COMMITTEE ON GOVERNMENT ASSURANCES
(1999-2000)

THIRTEENTH LOK SABHA

FOURTH REPORT

(NTC Mill Tirupati)

(Presented to Lok Sabha on 21.12.2000)

LOK SABHA SECRETARIAT

सत्यमेव जयते

NEW DELHI

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COMPOSITION OF THE COMMITTEE ON GOVERNMENT ASSURANCES*
(1999-2000)

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* The Committee was nominated by the Speaker w.e.f. December 28, 1999 *vide* Para No.327 of Lok Sabha Bulletin Part-II dated December 28, 1999

P R E F A C E

Tirupati Cotton Mills in Andhra Pradesh is situated in Renigunta, (a Railway junction) about 13 Kms away from the town of Tirupati. Originally M/s P. Suryanarayana & Sons Pvt. Ltd. was the owner of the Mill, but due to huge losses suffered, the management of the mill was taken over by the Government in 1972. The mill was subsequently nationalised under Sick Textile Undertakings Nationalisation Act, 1974. At present, Tirupati Cotton Mills Renigunta is an unit of NTC (APKK & M).

Though the Mill showed some improvement in its management and earned profit after nationalisation, but due to inadequate modernisation and shortage of working capital, the mill has not been working since December 1996. The Government, however, has been giving budgetary support to meet the shortfall in the wages & salaries.

In reply to an unstarred question tabled in Lok Sabha on 25th July, 1997 concerning the non-functioning of the aforesaid mill and the steps Government were taking to make the same viable, the then Minister of Textile inter-alia assured the House that a mill wise viability study has been undertaken by the NTC which is under the consideration of the Government.

As the above assurance could not be fulfilled within time, the Committee went on a study tour to Chennai in May 2000 to have informal discussions with the representatives of the Ministry of Textiles. Representatives of the Ministry of Textiles were also summoned before the Committee in Delhi with a view to clarifying the position further and inform the Committee about the reasons for delay in the fulfillment of the assurance.

The study of the facts of the case and the conclusions based thereon are recorded in the succeeding paragraphs.

INTRODUCTION

I, the Chairman of the Committee on Government Assurances having been authorised by the Committee to submit the Report on their behalf, present this Fourth Report of the Committee on Government Assurances.

The Committee was constituted on December 28, 1999.

At their sitting held on December 20, 2000, the Committee considered and adopted the Fourth Report.

The observations/recommendations of the Committee are contained in this report.

The Committee wish to express their thanks to the officials of the Ministry of Textiles for their co-operation. The Committee also accord appreciation to the Secretariat staff/officers for the services rendered by them to the Committee in finalisation of this report.

DR. S. VENUGOPAL
Chairman
Committee on Government Assurances

NEW DELHI;
29, Agrahayana, 1922 (SAKA)

CHAPTER – I
QUESTION AND ASSURANCE

1.1 On July 25, 1997, Shri K.S. Rayadu M.P. addressed the following Unstarred Question No.547 for answer by the Minister of Textiles :-

(a) "Whether the Tirupati Cotton Mills the foremost unit of the National Textiles Corporation in the state of Andhra Pradesh was not functioning for the last six to eight months;

(b) If so, whether the main reason is due to non-supply of cotton,

(c) If so, whether the mill was modernised recently by installing latest machinery of Rs. 10 crores;

(d) If so, the main reason for not functioning of this textiles mills in Tirupati; and

(e) The steps taken by the Government to make it viable?"

1.2 The then Minister of Textiles (Shri R.L. Jalappa) gave the following reply:-

“(a) to (e) The Tirupati Cotton Mill, Renigunta is a unit of NTC (APKK & M). A sum of Rs. 5.83 crores has been spent on modernisation of the mill since nationalisation. This mill has been incurring losses and has not been functioning since December 1996 due to inadequate modernisaton and shortage of working capital. NTC (APKK & M) including Tirupati Cotton Mills was referred to and declared sick by the BIFR. On the basis of the report prepared by the Operating Agency, the BIFR published draft rehabilitation scheme, asking for certain reliefs and concessions from the Government. The last hearing of BIFR, which was scheduled to be held in April 1997, was postponed. Pending approval of the revival scheme by the BIFR, Government has been releasing funds to NTC for payment of wages and salaries to the employees of the mills. A mill-wise viability study has been undertaken by the NTC, which is under the consideration of the Government.”

