

The ideal inventories for the remaining items of raw materials and other 'A' items should also be worked out individually adopting EOQ formula.

On the basis of the above norms the total inventory holding of the Company as on 31st March, 1970, 31st March, 1971 and 31st March, 1972 was in excess by Rs. 191 lakhs, Rs. 198.47 lakhs and Rs. 243.50 lakhs respectively. The excess holding on 31st March, 1973 was Rs. 156.18 lakhs.

(ii) On the basis of the recommended norms the Company should draw up its inventory budget every year which should be got approved by the Board of Directors. The inventory position should also be discussed by the Board periodically.

(iii) The inventory should be reviewed every month by an inventory cell.

(iv) While the work of planning the materials can remain with the Production Department, the work of ascertaining the quantities to be purchased should be entrusted to the Material Management.

(v) As nearly 95 per cent of the supplies are delayed by the suppliers beyond the due dates, the Company should tighten up the conditions of contracts to ensure timely supplies.

(vi) Cataloguing and codification of stocks items should be done on scientific basis which will facilitate standardisation and variety reduction.

(vii) Proper reporting system should be instituted to keep the top management informed on the working of the Material Management Department.

7.27. In July, 1973 the Ministry intimated the following comments on the recommendations of the Committee:—

(i) An Inventory Control Committee under the Chairmanship of the Company's F.A. & C.A.O. has been functioning since September, 1972. This Committee has fixed the healthy levels of inventory for 'A' and 'B' items which are being reviewed periodically with reference to the production target. The total

stocks of 'A' and 'B' items as on 31st March, 1973 exceeded the healthy levels by Rs. 56.80 lakhs.

- (ii) Based on the healthy levels the inventory Budget was prepared for the year 1973-74 and the same was approved by the Board.
- (iii) The Inventory Control Committee meets periodically and reviews the actual stock position *vis-a-vis* the healthy levels.
- (iv) and (vii) These are in the process of implementation.
- (vi) Steps are being taken to catalogue and codify all stock items.

7.28. The undertaking have offered the following remarks (January, 1974) on the recommendations in items (iv), (v), (vi) and (vii) of the Committee on Inventory Control:—

“Item (iv) we have noted the observations of the Committee and they will be implemented on setting up the Materials Management Division.

Item (v) We have tightened up the conditions of contract wherever possible. However, it may be mentioned that our requirements are of very stringent specifications involving testing of samples at various stages before bulk supplies are accepted and many of these items (particularly production raw materials) are also to be specially manufactured to 'Photographic grade'—a quality standard which the Indian Industry is yet to get thoroughly familiarised. Deliveries are, therefore, likely to be delayed in spite of our active chasing up the suppliers and in spite of the best co-operation on the part of the suppliers. However, in the case of 'off-the shelf' or readily available goods, we are ensuring timely supplies as per our delivery requirements.

Item (vi) We have codified on a scientific basis all stocks of raw materials. With regard to Maintenance Stores and Laboratory Chemicals, the work is in progress.

Item (vii) As a separate Materials Management Division has not been set up, the Inventory Control Committee reviews the inventory holdings at fortnightly intervals and reports to Managing Director on points which require the urgent attention. We are planning to have a separate Materials Management Division.”

7.29. In regard to the reasons for increase in inventory in 1971-72, the HPF stated in a written reply that—

“The main item which has contributed to the increase in inventory of raw materials is sizeable stock of re-usable scrap, amounting to Rs. 88.63 lakhs. This was due to the inadequate shredding

and washing capacity of scrap, besides increasing in the scrap arising."

7.30. From the Table on page 297 it would be seen that the closing stock on 31st March 1971 included 2,31,643 spools valued at Rs. 28,031 which were not used as light penetrates into the rolls which fogs the films.

7.31. The Committee enquired whether the circumstances in which the defective spools were purchased had been investigated and whether there was any possibility of these spools being utilised, the HPF in a written reply stated that at the time of the actual usage of these spools, long after the receipt of the materials, the defect was found. Since there was no possibility of using these spools, the Company had to write-off the value of these spools amounting to Rs. 28,631. This highlights the defective systems control in receiving and inspection of new products.

7.32. During evidence the Chairman HPF stated that—

"I can only say that it is a faulty systems control, that the samples should have been approved before we bought this material. We should not have got 3,00,000 spools before approving the first sample and using it. Possibly they obtain the bulk supplies on the assumption that the spools would be all right. But, they seem to have not found out in actual use."

7.33. The value of stores declared as surplus or obsolete, during the last four years and awaiting disposal is indicated below:—

		(in Rupees)	
Year		Stores declared surplus/obsolete	Awaiting disposal
Up to 1968-69		4,30,445	72,622
1969-70			
1970-71		9,897	5,190
1971-72		78,208	71,945
		5,18,550	1,49,757

7.34. The value of stores declared as surplus or obsolete during the year, 1972-73 as furnished by HPF is given below:

Surplus material awaiting disposal as on 31-3-1973	Rs.	1,49,757
Add—Material declared surplus/obsolete during the year.		58,172
TOTAL		2,07,929
Less—Materials disposed off out of the surplus materials as on 31-3-1973	Rs.	2,07,929
Materials disposed off out of materials declared as surplus during 1972-73.	Rs.	1,13,360
	Rs.	22,953
Awaiting disposals as on 31-3-1973.		72,616

7.35. In addition, the Management have identified slow-moving items of the value of Rs. 16.35 lakhs as on 31st March, 1972. The value of slow moving items as on 31st March, 1973 was Rs. 24.05 lakhs.

7.36. In regard to quality and age-wise grouping of inventories the Chairman, HPF stated during evidence that—

“We found there were certain inventories on which we had our own doubts about the quality. We started with a complete recheck of our inventories. When we went into that, we realised that the age of the product was not recorded in our inventories. I think, it is one of the elementary precautions in any Company at the end of each year, to determine the stock which is one year old; this is the stock which is two years old; and the stock three years old and the Board will order for an investigation on items which are more than two and three years old.

We found that the age of the product was not recorded in our inventories. Therefore, the Board directed that the age of the product should be recorded, and if the time limit has expired, it should not be used. We have now come to a conclusion that unless the inventories move very fast, we will be landing ourselves into a liability on equality, about which we do not know. The products must be used quickly. You could keep coated jumbo rolls but the finished product should move immediately. We had, 30,000 cine rolls to be rechecked.”

7.37. Regarding the steps taken for reducing the inventories, the Chairman HPF stated during evidence that—

“During October, 1972, the Management instituted a drive to clear the inventories on the basis of crash programmes and a task force was formed and a review was made every week to see that we do not have stocks for more than one month in any of the products.”

Verification of Stores

7.38. The Company introduced in January, 1970 a procedure of perpetual stock verification which required a quarterly verification of more important items of stores (classed 'A'), a half yearly verification of less important items and an annual verification of the rest of the items the results of perpetual verification were to be put up to the Managing Director through the Financial Adviser and Chief Accounts Officer once in a month or quarter as might be convenient.

7.39. The programme could not be fully adhered to during 1971-72 because of inadequacy of staff in the Internal Audit Section. The Management have stated (November, 1972) that they are considering the creation of a team of stock verifiers consisting of suitably qualified personnel to ensure that perpetual stock verification is conducted during 1972-73 in accordance with the prescribed procedure. It has further been stated that the question of streamlining the procedure for the verification of high value stock items like silver and certain chemicals is being considered and would be incorporated in the Stores Manual presently under compilation; the reconciliation of receipts, issues and consumption of these items at more frequent intervals is also under examination.

7.40. It was further intimated in July, 1973 that pending creation of a team of stock verifiers, two inventory verifiers have been posted to the Internal Audit Section.

7.41. The HPF stated in a written note that—

“A Stores Manual incorporating all the existing systems and procedures has been compiled. Certain other improvements in the existing procedures including those suggested by Audit are under consideration of the Inventory Control Committee and the same will be finalised shortly and incorporated in the stores Manual. Procedures for documentation for receipt, issue and consumption of high value items (Silver) have been drawn up and introduced which will have to be incorporated in the Manual.

The perpetual stock verification system is now fully in vogue.”

7.42. The Committee find that the stock of raw materials has increased from Rs. 140.35 lakhs representing 8.8 months consumption at end of 1968-69 to Rs. 268.68 lakhs representing 9.8 months consumption at the end of 1971-72. The stock has however, come down to Rs. 176.40 lakhs representing 3.9 months' consumption at the end of 1972-73.

7.43. In regard to finished stock, the value of finished stock has increased from Rs. 30.50 lakhs representing 1.6 months' sales at the end of 1968-69 to Rs. 197 lakhs at the end of 1972-73 representing 3.9 months sales.

7.44. The Committee find that the 'Fourth Committee on Inventory Control' appointed by Government of India, which examined the inventory holdings of the Undertaking had found that the Undertaking had been carrying stock of raw materials in excess of norms by Rs. 191 lakhs, Rs. 198.47 lakhs and Rs. 243.50 lakhs at the end of 31st March, 1970, 31st March, 1971 and 31st March, 1972 respectively. The excess has, however, come down to Rs. 156 lakhs on 31st March, 1973.

7.45. The Committee are informed that the Management are already taking steps to implement the recommendations of the Inventory Control Committee except those relating to institution of a system of reporting to top management and re-organisation of Production and Material Management Departments which are in the process of implementation.

7.46. The Committee are also informed that a system of perpetual verification of stores is now in vogue. The Committee recommend that undertaking should complete the re-organisation of the production and material management departments soon so that planning, scheduling and purchases of material can be systematised.

7.47. The Committee trust that with the implementation of the recommendations of the Inventory Control Committee and institution of perpetual stock verification system, it should be possible for the Undertaking to keep the inventory under control and avoid over stocking of materials.

7.48. The Committee regret to note that the Undertaking had to write-off a sum of Rs. 28,631 being the cost of 2,31,643 spools purchased in September, 1966, as these were found to be defective and could not be used. The Committee were informed that the defect could be noticed only at time of the use of the Spools. The Committee fail to understand as to how such defective materials were purchased without proper verification and inspection of the samples.

It has been admitted that this was due to faulty system control and the samples should have been approved before the materials were purchased. The Committee recommend that the matter should be investigated and responsibility for the lapses fixed.

Surplus machinery

7.49. During construction stage the Company purchased in 1961, a Water Treatment Plant with a capacity of 44,000 gals. per day at a cost of Rs. 71,071 including a chlorinator to provide water supply to the colony and the factory. The plant was commissioned in April, 1962. In 1964, the Company felt that necessity for augmenting the water supply and after considering the alternatives of either having an additional equipment or to instal a completely new equipment, it decided (in 1965) to purchase a new plant. Accordingly, a new plant having a capacity of 1,60,000 gallons per day was purchased at a cost of Rs. 1.21 lakhs and was commissioned in April, 1967. Consequently, the smaller plant became surplus. Efforts made for the disposal of the surplus plant (excluding the chlorinator costing Rs. 9,926 in use) have not been successful so far. (March, 1973).

7.50. The undertaking stated in a written reply, that though they had no suitable buyer for the surplus plant, they had found an alternative use for this plant in the Silver Recovery Section.

7.51. In this connection in a written reply the Ministry stated that—

“The Company have explained that the original plant of lesser capacity was acquired in 1962 for the specific purpose of meeting the requirements of construction and to cater to the requirements of construction staff residing at the construction site. After the construction period was over and production started, the need for a higher capacity plant was felt at that time to cater to the needs of the factory and also for the township. While considering the increase in the supply of water and also water treatment for Laboratory, the Company incidentally considered the suitability of utilising the old plant with some modification. Since due to technical and other reasons the old plant was not suited to their requirements and since the Plant had served its purpose, this plant became obsolete to their requirements. Further, if the Company had installed the higher capacity plant even at the initial stage, it would have meant additional expenditure, by way of interest and depreciation to the extent of about Rs. 35,000. Hence it is not correct to state that taking into account the ultimate requirements the plant could have been purchased earlier.

The Company have now found alternative use for this plant in the Silver Recovery Section.”

VIII

MODERNISATION AND EXPANSION OF THE PLANT

8.1. As already mentioned in paragraph *ante*, the Company began to feel doubt in January, 1965 about the collaborators' familiarity with the technology adopted for designing the plant and the know-how furnished for the production of delicate products like X-ray Films which had not been produced even in their own plants. The doubt was confirmed in July, 1969 when a team consisting of Chairman, Managing Director and General Manager of the Company went abroad in connection with the proposed expansion of the plant and contacted other leading photographic manufacturers.

8.2. Although with the transfer of ownership of the collaborating firm to the new management in May, 1963 the quantity of products was promised by them as confirming to 1965 level instead of 1960 level as stipulated in the agreement, the Company could not attain the production of different products even after four years of the commencement of commercial production near about the rated capacity. While reviewing the production performance of the Company for the years 1967-68 to 1969-70, the Managing Director made the following observations in a note submitted to the Board of Directors in March, 1970:—

“If we desire that in future manufacturing operations should be smooth, the efficiency of production increased further, and the revised rated capacity of the plant speedily realised, then we need to modernise the plant, even if this involved some additional capital expenditure. It has to be realised that the present plant was designed in 1960 by a firm that did not have access to modern technology even then. The technology of photographic manufacture, however, is continuously making rapid strides the world over and the gap between our techniques and those prevalent abroad is very wide. At this point of time when we are keenly pursuing the possibility of entering into collaboration arrangements for expansion, it is relevant to ponder this matter. It would seem to be advantageous, from the experience we have had so far, that in a highly complex and sophisticated industry like ours we should seek a collaborator who instead of simply supplying the machinery and imparting the know-how of a specified (and hence limited) kind, by means of performance and acceptance tests, will give

us a long enduring arrangement whereby we get continuously updated technology. We can get additional benefits if the collaborator is made to have stakes in the continued success of the operations. These factors have necessarily to be borne in mind when we negotiate for an agreement for the expansion scheme."

