35	**STANDING COMMITTEE ON CHEMICALS & FERTILIZERS (2016-17)** **SIXTEENTH LOK SABHA**

MINISTRY OF CHEMICALS AND FERTILIZERS

(DEPARTMENT OF CHEMICALS AND PETROCHEMICALS)

REVIVAL OF SICK PSUs IN CHEMICALS AND PETROCHEMICALS SECTOR

THIRTY-FIFTH REPORT

LOK SABHA SECRETARIAT

NEW DELHI

July, 2017/ Ashadha 1939 (Saka)

CC&F.No.35

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(SIXTEENTH LOK SABHA)

MINISTRY OF CHEMICALS AND FERTILIZERS (DEPARTMENT OF CHEMICALS AND PETROCHEMICALS)

REVIVAL OF SICK PSUs IN CHEMICALS AND PETROCHEMICALS SECOR

Presented to the Hon'ble speaker on 19. 05. 2017
Presented to Lok Sabha on 19. 07. 2017
Laid in Rajya Sabha on. 19. 07. 2017

LOK SABHA SECRETARIAT
NEW DELHI
July, 2017/ Ashadha 1939 (Saka)

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MEMBERS
LOK SABHA

2. Shri George Baker
3. Smt. Anju Bala
4. Shri B.N Chandrappa
5. Shri Sankar Prasad Datta
6. Smt. Veena Devi
7. Shri R. Dhruvanarayana
8. Shri Innocent
9. Shri K Ashok Kumar
10. Shri Chhedi Paswan
11. Smt. Kamla Devi Patle
12. Shri S. Rajendran
13. Shri Kotha Prabhakar Reddy
14. Dr. Kulamani Samal
15. Dr. Uma Saren
16. Dr. Krishna Pratap Singh
17. Shri Taslimuddin
18. Smt. Rekha Arun Verma
19. Shri Kirti Vardhan Singh
20. Shri Pankaj Chaudhary
21. $ Dr. (Smt.) Ratna De (Nag)

RAJYA SABHA

22. Shri Biswajit Daimary
23. Shri Prem Chand Gupta
24. Shri Sanjay Dattatraya Kakade
25. Shri Surendra Singh Nagar
26. Shri Narayan Lal Panchariya
27. Shri K Parasaran
28. Shri Palvai Govardhan Reddy
29. Dr. Sanjay Sinh
30. Shri Abdul Wahab
31. Smt. Roopa Ganguly

SECRETARIAT

1.	Smt. Rashmi Jain	-	Joint Secretary
2.	Shri A.K. Srivastava	-	Director
3.	Shri Nishant Mehra	-	Under Secretary

$ Dr. (Smt.) Ratna De (Nag) MP, (LS) has nominated as a member of the Committee w.e.f 2.1.2017 in *lieu* of Sh. Shri Dasrath Tirkey MP, (LS)

(iv)

INTRODUCTION

I, the Chairperson, Standing Committee on Chemicals and Fertilizers (2016-17) having been authorised by the Committee to submit the Report on their behalf, present this Thirty- Fifth Report on the subject 'Revival of Sick PSUs in Chemicals and Petrochemicals Sector' of the Ministry of Chemicals and Fertilizers (Department of Chemicals and Petrochemicals).

2. The subject, 'Revival of Sick PSUs in Chemicals and Petrochemicals Sector' has been taken up by the Committee on Chemicals and Fertilizers (2016-17) for examination and report. The Committee took oral evidence on the subject at their sittings held on 27.01.2017 and 21.04.2017.

3. The Report was considered and adopted by the Committee at their sitting held on 18 May, 2017.

4. The Committee wish to express their thanks to the officers of the Ministry of Chemicals and Fertilizers (Department of Chemicals and Petrochemicals) for furnishing the written replies and other material/ information and for placing their views on the subject before the Committee.

5. The Committee also place on record their appreciation for the valuable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

6. For facility of reference and convenience, the observations / recommendations of the Committee have been printed in bold letters at the end of the Report.

New Delhi;
18 May, 2017
28 Jyaistha 1939 (Saka)

Anandrao Adsul
Chairperson
Standing Committee on
Chemicals and Fertilizers

REVIVAL OF SICK PSUs IN CHEMICALS AND PETROCHEMICALS SECTOR

CHAPTER-I

INTRODUCTORY

1.1 There are three Chemical PSUs under the administrative control of Department of Chemicals & Petrochemicals (DCPC) viz. Hindustan Insecticides Ltd. (HIL), Hindustan Organic Chemicals Ltd. (HOCL) and Hindustan Fluorocarbons Ltd. (HFL) which is a subsidiary of HOCL. Out of these 3 PSUs, HOCL and HFL are registered with BIFR as sick companies.

I. HINDUSTAN ORGANIC CHEMICALS LIMITED (HOCL)

1.2 (i) Hindustan Organic Chemicals Limited (HOCL) was incorporated on 12th December, 1960 for setting up manufacturing capacities for chemicals / intermediates, which are used in the production of dyes, dye-intermediates, rubber chemicals, pesticides, drugs and pharmaceuticals, laminates, etc. The company has two units, one at Rasayani (Maharashtra) set up in 1971 and another at Kochi (Kerala) set up in 1987. HOCL also has a subsidiary company M/s Hindustan Fluorocarbons Limited (HFL) located at Rudraram, District sangareddy, Telangana.

(ii) HOCL has an authorized capital of Rs.370 crore and paid up capital of Rs. 337.27 crore, comprising of Rs. 67.27 crore equity and Rs.270 crore preference shares. 58.78% of the equity of the company (excluding preference shares) is held by the Central Government and the balance is held by bodies corporate, mutual funds, financial institutions / banks and others. HOCL is listed both on the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE).

SHARE HOLDING PATTERN			
Authorized Capital : Rs.370 Crore			
Paid up Capital : Rs.337.27 Crore			
(Equity : Rs.67.27 Cr, Preference Share : Rs.270 Cr) (Listed on BSE, Share Price (on 17.04.2017: Rs.26.45)			
Sl. No.	Category of Share holder	Number of Shares	% of holding
1	Govt. of India (Central)	3,94,81,500	58.78
2	Mutual Funds / Financial Institutions/ Banks	23,300	0.03
3	Bodies Corporate	38,19,711	5.69
4	Individuals	2,28,39,327	34.00
5	Trust	1,59,669	0.24
6	NRIs	8,49,593	1.26
	Total	***6,71,73,100***	***100***

(iii) Products manufactured by HOCL include Phenol, Acetone and Hydrogen Peroxide at Kochi unit and Formaldehyde, Nitrobenzene, Concentrated Nitric Acid and Di-nitrogen tetroxide (N_2O_4) at Rasayani unit. The raw materials used by HOCL are mostly sourced from state owned petroleum refineries. Plants / Units of the company, products manufactured and installed capacity are summarized in the following table:

Location of Plant / Unit	Products manufactured	Installed Capacity (MTPA)	Capacity utilization 2015-16 (MT)
Rasayani	Nitrobenzene	15000	634 (4.2%)*
	Conc. Nitric Acid	16500	96 (0.6%)*
	Di-nitrogen tetroxide (N_2O_4)	500	446 (89.2%)
	Formaldehyde	30000	0 (0%)*
Kochi	Phenol	40000	4271 (10.7%)*
	Acetone	24640	2648 (10.7%)*
	Hydrogen Peroxide	10450	8803 (84.2%)

*Low capacity utilisation was because of plant remaining frequently shut down due to acute shortage of working capital.

II. HINDUSTAN FLUOROCARBONS LIMITED (HFL)

1.3 Hindustan Fluorocarbons Limited (HFL) was incorporated on 14th July, 1983 as a subsidiary company of Hindustan Organic Chemicals Limited (HOCL), a CPSE under the administrative control of the Department of Chemicals and Petrochemicals. It is located at Rudraram, District sangareddy, in Telangana. The company has an authorized capital of Rs.21 crore and paid up capital of Rs.19.60 crore. 56.43% of the equity of the company is held by HOCL (promoter company) and the balance is held by bodies corporate, mutual funds, financial institutions / banks and others.
Share Holding Pattern

Sl. No.	CATEGORY OF SHARE HOLDER	% OF HOLDING
1.	HOCL	56.43
2.	APIDC	4.44
3.	INDIAN INDIVIDUALS	28.93
4.	INDIAN CORP. BODIES	3.20
5.	PRESENT EMPLOYEES	0.31
6	BANKS/FI	6.46
7	INSURANCE CO.	3.37
8	MUTUAL FUNDS	0.13
9	NRI	1.63
	TOTAL	100%

HFL is listed on the Bombay Stock Exchange (BSE). The company started commercial production in the year 1987 and is engaged in the manufacture of Poly Tetra Fluoro Ethylene (PTFE) and of Chloro Di Fluoro Methane (CFM-22). PTFE is extensively used in chemical, mechanical, electrical and electronic industries and has strategic applications in defence and aerospace sectors. CFM-22 is used as pure or in mixture for refrigeration. The raw materials used by HFL are Chloroform and Anhydrous Hydrofluoric Acid (AHF) which are sourced from public / private firms in the country. Plant / Unit details of HFL are summarized in the following table:

Location of Plant / Unit	Products manufactured	Installed Capacity (MTPA)	Capacity utilization (2015-16)
Rudraram, Hyderabad	1.Chloro di-fluoro Methane (CFM-22)	1265	96%
	2.Poly Tetra Fluoro Ethylene (PTFE)	500	8%*

* CFM-22 is used to manufacture PTFE and also can be sold directly in market as refrigerant gas. Hence, sale quantity of CFM-22 directly impacts the production/sale of PTFE. Low capacity utilization of PTFE was because more CFM-22 was sold by HFL instead of converting into PTFE.