1.3 The reply that a mill-wise viability study has been undertaken by NTC, and is under the consideration of the Government was treated as an assurance and was required to be implemented within three months i.e. October 4, 1997.

1.4 A request for dropping of the assurance was received from the Ministry of Textiles through the then Minister of Railways, Parliamentary Affairs and Planning & Programme Implementation vide D.O. No. 4(I)/99-Imp.I dated March 1, 1999 on the plea that it pertained to the Revival plan of NTC and involved policy matter/controversial issues in respect of which great care was to be taken and that it cannot be dealt within the limited scope of a question.

1.5 The Committee on Government Assurances had taken up the above matter in an informal discussion with the representatives of the Ministry of Textiles and National Textiles Corporation during its tour to Chennai on May 25, 2000. The Committee was told about the problem being faced by the NTC Mills as a whole. As the Committee were particularly interested about NTC Mills at Renigunta, the Ministry of Textiles was asked to furnish details about that particular Mill. On the basis of facts received, the representatives of the Ministry of Textiles and NTC were called for oral evidence before the Committee on September 4, 2000.

CHAPTER – II

BRIEF HISTORY

NTC has 119 mills and 9 subsidiaries. Tirupati Cotton Mill, Renigunta a unit of NTC (APKK & M) was established by M/s P Suryanarayan and Sons Pvt. Ltd., in the year 1956. Commercial production was started in 1957. But due to continuous losses, the management was finding it difficult to run the mill. The management of the mill was therefore taken over by the Government of India alongwith 45 other mills under the Sick Textile Undertakings (Taking over of management) Act, 1972 in public interest, for expeditious rehabilitation of such undertakings so that such rehabilitation may subserve the interests of the general public by the augmentation of the production and distribution at fair prices, of cheaper varieties of cloth and for matters connected therewith or incidental thereto. The physical possession of the Tirupati Cotton Mill, Renigunta, however, could not be taken over till 23 September 1974 due to interim injunction issued by the High Court of Andhra Pradesh in a writ filed by the owner of the mill.

The actual possession and control of the mill was taken over by the NTC only on 23 September 1974 after the promulgation of the Sick Textiles Undertakings (Nationalisation) Ordinance, 1974 by the President on 21 September 1974.

CAPACITY

At the time of takeover, the mill had 21,040 spindles. The spindles were increased to 25,040 during 1975-76 and further to 30,320 during 1979-80. However, at present the mill is having 27,860 spindles but the manufacturing activity has remained suspended since April 1998.

According to note sent to the Committee, the Ministry of Textiles have stated that during VIIth Plan modernisation period, 15 NMM Ring Frames of 452 spindles each were discarded and only 5 NMM Ring Frames of 452 spindles each were replaced by Long Ring Frames of 864 spindles each due to cost and time over as also due to non availability of funds.

MANPOWER

As on 24 June 1988 (before second phase of modernisation was undertaken at Tirupati Cotton Mill), there were 614 workers and 51 officers and staff. Consequent upon introduction of VRS during Octoer-November1996, 355 employees have retired and now there are only 97 employees as on 30 June 2000 in the roll of Tirupati Cotton Mill.