8.3. Simultaneously with a view to assess the quantitative utilisation of photographic materials like Cine Films Positive, X-ray Film, Sheet Film, Photographic Paper and Roll Film and to analyse brand performance, etc., the Company engaged M/s. Marketing Research Corporation of India Limited, New Delhi in February, 1967 on a payment of Rs. 27,000 to conduct a market survey. On the basis of the Survey made during February to April, 1967 the Company came to the conclusion that its installed capacity of 6.15 million sq. metres for all the photographic materials was adequate to meet the country's entire demand (upto 1970) of black and white materials including X-ray Films. Another survey conducted by M/s. Hindustan Thampson Associates Limited in October/November, 1969 on payment of Rs. 45,000, however, indicated the country's demand for Cine Film Positive, Cine Colour Film, Medical X-ray Film and the Roll Film for the next five years and for 1980 as follows:—

Cine Film Positive	(in million sq. metres)	2.88
Cine Colour Film	Do.	207 (about 3.50 in 1975)
Medical X-Ray Film.	Do.	1.36 (about 2.55 to in 1980) 1.84
Roll Film	(in rolls)	9,707 to 14,382 (about 21,352 in 1980)

8.4. The above projections were considered (November, 1970) reasonable by the Management for adoption as the basis for a feasibility study of the expansion scheme.

8.5. In respect of Photographic Paper, Document Copying Paper, Graphic Arts Film and Micro Film, the Company asked in September, 1970 M/s. Kirloskar Consultants Limited to conduct the market survey on payment of Rs. 27,500 in order to assess the current and potential annual demand upto 1975-76 and for 1980. The survey report was received in December, 1970 and in July, 1971 the Board of Directors was informed that it was under examination. The Management have stated (October, 1973) that the estimate of market demand indicated by the firm of consultants was used in connection with the expansion proposals and also for discussions with the prospective collaborators.

8.6. On the basis of the above surveys, the Company decided in January, 1971, with the approval of Government, to conduct a feasibility study for the expansion and modernisation of the plant with the help of M/s. Kodak of U.S.A. In October, 1971, M/s. Kodak gave a proposal for modernisation of the plant for an output of 5.6 million sq. m. of films and paper and for conversion of 3.9 million sq. m. of films from imported jumbo rolls to be supplied by them, involving an additional capital investment of Rs. 322 lakhs to Rs. 488 lakhs and a payment of technical fee of Rs. 450 lakhs. Although M/s. Kodak had not given adequate data of a feasibility report for this proposal, it was estimated by the Company (on rough calculations) that production at the proposed level would result in a loss of Rs. 60 lakhs per annum. In December, 1971 M/s. Kodak gave alternative proposals, at the instance of the Company, suggesting a production of 0.25 million sq. m. of Roll Film and reducing the total output from 5.6 million sq. m. to 4.6 million sq. m. but this was also not found attractive and worth consideration by the Company (no payment was made to M/s. Kodak in respect of these proposals); alternative proposals for technical fees and jumbo roll programme given by M/s. Kodak in October, 1971 were also not found suitable on account of the progress shown by the Company's own technicians in regard to the stabilisation of the existing operations and the carrying out of improvements in the plant for better performance. Another reason for not accepting M/s. Kodak's proposal was the prohibitive cost involved; improvements to plant and machinery are now stated to be under implementation without foreign collaboration (November, 1972).

8.7. In view of the unsuitability of all these proposals, the Company advised the Government in February, 1972 not to accept any of these proposals.

8.8. On receipt of an indication from Government in April, 1972 that the demand for Medical X-ray Film was likely to increase to 5 million sq. m. per annum and should be met by increasing the production in the Public Sector, the Company decided in May, 1972 to invite competitive offers for increasing the production capacity of X-ray Films from 1 million sq. m. to 5 million sq. metres per annum from Kodak, Fuji and Agfa-Gevaert and addressed them in June, 1972. The Company is also exploring the possibility of seeking the collaboration of reputed manufacturers for the production of colour films and paper on reasonable terms.

8.9. M/s. Kodak and Agfa have asked (November 1972) the Company to send a team for further discussions while M/s. Fuji are studying the data furnished by the Company (October, 1972).

8.10. In a written note furnished by the Management it has been stated that collaboration arrangements have not been finalised. However, Government of India has included the scheme for manufacture of polyester base X-ray and graphic arts in the V Plan. A tentative provision of Rs. 30 crores has been made in the V. Plan, for this scheme.

8.11. With regard to the survey conducted for HPF products, the HPF stated in a written note that:—

“The first survey done by M/s. Marketing Research Corporation of India dealt with Sheet films, Document copying paper, Bromide type photographic paper, Cine film black and white Positive, X-ray Films and roll films.

With a view to get market information on colour films and update the available information, a second survey had to be undertaken. This was assigned to M/s. Hindustan Thomsons.”

8.12. The amount of expenditure incurred on each of the two surveys conducted by M/s. Marketing Research Corporation of India and M/s. Hindustan Thompson Associates Limited and the results of survey were stated to be as follows:—

Year	Consultants	Amount spent
1967	M/s. Marketing Research Corporation of India	Rs. 27,000/-
1958	M/s. Hindustan Thomsons Associates Ltd.	Rs. 45,000/-

8.13. During evidence, the representative of HPF stated that, “The demand for X-ray films is 1.8 million sq. metres. From 30 per cent shares, we have gone up to 60-65 per cent. With our own production plus the importation of Jumbo Rolls for conversion, we hope to meet this demand. The demand is going up. We would be able to meet the demand in full from indigenous production in 1980-81 with our expansion.”

8.14. It was also stated that 70 per cent of the X-ray films were sold to Government hospitals and 30 per cent private radiologists. In the case of Indu—X-ray the ratio is 50 per cent and 60 per cent.

8.15. During evidence the Chairman, HPF stated that “we have adequate built in capacity to meet India’s demands for cine-film positives in black and white. We have also sufficient capacity to meet the demand for bromide paper. With respect of X-ray we expect to meet the demand during 1974-75 with our own production coupled with Jumbo Roll conversion. By and large we are right in saying that that we have a built in capacity to meet the requirements of the country.

8.16. In the photographic industry all over the world whenever an industry is initiated it is generally confined to one product or two. For instance when Kodak went to Latin America—Mexico and Brazil, it was found that each one of them specialised in only one product. It is therefore no exaggeration to say that in this respect we can compare ourselves favourably with the major manufacturers namely Kodak, FUJI etc.

8.17. So taking all those into consideration we have started well so far as this aspect is concerned and during the 5th Five Year Plan we sincerely hope that we will be able to consolidate ourselves.

8.18. The Committee enquired whether the Management were now confident that with the help of their own technicians and the steps already taken, they would be able to attain the present capacity of the plant for the production of different products and no large scale modernisation or foreign collaboration was called for. The Chairman of HPF stated during evidence that:—

“I think we are confident on this. We are establishing the economics of the project. The second point that I would like to mention is this. Whatever has been done, has been done with our own resources and with our limitations. My submission is that, particularly, in regard to technology, there is nothing that is rigid. What is obsolete in one country may be modern in another country. For example when we went into coating machines, we started with the speed of six metres, per minute. Fifteen to sixteen metres per minute can be done with the existing equipment. With improvisations, this can be stepped up to 25 metres per minutes even now, with the same equipment, whereas today machines in terms of 100 metres per minute speed could be made available. However, hundred metres per minute has no relevance, to our volume of output. So even if somebody wants to give such machines, we just do not need them. In other words, the whole approach must be, while we ensure that our nucleus for research and development is more positive, that is process improvement and product development, we also must adopt the same practice, as is done all over to see that we assess the type of assistance that is available, from outside. We understand it was Dupont which gave the patents to Kodak for polyster X-ray. While we stabilise our production here, we should not shut ourselves from technological improvements and as such, must keep in touch with outside developments. When we buy formulations, or when we talk about improved equipment etc., it should be judged on

its own merits, all the while relating it to cost, quality and economic viability. To that extent, we would like to keep the outside. We understand it was Dupont which gave the patents to Kodak for polyester X-ray. While we stabilise our production here, we should not shut ourselves from technological improvements and as such, must keep in touch with outside developments. When we buy formulations, or when we talk about improved equipment etc., it should be judged on its own merits, all the while relating it to cost, quality and economic viability. To that extent, we would like to keep the outside contacts. We assure you that we are confident—repeated this question to all my colleagues before we come over here and they all confirmed this that we will, with the existing facilities and plan, make this an economically viable unit.”

8.19. Giving the justification for pursuing expansion when there is already unutilised capacity in the present plant the representative of Ministry stated during evidence that:

“I agree that our first responsibility is to ensure that already unutilised capacity should be utilised fully. All these things will take several years. In this respect, advance action has to be started. When the demand goes up particularly for such items as X-ray films, we are not in a position to start manufacturing them.

8.20. Asked about the progress made with regard to collaboration for the expansion of the plants capacity to meet the increased demand for X-ray films and to take up the production of Colour Films etc., the Management of HPF stated in a written reply that—

“We are negotiating with foreign manufacturers for production of X-ray films to meet the Fifth Plan targets. With regard to Cine Colour positive, we want to confine ourselves to conversion of imported jumbo rolls only as we understand the Colour Project was not included by the Government in the Fifth Plan due to paucity of funds.”

8.21. During evidence the Representative of the Ministry informed the Committee that—

“the feasibility report of the proposed expansion scheme has not been completed. As a matter of fact, in the Fifth Plan, we have not been able to get enough money for all the projects. . . . we are able to include it (X-ray films) in the Fifth Plan and negotiations are going on for production of X-ray films. So far as colour films are concerned, we are not able to include them in the Fifth Plan because of the cost involved and the relative

prior priority. So far as Fifth Plan is concerned, we will not be able to do more than that.”

8.22. The Committee note that on receipt of an indication from Government that the demand for X-ray film was likely to increase to 5 million sq. metres per annum and should be met by increasing the production in public sector, the undertaking invited competitive offer from Kodak, Fuji and Agfa-Gevaert in June, 1972, for increasing the production capacity of X-ray films from 1 million to 5 million sq. metres. The Committee also note that the undertaking is also exploring the possibility of seeking the collaboration of reputed manufacturers for production of colour films and paper on reasonable terms. The Committee were informed that the Kodak and Agfa have asked for further discussion. Collaboration agreements have not been finalised and these schemes have not been included in the Fifth Plan. The Committee were assured by the Management that they are confident that with the help of their own technicians they would be able to attain the present capacity of the plant for the production of different products and no large scale modernisation is called for. The Committee were also informed that the feasibility report of the Expansion Scheme has not been completed.

8.23. The Committee recommend that before going in for any expansion scheme it is essential that the undertaking should consolidate its position and aim at achieving full utilisation of the capacity already installed and quality production by reducing if not altogether eliminating rejections.

IX

ORGANISATION

A. Organisational structure

9.1. The Company comprises the following Divisions:—

- (i) **Finance Division**
- (ii) **Personnel Division**
- (iii) **Marketing Division**
- (iv) **Engineering Division**
- (v) **Research and Development Division**
- (vi) **Manufacturing Division**
- (vii) **Materials Division**

HPF has informed that the nomenclatures have since been revised as (i) **Finance** (ii) **Industrial Relations** (iii) **Manufacturing** (iv) **Marketing** (v) **Projects** (vi) **Purchasing** and (vii) **Research and Developments**.

9.2. In terms of the Articles of Association, the Directors including the Chairman, who form the Board of Directors of the Company, are appointed by the President of India.

The Board of Directors exercise full powers to carry on the business of the Company except certain specified matters which are required to be reserved for the approval of the President of India in terms of Article 90 of the Articles of Association. In addition, the Chairman of the Board of Directors has the option to reserve any proposal or decision of the Board which is considered to be of such importance so as to require his approval.

9.3. Powers have been delegated by the Board of Directors to the Managing Director for carrying on the day-to-day affairs of the Company subject to provision being made in the budget estimates and consultation with the Financial Adviser and Chief Accounts Officer. Major decisions taken by the Managing Director are, however, required to be reported to the Board of Directors. The Managing Director has further sub-delegated his power to other Heads of Divisions.

9.4. In terms of Bureau of Public Enterprises Office Memorandum dated 6th May, 1969, the functions and responsibilities of the Financial

Adviser and Chief Accounts Officer were defined by the Board of Directors in June, 1969, specifying the matters which required his concurrence, matters on which he is to be consulted and the matter which need not be referred to him.

9.5. During evidence of the representatives of the Ministry, the Committee pointed out that non-achievement of targets was due to managerial failure, but in spite of that H.P.F. had not got a full time Managing Director and had only a part-time Chairman. The representative of Ministry of Industrial Development stated during evidence as follows:—

“So far as the particular point about the Managing Director is concerned, the Company did have a Managing Director till July, 1973. Now what happened was that there was a certain deficiency discovered—there were some managerial failures—and it was decided that the particular Managing Director should not be allowed to continue. However, the Chairman now relies on the Chief Executive. Even if it is a part-time Chief Executive, he relies pretty hopefully on him for building up a sound team. And this part-time Chairman is more than a part-time Chairman now because he takes a lot of interest and spends a lot of time in Ooty and he is very much connected with the operation of the plant and machinery. We had asked him about this for which he said that it might take six weeks to two months to suggest a suitable person to succeed the man who left in July last. Now he has taken a much longer time. He has contacted at least half a dozen people but none of them was willing to come. Eventually he recommended a person about a month ago and we now have initiated action for his employment and as soon as he takes up his appointment, we will be able to form a good team with the part-time Chairman who, as I already said, is more than a part-time Chairman to manage this company very efficiently. In the meantime, Mr. _____ is acting as a Managing Director. In this particular case, we had to change the management several times because we found that the management was not coming up to our expectations.”

9.6. As regards delay in the selection of a person and filling up the post of Managing Director, the representative of the Ministry stated that—

“We have sent this case to the Empanelment Board. The Empanelment Board meets once in six weeks. By the middle of this month the Board will meet and sometime by the middle of April we hope that we will be able to fill up the post.”

9.7. The Committee find that the post of Managing Director has been vacant and one officer of the Manufacturing Division is performing the duties of Managing Director. As the Undertaking has still a number of production problems and has been continuously incurring losses, the Committee need hardly stress the need for Managing Director to man the activities of this Undertaking. The Committee also recommend that the feasibility of appointing a Chairman-cum-Managing Director for the Undertaking instead of having both a part time Chairman and a full-time Managing Director may be examined.

B. Manpower Analysis

9.8. The Detailed Project Report envisaged the employment of 714 men for the attainment of the rated production of 5.80 million sq. metres per annum. This did not, however, include the staff required for some departments like Administration, Purchase and Stores branch, Finance and Accounts branch, etc.