CHAPTER-II

HINDUSTAN ORGANIC CHEMICALS LIMITED

I. PERFORMANCE OF HOCL

2.1 HOCL made regular profits up to 1996-97 and paid dividends to the Govt. of India. It was declared a Mini-Ratna company in 1997. This status was however withdrawn in 2005 because of financial problems faced by the company since 1997-98 when HOCL incurred losses for the first time. Thereafter, it has continued with negative results, except for some intermittent profits during 2004-05, 2006-07, 2007-08 and 2010-11, with cumulative losses of Rs. 1101.46 crore upto 2015-16. Reasons for poor financial condition of HOCL over the years since 1997-98, when the company made losses for the first time, are cumulative adverse impact of the uneconomic capacity of its plants (designed during pre–1991 licensing period as part of Government policy to manufacture chemicals for domestic demand only and as import substitute to save foreign exchange), high manpower cost, high finance cost, severe international competition along with gradual reduction in tariff barriers since 1991 making it difficult to compete in the global scenario, low technology, high investment in some projects which became unviable after economic liberalization and high power cost coupled with high cost of feedstock. Presently, the factors adversely affecting the company's operations are high manpower cost (Rasayani unit), acute working capital shortage leading to frequent shut down of the plants / units and huge outstanding liabilities relating to employee salaries / statutory dues, raw material suppliers / contractors etc. due to the continuous losses since 2011-12.

2.2 With financial assistance provided by the Government in 2013-14 and 2014-15, the company managed to restore operations of its manufacturing units at Kochi and Rasayani after a long gap. Due to poor financial position over the last several years, HOCL has defaulted in payment of Government loans and interest due thereon. As on 23.09.2016, the total Government loans outstanding against the company was Rs.124.26 crore. Interest on Govt. loans is estimated at Rs.87.88 crore (up to 31.12.2016). Government guarantee fee of Rs.7.34 crore (excluding penal charges) is also outstanding against the company.

II FINANCIAL PERFORMANCE OF HOCL DURING LAST 5 YEARS

2.3 As on 31.03.2016, the net worth of the company was (-)Rs.711.21 crore with accumulated losses of Rs.1101.46 crore. The turnover, net profit / loss, accumulated losses and net worth figures of HOCL during the last 5 years (2011-12 to 2015-16) are given below:

(Rs. in crore)

	RASAYANI		KOCHI		TOTAL	
YEAR	TOTAL REVENUE	PROFIT/ LOSS	TOTAL REVENUE	PROFIT / LOSS	TOTAL REVENUE	PROFIT/ LOSS
2011-12	121.58	-104.09	435.36	26.02	556.94	-78.07
2012-13	168.47	-101.94	396.10	-36.05	564.57	-137.99
2013-14	19.53	-107.70	200.95	-69.15	220.48	-176.85
2014-15	19.65	-142.90	138.81	-72.58	158.46	-215.48
2015-16	26.77	-91.34	87.27	-82.43	114.04	-173.91
Net Worth as on 31.03.2016 : (–)Rs. 711.21 Crore						
Accumulated Losses as on 31.03.2016 : (–) Rs. 1101.46 Crore						

III VALUE OF ASSESTS

RS.IN CRORES

VALUE OF ASSETS			
SL. NO.	FIXED ASSETS	Book Value	Current Value As per Circle Rates
A.	Plant, land and buildings under operations		
1.	Kochi – Land , plant and buildings (97 acres mortgaged to SBI)	38.59	595.17
2.	Rasayani – Land in use for factory & township (510 acres including 23 acres of lease to MES)	------	816.62
3.	Rasayani – Value of Plant , machineries and buildings	44.17	58.75
	Total – A (operational assets)	82.76	1470.54
SL. NO.	SURPLUS LAND AND ASSETS	Book Value (31.03.2016)	Current Value As per Circle Rates
B.	Surplus land, building and other assets		
1.	Kochi - Land free from Mortgage -8 acres	1.00	17.42
2.	Rasayani – Vacant land - 551 acres (40 acres under encroachment)	----	880.98
3.	Land at Panvel -8 acres	0.75	178.14
4.	Land at Kharghar -0.25 acres	2.82	14.00
5.	Nestle Flats (10), Parel	1.50	24.00
6.	Office premises at Baroda	---	0.40
7.	Caustic Soda Plant	10.32	16.52
	Total – B (surplus assets) GRAND TOTAL (A+B) = 2602	16.39	1131.46

REVIVAL PLAN EFFORTS

2.4 For a long time HOCL was a profit making enterprise. Since 1997-98, when it incurred losses for the first time there has been a downward performance. In this regard, when the Committee asked about the measures taken in the past to arrest this downward trend, the Department in its written replies stated as under:-

"In order to arrest the downward trend in the performance of the company, HOCL in the 1990s initiated measures for diversification of the company's business by setting up Caustic Soda plant, JV with Chematur for MDI plant, Hydrogen Peroxide plant, JNPT tank Terminal, Polyurethane project, Monochloro Benzene plant etc. However, except for the Hydrogen Peroxide plant, these diversification projects were not successful due to various factors including the post 1990s liberalized and globalised economic scenario and the deteriorating financial position of the company which resulted in the company lacking sufficient resources for pursing the projects. Some other measures taken by the company to arrest its downward performance included:

i. Change of feed stock of Hydrogen plant at Rasayani from Naphtha to CNG in the year 2009-10 to reduce the cost of production of Aniline.

ii. Change of fuel (LSFO to LNG) in the Hot Oil section in Phenol / Acetone plant at Kochi in 2011-12 to save on fuel cost.

iii. Several cost cutting measures like discontinuing of canteen and bus facility. were introduced to reduce the overhead costs.

iv. Since the Phenol / Acetone plant was the major contributor to the revenue and profit margins, all efforts were made for continuous operation of the Phenol / Acetone plant to maximise the turnover and profit margins.

2.5 After HOCL started making losses from 1997-98, it was provided Government of India guarantee for Rs.100 crore in 2001 for raising resources from the capital market by way of term loans / bonds. Accordingly, HOCL had originally raised Rs.100 crore during Dec. 2001 to Aug. 2002 by issuing bonds (for a total period of 10 years) which is being rolled over from year to year. To repay the earlier bonds maturing in Aug. 2013, HOCL issued 4 years bonds of Rs.100 crore on 28.8.2013 valid up to 28.8.2017 i.e. till the duration of Government guarantee extension.

2.6 Due to continuous losses during 1997-1998 to 2003-04, HOCL's net worth became negative (as on 31.03.2004) and it was declared sick and referred to the BIFR. Based on the recommendations of the Board for Reconstruction of Public Sector Enterprises (BRPSE), a rehabilitation package for HOCL was approved by the Government on 09.03.2006 consisting of the following :

(i) **Fund infusion**: Rs.250 crore in the form of 8% redeemable non-cumulative preference shares to be redeemed @ 20% each year from the 4th year onwards) to be utilized for repayment of high cost overdue Bonds (Rs.175 crore), repayment of VRS loan of Rs.31 crore availed from Bank of Baroda, introduction of fresh VRS costing Rs.36 crore and Rs.8 crore towards part repayment of bonds.

(ii) **Non-cash transaction**: Continuation of the Government of India Guarantee of Rs. 100 crore for a full term of ten years (issue date 19.12.2001) and waiver of penal interest and interest up to 31.03.2005.