WORKING RESULTS & NET WORTH

The mill had made net profits during 1982-83, 1883-84 and 1985-86 as under :-

Sl. No.	Year	(Rs. In Lakhs) Net Loss	Cash Loss
1.	1982-83	+22.47	+34.45
2.	1983-84	+5.24	+22.82
3.	1984-85	+12.26	-5.53
4.	1985-86	+15.02	+26.80
5.	1986-87	-14.92	-2.89

Following is the summary of working results of the mill for the last 5 years: -

(Rs. In Lakhs)

Sl. No.	Particulars	1999-2000 Provisional	1998-99 Audited	1997-98 Audited	1996-97 Audited	1995-96 Audited
1.	Value of products	.50	57.66	193.70	760.32	1506.24
2.	Net loss for the year	385.04	298.99	330.13	283.56	304.31
3.	Cumulative loss upto the year	1929.42	1544.38	1245.39	915.26	631.70
4.	Net worth	-1759.93	-1374.89	-1076.90	-745.65	-462.09

As per viability study carried out by the NTC (Holding Company) in 1999, net worth of Tirupati Cotton Mill does not become positive in 10 years even after considering the value of surplus land. According to the study, the estimated profit the mill can earn with an investment of Rs. 12.43 crore as envisaged in 1997, is Rs. 73 lakh per annum.

Incidentally, it may be mentioned that as on 31.3.1988, Tirupati Cotton Mill had accumulated a net profit of Rs. 55.40 lakh and that of cash profit of Rs. 153.20 lakh respectively since taken over in 1974.

BORROWING & OTHER LIABILITIES

As on 31 March 2000, the mill had the following long-term borrowings and other liabilities to discharge: -

(Rs. In Lakhs)

Sl. No.	Particulars	Principal	Interest	Total
1.	Government loan	578.61	182.85	761.46
2.	Loan from financial Institutions	314.00	683.79	997.79
3.	Bank borrowings			153.51
4.	Sundry Creditors			120.61

LANDED PROPERTY OF THE MILL

Tirupati Cotton Mills has a total extent of land of 88.83 acres of which 47.44 acres are identified as surplus. As per CBDT evaluation studies, it was estimated to fetch Rs. 1.89 crore whereas as per latest valuation based on indicative prices of state Government for Registration of Sale and Stamp Duty purposes, the value of entire land of 88.83 acres is estimated to be Rs.73 crore only.

MODERNISATION

A sum of Rs. 5.83 crores has been spent on modernisation of the mill since nationalisation. Modernisation of Tirupati Cotton Mills was carried out during 2 Plan periods of VIth Plan and VIIth Plan. Summary of VIth & VIIth Plan details are as under :-

Sl. No.		(Rs. In Lakhs) Sanctioned	Implementation
		2	3
	VITH PLAN		
1.	I Phase/Escalation (Dec. '75/May '78)	105.52*	91.87
2.	II Phase/Escalation (Oct. '79/Feb '84)	69.62**	69.62
3.	Generator (Nov '80)	8.64***	8.64
4.	Cone winders (Feb '85)	2.52****	2.52
5.	Essential & Other Capital items (March '85)	7.49	10.88
	Sub Total (I)	**193.79**	**183.53**
	VIIth PLAN		
6.	Short term (Feb '88)	24.00	12.82
7.	IFCI/IDBI (Jan '89)	425.00	386.81
8.	Generator from Algappa Mills (March '90)	6.85	-
	Sub Total (II)	**455.85**	**399.63**
	Grand Total (I+II)	**649.64**	**583.16**

* Does not include escalation of 3.02 lakh which was sanctioned later on
** Includes escalation of Rs. 19.42 lakh
*** Does not include escalation of Rs. .66 lakh which was sanctioned later on
**** Does not include escalation of Rs. .08 lakh

DETAILS OF AMOUNT SANCTIONED AND IMPLEMENTED FOR MODERNISATION OF TIRUPATI COTTON MILLS, RENIGUNTA DURING VITH PLAN PERIOD (DEC '75-MAY '78)

Sl. No.	Description	Sanctioned		Implementation (Rs. In Lakhs)	
		Unit	Value	Unit	Value