9.9. The National Productivity Council which was entrusted with the assessment of manpower requirement and job evaluation including wage survey in June, 1969 at a cost of Rs. 1.39 lakhs indicated in its report submitted in February, 1970 that the actual number of men in position at that time (about 1.633) was adequate for achieving the production level of 3.5 million sq. metres which had been budgeted for the year 1969-70. However, the report also pointed out that an increase in staff was called for in one or two departments like laboratory, etc. In addition, the Council was of the opinion that the existing staff strength was also adequate for operating the plant at its modified rated capacity of 6.15 million sq. metres excepting certain departments like conversion department and laboratory where some increase might be necessary.

9.10 A comparative statement showing the requirements of manpower as per DPR as assessed by the NPC, as sanctioned by the Board of Directors from time to time and the actual number of men in position is given below :

Departments	No. of men No. of men as per DPR	No. of men as per NPC Report	No. of men sanctioned by the Board	Actual Number of men in position.					
				31-3-69	31-3-70	31-3-71	31-3-72	31-3-73	30-9-73
1. Film Base	96	142	171	116	134	133	131	114	111
2. Emulsion	78	129	154	101	115	108	116	140	140
3. Coating	42	116	134	65	75	75	81	122	121
4. Conversion	303	230	298	114	209	214	209	210	208
5. Civil, Mechanical Maintenance and services	117	419	426	317	314	313	352	335	331
6. Laboratory	78	236	269	182	208	210	194	224	223
7. Silver Nitrate	..	80	80	50	56	56	71	74	75
8. Purchase and Stores Branch	..	105	125	107	110	108	102	115	117
9. Sales	..	85	97	29	49	59	79	78	76
10. Finance and Accounts	..	55	76	62	66	62	57	69	70
11. Administration and Managing Director's Office	..	342	348	284	287	272	315	311	311
12. Others for production	..	10	14	10	10	44	12	13	7
Production Total envisaged (in million Sq. m.)	714	1949	2192	1437	1633	1624	1719	1805	1790
Production envisaged (in million Sq. m.)	5.80	3.52	5.70						
Actual production (in million Sq. m.)				1.23	2.25	2.54	3.31	2.93	

NOTE : The above figures exclude the number of officers in position.

9.11. The increase in the manpower requirement as assessed by the National Productivity Council over that indicated in the detailed Project Report was on account of the following factors:—

- (i) The Detailed Project Report did not provide for the staff required for certain departments like Administration, Purchase and Stores, Accounts, Canteen, Security, Township, Maintenance, Fire Protection, Sales, Secretarial services, Silver Nitrate, Organic Laboratory, etc.
- (ii) The provision for fatigue allowance, forced idleness due to maintenance waiting for instructions and tools etc., leave reserve and shift reliefs, maternity leave for female employees etc.

9.12. The Management explained in July, 1973 that the number of men sanctioned by the Board was more than the strength recommended by the NPC in order to provide "a cushion for taking care of any contingencies that might come up in future whenever the volume and nature of activities carried out in different departments undergo a change. This was felt necessary because whenever additional manpower is required urgently, obtaining Board's sanction would take some time and it will add to the delay in positioning the men required."

9.13. The HPF in a written reply after evidence admitted that the sanction of posts more than those required was not desirable. This was felt necessary because whenever additional manpower was required urgently, obtaining Board's sanction would take some time and it would add to the delay in position the men required.

It was added that a sub-committee of the Board was reviewing requirements of manpower on a periodic basis, on account of the emergency conditions in the company due to recurring losses.

9.14. The Ministry of Industrial Development stated in a written reply that—

"This is a matter falling entirely within the purview of the management and the Board of the Company. However, Government feel that the procedure adopted by the Company was not the right one and are of the view that the Company should have sought Board's approval only for such of the additional posts which were really needed at that time."

9.15. The Committee note that as against a strength of 714 envisaged in the D.P.R. the National Productivity Council after conducting a job evaluation and assessment of man power observed in February, 1970 that the staff strength in 1969-70 (about 1633) was sufficient for the production level of 3.5 million sq. metres budgeted for that year and was sufficient 593 LS.—15.

even for attaining the full production of 6.15 million sq. metres excepting in certain Departments like conversion, laboratory etc. The strength on 30-9-1973 is stated as 1790 when the production is of the order of 3 million sq. metres.

9.16. The Committee are surprised to note that the Management in their anxiety to position men in time on a particular job obtained sanction of the Board for creation of additional posts in anticipation of the work. The result of this has been that during the period from 1969 to 1972, the Board sanctioned number of posts vary much in excess of what was envisaged in the report of the National Productivity Council. The Ministry has admitted that the procedure adopted by the Undertaking was not the right one and Board's approval should have been taken only for such posts really needed at that time. The Committee note that a sub-committee of the Board of Directors is already reviewing the requirements of man-power. The Committee recommend that HPF should on the basis of the recommendation of sub-committee fix the staff strength of the various sections quickly and staff found surplus should be gainfully utilised elsewhere in the expansion programmes of the undertaking. The Committee recommended Government Undertaking should ensure that no additional posts are sanctioned or filled up till the process of rationalisation is completed.

C. Overtime Payment

9.17. The following table indicates that amount of overtime paid by the Company during 1968-69 to 1972-73 and the percentage thereof to the salaries and wages paid:—

(Rs. in lakhs)				
Year	Amount of O. T. payments	Salaries and wages paid	Percentage of overtime to salaries and wages	
1968-69	0.36	49.19	0.73	
1969-70	1.19	59.78	1.90	
1970-71	2.37	81.03	2.90	
1971-72	3.84	90.60	4.24	
1972-73	4.10	105.46	3.89	
1973-74 (April-Sept. 73)			2.10	

9.18. While sanctioning the additional staff in September, 1970, the Board of Directors of the Company observed that along with the filling up of the additional posts, every effort should be made to reduce the payment of overtime to the extent possible. However, the actual payment of overtime has been increasing.

9.19. In a written note the HPF informed the Committee that--

“The overtime payment as a percentage on salaries and wages has shown a slight decrease in 1972-73 over the previous year. A monthly report is being submitted to Management on overtime payments department-wise which is being reviewed by the Management. Besides this, the amount of overtime paid monthwise is also being reported to the Board since January, 1973.”

9.20. The Committee note that the overtime bill of the Undertaking has shown a marked increase from Rs. 36,000 in 1968-69 to Rs. 4 lakhs in 1972-73. The percentage of overtime allowance to the total salaries and wages bill has increased from 0.73 per cent in 1968-69 to 4.24 in 1971-72 and it registered a marginal fall to 3.89 per cent in the year 1972-73. The Committee recommend that management should take concerted measures to check this trend of increase in payment of overtime allowance and should ensure that payment of overtime actually results in increased productivity.

9.21. The Committee would also like Government Bureau of Public Enterprises to review the expenditure on overtime allowances in the Public Sector to assess as to how far they have been for productive purposes and to issue suitable instructions to the Public Undertakings in this regard.

D. Internal Audit

9.22. An Internal Audit Section was first formed in August, 1963 and was strengthened in 1968. An Internal Audit Manual laying down the annual audit programme and the quantum and scope of checks to be exercised was prepared in 1968.

9.23. The Internal Audit Section functions under the control of Financial Adviser and Chief Accounts Officer to whom a monthly report of the findings of internal audit is submitted; the important cases are also reported to the Managing Director.

9.24. The statutory auditor in their supplementary report for 1971-72 have reported that the Internal Audit did not fully cover during the year items like the perpetual verification of stock, raw materials and other stores, review of production records, stores accounting etc. The Management stated in October, 1972 that this was not done due to inadequate strength of the Internal Audit Section and that steps had been taken to strengthen the section with properly qualified persons.

9.25. The Committee on Public Undertakings in their Fifteenth Report (Fourth Lok Sabha) on “Financial Management in Public Undertakings” recommended that the functions of Internal Audit should include a critical

review of the systems, procedures and operations as a whole. The Ministry of Finance (BPE) while accepting the above recommendation directed the Public Sector Enterprises in September, 1968 to introduce such a system. The Internal Audit Section of the Company has not, however conducted any appraisal on the above lines till March, 1973 except that the adequacy of the systems and procedures adopted in the following departments had been reviewed:—

1. Accounting of sales.
2. Accounting of defective materials returned by customers.
3. Accounting procedures of canteen and guest house.

9.26. In a written note furnished to the Committee the HPF stated that—

“With a view to strengthening the internal Audit Section, the following additional posts have been created.

Asstt. Accounts Officer (Rs. 400—950)	1
Stock verifiers (Rs. 180—320)	2
The sanctioned strength including the posts now created are as below :	
Accounts Officer (Rs. 700—1250)	1
Assstt. Accounts Officer (Rs. 400—950)	1
Accountants (Rs. 350—630)	2
Stock verifiers (Rs. 180—320)	2

All the staff are in position against the above posts, except Accounts Officer on Rs. 700—1250 which post is vacant consequent on the resignation of the incumbent holding this post. The post has been advertised and offer of appointment was also issued to a selected candidate. Unfortunately, the candidate did not turn up and we are again holding another interview during the first week of February, 1974.

As soon as the post of Accounts Officer (Internal Audit) is filled up, we will programme to cover the review of adequacy of systems and procedures adopted in all the Departments.”

9.27. The Committee note that the Undertaking has taken steps to re-organise the Internal Audit and that as soon as the post of Accounts Officer (Internal Audit) is filled up, the review of adequacy of systems and procedures would be taken up. The Committee need hardly stress the importance of internal audit as an essential aid to management to bring to notice in time shortcomings in the working of the Undertaking and urge that the comments of Internal Audit should receive prompt attention and serious consideration at all levels with a view to taking necessary follow up action.

CONCLUSION

Hindustan Photo Films Mfg. Co. was incorporated in November, 1960 at Ootacamund with the object of attaining self-sufficiency in the manufacture of photographic products—Cine films, X-ray films, photographic bromide paper and other allied products.

10.2. A technical collaboration agreement was entered into by the Government of India with M/s. Bauchet of France on 25th April 1960 for supplying the machinery and equipment for the plant both from France and other countries, supervision of erection of machinery and equipment, assistance in construction of plant, and providing technical services, including training Indian technicians at their factory in Paris. The product-mix was raised from 5.79 million sq. metres to 6.15 million sq. metres in November, 1966. The Company started commercial production of its first product viz. Cine Film Positive in June, 1967 and gradually undertook production of other items in later years. The Company expects to meet the demand of the country for cine film positive during 1973-74.

10.3. The percentage of Company's production to the total requirements of the country during 1972-73 was of the order of 68 per cent in respect of cine film positive 54 per cent in respect of Medical X-ray films and about 22 per cent in photographic paper.

10.4. In respect of medical X-ray film, to bridge the gap between demand and actual production, the Company has gone in for a jumbo Roll conversion into cut-films programme.

10.5. The Company is expected to produce according to its target by 1974-75.

10.6. The Committee have, however, noticed that the Company has been incurring losses from the inception and the cumulative loss as on 31st March, 1973 amounted to Rs. 14.86 crores against the paid up capital of Rs. 6.32 crores i.e. 235 per cent of equity capital as on 31st March, 1973. This has been due to low utilisation of capacity, erratic production both qualitatively and quantitatively, excessive rejections, excess of scrap, excess consumption of materials, low recovery of silver and solvents. This has further been aggravated by the absence of systems control enabling the management to take appropriate measures in time.

10.7. Certain modifications have been done during 1971-72 and it has been deposed before evidence that it was expected that gradual reduction in rejects would be brought during 1973-74, which would contribute for a better performance during later half of 1973-74.

10.8. The undertaking produced photographic products over a period of seven years, the value of which on average c.i.f. price amounted to Rs. 12.67 crores as on 31st March, 1973 and saved foreign exchange to the extent of Rs. 4.78 crores after allowing for the cost of imported materials etc.

10.9. While the savings in foreign exchange is a positive contribution, it underscores the need for utilisation of the rated capacity in a more effective manner by reducing rejections, losses on account of recovery of silver and solvents etc. to the minimum level and improving the system control and management information services, so that the country can attain self-reliance in photographic products and avoid out go of foreign exchange.

NEW DELHI;
April 29, 1974.

Vaisakha 9, 1896 (SAKA).

SUBHADRA JOSHI,
Chairman,

Committee on Public Undertakings..

APPENDIX I

(Vide para 2.10)

Extract from the Memorandum placed in the Meeting of the Board of Directors held on 23rd January, 1960 submitted by the National Industrial Development Corporation Private Limited.

The photographic industry in France is well established and is in fact the oldest in the world. It is expanding annually and produce about 30 million sq. metres of different products. It supplies the home market and also exports to Germany, Italy and Sweden, about 20 per cent of the total production. M/s. Bauchet are one of the leading producers in France and were established in 1912. They were the pioneers in the production of safety film from cellulose-acetate. They have been producing cinematographic films since 1939, and share the French market for cinema film with Kodak, Patho. The Federation of the Cinema Technical Industry in Paris have high regard for the Bauchet products, just as the French National Association of Professional Photographers have for the photographic materials manufactured by Bauchet. The French Defence Ministry have also a good word to say about the aerial film manufactured by Bauchet, and the Air Force procure their requirements exclusively from Bauchet and Kodak.

The Bauchet firm have pioneered not merely in the manufacture of safety base, but also in the design and manufacture of machinery for film and photo paper manufacture. They have been responsible for many new design developments, particularly in the field of high speed coating machines (which have been licensed to Fuji in Japan) and film base machines with special features of advantage, such as the use of nickel and stainless steel bands requiring box maintenance as compared to copper bands used generally in Germany. Bauchet are also the only photographic manufacturers in Europe who produce their own photographic paper base also. In the technological field they have pioneered in some fields such as colour photo paper, document-copying paper, etc. and have licensed production, under their patents, in US Japan and Western Europe. They have agreements for interchange of technical information with Perutz in West Germany and Ferrania in Italy. Bauchet have collaborated in the setting up of manufacture of photo and cinema materials in Spain and the Argentine. Their research facilities are very good, particularly in the field of industrial products."

APPENDIX II

(Vide para 3.29)

ARTICLE XVI

Compensation

1. *Compensation for shortfall in production.*—In no case must the production capacities be below the figures mentioned in Article XV. If the guaranteed production capacities are not attained, the Supplier undertakes to carry out all necessary measures, at his cost, such as modification of the equipment, or the supply of additional equipment FOB Marseilles and the making of necessary changes, in order to obtain the production figures specified.