2.7 The Government on 08.02.2007 also approved an investment of Rs. 20 crore in HOCL in the form of redeemable, non-cumulative preference shares for restarting the Caustic Chlorine Plant at Rasayani. As a result of the implementation of the above rehabilitation package, the company made a profit of Rs.17.04 crore during 2006-07 and Rs.13.61 crore in 2007-08 and came out of the purview of BIFR in May, 2008. However, the company again suffered losses in 2008-09 and 2009-10 mainly due to competition from cheap imports and global meltdown during 2008-2010. Though it earned profit during 2010-11, the situation worsened thereafter with continuous losses from 2011-12 to 2013-14 mainly due to withdrawal of anti-dumping duties on its main products Phenol and Acetone. With accumulated losses of Rs.528.83 crore resulting in erosion of company's net worth to (-) Rs.131.15 crore (as on 31.03.2013), HOCL again made a reference to BIFR in November, 2013 for registration as a sick company. In view of the negative net worth, BIFR in its hearing on 22.7.2015 declared HOCL as a sick company under the provisions of SICA, 1985.

2.8 As the financial position of HOCL became precarious, the Government on 01.08.2013 approved the following revision of the terms and conditions of the rehabilitation package of 2006 in order to enable the company to tide over its liquidity problems and for smooth running of the company:

(i) Postponement of the redemption of Rs.270 crore preference shares issued to the Government of India (date of allotment 24.01.2008) from the originally approved FY 2011-12 onwards to FY 2015-16 onwards.

(ii) Extension of the Government guarantee of Rs.100 crore for a further period of 5 years i.e. up to 28.08.2017. The Government guarantee will continue to be valid even on referral of HOCL to BIFR under SICA, 1985.

Further, Government guarantee of Rs.150 crore was provided to HOCL in July, 2014 for issue of bonds by the company for meeting its working capital requirement and repayment of liabilities towards raw material suppliers, bank loan, employee dues etc. Funds of Rs.150 crore were raised by HOCL in October, 2014 against the Government guarantee which enabled the company to restore manufacturing operations at Kochi Unit and restore operations of Nitrobenzene plant and N_2O_4 plant at Rasayani Unit. However, the unprecedented steep fall in the global prices of crude petroleum caused severe crash in the prices of Phenol and Acetone and the company was facing difficulty in selling the products at profitable rates and generating adequate working capital. This led to frequent shutting down of operations at both Kochi and Rasayani units thereby further aggravating the financial crisis of HOCL.

As the company was not in a position to pay the annual interest of Rs.24.61 crore on Rs.250 crore bonds raised by the company with Govt. of India guarantee, financial assistance in the form of Non-Plan loan was provided to HOCL by the Government in 2015-16 and current FY 2016-17 for meeting the interest liability. Previous revival plan for HOCL in 2006-07 was based on financial restructuring of the company through Rs.270 crore preference share capital infusion mainly to redeem high cost bonds / loans. The plan did not include any major operational restructuring of the company aimed at operating only viable plants, maximizing plant capacity utilization and securing working capital availability. Though VRS for surplus manpower reduction was included in the plan, the targeted reduction could not be achieved due to poor response to VRS. Similarly, revision of the terms and conditions of the rehabilitation package of 2006 carried out in 2013-14 was to enable the company to tide over its liquidity problems and did not address the operational and manpower restructuring issues affecting the company's performance.''

2.9 On being enquired about the reasons for the past efforts to revive HOCL to remain ineffective, the Department in its written replies stated as under:-

Revival plan of March 2006 of HOCL focussed on reduction of high overhead cost i.e. high interest cost and manpower cost, and restarting of caustic soda plant. At that time, Phenol / Acetone was making profit and other products like Aniline were also fetching considerable profits. In addition to the financial restructuring, VRS and caustic soda plant for which total amount of Rs.270 crore was sanctioned by the Government, the company had planned to revamp the production facilities at Kochi (Hydrogen Peroxide and Phenol) at a cost of Rs.163 crore to be funded out of internal accruals / market borrowings. With the completion of financial restructuring, the company registered profits in two financial years 2006-07 & 2007-08. However, the company's efforts to reduce manpower could not succeed due to implementation of less attractive VRS scheme (as per the Gujarat pattern) that was not attractive for employees at the lower scales of pay and hence the company could not achieve the desired reduction in manpower. The caustic soda plant operation also became unviable due to increase of more than 40% in power cost coupled with the imports / dumping of caustic soda that led to drastic reduction in the selling price. Subsequently, due to the impact of global melt down affecting the overall economy during 2008-2010, the company went into losses during this period. With the decline in the fortunes of the company post restructuring, the revamping of production facilities envisaged at Kochi could not be carried out. With favourable market conditions, the company registered profit of Rs.25.72 crore in 2010-11. However, after 2011-12, the company's fortunes were greatly affected due to factors like withdrawal of anti-dumping duty on the major revenue earning products of HOCL viz. Phenol & Acetone and volatility in the crude prices, resulting in the company registering losses from 2011-12 onwards. Due to the continuous losses, there was a total erosion of working capital and accumulation of dues to suppliers and contractors thereby severely affecting the operations of the plants.

In view of the above, major factors for the non-successful outcome of the initial revival plan for HOCL can be summarised as follows:

(a) Impact of global melt down affecting the overall economy during the crucial post-revival phase in 2008-2010

(b) Poor response to VRS, and consequent high manpower cost

(c) Non-viability of Caustic Chlorine plant due to increase in power cost and large scale cheap imports

(d) Inability to take up plant modernisation / upgradation projects due to the continuous decline of the company's financial condition

(e) Removal of protective barriers like anti-dumping duty after 2011-12 and huge imports resulting in unremunerative price levels

(f) High cost of petroleum based input consumptions and volatility in crude prices during the last few years".

V SALARIES AND OTHER STATUTORY DUES

2.10 The Committee in its meeting held on 27.01.2017 observed that ''HOCL seems to be a chronically sick company, and it has accumulated losses. HOCL have not been able to pay salaries/wages for 21-22 months. Statutory dues have not been paid.''

2.11 In this regard, the Secretary, Department of Chemicals and Petrochemicals during the meeting held on 27.01.2017 stated as under:-

"We are working on the most basic thing that is required for this company. Whether it is for settling the dues of employees, whether paying their salaries, etc., we must have money. That is the most essential thing. And that is what we are working on."

2.12 On being asked about addressing the situation of providing decent salary package to its employees and attracting and retaining talented staff, which is likely to affect its overall performance, the Department in this regard stated in its written replies as under

"HOCL has been making continuous cash losses since 2011-12 which has resulted in erosion of net worth of the company, lack of working capital and deterioration in the operations of the company. The poor financial condition and acute shortage of working capital has led to frequent shut down of the Phenol / Acetone plants at Kochi and Nitrobenzene, Formaldehyde etc. plants at Rasayani unit during the last few years, thereby further aggravating the financial crisis. Becuase of the severe cash crunch, the company has not been able to pay salary / wages and statutory dues of its employees for the past several months. Besides dues of raw material suppliers (mainly BPCL), contractors / suppliers dues, utility charges etc. also remain outstanding. Only one plant viz. Conc. Nitric Acid plant producing N_2O_4 is being operated at Rasayani with financial assistance from ISRO. Out of the funds received from ISRO, advance to the extent of 15 days salary per employee is being paid. Similarly Hydrogen Peroxide plant is running at Kochi and out of the collections from customers Kochi unit employees are paid 15 days ad hoc salary advance as above. Also keeping in view the trained manpower requirement at both units, action is taken by the company to suitably allocate / transfer manpower among the two units."

2.13 On being asked about the steps taken by the Department of Chemicals and Petrochemicals for giving salaries and other statutory dues for employees of the company, the Department in its written replies stated as under:-

"Since HOCL is a PSU, payment of salaries and statutory dues of the employees is the responsibility of the company. The Department cannot give such payments directly to the employees. However, in view of HOCL's inability to pay the salaries and statutory dues, following efforts have been made by the Department to provide financial assistance to the company for payment of outstanding salary & statutory dues of the employees :

(i) In June, 2015, a draft CCEA Note for providing Rs.75.81 crore as non-plan loan to HOCL for salary & statutory dues was moved by the Department. However, Department of Expenditure, Ministry of Finance, informed that it did not support the proposal mainly on the ground that such ad hoc measures of providing time to time non-plan support will not work in the long run and that the Department should prepare a long term sustainable revival plan for the company.

(ii) In November, 2015, a proposal for grants-in-aid or non-plan loan of Rs.203.59 crore to HOCL inter alia for payment of outstanding salary and statutory dues (Rs.95.59 crore) was sent on file to the D/o Economic Affairs, Ministry of Finance, for inclusion in the Second Batch of Supplementary Grants, 2015-16. The supplementary proposal was followed up with a letter from Minister (C&F) to the Finance Minister requesting for positive consideration of the supplementary grant or non-plan loan of Rs. 95.59 crore to HOCL.