1	**I PHASE**				
1.	Conv. Of cards to HP cross roll	25	17.50	8	6.99
2.	New Draw frames	3 sets	4.80	3	5.41
3.	Conv. Of 6 S. frame to T A D	6	3.00	6	3.23
4.	Top arm conversion on R. frames	24	12.00	24	11.76
5.	Tin rolller conv. 20240 Spdls	48	2.43	48	2.40
6.	Plug type Spdls with H.S. inserts	11200	6.27	11200	6.69
7.	H. Speed rings	20240	1.62	20240	1.08
8.	New ring frames	12	21.00	12	18.23
9.	Dual drive motors for 12 new Rfs	24	1.50	24	1.08
10.	Dual drive Motors for 24 new Rfs	48	2.40	48	4.01
11.	New Cone winders	2	2.60	2	2.56
12.	Doubler conversion	2	0.36	2	0.18
13.	Comber	1 set	15.00	1	11.29
14.	Sizing conversion	1	1.25	-	-
15.	Package boiler	1	0.50	-	-
16.	Suction boxes for ring frames	13	0.39	13	0.37
17.	Inst. Of webking to India roll	16	0.40	-	0.37
18.	Mod. Of NMM Rfs replacing NGM draf	20	12.38	-	13.35
19.	False ceiling for spg. And prepare	-	2.30	-	2.03
20.	Installation of 50 KVA transform	1	0.84	-	0.84
	Sub Total (A)		**108.54**		**91.87**

Sl. No.	Description	Sanctioned		Implementation (Rs. In Lakhs)	
		Unit	**Value**	**Unit**	**Value**
2	**II PHASE**				
1.	Combers	2	7.68	2	10.96
2.	Simplex machine of 132 spindles	1	3.51	1	4.02
3.	New ring frames of 440 spindles	12	27.46	12	34.99
4.	Cone winder with wax attachment	1	1.98	1	1.83
5.	Overhead cleaners for 12 ring fra	2	0.90	2	1.09
6.	Humidification equipment	-	5.72	-	8.93
7.	Electrical accessories, cables, ca	-	0.95	-	2.90
8.	Civil works for Humidification pl	-	2.00	-	4.90
	Sub Total (B)		**50.20**		**69.62**

(Rs. In Lakhs)

Sl. No.	Description	Sanctioned Unit	Sanctioned Value	Implementation Unit	Implementation Value
3	**GENERATOR**	**-**	**9.30**		**8.64**
4	**Cone winder**	**-**	**2.60**	**-**	**2.52**
5	**ESSENTIAL ITEMS**	-	7.49		
i)	Cot grinding/buffing machine			-	0.33
ii)	Power capacitors			-	0.19
iii)	Bar panel boards			-	0.22
iv)	Water softening plant			-	0.43
v)	WST-UT 620 drafting conv. On ro			-	0.76
vi)	Pulley drive conversion			-	1.50
vii)	Electricals			-	1.65
viii)	Cone winder			1	2 .41
ix)	Construction of godown, cante ambulance room and toilet			-	3.39
	Sub Total (C)		**19.39**		**22.04**
	Grand Total (A+B+C)		**178.13**		**183.53**

DETAILS OF AMOUNT SANCTIONED AND IMPLEMENTED FOR MODERNISATION OF TIRUPATI COTTON MILLS, RENIGUNTA DURING VIITH PLAN PERIOD (FEB. '88-MAR. '90)

(Rs. In lakhs)

Sl. No.	Description	Sanctioned Unit	Sanctioned Value	Implementation Unit	Implementation Value
1	2	3	4	5	6
	I SHORT TERM				
1.	Simplex	1	8.00	1	6.37
2.	Cone winder	2	8.00	1	4.00
3.	Pulley Drive conversion	15	8.00	10	2.45
	Sub-Total (A)		**24.00**		**12.82**
	II Generator from Algappa Mills	1	6.85		0.00
	Sub-Total (B)		**6.85**		**0.00**
	III IDBI/IFCI SCHEME				
1.	Blow room line	1	9.88	1	14.19
2.	Mono Cylinder	1	0.93	-	-
3.	H.P. Cards	12	83.92	9	96.76
4.	Accessories for H.P. Cards (Sets)	1	2.16	1	3.23
5.	Card cans with Castors	50	0.22	-	-
6.	Bare cylinder grinder (1 No)			1	0.47
7.	Matellic wire mounting m/c (1 No)	3	2.99	1	0.34
8.	Automatic flat grinding m/c (1			-	-