2. *Compensation for high consumption of solvents.*—If the efficiency of solvent-recovery in the film base production division is not reached during the first acceptance test, the Supplier will within a further period of nine months and at his cost and expenses carry out any modifications or supply any extra equipment FOB Marseilles as may be necessary for obtaining such recovery efficiency and necessary quality. If after this additional period of nine months, the supplier fails to fulfil the said guarantee, the Supplier will have to pay the following compensation which will constitute the maximum damages possible on this account.

Compensation for insufficient recovery efficiency.—For each 10 millilitres of Methylene Chloride/Methanol consumed per Kilogramme of film base, in excess of the guaranteed figure US \$6,000.

3. *Compensation for failure to fulfil quality guarantee.*—In case the Government consider the quality of the products to be less than the quality guaranteed, they shall allow the Supplier a period of six months for improving the processes or the technology in order to achieve the required quality. If even thereafter the quality of the products fail to come up to the required standard, the Supplier shall pay such compensation to the Government as may be agreed upon mutually or in the absence of such agreement, as may be fixed by arbitration by the International Chamber of Commerce, Paris, as provided in Article XVIII, the Arbitrator being assisted in this case by two experts nominated respectively by the Supplier and the Government.

4. *Compensation for delay in start of production.*—(a) Should the materials listed in Annexure 4/4-A of the present Agreement and required

to be supplied by the supplier on the basis of the Project Report, be delivered, late, and the starting up of production is consequently delayed, a compensation of US Dollars 15,000 per month of delay shall be deductible from the lump sum amount payable to the Supplier. A period of one month's grace will be allowed before such compensation is recovered. The Compensation will be recovered only if the supplier is responsible for the delay. The compensation will not be recovered if the Government have not advised the Supplier in writing that the time expected for the delivery has been exceeded and of their intention of recovering such compensation.

Such compensation shall not however be recoverable if:—

- (1) the information to be supplied by the Government does not reach the Supplier in due time or any other delay attributable to the Government effects the start of production.
- (2) events beyond the Suppliers' control such as lock-out, strike, epidemic, war, requisitioning, fire, flood damage in the transport; and other force majeure factors and
- (3) If the time taken in transit between the date the consignment reaches Marseilles and the date it is received at the site exceeds a period of ten weeks which has been allowed by the Supplier for this purpose. Payments to the Supplier under this Agreement can neither be postponed nor modified except as provided elsewhere in the Agreement.

4. (b) If any part of the delay in the start of production is attributable to Government in the execution of their obligations as per Article XII no compensation shall be payable by the Supplier in respect of such delay, and further, unless at least six months advance notice of such delay has been given by the Government the Supplier shall be entitled to compensation for the damage sustained by him as a result of such delay on account of express incurred on the technical personnel engaged for the project being kept idle. One month's grace will be allowed before any such claim can be made by the Supplier. The compensation will be recovered only if the Government are responsible for the delay. Compensation will not be recoverable if the supplier has not advised the Government in writing that the time expected for compliance by the Government has been exceeded and of his intention of claiming the compensation.

5. *Limits of Guarantee.*—In respect of compensation under 2, 3 and 4(a) above, the Suppliers guarantees to Government an amount not exceeding one-tenth of the lump sum price excluding interest and in respect of compensation payable by Government under 4(b) above the payment will be limited to a maximum of US \$15,000 per complete month of delay.

The guarantees with regard to the production capacity of the factory shall, however, be absolute and the Supplier shall be required to make necessary modifications of the equipment or supply additional equipment in order to obtain the production figures as specified.

APPENDIX III

(Vide para 4.4)

Statement showing the rated capacity, the targets fixed by the Management and the actual production during the years 1967-68 to 1972-73.

Products	1967-68		(In million sq. metres)			
	Rated capacity		1967-68			Percentage of actuals to modified rated capacity
	As per original Agreement	As modified by the management	Targets Original	Revised July, 67/ Nov., 67	Actuals	
1	2	3	4	5	6	7
1. Cine Film Positive (Black and White)	2.98	2.45	2,000	1.095 <u>0.910</u>	0.799	32.61
2. Medical (X-ray Film)	0.50	1.00	0.330	0.172 <u>0.172</u>	0.115	11.50
3. Roll Film	0.22	0.45	0.110		..	..
4. Flat (Portrait) Film	0.15*	0.05	0.050		..	..
5. Bromide paper (including all photographic paper)	1.50	1.50	0.110	0.200 <u>0.200</u>	0.000779	0.05
6. Graphic Arts Film	..	0.05	..		..
7. Sound Cine Film	0.24	0.30				
8. Negative Cine Film	0.18	0.25	..			..
9. 35 mm Negative Film	0.02	0.10	0.010		..	
10. Others	..	..	..		..	..
TOTAL :	5.79	6.15	2.610	1.467 <u>1.282</u>	0.915	14.87

NOTES : 1. *Includes graphic arts film also.

2. The figures against Medical X-ray films includes these film conversion of imported Jumbo rolls.

Products	1968-69				1969-70			
	Revised May, 68/Oct. 68				Revised May/Nov. 69			
	4	5	6	7	4	5	6	7
1. Cine Film Positive (Black and white)	2.000	<u>1.430</u> 1.315	0.977	39.87	2.000	<u>2.029</u> 1.665	1.618	66.04
2. Medical x-ray film	0.400	<u>0.470</u> 0.355	0.169	16.9	0.700	<u>0.715</u> 0.556	0.357	35.7
3. Roll Film	0.150	<u>0.100</u> 0.080			0.200	<u>0.049</u> 0.050	0.0007	0.15
4. Flat (Portrait) Film.	0.050	0.030		..	0.050	<u>0.027</u> 0.020	..	
5. Bromide paper (including all photo- graphic paper)	1.000	<u>0.550</u> 0.250	0.100	5.66	0.900	<u>0.557</u> 0.371	0.142	9.46
6. Graphic Arts Film.		..	..		0.030	<u>..</u> 0.040	0.0001	0.03
7. Sound Cine Film.	0.100				0.150	<u>0.119</u> 0.060	0.030	10.00
8. Negative Cine Film.	..	..		..	0.050			..
9. 35 mm Negative Film.		..	..		0.050	<u>0.019</u> 0.010	0.002	20.00
10. Others			..	..	..	..	0.100	..
TOTAL :	3.700	<u>2.580</u> 2.000	1.246	20.26	4.130	<u>3.515</u> 2.772	2.250	36.58

Products	1970-71				1971-72			
	Revised May, 70/Nov. 70				Revised Aug. 71/Oct. 71			
	4	5	6	7	4	5	6	7
1. Cine Film Positive (Black and White).	2.000	1.648	1.056	43.10	2.150	1.579 1.511	1.616	65.95
2. Medical x-ray Film	0.920	0.645 0.520	0.320	32.00	0.830	0.429 0.296	0.346	34.60
3. Roll Film	0.100	0.066 0.050	0.0003	0.06	0.300	0.001 0.001	0.001	2.2
4. Flat (Portrait) Film	0.050	0.025 0.015	0.002	4.00	0.050	0.0002	0.0002	0.40
5. Bromide paper (including all photographic paper)	1.350	1.051 1.150	1.065	71	1.500	1.753 1.458	1.320	88.00
6. Graphic Arts Film.	0.030	0.018 ..	0.0009	1.80	0.050	0.001 0.001	0.004	8.00
7. Sound Cine Film	0.200	0.083 0.060	0.022	7.33	0.150	0.010 0.018	0.024	8.00
8. Negative Cine Film.	0.020	0.017 ..	..	..	0.100	..	..	..
9. 35 mm Negative Film	0.050	0.035 0.020	0.009	90.00	0.050	0.001 0.001	0.001	1.00
10. Others			0.063	..	..	
TOTAL :	4.720	3.588 3.250	2.538	41.28	5.180	3.774 3.286	3.212	53.85

1972-73				
Products.	Revised October, 1972			
1	4	5	6	7
1. Cine Film Positive (Black & White)	2·120	1·649	1·424	58·12
2. Medical X-ray Film.	1·000	0·939	0·678	67·80
3. Roll Film.	0·120	0·020	..	
4. Flat (Port- rait) Film.	..	..
5. Bromide - paper (in - cluding all photographic paper)	1·600	1·063	0·725	48·33
6. Graphic Arts Film.		0·001	0·001	2·00
7. Sound Cine Film.	0·230	0·162	0·105	35·00
8. Negative Cine Film.	..	..		..
9. 35 mm Nega- tive Film.	0·020	..	..	..
10. Others	..	..	..	..
TOTAL :	5·090	3·834	2·933	47·69

APPENDIX IV

(Vide para 4. 13 and 4. 14)

(In million sq. metres.)

Product	Production as envisaged in the D. P.R.				
	1 year	2nd year	3rd year	4th year	5th year
	1	2	3	4	5	6
1. Cine Film Positive	1.12	1.54	2.21	2.880	2.98
2. Cine Film Sound			0.12	0.240	0.24
3. Cine Film Negative		..	0.09	0.180	0.18
4. Medical X-ray Film.			0.10	0.300	0.50
5. Portrait Film	..		..	..	0.15
6. Graphic Arts Film.		..	..	..
7. Roll Film	..	..		0.086	0.22
8. Negative Film 35 mm	..			0.004	0.02
9. Photographic Paper	..			0.200	1.50
10. Others	..	..	..	..
	1.12	1.54	2.52	3.89	5.79
	Production Achieved				
Product	1st year 1967-68	2nd year 1968-69	3rd year 1969-70	4th year 1970-71	5th year 1971-72
1	2	3	4	5	6
1. Cine Film Positive	0.799	0.977	1.618	1.056	1.616
2. Cine Film Sound	..	..	0.030	0.022	0.024
3. Cine Film Negative	..	..	..	..	..
4. Medical X-ray Film.	0.115	0.169	0.357	0.320	0.346
5. Portrait Film.	..	..	..	0.002	0.000195
6. Graphic Arts Film	..	..	0.0001	0.0009	0.004178
7. Roll Film	..	..	0.000724	0.000316	0.001463
8. Negative Film 35 mm.	..	..	0.002	0.009	0.001281
9. Photographic Paper	0.000779	0.100	0.142	1.065	1.320
10. Others	..	..	0.100	0.063	..
	0.915	1.246	2.250	2.538	3.312

Product	Percentage of actual production to anticipation in D.P.R.				
	1967-68	1968-69	1969-70	1970-71	1971-72
I	2	3	4	5	6
1. Cine Film Positive .	71·34	63·44	73·21	36·67	54·23
2. Cine Film Sound	25·00	9·17	10·00
3. Cine Film Negative
4. Medical X-ray Film	357·00	106·67	69·20
5. Portrait Film	0·13
6. Graphic Arts Film
7. Roll Film	0·37	0·67
8. Negative Film 35 mm	225·00	6·41
9. Photographic Paper	532·50	88·00
10. Others
	81·70	81·91	88·93	65·27	57·20

APPENDIX V

(Vide paras 4.181 and 4.186)

CONVERSION MACHINES

	Base casting			Substrating			Coating Tunnel			Coating Festoon		
	1970-71	1971-72	1972-73	1970-71	1971-72	1972-73	1970-71	1971-72	1972-73	1970-71	1971-72	1972-73
	1970-71	1971-72	1972-73	1970-71	1971-72	1972-73	1970-71	1971-72	1972-73	1970-71	1971-72	1972-73
Available hours	51,264	51,120	50,936	25,632	25,560	25,160	7,056	7,248	7,584	7,056	7,248	7,920
Utilised hours	39,303	29,724	30,798	8,293	9,395	9,911	4,282	4,608	4,002	3,006	3,413	3,909
Total down-time	11,961	21,396	20,138	17,339	16,165	15,249	2,774	2,640	3,582	4,050	3,835	4,011
	Cine Slitting											
	1970-71			1971-72			1972-73			Reslitting		
	1970-71	1971-72	1972-73	1970-71	1971-72	1972-73	1970-71	1971-72	1972-73	1970-71	1971-72	1972-73
Available hours	4,360	4,832	5,509	2,46,960	2,53,680	1,88,545	2,352	2,416	4,369	2,352	2,416	4,369
Utilised hours	2,948	4,130	4,005	72,594	1,04,578	91,431	1,439	1,409	2,737	1,439	1,409	2,737
Total down-time	1,412	702	1,504	1,74,366	1,49,102	97,114	893	1,007	1,632	893	1,007	1,632
	X-ray											
	1970-71			1971-72			1972-73			Bromide		
	1970-71	1971-72	1972-73	1970-71	1971-72	1972-73	1970-71	1971-72	1972-73	1970-71	1971-72	1972-73
Available hours	4,272	3,090	4,895	6,056	7,248	9,358	6,056	7,248	9,358	6,056	7,248	9,358
Utilised hours	2,988	2,416	3,531	5,181	5,890	3,826	5,181	5,890	3,826	5,181	5,890	3,826
Total down-time	1,284	675	1,364	875	1,358	5,531	875	1,358	5,531	875	1,358	5,531

NOTES—(1) As the base casting department works uninterrupted, the available hours have been calculated with reference to the number of days in a year minus the days of annual shutdown multiplied by 24 hours.

(2) In other departments, the available hours have been calculated on the basis of actual number of working days in the year x number of shifts planned x 8 hours.

APPENDIX VI

(*Side para 5.79*)

(Quantity in million sq. metres.)
(Value in lakh of rupees).

Products.	1967-68			1968-69		
	Production	Sales	Closing Stock	Production	Sales	Closing Stock
1	2	3	4	5	6	7
1. Cine Film Positive (Black and White)	0.799			0.977		
	002.72	70.67	38.56	125.92	148.14	15.30
2. Medical X-ray film	0.115			0.169		
	39.44	3.65	24.86	55.07	71.98	7.79
3. Bromide Paper (including all photographic paper)	0.001			0.100		
	0.09	0.01	0.04	9.95	3.08	6.78
4. Others . . . . .	..	14.30	0.94	..	5.18	0.63
	0.915			1.246		
	142.25	88.63	64.40	190.94	228.38	30.50

(Quantity in million sq. metres.)
(Value in lakhs of rupees)

	1969-70			1970-71			1971-72			1972-73		
	Production	Sales	Closing Stock	Production	Sales	Closing Stock	Production	Sales	Closing Stock	Production	Sales	Closing Stock
8	9	10	11	12	13	14	15	16	17	18	19	
1.618			1.056			1.616			1.4990			
227.14	229.87	13.66	148.18	156.35	7.75	243.12	172.39	70.18	229.79	268.54	46.48	
0.357			0.320			0.346			0.6782			
124.05	117.52	12.74	119.68	89.56	35.46	129.67	142.80	17.05	251.02	153.00	112.03	
0.142			1.065			1.320						
15.03	15.15	6.26	129.12	106.72	30.02	157.00	107.29	70.23	82.11	100.71	36.36	
0.133			0.097			0.030			0.0313			
8.50	9.58	5.72	25.09	13.08	13.99	7.75	13.88	5.00	3.93	6.92	2.14	
2.250			2.538			3.312			2.9336			
374.72	372.12	38.38	422.07	365.71	87.22	537.54	436.36	162.46	566.85	529.18	197.01	

Less: Provision for
Write down of sub-
standard and defec-
tive materials.