(iii) In response to clarifications on the supplementary proposal sought by DEA, this Department while providing the requisite clarifications in Jan. 2016 to DEA again requested DEA to consider the proposal for providing financial assistance to HOCL, that was earlier sent for inclusion in the Second Batch of Supplementary Grant, for inclusion in the Third and Final Batch of Supplementary Grants 2015-16. A letter in this regard was also sent from Secretary (C&PC) to Secretary (Expenditure) for positive consideration of the proposal. However, the financial assistance proposal was not included in the supplementary grants, 2015-16.

(iv) As advised by D/o Expenditure, a draft CCEA note (DCN) on revival / restructuring plan for HOCL was prepared. The DCN also included provision for payment of outstanding salary/wages and statutory dues of employees to be met from monetizing the surplus lands of HOCL. However, proposal / DCN was not supported by D/o Expenditure and D/o Public Enterprises.

IV PRESENT STATUS OF RESTRUCTURING PLAN FOR HOCL

2.14 In meeting held in PMO on 03.03.2016 a plan was decided to make the plants operational. As per the plan, CCEA Note prepared to revive HOCL's operations by raising funds through leasing of land to BPCL and CONCOR. However, processing of CCEA Note kept in abeyance pending decision on NITI Aayog's recommendation on HOCL closure.

2.15 Meeting held in NITI on 16.9.2016 Decision taken for moving fresh CCEA note based on closing down 9 plants at Rasayani and continuing operations of 3 plants in Rasayani and 2 plants in Kochi. Accordingly, fresh CCEA note for restructuring of HOCL circulated on 04.10.2016 for Inter-Ministerial consultations. D/o Expenditure, DPE and NITI Aayog in their comments have not supported the restructuring proposal in the DCN. Their suggestion is essentially for closure of the Rasayani unit, with the strategically important N_2O_4 plant being taken over by ISRO or some other PSU like RCF, and closure or strategic sale / disinvestment of Kochi unit.

2.16 Meeting held in PMO on 01.11.2016 on revival of HOCL. Following major decisions were taken:

i) Sale of land to BPCL / CONCOR in the Rasayani Plant. Remaining encumbrance-free land to be advertised for open sale. SBICAP may be engaged as consultant for the process.

ii) Govt. of Kerala to be approached for considering taking over the Kochi plant on 'as is where is' basis.

iii) DCPC to consult ISRO and examine feasibility of taking over / shifting the N2O4 plant in their Bangalore premises on 'as is where is' basis and running it thereafter.

2.17 Subsequently meeting held on 19.12.2016 under Minister (C&F) to further deliberate on transfer of N2O4 plant to ISRO and sale of land to BPCL / CONCOR. Following important decisions taken:

i) Committee to be formed to finalize terms and conditions and modalities of transfer of the N_2O_4 plant / assets to ISRO.

ii) BPCL to submit proposal for purchase of 135 acres land and also for additional land (including 60 acres earlier identified for CONCOR) required at Rasayani.

iii) Resumption of raw material supplies by BPCL to HOCL Kochi unit with outstanding dues to be settled against compensation for additional land (over and above 135 acres and 60 acres) to be purchased by BPCL.

iv) Bridge loan requirement of approx. Rs.250 crore for settling outstanding liabilities of HOCL, including salary & statutory dues, which will be repaid from monetization of balanced unencumbered land at Rasayani.

v) Examine feasibility of engaging NBCC for consultancy for land disposal as charges of SBICAP on higher side (approx. 15 crore).

2.18 On being further enquired about the reasons for not supporting the DCN by Department of Expenditure and Department of Public Enterprises and objections raised by these two Departments and follow up action taken in this regard, the Department in its written replies stated as under:-

"The gist of the reasons for Department of Expenditure and Department of Public Enterprises not supporting the DCN were as follows:

(i) D/o Expenditure - The proposal for revival of HOCL in its current form does not appear to have adequate focus on long-term commercial viability/ sustainability and lacks actual business plan to increase revenue, control cost or overcome the reasons of failure of revival of earlier packages. Draft Note does not contain and clarify the objectives (whether strategic or security) of HOCL for which revival is proposed though several such attempts of revival of the company failed in the past.

(ii) D/o Public Enterprises - The revival plan does not include business restructuring proposals so as to make the company profitable on a sustained basis. Since earlier revival package has not yielded the desired results, Department of Chemicals & Petrochemicals need to have a comprehensive revival plan for HOCL with specific timelines and the important milestones for the revival of HOCL on a sustainable basis.

This Department had prepared tentative response to the above comments of D/o Expenditure and D/o Public Enterprises. However, in view of subsequent development relating to Report of NITI Aayog recommending closure of sick /

loss-making CPSEs (including HOCL) and consultations held with the NITI Aayog etc., the DCN was not further processed.''

2.19 When the Committee enquired as to whether all options have been explored / exhausted to the satisfaction of the Department before taking the decision for closure of some units and sale of land, that is, given the fact that the operation of these units are vital to sustain the livelihood of many employees, the Department in its written replies stated as under:-

''Due to continuous losses since 2011-12 resulting in acute working capital shortage, plants at both Kochi and Rasayani unit of HOCL have remained frequently shut down during the last 2–3 years. Shut down of operations and lack of funds have also led to non-payment of regular salary and statutory dues of the employees since February, 2015, though the company has managed to pay some ad hoc advances to the employees from time to time. In view of the precarious financial condition of the company, a Draft CCEA Note (DCN) on restructuring plan for HOCL has been prepared by the Department after taking into account assessment of long term viability of the company's business and future operations, assets and liabilities position, feasibility of generating adequate funds to liquidate the liabilities, etc. and consultations held in this regard at various levels in the Government, Interest of the employees of the company have been kept in view.''

2.20 When the Committee asked as to what is the Department is going to do with regard to surplus man power of 9 plants that are going to be closed down. The Secretary in this regard stated as under :

"VRS is a scheme in which the employees are compensated for their retirement. There is a certain amount of money which is paid to them. But it is also voluntary. It means that it must be a fair equation.''

2.21 On being further asked by the Committee about the reasons for the Departments' inability to prepare a proposal to revive HOCL which have adequate focus on long term commercial viability and business plan to increase revenue, control cost and overcome reasons of failure of revival of earlier packages, the Department in its written replies stated as under:-

''The proposal / draft CCEA note for revival of HOCL that was circulated by the Department in April, 2016 was prepared in the background of HOCL suffering from acute shortage of working capital resulting in frequent shutting down of operations at both Kochi and Rasayani units of the company. The major revenue generating plants at Kochi (Phenol and Acetone) and Rasayani (Nitrobenzene, Formaldehyde and Concentrated Nitric Acid) were not operational for several months (Sept., 2015 to 26 April, 2016) due to working capital shortage. In a meeting chaired by the then Secretary (C&PC) in February, 2016, it was decided that since continued shut down of the plants would only further worsen the financial condition of HOCL, it is important to restore the company's operations at both Rasayani and Kochi units so that the extent of net losses can be minimized.

Accordingly, the immediate issues affecting the company's operations viz. (i) availability of adequate working capital, (ii) reduction of the fixed overheads i.e. employee cost and interest cost, and (iii) ensuring optimum capacity utilisation to reduce the cost of production, were sought to be addressed in the proposal / DCN through repayment of outstanding dues to raw material suppliers and corporate / bank loans, reduction in employee cost through VRS to ad hoc/non-regular workers, reducing interest cost through repayment of corporate and working capital loans and write-off / waiver of Govt. loans and interest, etc. The cash fund requirement for financing the above plan was to be generated entirely by HOCL (without any Govt. budgetary support) through lease of some parcels of surplus land at Rasayani to BPCL / CONCOR and sale of land at Panvel. However, an amount of only Rs.403.66 crore was expected to be generated from the above monetization of HOCL land assets whereas the total cash fund requirement for clearing all the liabilities of the company and preparing long term commercial viability and business plan was much higher. In view of the fund generation / availability constraints, the proposal / DCN addressed liquidating only the urgent liabilities of HOCL (of Rs.376.45 crore), thereby shoring up the working capital position, and restoring the plant operations at both Rasayani and Kochi units at the earliest so that at least part of the fund requirements towards operations and salary cost could be generated by the company.''

Merger of HOCL-Kochi unit with BPCL – Kochi

Kochi unit started in 1987 with an investment of Rs.100 crore for Phenol / Acetone plant, Hydrogen Peroxide (H_2O_2) started in 1997 with an investment of Rs.106 crore. Operated profitably since commissioning till 2011-12 with cumulative profit of Rs.802.93 crore. Suffered losses from 2012-13 onwards due to withdrawal of Anti-Dumping duty in 2012 on Phenol / Acetone.