	No)				
9.	a) Extended creel for Draw frames	2	1.74	-	2.28
	b) Draw frames			2	12.82
10.	Simplex	9	75.11	6	79.64
11.	Simplex bobbins	30000	3.21	27691	4.05
12.	Ring frames	20	110.01	5	76.85
13.	Compressor & Accessories	1	0.29	1	0.97
14.	Overhead cleaner	2	0.92	2	3.45
15.	Pulley Drive conversion	14	3.47	-	-
16.	Auto coner	1	37.65	1	53.79
17.	Accessories for auto coner		1.74		
	a) Compressor			1	0.72
	b) Stabiliser			1	0.47
	c) Water cooled after cooler			1	0.04
	d) Moisture seprator			1	0.03
	e) Refrigerated air drier			1	0.038
18.	Cone winder	2	9.92	-	-
19.	Uster Evenness Tester	1	10.00	-	-
20	Electricals		2.00	-	0.99
21.	Interest		13.00	-	13.00
22.	Working capital		19.00	-	19.00
23.	Contingencies		36.84	-	-
24.	Civil works		-	-	3.14
25.	Ring frame creel conversion	-	-	1	0.20
	Sub Total (C)		**425.00**		**386.81**
	Grand Total (A+B+C)		**455.85**		**399.63**

2.1 Despite an amount of Rs. 583.16 lakh reported to have been invested in Tirupati Cotton Mill after it was taken over by the Union Government, the Committee were told that the amount invested was not adequate for complete modernisation of the mill considering the technology and state of the plant and machinery at the time of take over from the previous owners.

Upto the end of VITH Plan, NTC had spent Rs. 183.53 lakh on modernisation of Tirupati Mill. As a result the mill, which was incurring loss upto 1977-78, started earning profit and continued to earn marginal profits up to 1983-84. Since 1984-85, the unit started incurring marginal losses, except for some years in between mainly due to adverse market conditions coupled with incidence of interest on term loans. A techno economic viability study was conducted to assess the viability of the unit and to draw out a revival plan to curb the losses.

As per SWOT analysis carried out before IInd Phase of modernisation the position was as under: -

STRENGTH

1) The discipline among workers was fair
2) Industrial relations were cordial
3) Reasonably low fixed expenses
4) Well-connected by rail and road

WEAKNESS

1) Condition of Simplex machines very poor.

2) Shortage of cards and simplex machines.

3) Condition of NMM Ringframes poor leading to excessive breakdowns.

4) Top arms of some of the zinzer frames need replacement.

OPPORTUNITY

The mill has potential to absorb new machines of higher technology and achieve good results.

THREATS

None envisaged at that time.

After a technical viability study, the second phase of modernisation was drawn at a proposed investment of Rs. 455.85 lakh. The scheme was sanctioned by the Government and it also provided funds equal to 20 per cent of cost of scheme being promoters contribution. The balance 80 percent was to be provided by the financial. Institution as interest bearing Term loans.

TERM LOANS BORROWED FROM FINANCIAL INSTITUTIONS

Sl. No.	INSTITUTION	Principal	(Rs. In Lakhs) Interest	Total
1.	IDBI	157.00	378.03	535.03
2.	IFCI	78.50	201.79	280.29
3.	IIBI	78.50	103.97	182.47
Total		**314.00**	**683.79**	**997.79**

It has been reported that dogged by cyclical recessions, the operations and the financial performance were adversely affected. As a result the operations could not absorb the additional interest burden on the loans borrowed. Moreover, it has been stated that the cost and time over run also became the factors for non-implementation of modernisation proposal.

The Committee were further informed that amendment of SIC A (Sick Industrial Companies Act) in 1992 made it mandatory for sick public sector undertakings to be referred to BIFR. According to the Ministry of Textiles, this referring to BIFR contributed to the bad performance of the mill as financial institutions bank as also other creditors became skeptical and stopped providing funds to NTC mills. This eventually led to acute working capital shortage in the mill and they could not maintain their level of activity.