23.50
173.51

NOTE :—The figures of production are available with the Company in sq. metres while those of sales and closing stock are available in terms of Rolls for Cine Positive Film and packets for Medical X-ray Film and Bromide Paper.

APPENDIX VII

Summary of Conclusions/Recommendations of the Committee on Public Undertakings contained in the Report

Sl. No.	Reference to Para No. in the Report	Summary of Conclusions/ Recommendations
(1)	(2)	(3)
1	2.16 to 2.19	<p>The Committee note that a Collaboration Agreement was entered into between the Government of India and M/s. Bauchet of France on 25th April, 1960 for the preparation of Detailed Project Report, Delivery of Machinery and Equipment, Supervision of erection of Plant and Machinery, assistance in the construction and consultation and technical services for establishment of plant and for production. The Agreement was later on assigned to the undertaking on the 5th April, 1961. The Committee find that collaborators were selected by the National Industrial Development Corporation Limited a consultancy organisation at that time within the Ministry which had some general consultancy knowledge and experience of negotiations with foreign parties.</p> <p>The Committee are not however sure whether the NIDC had the necessary expertise in the photographic field to select foreign firms like Bauchet of France for Collaboration for the manufacture of photographic products. The Committee were informed that the Ministry had not been able to locate the relevant file containing the correspondence leading to the selection of the collaborators and in which the feasibility study and economics of the Project were considered by the Government. What is more surprising is the fact that the loss of file came to the notice of the Ministry only in September, 1973 when the Audit wanted the file.</p> <p>The Committee were informed that the movement register relating to the file is also missing. Prima-facie this does not seem to be a case of mere negligence.</p>

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The Committee feel it would be difficult to come to a correct judgement about the propriety or otherwise of the selection of the collaborators, in the absence of this important document. The Committee would like Government to investigate and fix responsibility as to how an important file containing the feasibility study and the economics of the project was not kept with the care that it deserved as a permanent record for reference. The Committee would like this file to be traced by Government and responsibility for its being misplaced fixed. The Committee would also like to know what action Government have taken or proposed to take to ensure that all such important documents relating to Government departments or public undertakings are kept with utmost care for permanent reference and record.

2

2.41 The Committee note that when the Management
to of the collaborating firm changed, the new manage-
2.43 ment felt that the rights and obligations of each of
the two parties to agreement, should be clearly
brought out particularly when the agreement con-
tained apparent contradictions. It was stated that
clauses relating to carrying out of acceptance tests
were vague, product-mix envisaged in the agreement
required improvement etc. The Company also came
to the conclusion that on the basis of the working
of the project, there were inadequacies in the colla-
boration agreement, in that, the collaborator lacked
the financial, technical resources, ability to design a
modern photographic plant, confidence in supplying
the technical know-how for the products included in
the agreement, a design and engineering organisation
capable of coping with the problems that might arise
during the setting up of the Plant.

The Committee find that after a series of discus-
sions between the new Management and the Com-
pany the agreement was modified in November, 1966
with reference to varieties and quantities of films
and paper and acceptance tests. The Committee,
however, find that the acceptance tests as stipulated

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in the modified agreement were restricted primarily to the production of two samples of 300 sq.m. each in respect of Cine film positive, medical X-ray film, roll film etc. without any reference to the inputs and the production cycles. Although the Detailed Project Report indicated the input-output ratio and norms of rejections, the Committee regret to observe that no basic records were maintained by the Management to indicate the actual input output ratio and rejections during acceptance tests, with the result that the adequacy of the acceptance tests could not be verified and the responsibility of the collaborators in this regard could not be fixed. During evidence it was admitted that this was a lapse, and that the proper approach would be for the undertaking to evolve its own norms of efficiency on the basis of experience taking DPR as the guideline. The Committee have dealt with the deficiencies in the agreement in the subsequent Chapters of this Report.

The Committee are concerned to note that neither at the time of the original agreement nor even at the time of its modification, sufficient care was exercised to provide for suitable acceptance tests so as to ensure input output relationship at every stage of production and the efficiency of the plant before its take over from the collaborators. The Committee take a serious view of the failure of the management all along and recommend that this should be investigated and responsibility for the failure fixed.

3

2.46

to

2.48

The Committee note that according to Clause 16 of Art. XII of the Agreement the Company was required to provide only clerical assistance and the auxiliary labour to help the collaborators in the installation of machinery. However, the Company undertook the actual installation of equipment and machinery at its own cost and awarded the contract to a firm in June, 1963 for Rs. 7.14 lakhs against which it incurred an expenditure of Rs. 8.26 lakhs.

According to the legal opinion obtained by the Company, about the responsibility of the collaborators in this regard, while according to one clause the

(1)	(2)	(3)
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collaborators appeared to be responsible for providing assistance in the construction of the plant,, according to another clause, the actual installation of plant and machinery was the responsibility of the collaborators. In view of the legal opinion, the Company could not recover the actual expenditure from the Collaborators.

The Committee regret to point out that this is one more instance of deficiency in the agreement, where the responsibility of the collaborators was not clearly spelt out.

- 4 2.54 The Committee note that the agreement with the
and collaborators required that the collaborators should
2.55 spend as large a sum as possible in India for purchase
of equipment and machinery and to accept payment
therefor in rupees. Accordingly, the Project Report
provided for Rs. 20.37 lakhs for such purchases in
India. As against this, the actual purchases were
of the order of Rs. 7.05 lakhs only.

The Committee were informed that collaborators could not purchase equipments to the value of Rs. 3.54 lakhs in India on account of higher cost of indigenous supply, poor quality and long delivery period. The Committee feel that Government/Management should have taken advance action for the procurement of these machinery and equipment taking into consideration the lead time required, so that these could have been made available to collaborators in time and payment therefor made in rupee currency.

- 2.62 The Committee note that out of the plant and
and machinery required to be supplied by the collabora-
2.63 tors under the agreement, it was agreed in Novem-
ber, 1959 that the Company could purchase items
of machinery costing Rs. 66 lakhs approximately
from sources other than the collaborators, if it so
desired. The Company however, procured items of
value of Rs. 20.5 lakhs approximately from sources
other than the collaborators and decided to procure
the remaining items through the collaborators on
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account of foreign exchange difficulties and also because the supplies from collaborators covered cost of erection and performance guarantee for one year.

The Committee find that the consolidated details of machinery and equipment purchased through the collaborators on account of various reasons such as lack of availability of foreign exchange for direct import, lead period for indigenous supplies of materials, etc. have not been compiled by the management. It is also on record that the collaborators did not furnish the quotations received by them from the suppliers but according to the estimate made by the undertaking roughly there was a mark up of 20 per cent by the collaborators on the sub-contractors price. The Committee are not convinced that the undertaking exercised every care to ensure that the maximum equipment and machinery were procured indigenously by advance planning and that the mark up by the collaborators on the sub-contractors price was reduced to the minimum consistent with the service that the collaborators rendered. The Committee would like Government and the Undertaking to analyse the matter in greater depth in order to evolve measures to obviate recurrence of such imports through collaborators where there is an option for direct purchases being made of such equipment and machinery.

6

- 3.12 The Committee note that the Project Estimates
to originally prepared in June, 1961 for Rs. 608.39
3.15 lakhs were revised by the Company first in June 1962
for Rs. 837 lakhs and again in May, 1964 for
Rs. 1164 lakhs and finally in February, 1971 for
1170 lakhs. The actual expenditure on the project
for Rs. 1167 lakhs was approved by Government
on 2nd January, 1973 and the project estimates
closed. Thus the cost of the project has gone up
by 91.8 per cent over the original estimates and the
foreign exchange content included in the project cost
increased from 385 lakhs to 475 lakhs.

According to the Management the delay in completion of the project and the long gestation period

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had contributed to the increase in cost besides addition of certain new schemes and additional components.

It has been admitted during evidence that the effect of increase in the project cost on the economics of the project was not assessed while approving the final revised estimates.

The Committee take a serious view that in spite of their repeated recommendations in several of their Reports particularly in paragraphs 1.7 and 1.9 of the Fiftieth Report of the Public Accounts Committee (Fourth Lok Sabha) on New Services and New Instrument of Service and reiterated in paragraphs 2.20 of the Thirty-ninth Report of C.P.U. (1972-73) on Pyrates, Phosphates and Chemicals Limited, that the economics of the Project on account of revision of cost should be examined and new schemes etc. introduced should be specifically brought to the notice of Parliament. Govt. have neither considered the economics of the Project on account of revision of estimates nor brought such additions on account of new schemes specifically to the notice of the Parliament.

The Committee reiterate their recommendations in this regard and would like Government to bring the matter alongwith the financial implication thereof specifically to the notice of Parliament without further delay.

7

3.33
to
3.38

The Committee note that though the agreement with the Collaborators envisaged a time schedule for the construction and completion according to which the acceptance tests should have been completed in 37 months i.e. by November, 1963, there has been a delay of about 5 years in the completion of the acceptance tests and the plant was finally handed over to the Company in October, 1968.

The Committee were informed that the delay in completion of the project and commencement of production resulted in loss of production to the extent

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of Rs. 38 crores with reference to scale of production indicated in DPR.

The delay in completion of the project has been attributed to several factors like extremely difficult working conditions in a remote hill station like Ootacamund, pile foundations, difficulty in transporting materials, delay in civil construction, finalisation of the collaboration agreement with the new management defects in the equipment supplied by the Collaborators which had to be rectified, etc.

The Committee are not convinced of the reasons adduced for the delay, as the problems connected with the location, site were already known to the Management even before the selection of site and as admitted by the Management that these should have been foreseen at the time of entering into the contract.

The Committee fail to understand as to why these could not have been taken into account and realistic targets fixed for construction and commissioning of the Plant.

The Committee also regret to note that no analysis of the delays was done by the Company and no attempt was made to invoke the clauses in the agreement relating to compensation for delay in completion shortfall in production etc. since according to the Management many areas in the agreement were overlapping and it was difficult to pin-point responsibility on the collaborators.

The Committee see no reason why all these factors could not have been got remedied in the modified agreement which was finalised in 1966.

The Committee recommend that Govt. should investigate into the matter and fix responsibility for the lapses of the Management in safeguarding public interest at various stages. The Committee would like to be informed of the action taken in the matter.

(1)	(2)	(3)
8	3.42 to 3.46	<p>The Committee note that one of the reasons which contributed to the delay in completion of the project was increase in the area of factory building.</p> <p>In terms of the agreement, the Company was required to undertake the construction and completion of civil buildings on the basis of area indications, lay-out and style of construction indicated in the preliminary data furnished by collaborators.</p> <p>The Committee note that against the area of 14100 sq. m. for the construction of factory building at an estimated cost of Rs. 41 lakhs indicated by the Collaborators in November, 1959, the detailed drawings furnished by them in June, 1961 were for 35161 sq. m. for Rs. 148 lakhs involving substantial changes in respect of area, lay-out and style of construction. The actual expenditure was, however, Rs. 178 lakhs.</p> <p>The Committee note that the changes necessitated not only extension of the time schedule of carrying out of civil works but also the staggering of the target dates for completion of different buildings.</p> <p>The Committee are convinced that had the Collaborators correctly assessed the requirement of the Project initially and in time, much of the delay in the construction of the project could have been avoided.</p> <p>The Management conceded that, had the Company established a strong project team right from the beginning of the project, this situation would not have arisen. The Committee can see no valid reason for failure of Government/Company to see that there was in position a strong team of management to handle a sophisticated project of this dimension. The Committee would like Government to ensure that such a lapse does not recur.</p>
9	3.51 and 3.52	<p>The Committee note that against the stipulated date of 17th April, 1961 for supply of basic plans, the collaborators submitted the basic plans for the</p>

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factory buildings only in June, 1961 and these were also found to be incomplete necessitating frequent changes and modifications. As a result, construction of the factory buildings could commence only in April, 1962 by which date the erection of the machinery in these building should have actually commenced as per the schedule. The buildings were actually completed in August, 1965.

During construction, a decision was taken to re-design the building eliminating pile foundation because of difficulties in pile driving and this necessitated changes in the drawings already supplied by the collaborators. While changes in the drawings already supplied by the collaborators were called for, the Company was not in a position to categorically say that this contributed to a delay in the construction of the buildings. The work on the building started in April, 1963 and the two main buildings were finally ready in January, 1965 and July, 1965 respectively.

The Committee are unhappy to find that because of technical difficulties the Management could not fix responsibility on the collaborators for the delay in supply of drawings which ultimately led to the delay in the completion of the project.

10 3.58

The Committee regret to note that on the basis of advice of the collaborators to have a building with more than four floors, the contract for the work of pile foundations was awarded to a firm for Rs. 4.7 lakhs to be completed by July, 1962, without assessing the characteristics of the soil and nature of the terrain. The result was that the work had to be abandoned and the collaborators asked in July, 1962 to redesign the layout of the buildings for which an amount of Rs. 2.18 lakhs was paid to them. The Committee were informed that ultimately the building was constructed without pile foundation and having from floor only in September, 1964 after more than 2 years thus delaving the entire schedule, at an actual cost of Rs. 55.81 lakhs as against the

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estimated cost of Rs. 53.50 lakhs. The Committee regret to observe that on account of the incorrect advice of the collaborators and failure of the Management in not assessing the characteristics of soil and terrain in advance payment made to the architects towards cost of pile driving was rendered infructuous. The Committee would like that matter should be investigated with a view to pinpoint the lapses on the part of the management.

11

3.61

The Committee are perturbed to find that even though the tender of M/s. National Building Construction Corporation, a public sector undertaking, was lower than that of another private firm, the offer of M/s. N.B.C.C. the public sector undertaking was rejected on the ground that they do not have an organisation at site and require a few months to get acquainted with the same. The Committee would like to point out that the private firm to whom the contract was entrusted delayed completion of the work by as much as 18 months. The Committee understand that the building in question was a simple construction and therefore the management of Hindustan Photo Films should have given preference to the National Buildings Construction Corporation, a sister public undertaking.