Total loss of Rs.261.96 crore during 2012-13 to 2015-16, as it could not be operated at 100 % capacity due to lack of working capital. Employee strength of 321 (as on 31.12.2017). No response from Kerala Govt. to letter from Minister (C&F) for views on taking over HOCL Kochi unit by Kerala Govt. A reference received in Sept. – Oct. 2015 from PMO on the merger of HOCL Kochi unit with BPCL Kochi refinery. In its comments, MoPNG informed that it has been decided not to accede to the same as BPCL has already tied-up all activities and not possible to integrate the technology and operation of HOCL with petrochemical unit of Kochi refinery. The issue was also discussed in the meeting in NITI Aayog, on 07.11.2016. BPCL representatives stated that they had conducted a due diligence in the matter and that they had no interest in taking over the Kochi unit.

2.22 On the issue of restructuring of HOCL, the Secretary Chemicals and Petrochemicals in the meeting held on 27.01.2017 apprised the Committee that we have a different approach for the two Units. For the Unit at Kochi, we have a different approach, and for the Unit at Rasayani, we have a different approach. Out of the 12 Plants that we have at the Rasayani Unit, nine Plants are not working. It would be best to close them and whatever action is required has to be taken so as not to prolong the agony. Second, about the monetization of our land assets, we are in consultation with BPCL. They have finally agreed to take over around 440 acres. So, that would generate a substantial amount of revenue for us........... That is the thinking that we have that a part of this would be utilized for working capital requirement and part of it would be used for settling our outstanding liability, as far as BPCL is concerned so as to make sure that working capital will not be a constraint for running the Kochi. After that, we will consider and see as to how best we can utilise the other resources. We are also in consultation with the ISRO. So, we expect to transfer the N2O4 plant to ISRO. That one would take care of all the liabilities that we have. They would all most likely be transferred to ISRO and they would be managing it. This is not decided as yet. The work is still in progress. Ultimately for any decision, we will have to take it to the Cabinet Committee on Economic Affairs or the Cabinet and only then the decision will be finalised.

2.23 On being enquired as to whether HOCL has devised any strategy / plan to overcome the loss to it, the Department in its written replies stated as under:-

"Based on discussions held at various levels in the Govt., HOCL had devised a plan for restructuring its operations by closing down the operations of 9 non-viable plants and operating only 3 plants (including the strategically important N_2O_4 plant) at Rasayani and 2 viable plants at Kochi unit with the restructuring cost to be met partially from monetization of surplus land assets of the company and partially through Govt. financial assistance (cash and non-cash). The plan included separation of the surplus manpower of the 9 plants to be closed down through implementation of VRS. However, taking into account the resources required to finance the above plan esp. Govt. financial assistance and inter-

Ministerial / Departmental consultations, a final decision in the matter is yet to be taken."

2.24 When the Committee further asked as to how long it would take to come to a final decision in this regard and whether any time limit been fixed, the Department in its written replies stated as further:-

"Based on the assets and liabilities position of HOCL, feasibility of generating adequate funds to liquidate the liabilities, assessment of long term viability of the company's business and future operations, strategic importance of the N_2O_4 plant and consultations being held in this regard at various levels in the Govt., a restructuring plan for HOCL is under consideration of the Government. Aspects relating to separation of surplus manpower through implementation of VRS, including of plants to be closed down if any, will be examined as part of the restructuring plan. Though all efforts are being made by the Department to expedite the restructuring plan, presently it is difficult to indicate any time line for its consideration / approval by the competent authority in view of several factors involved like identifying resources to finance the restructuring plan, inter-Ministerial / Departmental consultations involved, etc., some of which are beyond the control of the Department."

STATUS OF NITROGEN OXIDE PLANT AT RASAYANI

2.25 During the study visit of the Committee to Kozhikode on 08.11.2016 the Committee asked the Department to try to strike a partnership / tie up with ISRO as HOCL is the sole manufacturer of N2O4 in India. In this regard when asked by the Committee as to whether Department /HOCL has made any initiatives to approach ISRO for getting into partnership / tie-up, the Department in its written replies stated as under:-

"HOCL is the sole manufacturer of N_2O_4 in India and the sole supplier to ISRO. N_2O_4 is used as an oxidiser for propulsion in the satellite launch vehicles. HOCL has the contract to supply 500 MT per annum of N_2O_4 and have been supplying it to ISRO since 1985. Taking into account the strategic importance of N_2O_4 for ISRO's rocket / satellite launching programme, consultations are being held, including with the Department of Space / ISRO, to work out a suitable roadmap for the N_2O_4 plant as part of the overall restructuring plan for HOCL."

2.26 When the Committee asked to furnish an update on the progress of the consultation with ISRO regarding transfer of N2O4 plant to ISRO. The Department in its written replies stated as under:-

''A Committee comprising of Secretary (C&PC), Secretary (Space), Secretary (DIPAM), AS&FA (MoC&F) and Joint Secretary (Expenditure) was constituted for finalizing the terms & conditions and modalities of transfer of N_2O_4 plant at Rasayani to ISRO. The Committee has given *'in principle'* recommendation for a scheme to transfer the N_2O_4 plant to Department of Space / ISRO on *'as is where is'* basis, subject to approval of the CCEA. Department of Space has conveyed 'in principle' acceptance to take over the N_2O_4 plant on 'as is where is' basis, along with approx. 20 acres of land and past and future liabilities and manpower associated with the plant. The handing / taking over process will be implemented after CCEA approval and completion of due diligence with respect to assessment of liabilities of the plant, manpower, land titles etc. by the Department of Space.''

CHAPTER-III

HINDUSTAN FLUOROCARBONS LTD.

I. PERFORMANCE

3.1 HFL started making losses from its inception in 1987-88 resulting in erosion of its net worth and reference to BIFR was made in 1994. A rehabilitation package for HFL under the operating agency M/s IDBI was approved by BIFR on 03.12.2007. Total cost of rehabilitation package was Rs.19.28 crore and did not involve infusion of any Govt. funds. Following implementation of the rehabilitation package, HFL made marginal profits from 2007-08 to 2012-13, but failed to come out of BIFR as its net worth remained negative. The company again suffered losses of Rs.24.82 crore in 2013-14 mainly on account of provisioning for wage revision arrears of 1997 and 2007 and reduction in sales realisation. During 2014-15 and 2015-16 also the company suffered losses of Rs.3.77 crore and Rs.11.11 crore respectively due to reduced sales realization. Net worth of HFL, as on 31.3.2016, was *(-)Rs.63.67 crore.* The company's plant was set up in 1987 at a relatively high cost of Rs.35 crore, as against original estimated cost of Rs.23.80 crore, mainly on account of increase in cost of imported equipment due to exchange rate fluctuations and time over run leading to higher pre-operative expenses. The company's performance has been adversely affected by uneconomical plant size and energy intensive technology, high manpower cost, low sales realization, high raw material cost, high interest and depreciation burden. In addition to this, partial implementation of the rehabilitation plan of 2007, was also a factor in HFL not being able to turn around and improve its performance.

3.2 On being further asked about the details of responsibility been fixed in this regard, the Department in its written replies stated as under:-

> "HFL was incorporated in 1983 as a subsidiary company of HOCL and started commercial production in 1987. Both HOCL and HFL have informed that presently no records / documents are available with them on whether any responsibility was fixed for the time / cost overrun in the setting up of HFL plant."