BIFR

Government established Board for Industrial and Financial Reconstruction (BIFR) under the Sick Industrial Companies (special provisions) Act, 1985 to tackle the problems of sickness. Eight subsidiary corporations of NTC have been referred to BIFR. The NTC (APKK & M) Ltd. was referred to BIFR on 4.9.1992 due to net worth erosion as a sick company of which Tirupati Cotton Mill is one of the units.

TURN AROUND STRATEGY

In August 1992, the Government had approved a Turn Around Strategy which envisaged outright closure of 14 heavily losing mills, restructuring of another 35 unviable mills by merging into 15 resultant viable mills, rationalisation of 79,982 employees, modernisation of 55 mills at a cost of Rs.532-78 crore as also provision of interim liquidity during transition at an outlay of Rs. 200 crore. However, on account of non-co-operation of the financial institutions and reference to the BIFR, the package could not be implemented.

REVISED TURN AROUND PLAN

A revised Turn Around Plan was prepared on the basis of modernisation plan drawn by the Textile Research Associations. This package involved modernisation of 79 mills at a cost of Rs. 2005.732 crore, restructuring of 36 unviable mills into 18 mills by merger and coverage of 32,900 employees under VRS.

The fund required for the rehabilitation plan was to come from the sale of surplus land and assets. The NTC had 1514.57 acres of surplus land which had been valued by CBDT at Rs. 2389 crore. 80 percent of the sale proceeds was to come from sale of land located in the mills situated in Mumbai which was valued at over Rs. 1900 crore. This package was endorsed by a Special Tripartite Committee of the Ministry of Labour and the Government had approved it on 9 May 1995. That proposal was thereafter sent to BIFR for consideration.

CONDITIONS STIPULATED BY GOVERNMENT IN THE REVISED TURN AROUND PLAN

It was specifically stipulated by the Government that no budgetary support would be extended to the NTC for the implementation of the rehabilitation package excepting towards the payment of salaries and wages till the sale proceeds were available. It was also laid down that the Plan would be implemented only after the BIFR approval was received.

DECISION OF BIFR

While rejecting the Turn Around package for 4 subsidiaries, viz NTC (Guj), NTC(UP) NTC (MP) and NTC (WBAB & O) on the ground that the net worth of those four companies were not becoming positive within the stipulated period of 8-10 years, BIFR decided to publish draft schemes in case of other four subsidiaries including NTC (APKK & M). These draft schemes envisaged additional concessions from the Government such as provision of bridge loan, Government guarantee for working capital, waiver of penalties for PF/ESI dues etc.

Implementation of Revised Turn Around Plan was dependent on the sale proceeds of surplus land/assets and BIFR approval. Eighty percent of sale proceeds of surplus land were to come from Mumbai. However, the Government of Maharashtra did not give approval of sale of such lands. In addition, BIFR also strictly adhered to the technical interpretation on the question of net worth of the companies becoming positive within the stipulated period of 8-10 years.

As such, the Revised Turn Around Plan, of 1995 , which had the approval of the Government , could not be implemented due to an inherent flaw as it had overlooked the important factor of net worth which is a major determinant for viability adopted by the BIFR. The other reason was that the sale proceeds of surplus land/assets were to come mostly from Mumbai, which did not come, as the Government of Maharashtra did not approve the sale of land.

REVIEW BY NTC (HC)

After the rejection of Revised Turn Around Plan 1995, the NTC (Holding Company) have reviewed the unit-wise viability keeping in mind the concessions agreed to by the Government in 1995, and the concept of net worth becoming positive as per BIFR norms.

The NTC (Holding Company) reviewed the viability of Tirupati Cotton Mill in 1999 and concluded that the net worth of this mill would turn positive in about 15 years with minimum investment, and taking into account the consequent profitability of mill with value of surplus land. That mill does not meet the BIFR criterion on net worth becoming positive in 10 years and as such, Tirupati Cotton Mill has not been identified for revival.