In the opinion of the Committee the plea of the Company that since National Buildings Construction Corporation wanted a few months to set up a site office and get acquainted with the area and therefore the work was not awarded to them, does not seem to be tenable in the face of the delay of 18 months by the private firm in completing the work. The Committee also see no justification why penalty was not levied on the private contractor who delayed the completion of the building by as much as 18 months. The Committee would like Government/undertaking to fully investigate the matter in order to fix responsibility as to why the work was not given to a public sector undertaking when their quotation was the lowest

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and secondly why penalty was not imposed on the private contractor who was given work in preference for delay of as much as 18 months in completion of the building.

The Committee would also like Government/Bureau of public enterprises to issue general directions to the public undertakings that ordinarily there should be no question of rejecting the offer of another public undertaking specially when its rates are the lowest or most competitive and that before the work is entrusted in preference to any private body or organisation, detailed reasons therefor should be recorded and reviewed by the Management to obviate recurrence of lapses noticed in the present case.

12

4.11

and

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The Committee note that the rated capacity of the different products in the plant has been increased in the modified agreement with the collaborators except with regard to cine film positive, Flot (portrait) film where the capacities have been reduced from 2.98 million sq. metres to 2.45 million sq. metres and from 0.15 m. sq. metres to 0.10 m. sq. metres respectively. As indicated earlier in paragraph 2.23 of the Report, the original agreement with the Collaborators envisaged that during the first two years, production of cine film positive only would be taken up and production of X-ray and some negative material and paper could be taken up only in the third year and full production reached in the fifth year. This programme was, however, amended in the new 1966 agreement according to which production of medical X-ray film and roll film would also be started as early as possible. The Committee find that even after the lapse of six years from the commencement of production in the case of cine film positive and 5 years in respect of medical X-ray, the actual production was much less than the rated capacity.

The Committee also find that the targets of production were fixed much lower than the capacity envisaged in the Modified Agreement. Even these

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		<p>targets were revised downwards twice a year from 1967-68 to 1971-72. The actual production has been less than even the reduced targets and thus much less than the rated capacity. The Committee deprecate the fixing of targets very much less than the rated capacity and revising even those reduced targets downwards. The Committee have discussed the shortfalls in production <i>vis-a-vis</i> the capacity and targets (product-wise) later in this Chapter.</p>
13	4.17 to 4.19	<p>The Committee note that the modified agreement entered into with the collaborators in November, 1966, provided for an increase in the capacity of the plant for the production of medical X-ray film and roll film from 0.5 million sq. mts. to 1 million sq. mts. and 0.22 million sq. mts. of roll films to 0.45 million sq. mts. respectively while the production capacity for Cine-Film Positive was reduced from 2.98 million sq. mts. to 2.45 million sq. mts. The Committee regret to note that in spite of the modification of the sequence of production in the agreement with the collaborators in 1966, the programme of build-up of capacity was not correspondingly revised to enable the management to evaluate the performance with reference to such revised capacity.</p> <p>The Committee have in an earlier chapter given their recommendations in this regard. The Committee find that except in the case of Medical X-ray film, Portrait film, Roll Film, Negative Film Photographic paper where the production started earlier than it was envisaged in D.P.R., the actual production in the case of Cine Film Positive, Cine Film Sound, Cine Film Negative, Graphic Arts Films and others was always less than the build up capacity.</p> <p>The Committee would like Government to investigate why the revised build up of capacity was not incorporated simultaneously in the modified agreement and fix responsibility for the lapses in this regard.</p>
14	4.35 and	<p>The Committee find that according to the Management one of the reasons for shortfall in production</p>

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4.36 was that the design of the Plant and equipment was made by the collaborators, who were not familiar with the technology.

The plant and machinery were subject to series of improvisations by collaborators and did not incorporate a set process. The Committee also note that the agreement with the collaborator stipulated that the collaborators should provide for after-sales service at the cost of the company, to give advice and to suggest remedial measures, for repair of any defects. The undertaking categorically invoked these provisions during 1969-71 to get the technical problems resolved by the Collaborators. However, three technical problems, viz. Remelting of emulsion and gelatine layers, dark coating lines, appearance of discontinuous white lines in cine films positive and appearance of black print in X-ray sheets which were ultimately responsible for rejections could not be resolved by the Collaborators.

The Committee were informed that these problems were subsequently solved by the technicians of the Undertaking in 1973. According to the Management, the existence of technical problems in the plant resulted in shortfall in production from the time of taking over the plant from the collaborators in October, 1968 till March, 1973. These problems were further aggravated by the absence of systems control in the manufacturing operations. The Committee feel that the problems have not been tackled with a sense of urgency they deserved with the result that there was persistent loss in production.

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The Committee note that one of the reasons attributed by the Management for the shortfall in production was the switching over from imported Cellulose Triacetate to the indigenous material.

The Committee have been informed that the present indigenous Cellulose Triacetate has not been found suitable for manufacturing processes in the company

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and that the company had to suffer great losses on this account. The Committee would like in this context to recall briefly the facts of the case which are that as early as 1960 the company had got samples of the Cellulose Triacetate which was supposed to be manufactured by the private company for supply to Hindustan Photo Films. These samples were got tested by Hindustan Photo Films at the factory of the collaborators in France who did not bring out any feature requiring consideration. The firm was therefore allowed to proceed with the project. In December, 1968, when the first lot of the indigenous triacetate was made available, the undertaking after extensive trial found that elongation characteristics of the base were inadequate for cine positive. After several trials, a decision was taken in 1969 to accept the indigenous triacetate of this firm for regular use. The Committee note that the Undertaking before finalising the rate contract with DGS&D for the supply of indigenous Cellulose Triacetate, confirmed to the Government in May, 1969 that the quality and suitability of the indigenous products had been tested and found usable without major problem, except for minor variation in characteristics as compared to the imported materials. It was also confirmed that change-over from imported material to the indigenous one was not expected to affect the rate of production. The Committee are therefore unable to appreciate the statement now made by Hindustan Photo Films that when indigenous Cellulose Triacetate was actually used in production the elongation of base cast was found to be poor and that it also created other problems. The Committee regret to note that to overcome these problems, the Undertaking had to incur an expenditure of about Rs. 19 lakhs on modifications of the plant extra scrap arising etc. besides engagement of additional operators to operate the modified machines. There were also increases in filtration and solvent loss and maintenance expenditure resulting in additional recurring expenditure of about Rs. 9 lakhs per year. Despite these modifica-

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tions, the rates of rejections of the products also increased.

The Committee are perturbed at the casual manner in which the management agreed to switch-over to the use of Cellulose Triacetate to be manufactured by a private party without a conclusive evaluation of the quality and suitability of the material which not only resulted in major modifications to the plant at a cost of over Rs. 19 lakhs but also committed the Undertaking to recurring loss of Rs. 9 lakhs per year with consequential losses. The management admitted during evidence that "as elongation factor was marginally less than the minimum specified we felt that we should be able to manage the manufacturing problems without much difficulty. We did give clearance to Government on the basis of assessment for which we are responsible."

The Committee are surprised to find that the question of recovering any portion of the cost of modifying the machines to make them suitable for using the private firm the material supplied by them was also not pursued earnestly. The Committee recommend that the entire matter should be investigated and responsibility for the lapses of the management at the different stages fixed. The Committee also find that because of a indecision over the quality of indigenous triacetate there has been a delay in obtaining the import licence for procuring the requisite material from abroad with consequential loss in production.

The Committee also recommend that the Management should draw a lesson from their experience and at least now make sure about the physical and chemical characteristics of Triacetate in consultation with Research Institutes and other experts in the field before entering into further commitments for the purchase of indigenous material from the private firm. The Committee would like to make it clear

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that while they are for import substitution and for attainment of self-reliance they cannot too strongly stress the need for ensuring proper co-ordination so that the raw material and other goods required for manufacture by a public undertaking become available in time and do not in any manner affect adversely the production.

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The Committee find that one of the reasons for the shortfall in production is the heavy percentage of inprocess rejections. The Committee note that during 1968-69 to 1971-72 the percentage of rejections ranged for 85 to 152 per cent in the case of Cine Film Positive, 176 to 444 per cent in the case of Medical X-Ray Films and 16 to 68 per cent in the case of bromide Papers with reference to final output against the norms of 11.36 per cent, 27.01 per cent and 9.18 per cent prescribed for these in DPR. The Committee find that in respect of cine positive the rejections have shown a marked increase at base casting and substraction stages in 1970-71, the rejections were heavy in regard to medical X-ray films at the coating and conversion stages. The rejections were the heaviest at the base casting and conversion in respect of all the years. An analysis of the input and output position of the different processes indicated that the substraction, coating and conversion department had spare capacity to take larger inputs, which however, was not utilised on account of the inability of the base casting department to feed all the subsequent processes. The inability of the base casting department was mainly due to the high rejections and also due to under utilisation of the capacity.

The Committee regret to note that no attempts were made to locate the problem from the base casting side and increase the production at the base casting unit by increasing the speed of the base casting unit nor to analyse the causes of rejection at that stage. Even the available input was not processed in the coating and conversion departments.

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The Committee feel that in spite of these heavy rejections at different stages, no cause-wise analysis of the rejections was done by the Management. The Committee are left with an impression that the high rejection levels may also be due to the defective provision for acceptance tests without co-relating the finished products to the inputs at the different stages of production and provision of too short a test-run to prove the efficacy of the plant in the Modified Agreement. It is surprising that even after the Management had known about these rejections in the working of the plant through the years it was only towards the close of 1971-72 that they initiated corrective action to effect improvements, when the cumulative loss of the plant was over Rs. 11 crores and the entire capital of the Company was wiped off. The Undertaking has already incurred an expenditure of Rs. 29 lakhs upto September, 1973 and expects to incur an additional expenditure of Rs. 16 lakhs to complete the improvements. According to Management though this is expected to secure a gradual reduction in wastage during 1973-74, the effect will be felt only in the latter half of 1973-74. The Committee are not sure whether these modifications etc. would really result in reduction in the percentage of rejection and improve the quality. The Committee cannot but express their feeling of dissatisfaction that the Undertaking has allowed matters to drift thereby causing heavy losses to the Undertaking year after year. The Committee recommend that the matter should be thoroughly investigated with a view to fixing responsibility for the failures at various stages and to take remedial measures without further loss of time, to achieve best production results and eliminate losses on account of heavy rejections.

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to
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The Committee note that the undertaking set up a plant for the production of Silver Nitrate and a Silver Recovery Plant at a cost of Rs. 13 lakhs in 1966-67. The expectation at the time of setting up of Silver Nitrate and Silver Recovery Plants was that

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almost the entire Silver content from the waste would be recovered. For accounts upto 1969-70, the consumption of silver was worked out on the basis of silver content in the finished product and in the work in progress and the balance of input was shown as recoverable from sludge granules, waste-scraps etc.

The Committee, however, find that recovery of Silver from Sludge and granules was not made on regular basis till 1969-70.

The Committee note that it was only during 1970-71 that certain *ad hoc* norms were fixed by a Task Force appointed by the Management.

The Committee find that on the basis of consumption figures derived in the above manner and on the basis of the *ad hoc* norms silver of value Rs. 28 lakhs was treated as lost for purposes of annual accounts for 1970-71 and charged to the account by reduction of the closing stock of silver-in-process without relating it to the actual recovery made from the different elements.

During 1971-72, the Committee find that Silver valued at Rs. 22 lakhs was deemed to have been lost and adjusted in accounts with reference to the *ad-hoc* norms fixed by the management.

During 1972-73 silver valued at Rs. 38 lakhs was considered to have been lost and adjusted in the accounts.

The Committee note that the silver entrapped in the slag from the furnaces and crucibles was not recovered and the slag arisings were accumulated and an *ad hoc* quantity was treated as irrecoverable in the process of smelting etc. and the balance was presumed to be available for recoverable from slag and included in the closing stock of silver in process. It was only in October, 1972 that a certain quality of slag was sent for the first time to Bharat Gold

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Mines Limited for recovery of silver. It was admitted during the evidence by the Management that they were not aware whether facilities were available under Bharat Gold Mines Limited for recovery of silver from slag.

The Committee were informed that even after the reported fixation of *ad-hoc* norms no attempt was made for investigating losses in excess of these norms and they were treated as abnormal losses and written off in the accounts. The Committee find also that the loss attributed to over coating could not be established.

There was also no arrangement for periodical stock-taking of all the silver bearing wastes and silver in catchpit sludge, anode bags and slags was not verified during 1971-72. There was also no proper system for collection, weighment, and expeditious disposal of wastes.

The Committee are surprised to find that it was only in June, 1973 when the losses were higher than the *ad-hoc* norms, that the matter was reported to the Management and Board by the Finance Division. The Directors expressed grave concern at the casual manner in which the shortages were hand-led even though the losses were as high as Rs. 30 lakhs in respect of 1972-73 alone. The Board requested the Company Auditors to arrange for fresh inventory of all stocks as on 1st June, 1973 in liaison with the Manager Finance Division to ensure that the true state of affairs of the Company were known and to evaluate the liability of the Company on all counts before the accounts for 1972-73 were closed. The Board also directed that the Managing Director should investigate the shortage thoroughly and submit a detailed report thereon. The Committee were informed that, since the matter had been thoroughly investigated, silver consumption norms had been fixed, control points established and documentation tightened.

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According to the Report of the Management, a loss of 7619 Kgs. of silver of the value of over Rs. 42 lakhs was established for the year 1972-73 on the basis of independent verification and norms estimated by the Co. in 1970-71 and on this basis of the total loss of silver from 1968-69 to 1972-73 would work to Rs. 93 lakhs.

Investigations conducted by the Company Auditors, however, revealed that the total loss from 1966-67 to 1972-73 exceeded Rs. 1 crore.

The Committee were informed that a special technologist was going into the losses of silver year by year and also the question of standards.

It was admitted by the Undertaking during evidence that:—

“...we did not find in the operating management the feeling that they were dealing with public funds. In other words, as long as the sense of accountability was not there, I do not see why anybody should bother whether silver is lost or anything else is lost. It was a whole lack of systems control. That has, what led to these many problems of which silver is one”

From the fore-going analysis, the Committee are convinced that the procedure observed as a whole did not secure an effective system of internal control over consumption, recovery and accountal of silver. The Committee cannot but express their grave dissatisfaction over the negligence on the part of the Management to not only keep an effective control over the use of such a costly raw material like silver, but to have even failed to bring the facts to the notice of Board immediately after the loss was known to them.