II Financial Performance during last 5 years

3.3 As on 31.03.2016, the net worth of the company was (-)Rs.63.67 crore with accumulated losses of Rs.83.28 crore. The turnover, net profit / loss, accumulated losses and net worth figures of HFL during the last 5 years (2011-12 to 2016-17) are given below:

(Rs. in crore)

Year	Turnover	Profit / Loss(-)	Cumulative Profit / Loss(-)	Net worth
2011-12	64.16	2.52	-44.25	-24.63
2012-13	44.56	0.95	-43.30	-23.68
2013-14	28.26	-24.82	-68.12	-48.50
2014-15	29.70	-3.77	-72.16	-52.55
2015-16	35.88	-11.11	-83.28	-63.67
2016-17 (Prov.)	33.78	-4.19	-87.47	-67.86

III REHABILITATION PACKAGE OF 2007

3.4 HFL started making losses since the start of production in 1987-88 resulting in erosion of its net worth following which it was referred to BIFR in 1994. A rehabilitation package for HFL was approved by BIFR on 03.12.2007 at a total cost of **Rs.19.28 crore,** which did not involve any financial assistance or infusion of funds by the Govt. of India. The rehabilitation package comprised of the following:

(Rs. in crore)

S.No.	Particulars	Amount
1.	Capital expenditure:	
	(i) Carbons credits	5.94
	(ii) Refurbishment of existing facilities	1.83
	(iii) ADCS equipment	1.22
2.	One Time Settlement of banks/ Financial Institutions	4.67
3.	VRS payment	4.00
4.	Working capital	1.62
	Total	**19.28**

2.02 The means of financing the above BIFR package was as follows:

S.No.	Particulars	Amount
1.	Promoter’s (HOCL) Contribution:	
	(i) Amount earlier deposited with IDBI by HFL	3.16
	(ii) Additional loan in the form of unsecured loan	1.51
2.	Advance receipt from forward deal of carbon credit	5.00
3.	Borrowing from Financial Institutions against forward contract for delivery of carbon credit	9.61
	Total	**19.28**

3.5 As per the above rehabilitation package, HFL had to install Clean Development Mechanism (CDM) facility at a cost of Rs.5.94 crore, out of which Rs.5.00 crore was to be received from forward deal of Carbon Credit. However, this scheme did not materialize as at that time CDM Project was not registered and without which it was not feasible to have a forward contract. Regarding fund requirement for working capital, VRS and refurbishment, loan of Rs.12.53 crore was taken by HFL from banks (with counter guarantee extended by HOCL). 37 number of employees were given VRS as against the target of 70 mentioned in the package.In the BIFR package, average income of Rs.15 crore per year was envisaged from CDM on continuous basis from 2009 onwards. But due to adverse development at international level [Carbon Credit buyers (European Union) stopped trading of carbon credits generated from CFM-22 gas all over the world], CDM business became unviable with the result that the company could earn only Rs.17.60 crore during the period from November, 2008 to November, 2011. Subsequently, this income stopped. In the absence of this major source of income, the rehabilitation package could not be implemented in its entirety thereby adversely affecting the long term financial performance of the company. Also, implementation of the rehabilitation package did not result in net worth of the HFL becoming positive; hence, the company still continued to be registered as a sick company under BIFR. Despite the partial implementation of the rehabilitation package, the company managed to turn around its performance from 2007-08 (year in which BIFR package was implemented) and consistently made profits, though marginal, for six years up to 2012-13. However, the company suffered losses in 2013-14 (Rs.24.82 crore) mainly on account of provisioning for wage revision arrears of 1997 and 2007 and reduction in sales realisation. In 2014-15 and 2015-16 also the company has suffered losses of Rs.3.77 crore and Rs.11.11 crore respectively.

3.6 On being asked reason for the CDM Project not being registered before installing CDM facility by HFL which involved a substantial cost of Rs.5.94 crore, the Department in its written replies stated as under:-

> "As per BIFR Rehabilitation Package for HFL (December, 2007), the company had to install CDM (Clean Development Mechanism) Facility. HFL set up a CDM facility with the objective to reduce greenhouse gas emissions through the destruction of HFC 23 gases. This was converted in to carbon credits and the same was certified by United Nations Framework Convention on Climate Change (UNFCCC). As per international norms for entering into CDM business, it is mandatory for all project developers to register their project with UNFCCC to avail CDM income. However, before applying for registration, developer has to complete CDM Facility (plant installation) in all respects as per their standards. Hence, it was not possible for HFL to register the CDM Project before installing the CDM facility / plant."

3.7 During the examination of Demands for Grants 2016-17 the Committee were apprised about the plans of the Department/HFL to make the company financially viable and profitable, the Department replied in writing as under:-

> "Existing PTFE (Poly Tetra Fluoro Ethylene) manufacturing capacity of HFL is 500 MTPA (575 MTPA of TFE) and 1265 MTPA of CFM-22 (Chloro Di Fluoro Methane) which are uneconomical and small vis-à-vis industry standards. Since it is difficult to compete with small capacities, the company is diversifying into making products which can be sold in niche market with more margins as compared to PTFE. Therefore, company is focusing on development of fluoro specialty chemicals, wherein contribution is more as compared to PTFE, and has already developed TFE-ETHER, Telomeres etc. The company has also started development work on other new fluoro specialty chemicals like Benzotrifluoride (BTF). Also, since existing PTFE grades are not competitive due to higher input cost, HFL has developed advanced grades of PTFE i.e. Modified PTFE (MPTFE), which has higher margins than ordinary PTFE. HFL exported about 7.2 MT of MPTFE to Italy in 2014-15. The company expects income of about Rs.3 crore per year from MPTFE. HFL has also implemented plant refurbishment schemes and small projects with Plan loan of Rs.13.60 crore sanctioned by the Govt. in 2014-15. This is expected to result in revenue generation of about Rs.6 crore and savings of Rs.2 – 3 crore per annum due to production of value added products and improvement in the efficiency / productivity of the plant.

3.8 Further during the examination of Demands for Grants 2017-18 the Committee were apprised for revival and growth of HFL, the company has diversified into profitable business of fluoro specialty chemicals which has higher profit margins than the existing grades of PTFE and adopted the strategy of switching over from single product to multi-product facility to reduce dependency on PTFE. HFL has developed superior grades of PTFE (modified PTFE or MPTFE) and fluoro specialty chemicals like TFE-Ether and Telomers and started commercial facility of partial conversion of Telomers. It has also developed Benzotrifluoride (BTF) on lab scale and sample has been accepted by the customer.

IV RESTRUCTURING PLAN FOR HFL

3.9 A revival / restructuring plan for HFL to addresses the major factors affecting the performance of the company viz. high manpower cost (employees strength is approx. 150 as against the requirement of 110), uneconomical plant capacity & old technology and high interest cost due to outstanding loans payable to HOCL and Govt. of India, was prepared by the Department and approved by the Minister (C&F) in April, 2016. As part of the plan, a proposal for revision of terms & conditions of the Plan loan of Rs.16.80 crore released to HFL in 2014-15 to include *(a)* 3 years moratorium on repayment of principal / interest and *(b)* extension of repayment period of the Plan loan / interest from 5 years to 10 years, has been taken up with the Ministry of Finance.

3.10 In the meantime, consultations / meetings were held on the Report of NITI Aayog on sick, loss-making and non-performing CPSEs, which *inter alia* recommended for strategic sale / disinvestment of 10 CPSEs. HFL is among the CPSEs recommended for strategic sale. Presently the matter of strategic sale / disinvestment recommendation for HFL is under consideration of the Government.

3.11 When the Committee asked to furnish details about the restructuring plan for HFL and prospects for its revival under such plan by the Department of Chemicals and Petrochemicals, the Department in its written replies stated as under:-

> "The Government on 27.10.2016 has given 'in principle' approval for "the parent Company of Hindustan Fluorocarbon Ltd. to exit the firm completely. The Parent Company to decide on the strategic disinvestment considering the benefits of outright sale vis-à-vis block sale of shares." Necessary action has been initiated to implement the above decision as per the guidelines / instructions of DIPAM. In view of the above decision for strategic disinvestment of HFL, the issues relating to revival / restructuring plan for HFL by the Department are not relevant now."

3.12 The Secretary Chemicals and Petrochemicals in the meeting held on 21.04.2017 further apprise the Committee that HFL is a subsidiary of HOCL. HOCL has 56% share holding in HFL. Decision to disinvest of share of HOCL has already been taken. Now we are not talking about revival any more....... Decision is not to close down but to sale HOCL shares. In place of HOCL any other share holders would take its place. This does not mean that the company will close down.

3.13 When the Committee asked about the comments of HOCL in this regard and follow up action being taken by them after the Government allow them exit route from the HFL, the Department in its written replies stated as under:-

> "The Board of Directors of HOCL has conveyed its agreement with the Govt.'s proposal for strategic disinvestment of HFL. Final decision on the actual mode of strategic disinvestment viz. outright sale or block sale of shares, is yet to be taken by the HOCL Board.
>
> For processing the strategic disinvestment of HFL, Inter-Ministerial Group (IMG) and Evaluation Committee (EC) are to be constituted as per the guidelines issued by the Department of Investment & Public Asset Management (DIPAM) in this regard. IMG under chairmanship of Secretary (C&PC) has been constituted on 27.01.2017. First meeting of the IMG was held on 31.01.2017 and 01.02.2017 following which RFP for appointment of Transaction Adviser (TA) and Legal Adviser (LA) for the strategic disinvestment of HFL have been published in 3 national newspapers and also uploaded on the website of the Department, HOCL

and HFL. Since appointment of Asset Valuer is to be done by the parent company, HOCL has been instructed to take necessary action for the same. Constitution of EC would be done shortly."