DIRECTION OF BIFR

On 3.12.1999, while hearing the case of NTC (APKK & M), BIFR directed the Union Government *inter-alia* to submit a draft revival proposal and convey its stand regarding waiver of full interest and conversion of principal amount of loans into equity with subsequent de-rating. It had also instructed NTC (APKK & M) to do the following:

i) Updating the Techno Economic Viability study reports with cut off date as on 31.3.1999 considering various reliefs and concessions like waiver of total interest and conversion of whole or part of the total loans into equity only/or sub-ordinated Preference capital.

ii) Constitution of Assets Sale Committee (ASC) to look into the sale of surplus assets of the company other than the land in Banglore.

iii) Evaluation of the company's assets viz. land and other assets either through CBDT/CPWD or own in-house expertise.

iv) Evolution of strategy by Technical institutions and Banks regarding one one-time Settlement (OTS), if required.

Subsequently, BIFR in its hearing held on 2.6.2000, followed by its letter dated 6.7.2000 directed the Operating Agency, i.e. IFCI Ltd. to issue an advertisement inviting offers from general public for purchase of NTC (APKK & M) and its constituent units, which includes Tirupati Cotton Mill.

PRESENT POSITION

Since the Turn Around Strategy approved by the cabinet in 1995 could not be implemented due to fund constraints, Government had constituted a Committee to examine the techno economic viability report of the units prepared by NTC. Based on the report of the Committee, a note for the cabinet was prepared. The Government constituted a group of Ministers to consider the matter and made recommendations to prepare a paper outlining the options available for financing the Turn Around Plan. The proposal was updated on the basis of audited financial data as on 31.3.1999. The Government considered and approved the proposal in September 2000 and filed the same before the BIFR:-

i) There will be a unit by unit assessment to decide whether a unit is revivable or non-revivable.

ii) All revivable units will be revived (in public or private section)

iii) Non-revivable units will be closed and attractive VRS options will be made available to the employees.

The Committee have been informed that as per BIFR direction, advertisement inviting offers from general public for purchase of NTC (APKK& M) and its constituents were issued on 10.7.2000/17.7.2000 giving 2 months time for the prospective bidders to give their offers. It has further been intimated that an offer from one party for purchase of Tirupati Cotton Mill has been received by the Operating Agency.

STATEMENT ON TEXTILE POLICY 1985

The objective of Textile Policy 1985 was restructuring of the textiles industry in India with a longer term perspective. The main task of textile industry is to increase the production of cloth of acceptable quality at reasonable prices to meet the clothing requirements of a growing population.

In the spinning sector, all steps will be taken to ensure optimum utilisation of the spinning capacity.

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18.1 The incidence of growing sickness in the textile industry, particularly in the organised mill sector, is a matter of great concern. The reason for sickness are manifold and complex which include financial difficulties, managerial incompetence and negligence, obsolete plant and machinery, inadequate maintenance, incorrect product mix, poor marketing, excess labour and poor industrial relations. Unit specific problems would have to be tackled on a case to case basis.

18.2 Measure needed for revival of a sick unit have to be based on a detailed and objective study of the causes that led to sickness and identification of steps necessary to revive the sick unit. Distinction shall have to be made between units, which are potentially viable, and units, which are not.

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20. NTC contributes significantly to the total production of yarn and fabrics in the organised sector. A number of mills under the NTC have been able to eliminate cash losses through a programme of rehabilitation. Greater effort is needed to implement programmes of selective modernisation so that as many units as possible become profitable. The continued operation of units, which are incapable of becoming viable

would mean a continued drain on scarce resources and such units or parts thereof may have to be closed down to prevent any further losses. IN such cases, interest of the workers would be adequately protected. With the implementation of a programme of modernisation of equipment, strengthening and improvement of management, raising productivity of labour and improvement of work culture, it is expected that NTC would provide a stabilising influence and healthy competition in the textile industry.