The Committee recommend that the entire matter should be investigated by a High Level Committee to pin-point the lapses on the part of Management and all others concerned and to ascer-

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tain as to how far the loss of silver was consequential to normal utilisation and whether the loss was not due to other causes like avoidable wastage, pilferage etc. and to fix the responsibility for the same.

Pending investigation at high level as suggested by the Committee in the foregoing paragraph Government may consider the question of issuing guidelines to other public undertakings so that adequate care is taken in the use of precious metals, chemicals and other raw materials required for manufacture to obviate losses in storage and handling and that norms of their consumption/wastage in processing should be precisely laid down on the basis of the best expert advice available so as to obviate any chances of pilferage, wastage etc.

There should also be proper management control to ensure that important data about consumption and wastage of these precious metals, chemicals, raw-materials etc. in manufacture are reported to the management together with the prescribed norms and where the losses are of a substantial nature, these are reported specifically without delay to the Board of Directors and Government.

The Committee find that in the first week of October, 1972 the Undertaking sent slag to Bharat Gold Mines Ltd., another Government of India Undertaking, for recovery of silver. The Committee note that out of 65 tons of slag which arose upto 31st March, 1973, silver to the extent of 1540 kg. was actually recovered by the Bharat Gold Mines upto June, 1973 indicating a recovery of 23.7 kgs. per ton although, silver to the extent of 21.20 kgs. was shown to be recoverable from the slag arising upto 31st March, 1973 without indicating the quantity of slag. The Committee understand that a further quantity of 1247 kgs. are expected to be recovered by the Bharat Gold Mines. The Com-

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		mittee would like to know the further developments in the case.
18	4.176 to 4.180	<p>The Committee regret to note that the Undertaking suffered a cumulative loss of Rs. 104 lakhs because of low recovery of solvents during the period from 1968-69 to 1972-73. The Committee note that the solvent loss was in excess of the norms indicated in the Collaboration Agreement. The solvent loss increased from 5.97 lakh litres in 1968-69 to 9.33 lakh litres in 1970-71 and then came down to 6.43 lakh litres in 1972-73. The filtration loss increased from 3.31 lakh litres in 1969-70 to 5.23 lakh litres in 1972-73. According to the Management though the filtration loss was not recoverable at all, this is taken into account while working out the loss per kg. of base. The Committee find that the loss per Kg. of base has increased from 1.41 Kg. in 1968-69 to 1.77 Kg. in 1972-73 against the norm of 1 Kg. prescribed in the agreement.</p> <p>The Committee also find that the solvent and consumed in the subtraction section also from which no recovery is made. The solvent loss in subtraction section amounted to Rs. 23 lakhs during 1968-69 to 1971-72.</p> <p>The Committee are surprised to find that inspite of the huge loss of over Rs. 1 crores the Management has failed to bring it to the notice of Government.</p> <p>The Committee fail to understand as to why, when the Management Government was aware of the abnormal losses no timely action was taken to introduce effective measures to arrest such losses and improve the recovery efficiency. The Committee would like that the responsibility for failure to take timely action in the matter should be fixed.</p> <p>The Committee note that while the equipment now installed may improve the efficiency of solvent recovery in the base casting, it will not improve the</p>

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efficiency of recovery in the substration stage. The Committee were informed that a study in this regard has revealed that the Undertaking has to spend about Rs. 20 to Rs. 22 lakhs while the recovery would be of the order of Rs. 3 to 4 lakhs in substration stage. The Committee like that this aspect may be carefully gone into before final decision is taken in the matter.

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The Committee note that the Undertaking has not been compiling data regarding utilisation of machinery upto 1969-70, although such statements are compiled in the various Departments from 1970-71. The Committee find from the statement that total down-time in respect of basecasting was maximum in 1971-72 (21396 hrs.) In the Substrating, it was maximum in 1970-71 (17339 hrs.) In respect of Coating Tunnel the down-time (3532 hrs.) was maximum during 1972-73. In regard to Coating Festoon the maximum down-time was in 1970-71. In the coating Perforators the down time was maximum in 1970-71. In the case of Reslitting X-ray and bromide the maximum down time was in 1972-73. The Committee regret to note that a consolidated statement showing the cause-wise down time analysis for the year was not being compiled. Management admitted that they had not compiled the data for the working of the machines on the ground that the rejections were on high side resulting in poor utilisation of machinery.

The Committee need hardly stress the importance of maintenance of records showing utilisation of machinery so that the management may be in a position to judge the efficiency of their working and to enable them to take timely action.

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The Committee note that according to the guidelines laid down by the Government of India regarding the pricing policy to be followed by the Public Undertakings, in respect of Undertakings which operate under monopolistic conditions the landed cost of comparable imported goods would be the ceiling within which the undertaking can fix its own

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selling prices taking an appropriate return on capital. According to Management, the majority of the products of the undertaking, except cine film, positive (35 MM) are neither enjoying the absolute monopolistic or semi-monopolistic position and have therefore to be sold in competition. The committee were however informed that judged from the present market position there may not be any competition in regard to Bromide paper and X-ray. The Committee note that the Undertaking has been selling its products at less than the cost of production during 1970-71 to 1972-73. The Committee were informed that the undertaking is now in the process of rationalising its prices with a view to recover the full cost of production.

The Committee stress that undertaking should take immediate steps to rationalise the price structure of its products so that the selling prices are really competitive.

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The Committee note that an Advisory Committee set up by Government in January, 1961 suggested that it would be desirable for the undertaking to set up its own sales offices at different places so that by the time the factory went into production, the distribution and service facilities could be gradually built up. Accordingly the Undertaking decided in April, 1961 that supply of cine films should be allocated to producers, who would be able to assess the films and advice the Company on any modification. In July, 1961 the Undertaking decided that the distribution of cine film positive should be entrusted to a sales organisation for a period of three years with option to extend the arrangements for another period of two years. Accordingly the Undertaking appointed in January, 1963, a private firm as sole stockists and agents for cine film positive upto 31st December, 1964. These arrangements were reviewed by the Board periodically and the arrangements have been extended from time to time and are now due to expire in June, 1975.

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In regard to medical X-Ray films the Committee find that the distribution of X-ray film was entrusted to three distributors in June/July 1967 for a period of three years. This was extended from time to time till June, 1975.

The Committee also find that sales of photo materials was handled directly by the Undertaking in certain areas and for this purpose four Sales Offices—one each at Bombay, Calcutta, Delhi and Madras were established with a view to familiarise the public with the products of the Undertaking. The Committee note that one of the reasons justifying the continuance of the existing distribution arrangements was that marketing of these products involved maintenance of cold storage rooms, grant of credit facilities and sizable business offices manned by trained personnel which the Undertaking found difficult to set-up concurrently with the existence of their production problems.

The Committee also note that the existing distribution arrangements were reviewed by the Management in October, 1971 when it was proposed that the Undertaking should take over all the distribution in phases by April, 1974.

The Committee find that the implementation of these proposals and taking up of the distribution arrangement for cine Film Positive and Medical X-ray film by the Undertaking would result in an annual saving of Rs. 40 lakhs to Rs. 42 lakhs. The Committee are surprised that in spite of these savings the Board favoured the continuance of the existing distribution arrangements till June, 1975.

The Committee were informed that the marketing organisation was not yet turned to taking up the direct distribution of finished goods. The Committee see no justification for the continuance of existing arrangements for distribution. The Committee recommend that the management should review the present distribution arrangements and further the fea-

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sibility of taking up distribution of the product directly after the expiry of the present arrangement in 1975. The Committee note that the Corporation has sales and distribution offices at the four metropolitan cities—Bombay, Calcutta, Madras and Delhi to deal with direct sales of photo materials and also keep liaison with the public.

The Committee find that the percentage of expenditure on the maintenance of these offices to the direct sales effected by them from 1968-69 to 1972-73 ranged from 7.56 per cent to 135.16 per cent in Madras, 2.13 per cent to 56.43 per cent in Bombay, 3.20 per cent to 34.70 per cent in Calcutta and 1.88 per cent to 21.76 per cent in Delhi, although on the basis of the overall sales, percentage of expenditure on total sales ranged from 1.19 per cent to 4.2 per cent in the case of Madras, 0.50 per cent to 3.9 per cent in Bombay, 0.33 per cent to 5.7 per cent in Calcutta and in Delhi 0.37 per cent to 4.5 per cent. The Committee also note that the Undertaking is required to deal only with a limited number of customers in the case of Cine-Positive Films. The Committee recommend that the Sales Offices already set up should be utilised for taking up direct sales and distribution of two products of the undertaking so as to keep the expenditure on sales overheads to the minimum.

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The Committee note that though the Company had the option of making direct sales of X-ray films to Government departments, no such sales were made by the Undertaking. The Committee were informed that after careful consideration of economies of such direct sales and other overriding consideration such as cost of financing etc., the Board decided to have the sales of X-ray films made through distributors only. The Committee are not convinced of the justification in this regard and feel that the

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		<p>payment of commission in regard to sales to Government departments is avoidable.</p>

The Committee find that in spite of the instructions of Government, that quotations for rate contracts by DGS&D should not be through the distributors, the Undertaking has not been giving such quotations directly but routing them through distributors which ultimately result in payment of commission to the distributors. The Committee feel that, as admitted by the representative of Government during the evidence, there is no particular reason that quotations should go through the distributors. The Committee recommend that the procedure may be reviewed and quotations whenever asked for the products of the Undertaking may be given directly by the Undertaking thereby obviating the necessity of the payment of commissions to distributors.

23	5.51	<p>As admitted by Ministry, Government/Undertaking should consider marking of the prices on carton so that the customer may be in a position to know the prescribed price and does not pay more than that.</p>
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24.	5.54	<p>The Committee were given to understand that the Board of Directors decided to increase the price of Cine-Positive Films with effect from 1st February, 1973 but allowed extension of time limits for sale to consumers at the old prices till 25th March, 1973 for disposal of the existing stocks of Cine-Positive Films. The Committee were informed that the Board adopted this market strategy after taking cognizance of large inventory which had considerable effect on the cash flow position of the undertaking at that time and also doubtful quality of substantial portion of the stock.</p>
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The Committee were assured that the benefit of extending the time limit was intended to be passed on to the consumers and not to the distributors alone

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and this was actually so. The Committee are not sure whether this strategy achieved the desired results as envisaged by the Board of Directors and the consumers were not adversely affected by the increase in prices. The Committee would like that this matter may be gone into in depth so as to verify that the procedure has not given any undue benefit to the distributors resulting in payment of higher prices by consumers.

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The Committee regret to note that the number of complaints received from the consumers has increased from 343 in 1968-69 to an all high figure of 1066 in 1972-73. The value of credit notes issued in 1972-73 alone amounted to Rs. 11.28 lakhs. The Committee also find that the number of complaints has increased particularly in the case of Bromide paper; where the number has gone up from 51 in 1968-69 to 650 in 1972-73. The Committee regret to note that in spite of the large number of complaints, the undertaking had not been making any cause-wise analysis of the complaints till 1970-71. It has been admitted that there were some lapses in the past but the present system control has definitely reduced rejections. The Committee were informed that the nature of the complaint is independently investigated in the factory. The Committee recommend that a careful analysis of the causes of Sales returns should be made so that the areas stages from where there are large rejections could be identified and suitable remedial measures taken to prevent recurrence of the same.

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The Committee regret to note that the Undertaking had to incur a loss of about Rs. 2.5 lakhs as a result of exports of Cine-Positive Films during 1969-70 to 1972-73. The Committee were informed that these exports were of an experimental nature to test the quality of products for the international market. The Committee do not appreciate the efforts of the Undertaking to export its products at a loss even

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		as an experimental measure when it had not been able to stabilise its production in the plant, improve its quality and meet the internal demand of Cine-Positive Films within the country.
27	5.75 5.76	<p>The Committee regret to note that as on 31st March, 1973 a sum of Rs. 229 lakhs was pending realisation representing about 150 days' sales. The Committee also note that in some cases, the distributors had delayed payment upto 2 months but no action could be taken by the undertaking in the absence of a suitable provision in the agreement.</p> <p>The Committee also note that while on one hand heavy amounts are outstanding from sundry debtors, on the other hand the Company could not make payment to its creditors in time with the result that it had to pay penal interest to the extent of Rs. 2.34 lakhs to the Silver Refinery at Calcutta in respect of supply of silver upto September, 1970 besides making provision for liabilities to the extent of Rs. 6.85 lakhs, Rs. 10.67 lakhs and Rs. 1.39 lakhs in the account for 1970-71, 1971-72 and 1972-73. The Committee recommend that a review of the distributorship agreements should be undertaken to rectify any lacuna in the agreement, which stand in the way of realisation of dues in time so that the undertaking is not put to difficulties in honouring its commitments.</p>
28	5.91 to 5.94	<p>The Committee note that against the total requirement of photographic products, in 1972-73 the undertaking's share in the case of cine positive is 68 per cent, Medical X-ray—54 per cent and photographic paper 22 per cent. The Committee also find that the sale of cine positive/Bromide paper including all photographic paper have not kept pace with production. It has been explained that the quality of Bromide paper produced by the Company does not quite satisfy the market requirement. In regard to Medical X-ray, the difficulty was due to larger availability of imported X-Ray Films.</p>

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The Committee find that sale of cine positive and Medical X-Ray are made through Distributors while other photographic products are sold partly through distributors and partly through the undertaking's own offices. The Committee regret to note that no records are maintained to give the break-up of sales of Medical X-Ray and Bromide paper separately to the private parties and Government departments. The Committee also find that in the case of Cine Film Positive full commission is being paid from June, 1971 even for sales to Government Department in view of the distributors having agreed to the reduction of credit period from 90 days to 60 days.

So far as sales to Government Departments through distributors are concerned, the Committee have already made their observations elsewhere in this report. The Committee see hardly any justification for routing the sales to Government Departments through the distributors thus entailing payment of avoidable commission. The Committee would like Government to go into the matter earlier with a view to taking the conclusive action and ensure that sales to Government Departments are made directly by the Undertaking.