****

RECOMMENDATIONS

RECOMMENDATIONS No. 1

REVIVAL PLAN EFFORTS

The Committee while examining HOCl note with a deep concern that this company which was once declared a mini ratna company and which made regular profits for 31 years up to 1996-97 has tragically come at a crossroads where the Government is actually considering its restructuring by closing down its nine out of twelve plants at Rasayani.

The Committee also note that earlier efforts to revive HOCL by the Government have failed miserably. The Committee are of strong view that these efforts failed due to the fact that revival plan lacked focus and expertise. Even the current Draft Cabinet Note (DCN) of April 2016 is not supported by the Department of Expenditure and Department of Public Enterprise, as the proposal for revival of HOCL in its current form does not appear to have adequate focus on long term commercial viability/sustainability and lacks actual business plan to increase revenue, control cost or overcome the reasons of failure of revival of earlier package. Further, the current revival plan does not include business restructuring proposals so as to make the company profitable on a sustainable basis. The Committee regret to note that the Department has not been able to learn from its past mistakes and has failed to come out with a comprehensive proposal for revival of HOCL which could convince the Government. As a reason of which, the Government has decided to restructure HOCL by closing down the operation of nine plants and operating only 3 plants (including the strategically important N_2O_4 plant) at Rasayani and 2 plants at Kochi. The Committee, therefore recommend that the Department to devise a revival package with greater diligence which pay adequate focus on long term commercial viability and sustainability of HOCL. The Committee would like to be apprised of the action taken in this regard.

RECOMMENDATION NO 2

EXECUTION AND MONITORING OF REVIVAL PLAN

The Committee note that the present situation of the company is largely claimed to be due to post 1990's liberalized and globalised economic scenario. However, the Committee after examining HOCL comes to the conclusion that it is the inability of the management of the company to adapt to the changing scenario which is responsible for the current situation. The factors like cumulative adverse impact of the uneconomic capacity of its plants, high manpower cost, high finance cost, severe international competition, low technology, etc., are only partly responsible for the poor financial conditions of HOCL, a very strong reason for the losses incurred by the company is poor management on the part of HOCL. The Committee therefore, recommend the Department to form a expert management team for the effective implementation of the current revival/restructuring plan of HOCL. The Committee, however at the same time emphasize that constant monitoring must be maintained to ensure long term revival of the company. The Committee would like to be apprised of the action taken in this regard.

RECOMMENDATION No. 3

The Committee note that based on discussions held at various levels in the Government, HOCL had devised a plan for restructuring its operations by closing down the operations of 9 non-viable plants and operating only 3 plants (including the strategically important N_2O_4 plant) at Rasayani and 2 viable plants at Kochi unit with the restructuring cost to be met partially from monetization of surplus land assets of the company and partially through Government financial assistance (cash and non-cash). With regard to the monetization of land assets, the Department is in consultation with Bharat Petroleum Corporation Limited (BPCL) and BPCL has agreed to take over around 440 acres of land. An amount of only Rs.403.66 crore is expected to be generated from the above monetization of HOCL land assets whereas the total cash fund requirement for clearing all the liabilities of the company and preparing long term commercial viability and business plan was much higher. In view of the fund generation / availability constraints, the proposal / DCN addressed liquidating only the urgent liabilities of HOCL (of Rs.376.45 crore), thereby shoring up the working capital position, and restoring

the plant operations at both Rasayani and Kochi units at the earliest so that at least part of the fund requirements towards operations and salary cost could be generated by the company. The Committee, therefore, recommend that the Department must ensure proper financial management of the sale proceeds of excess land so that it may not suffer any handicap while carrying out its programmes and restructuring. The Committee would like to be apprised of the action taken in this regard.

RECOMMENDATION No. 4

SURPLUS MANPOWER, SALARIES AND OTHER STATUTORY DUES

The Committee are pained to note that HOCL has become a chronically sick company and has been making cash losses since 2011-12 which has resulted in erosion of net worth of the company, lack of working capital and deterioration in the operations of the company leading to severe cash crunch. As a reason of which, the company has not been able to pay salary/wages and statutory dues of its employees for the past several months. In this regard Draft CCEA Note on revival/restructuring plan for HOCL was prepared by the Department which *inter-alia* includes provision of payment of outstanding salary/wages and statutory dues of employees to be met from monitoring of the surplus lands of HOCL. However, DCN was not supported by Department of Expenditure and Department of Public Enterprises. The Committee also observe there is surplus manpower in HOCL as on date. To pay salary to all the officials and employees of HOCL especially when it is reeling under severe financial crunches is onerous task. The Committee have been apprised by the Department that high manpower cost is one of the reasons for continuous loss of the company and the Voluntary Retirement Scheme (VRS) earlier introduced for surplus manpower reduction was not attractive as such the targeted reduction could not be achieved.

The Committee have empathy with the hardships of the workers who have been deprived of salary for the past so many months and therefore, recommend that the Department to come out with an effective proposal to ensure payment of salaries and statutory dues of the employees. The Committee would also like the Department to prepare such VRS which may meet the purpose. The Committee would like to be apprised of the action taken in this regard.

RECOMMENDATION NO 5

The Committee note that the Government on 27.10.2016 has given 'in principle' approval for the parent company of HFL to exit the firm completely. The Committee also note that the Board of Directors of HOCL has conveyed its agreement with the government's proposal for strategic disinvestment of HFL Final decision on the actual mode of strategic disinvestment viz. outright sale or block sale of shares is yet to be taken by the HOCL Board. The Committee observe that For processing the strategic disinvestment of HFL, Inter-Ministerial Group (IMG) and Evaluation Committee (EC) are to be constituted as per the guidelines issued by the Department of Investment & Public Asset Management (DIPAM) in this regard. IMG under chairmanship of Secretary (C&PC) has been constituted on 27.01.2017. First meeting of the IMG was held on 31.01.2017 and 01.02.2017 following which RFP for appointment of Transaction Adviser (TA) and Legal Adviser (LA) for the strategic disinvestment of HFL have been published in 3 national newspapers and also uploaded on the website of the Department, HOCL and HFL. Since appointment of Asset Valuer is to be done by the parent company, HOCL has been instructed to take necessary action for the same. Constitution of EC would be done shortly. The Committee, therefore recommend the strategic disinvestment of HFL should be gainfully done and the sale should not cause loss to State exchequer. Besides this the Government should have stand by plan or alternative plan in case the strategic sale could not be arrived to its logical conclusion. The Committee would like to be informed of the action taken by the Government in this regard.

RECOMMENDATION NO. 6

The Committee observe that as a result of final infusion to the tune of Rs. 270 crore and continuation of Government of India guarantee of Rs. 100 crore for a full term of ten years during the year 2006-2007, HOCL made a profit of Rs. 17.09 crore during the year 2006-07 and Rs. 13.01 crore in 2008-08 and came out of the purview of BIFR in 2008. Similarly in the case of HFL, the Committee note that they have envisaged some diversification plan to make the company financially viable and profitable especially by developing Modified Poly Tetra

Fluoro Ethylene(MPTFE) and the company expects income of Rs. 3 crore per year from MPTTEE. HFL has also developed TFE-Ether and Telomeres and started commercial facility of partial conversion of Telomeres. It has also developed Benzotrifluoride (BTF) on lab scale and sample has been accepted by the customer. The Committee also note that during 2016-17 (Prov), the company achieved a turnover of Rs. 33.78 crore. The Committee are pained to note that inspite of the efforts made by the company by diversifying its various activities and also achieving a turnover of Rs. 33.78 crore (Prov) in 2016-17, the Government has decided for strategic disinvestment of HFL. In view of the foregoing the Committee feel that the strength of both the companies viz., HOCL and HFL should be reviewed and that restructuring may be planned and executed in view of the objectives the companies. The Committee therefore recommend that Government should revisit their decision for disinvestment/strategic sale. The Committee would like to be apprised of the action taken in this regard.

New Delhi;
18 May, 2017
28 Jyaishta, 1939 (Saka)

Anandrao Adsul
Chairperson
Standing Committee on
Chemicals and Fertilizers

ANNEXURE I

MINUTES OF THE SEVENTH SITTING OF THE STANDING COMMITTEE ON CHEMICALS & FERTILIZERS (2016-17)

The Committee sat on Friday, the 27th January, 2017 from 1500 hrs. to 1700 hrs. in Room No. 139 , Parliament House Annexe, New Delhi.

PRESENT

Shri Anandrao Adsul - Chairperson

MEMBERS

LOK SABHA

2. Smt. Anju Bala
3. Shri B. N. Chandrappa
4. Shri Shankar Prasad Datta
5. Shri Chhedi Paswan
6. Shri Kotha Prabhakar Reddy
7. Dr. Kulamani Samal
8. Dr. Krishna Pratap Singh
9. Shri Pankaj Chaudhary
10. Dr. (Smt.) Ratna De (Nag)

RAJYA SABHA

11. Shri Prem Chand Gupta
12. Shri Narayan Lal Panchariya
13. Shri Palvai Govardhan Reddy

SECRETARIAT

1.	Smt. Rashmi Jain	-	Joint Secretary
2.	Shri A. K. Srivastava	-	Director
3.	Shri H. Ram Prakash	-	Additional Director
4.	Shri Nishant Mehra	-	Under Secretary

List of Witness

I. ***MINISTRY OF CHEMICALS AND FERTILIZERS (DEPARTMENT OF CHEMICALS AND PETROCHEMICALS)***

1.	Shri Anuj Kumar Bishnoi	Secretary

2.	Ms. Meenkashi Gupta,	Additional Secretary &Financial Advisor
3.	Shri Samir Kumar Biswas	Joint Secretary (Chemicals)
4.	Shri Avinash Joshi	Joint Secretary (Petrochemicals)
5.	Shri Ashok Kumar Mathur	Deputy Director General
6.	Ms. Ranjana Kale	Economic Advisor

II. ***REPRESENTATIVE FROM OTHER MINISTRIES / DEPARTMENTS/ STATE GOVERNMENT***

1.	Shri Ashutosh Jindal	Joint Secretary M/o Petroleum and Natural Gas

III. ***REPRESENTATIVES FROM PSUs***

1.	Shri S. B. Bhide	CMD (HOCL)
2.	Shri T. S. Gaikwad	CMD (HFL)

2. At the outset, Hon'ble Chairperson welcomed the Members of the Committee and representatives of the Ministry of Chemicals & Fertilizers (Department of Chemicals and Petrochemicals) and other officials to the sitting. Their attention was invited to the provisions contained in Direction 55(1) of the Directions by the Speaker regarding confidentiality of the Committee's proceedings.

3. After the witnesses introduced themselves, the CMD of HOCL made power point presentation on the subject 'Revival of sick PSUs in chemicals and Petrochemicals Sectors', with regard to HOCL to the Committee. During the discussion, the Hon'ble Chairperson and Members of the Committee raised following issues regarding-:

(i) Revival of HOCL Plant and related issues

(ii) Transfer of a N_2O_4 plant along with appurtenant land and necessary infrastructure to ISRO

(iii) Release of salary to the employees of HOCL

(iv) Technological upgradation of HOCL Plant

4. Thereafter, the Chairperson thanked the witnesses for appearing before the Committee as well as for furnishing valuable information to the Committee.

They were also asked to provide required information not readily available at the earliest. The Committee also decided to take oral evidence pertaining to HFL at a later date.

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

The Committee then adjourned.

ANNEXURE II

MINUTES OF THE FOURTEENTH SITTING OF THE STANDING COMMITTEE ON CHEMICALS & FERTILIZERS (2016-17)

The Committee sat on Friday, the 21st April, 2017 from 1500 hrs. to 1630 hrs. in Committee Room 'A' , Parliament House Annexe, New Delhi.

PRESENT

Shri Anandrao Adsul - Chairperson

MEMBERS

LOK SABHA

2. Shri George Baker
3. Smt. Anju Bala
4. Shri B. N. Chandrappa
5. Shri Sankar Prasad Datta
6. Smt. Veena Devi
7. Shri R. Dhruvanarayana
8. Shri Innocent
9. Shri K. Ashok Kumar
10. Shri Chhedi Paswan
11. Shri S. Rajendran
12. Dr. Kulamani Samal
13. Dr. Krishna Pratap Singh
14. Shri Taslimuddin

RAJYA SABHA

15. Shri Prem Chand Gupta
16. Shri K. Parasaran

SECRETARIAT

1.	Smt. Rashmi Jain	-	Joint Secretary
2.	Shri A. K. Srivastava	-	Director
3.	Shri Nishant Mehra	-	Under Secretary

List of Witness

I. ***MINISTRY OF CHEMICALS AND FERTILIZERS***
(DEPARTMENT OF CHEMICALS AND PETROCHEMICALS)

1.	Shri Anuj Kumar Bishnoi	Secretary
2.	Shri Samir Kumar Biswas	Joint Secretary (Chemicals)
3.	Ms. Aparna S. Sharma	Joint Secretary
4.	Ms. Ranjana Kale	Economic Adviser
5.	Shri Ghan Shyam	Deputy Director General
6.	Shri Dinesh Kumar	Director (Chemicals I)
7.	Shri Sunil Kumar Sharma	Director (Chemicals II)

I. ***REPRESENTATIVES FROM PSUs***

1.	Shri S. B. Bhide	CMD (HOCL)
2.	Shri T. S. Gaikwad	MD (HFL)

2. At the outset, Hon'ble Chairperson welcomed the Members of the Committee and representatives of the Ministry of Chemicals & Fertilizers (Department of Chemicals and Petrochemicals) and other officials to the sitting. Their attention was invited to the provisions contained in Direction 55(1) of the Directions by the Speaker regarding confidentiality of the Committee's proceedings.

3. After the witnesses introduced themselves, the MD of HFL made power point presentation on the subject 'Revival of sick PSUs in chemicals and Petrochemicals Sectors' with special reference to HFL to the Committee wherein various factors which affected the performance of HFL viz. uneconomical plant size, high manpower cost, high interest and depreciation burden etc. were highlighted. During the discussion, the Hon'ble Chairperson and Members of the Committee *interalia* raised following issues regarding-:

(i) Lack of sincere efforts by the Department of Chemicals and Petrochemicals regarding revival of HFL;

(ii) Strategic disinvestment of HFL;

(iii) Technological upgradation of HFL Plant;

(iv) Release of salary to the employees of HFL;

(v) Rehabilitation of employees of HFL;

(vi) Issues related to low sales realization;

(vii) Planning of Long term policy for the plant;

(viii) Long term sustainable revival plan for the plant etc.

4. Thereafter, the Chairperson thanked the witnesses for appearing before the Committee as well as for furnishing valuable information to the Committee. They were also asked to provide required information not readily available at the earliest.

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

The Committee then adjourned.

ANNEXURE III

MINUTES

MINUTES OF THE FIFTEENTH SITTING OF THE STANDING COMMITTEE ON CHEMICALS & FERTILIZERS (2016-17)

The Committee sat on Thursday, the 18th May, 2017 from 1500 hrs. to 1600 hrs. in Committee Room 'A', Parliament House Annexe, New Delhi.

SHRI ANANDRAO ADSUL - CHAIRPERSON

MEMBERS

LOK SABHA

2. ShriSankar Prasad Datta
3. Smt. Veena Devi
4. Shri R. Dhruvanarayana
5. Shri Innocent
6. Shri K Ashok Kumar
7. Shri Chhedi Paswan
8. Shri S. Rajendran
9. Dr. Kulamani Samal
10. Dr. Uma Saren
11. Smt. Rekha Arun Verma
12. Shri Pankaj Chaudhary
13. Dr. (Smt.) Ratna De (Nag)

RAJYA SABHA

14. Shri Biswajit Daimary
15. Shri Surendra Singh Nagar
16. Shri Narayan Lal Panchariya
17. Shri Palvai Govardhan Reddy
18. Shri Abdul Wahab

SECRETARIAT

1.	Smt. Rashmi Jain	-	Joint Secretary
2.	Shri A.K. Srivastava	-	Director
3.	Shri Nishant Mehra	-	Under Secretary

2. At the outset, the Hon'ble Chairperson welcomed the Members of the Committee.

3. The Committee, thereafter, took up for consideration and adoption of draft report on the subject, 'Revival of Sick PSUs in Chemicals and Petrochemicals Sector' of the Ministry of Chemicals and Fertilizers (Department of Chemicals and Petrochemicals).

4. After a brief discussion on the contents of the report, the draft Report was adopted by the Committee without any amendment.

5. The Committee authorised the Chairman to make consequential changes, if any, arising out of the factual verification of the Report by the Department of Chemicals and Petrochemicals of the Ministry of Chemicals and Fertilizers and present the same to the Hon'ble Speaker.

6. The Committee also decided to undertake a study tour to Kullu, Manali, Mandi, Shimla and Mohali from 09 to 15 June, 2017. The Committee, thereafter, decided to hold its next sitting on 02 June, 2017 on the examination of the subject "Implementation of New Urea Policy - 2015".

7. A verbatim record of the sitting has been kept.

The Committee then adjourned.