The Committee regret to note that because of heavy short fall in production, Government had to import Jumbo Rolls for conversion into medical X-ray films and for sale within the country. While the imports during 1967-68 to 1971-72 were of the order of 3.92 lakhs sq. metres for Rs. 107 lakhs the import during 1972-73 alone accounted for 2.69 lakhs sq. metres for Rs. 82 lakhs which were almost three times the annual import in terms of quantity. This was stated to be due to production not going up in 1972-73 and production for 1969 to 1972 remaining more or less stationary. The Committee need hardly stress that unless the undertaking steps up its production and improves the quality Government will have to go in for larger imports with an out-go of greater amount of foreign exchange.

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29	6.13	<p>The Committee note that the cumulative loss suffered by the undertaking till the end of 31st March, 1973 was of the order of Rs. 14.86 crores as against the paid up capital of Rs. 6.32 crores i.e. about 235 per cent of the equity capital and that there has been default in repayment of loans taken by it from the Government of India for financing its expenditure. The Committee note from the capital structure of the Undertaking that the debt equity ratio has been gradually becoming unfavourable. While the ratio was 1.45 : 1 on 31st March, 1969, the position on 31st March, 1973 was stated to be 2.36 : 1. The Committee understand that the question regarding the re-organisation of the capital structure of certain other public undertakings like Heavy Electricals (India) Ltd. and waiver of interest on loans granted on account of cash losses incurred by the undertakings are under the consideration of the Government of India. The Committee desire that a decision in this regard should be taken expeditiously. The Committee need hardly stress that the real solution lies not so much in the reorganisation of the capital but in the full utilisation of the capacity and reduction, if not elimination, of the rejections</p>
30.	6.33 to 6.38	<p>The Committee regret to note that the undertaking has been incurring losses right from inception and the loss has increased from Rs. 204.42 lakhs in 1968-69 to Rs. 297.34 lakhs in 1972-73; the cumulative loss as on 31st March, 1973 was Rs. 14.86 crores against the paid up capital of Rs. 6.32 crores i.e. about 235 per cent of the equity capital.</p>

The Committee find that low utilisation of capacity, erratic production both qualitatively and quantitatively, excessive rejections, excess of scrap, excess consumption of materials, low recovery of silver and solvents have mainly contributed to the loss. Besides the loss on account of silver to the extent of Rs. 22

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lakhs in 1971-72, the contribution made by the products to the total loss in 1971-72 was to the extent of Rs. 154 lakhs by cine film positive, Rs. 85 lakhs by medical X-ray film and a small profit of Rs. 7.5 lakhs by bromide paper. The contribution towards loss during 1972-73 was about 119 lakhs under Cine Film, Rs. 81 lakhs under Medical X-ray and Rs. 6 lakhs on account of Bromide paper, and the loss on account of silver was to the extent of Rs. 38 lakhs.

The Committee find that while the value of production in all the years fully covered the cost of direct materials and direct wages excepting 1968-69 the extent of coverage of other expenditure varied from year to year. It is surprising that though Government and Management were in the know of losses no effective action has been taken to arrest the losses. It has been admitted by the representative of the Ministry that it is only with efficient and better management that the losses could be reduced.

The Committee note that the DPR did not contain the profitability analysis. In September, 1966, the Company prepared a tentative forecast which was revised in August, 1968. In the light of problems encountered, another revised forecast was prepared in for 7 years from 1969-70 to 1975-76 which was updated in November, 1970. The actual performance of the Company during 1969-70 to 1972-73 did not, however, come upto the level expected in these forecasts.

The Committee were informed that the Management has since initiated certain measures to improve the working of the undertakings like maximum utilisation of capacity, Jumbo Roll conversion programme for X-ray films, roll films and colour films, reduction in scrap levels, additional control facilities, adoption of realistic pricing policy and adoption of suitable industrial relations.

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The Committee feel that unless concerted measures are taken to step up quality production by reducing rejections, economising in consumption of materials, adopting cost reduction methods and rationalising its programmes of production and distribution consistent with market demands, the financial viability would seem to be far remote thus entailing greater volume of imports coupled with increased outgo of foreign exchange.

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6.53

to 6.56

The Committee note that though the undertaking went into commercial production in June, 1967, only monthly statements of costs were prepared till December, 1968. From January, 1969, the system of marginal costing was adopted by which control of cost was exercised on the main element of cost namely material which constituted 70 per cent of the costs and not on the total cost of production, with the result that a comparison with the cost of production in the DPR was not possible. A costing manual was issued and a revised costing system was introduced in April, 1971 so as to compile the total cost of each product under the headings labour, materials and overheads. The contention of the Management was that the post in the DPR could not be taken as guide since the manufacturing technology and product mix have been changed. The Ministry have admitted that this was not the best method of determining and regulating costs.

The Committee feel that at least the budgeted costs should have been worked out so that the management may have a yard-stick for assessing the reasonableness of costs and to exercise control thereon.

The Committee feel perturbed to note the absence of a proper system of cost control which has in a measure contributed to the loss incurred by the undertaking.

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		<p>The Committee find that standard costing system has been introduced in April, 1973. The Committee feel that now at least with the introduction of standard costing system, it should be possible for the Management to work out the cost of the products at each stage of the process, analyse the cost and bring to the notice of the top management variance analysis to enable them to take suitable corrective action in time.</p>
32.	6.61.	<p>The Committee note that according to the terms of agreement with the collaborators custom duty for any unusual tools, instruments, etc. specially procured for erection and brought to the site by the collaborators would be paid by the undertaking. The duty would be refunded if the tools and equipments were re-exported by the collaborators within a specific time. The Committee regret to note the undertaking has to incur a loss of Rs. 51,565 as it could not claim refund of custom duty in the absence of details of re-export of tools and equipment by the collaborators. The Undertaking had conceded the lapse on their part for not keeping the details. The Committee recommend that Government/Undertaking should fix responsibility for the lapse with a view to taking departmental action.</p>
33	7.5 to 7.8	<p>The Committee note that the Undertaking has been purchasing its requirements of proprietary items or items of particular brand direct from the manufacturers or the authorised distributors/Agents after getting a quotation from them.</p> <p>Purchases on the basis of open tenders are made only in exceptional cases after obtaining specific orders from the Managing Director.</p> <p>The Committee find that in respect of major purchase orders of value exceeding Rs. 10,000 placed by the Company during the five years 1968-69 to 1972-73, none of the orders was placed on the basis of open tenders and even non-proprietary items were purchased on single tender basis.</p>

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The Committee have pointed out in a subsequent section of this Chapter how the procedure of Single Tender has put the undertaking to a loss.

While the Committee can see some justification for adopting this procedure of single tender directly from Manufacturers or from authorised agents in regard to specialised items with stringent specifications including imported items, the Committee fail to understand why open tenders should not be invited at least in the case of balance of items which are not of a proprietary or specialised nature. The Committee recommend that the Undertaking should follow the well recognised procedure of making purchases through open tenders in the interest of securing the most competitive rates.

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7.19
to 7.23

The Committee note that the Undertaking placed an order in February, 1967 for purchase of 97.83 M. tons of Methylene Chloride at a higher price of US \$ 0.1508 per lb FOB, New York on a single tender basis although within two months of the same order it got a lower offer from another firm at the rate of US \$0.0985 per lb FAS, New York after invitation of tenders. Even after receipt of this lower offer and when the former company agreed to reduce its rate to \$ 0.13 per lb FAS, New York, the undertaking did not make any attempt to secure any reduction in price.

The Committee were informed that this was on account of the anxiety of the undertaking to buy the material from the collaborators of Mettur Chemicals who were setting up a manufacturing plant in India. It has been admitted by the Ministry that Government were not satisfied with the justification given by the Management who should have invited open tenders before placing order.

The Committee regret to observe that because of non-invitation of tenders in the first instance and placing the order on a single tender basis, the undertaking had to incur an extra expenditure on 84,599 on the purchase of 97.83 M. tons.

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The Committee also find that the undertaking had been taking its requirement of Methylene Chloride from Mettur Chemicals from September, 1967. The Committee find that even in 1973 against the requirement of 2000 tons of, the materials from January to December, 1973 the Mettur Chemicals could supply only 1048 tons *i.e.* about 50 per cent of the requirement with the result there had been under-utilisation of the capacity of the plant, reduced output and consequent losses to the undertaking.

The Committee do not appreciate the hasty action of the Management in having placed an order on the basis of single tender at a higher rate first on the collaborators of an Indian firm and thereafter switching over to the Indian firm who on account of its failure to meet the demand of the undertaking in full had put the undertaking to further losses.

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7.42
to
7.48

The Committee find that the stock of raw materials has increased from Rs. 140.35 lakhs representing 8.8 months consumption at end of 1968-69 to Rs. 268.68 lakhs representing 9.8 months consumption at the end of 1971-72. The stock has however, come down to Rs. 176.40 lakhs representing 3.9 months' consumption at the end of 1972-73.

In regard to finished stock, the value of finished stock has increased from Rs. 30.50 lakhs representing 1.6 months' sales at the end of 1968-69 to Rs. 197 lakhs at the end of 1972-73 representing 3.9 months' sales.

The Committee find that the 'Fourth Committee on Inventory Control' appointed by Government of India, which examined the inventory holdings of the Undertaking had found that the Undertaking had been carrying stock of raw materials in excess of norms by Rs. 191 lakhs, Rs. 198.47 lakhs and Rs. 243.50 lakhs at the end of 31st March, 1970, 31st March, 1971 and 31st March, 1972 respectively. The excess has, however, come down to Rs. 156 lakhs on 31st March, 1973.

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The Committee are informed that the Management are already taking steps to implement the recommendations of the Inventory Control Committee except those relating to institution of a system of reporting to top management and re-organisation of Production and Material Management Departments which are in the process of implementation.

The Committee are also informed that a system of perpetual verification of stores is now in vogue. The Committee recommend that undertaking should complete the re-organisation of the production and material management departments soon so that planning, scheduling and purchases of material can be systematised.

The Committee trust that with the implementation of the recommendations of the Inventory Control Committee and institution of perpetual stock verification system, it should be possible for the Undertaking to keep the inventory under control and avoid over stocking of materials.

The Committee regret to note that the Undertaking had to write-off a sum of Rs. 28,631 being the cost of 2,31,643 spools purchased in September, 1966, as these were found to be defective and could not be used. The Committee were informed that the defect could be noticed only at time of the use of the Spools. The Committee fail to understand as to how such defective materials were purchased without proper verification and inspection of the samples.

It has been admitted that this was due to faulty system control and the samples should have been approved before the materials were purchased. The Committee recommend that the matter should be investigated and responsibility for the lapses fixed.

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8.22
and
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The Committee note that on receipt of an indication from Government that the demand for X-ray film was likely to increase to 5 million sq. metres

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per annum and should be met by increasing the production in public sector, the undertaking invited competitive offer from Kodak, Fuji and Agfa-Gevart in June, 1972, for increasing the production capacity of X-ray films from 1 million to 5 million sq. metres. The Committee also note that the undertaking is also exploring the possibility of seeking the collaboration of reputed manufacturers for production of colour films and paper on reasonable terms. The Committee were informed that the Kodak and Agfa have asked for further discussion. Collaboration agreements have not been finalised and these schemes have not been included in the Fifth Plan. The Committee were assured by the Management that they are confident that with the help of their own-technicians they would be able to attain the present capacity of the plant for the production of different products and no large scale modernisation is called for. The Committee were also informed that the feasibility report of the Expansion Scheme has not been completed.

The Committee recommend that before going in for any expansion scheme it is essential that the undertaking should consolidate its position and aim at achieving full utilisation of the capacity already installed and quality production by reducing if not altogether eliminating rejections.

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9.7

The Committee find that the post of Managing Director has been vacant and one officer of the Manufacturing Division is performing the duties of Managing Director. As the Undertaking has still a number of production problems and has been continuously incurring losses, the Committee need hardly stress the need for Managing Director to man the activities of this Undertaking. The Committee also recommend that the feasibility of appointing a Chairman-cum-Managing Director for the Undertaking instead of having both a part time Chairman and a full-time Managing Director may be examined.

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38	9.15 and 9.16	<p>The Committee note that as against a strength of 714 envisaged in the D.P.R. the National Productivity Council after conducting a job evaluation and assessment of man power observed in February, 1970 that the staff strength in 1969-70 (about 1633) was sufficient for the production level of 3.5 million sq. metres budgeted for that year and was sufficient even for attaining the full production of 6.15 million sq. metres excepting in certain Departments like conversion, Laboratory, etc. The strength on 30th September, 1973 is stated as 1790 when the production is of the order of 3 million sq. metres.</p>
		<p>The Committee are surprised to note that the Management in their anxiety to position men in time on a particular job obtained sanction of the Board for creation of additional posts in anticipation of the work. The result of this has been that during the period from 1969 to 1972, the Board sanctioned number of posts very much in excess of what was envisaged in the report of the National Productivity Council. The Ministry has admitted that the procedure adopted by the Undertaking was not the right one and Board's approval should have been taken only for such posts really needed at that time. The Committee note that a sub-committee of the Board of Directors is already reviewing the requirements of man-power. The Committee recommend that HPF should on the basis of the recommendation of sub-committee fix the staff strength of the various sections quickly and staff found surplus should be gainfully utilised elsewhere in the expansion programmes of the undertaking. The Committee recommend Government/Undertaking should ensure that no additional posts are sanctioned or filled up till the process of rationalisation is completed.</p>
39	9.20 and 9.21	<p>The Committee note that the overtime bill of the Undertaking has shown a marked increase from Rs. 36,000 in 1968-69 to Rs. 4 lakhs in 1972-73.</p>

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The percentage of overtime allowance to the total salaries and wages bill has increased from 0.73 per cent in 1968-69 to 4.24 in 1971-72 and it registered a marginal fall to 3.89 per cent in the year 1972-73. The Committee recommend that management should take concerted measures to check this trend of increase in payment of overtime allowance and should ensure that payment of overtime actually results in increased productivity.

The Committee would also like Government| Bureau of Public Enterprises to review the expenditure on overtime allowances in the public Sector to assess as to how far they have been for productive purposes and to issue suitable instructions to the Public Undertakings in this regard.

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The Committee note that the Undertaking has taken steps to reorganise the Internal Audit and that as soon as the post of Accounts Officer (Internal Audit) is filled up, the review of adequacy of systems and procedures would be taken up. The Committee need hardly stress the importance of internal audit as an essential aid to management to bring to notice in time shortcomings in the working of the Undertaking and urge that the comments of Internal Audit should receive prompt attention and serious consideration at all levels with a view to taking necessary follow up action.