TEXTILE POLICY 2000

It has been stated in Textile Policy 2000 that despite the thrust given by the Textile Policy of 1985 to the spinning sector, resulting in considerable modernisation 80 percent capacity utilisation, and a 20 percent share of global cotton yarn exports, cotton spinning still suffers the problems of over-capacity and a obsolete spindleage. The policy will continue the effort to modernise and upgrade technology to international levels, and take the following steps in cotton spinning sector: -

1) Encourage the spinning sector to continue to modernise.

2) Liberlise and encourage export of cotton yarn.

It has mentioned that Government recognises that employment protection in a terminally sick industrial unit is neither conducive to efficient allocation of scarce resources, nor incremental employment generation. Hence emphasis will be laid on a pragmatic and rational exit policy with adequate protection of the workers interests.

Earlier policy of not taking over/nationalisaton of sick units will be continued. As regards unviable public sector undertakings such as NTC, various options for strategic partnerships or privatisation will be explored. Non-viable mills will be closed down with provision for an adequate safety-net for the workers and employees.

CHAPTER – III

OBSERVATIONS/RECOMMENTATIONS

1. It is a matter of great concern that Tirupati Cotton Mills, Renigunta, which was taken over by the Government in 1974, when the promoter, of the mill could not manage this mill owning to continuous loss after commercial production started in 1957, has been closed since Dec.1996. The irony is that it was taken over by the Government in 1974 under the Sick Textile Undertakings (Taking over of Management) Act 1972 in public interest so that rehabilitation of that mill would not only bring the mill out of the red, but would also serve the interest of the general public as a whole by augmentation of the production and distribution of cheaper varieties of cloth at fair price and for matter connected therewith. However, the noble thought with which the mill was taken over has not fruitioned and the mill has become a liability for the Government.

2. The Government did not or could not express anything in clear cut terms to the Committee about its functioning from 1956 to 1972, its liabilities and assets and organizational and infrastructural set up, which gives rise to misgivings and generate enough scope to doubt whether the move for taking over the management by the Government was a well considered step in the right direction. Had the mill been in a state, which was beyond redemption, the owner of the mill would have willingly acquiesced in the smooth taking over by the Government and welcomed it as boon. On the contrary, the Committee note that the owner had moved the court and received a stay order. The Committee are not informed why M/s P. Suryanarayan and Sons Pvt. Ltd., the owner of Tirupati Cotton Mill, Renigunta went to the court when the condition of this mill was such that it was beyond redemption. The Committee are of the view that the decision for taking over the management of Tirupati Cotton Mill was taken in great haste and hurry without delving deep into its infrastructural set up, its viability and its potentials for future growth after nationalisation. Hardly any concrete in depth analysis was made about the reasons for its deteriorating state of affairs and the areas which needed to be addressed seriously to obviate further deterioration. There was total lack of foresight and planning and any clear cut vision of revival. The Committee have no option but to note that in view of the legislation enacted for nationalisation of sick mill, the Government swung into action irrespective of the consideration whether it was at all necessary to nationalise TCM and if nationalised, whether the Government could provide a better management to obviate its future decline. The Committee strongly feel that utter lack of initiative on the part of Government and a lack of understanding of the realities in the field has caused such a disaster.

3. The purpose of taking over a sick unit is to restore it back to its normal health and not to facilitate its process of decay. The Committee find from the information given by the Government that instead of providing required healing balm of rejuvenation, the Government has either applied the wrong doze or failed to diagnose and locate the cause of the ailment.

4. It is not that the Tirupati Cotton Mill was continuously making losses since it was taken over in 1974. According to the fact submitted to the committee, the mill had made net profits during 1982-83, 1983-84, 1985-86 and, as on 31.3.1988, the mill

had accumulated a net profit of Rs. 55.40 lakh and cash profit of Rs. 153.20 lakh since takeover in 1974. However, the mill started incurring losses immediately after an investment of Rs. 399.63 lakh was made for modernisation during VIII Plan period. The Committee fail to understand why the mill which was making marginal profits and in which an investment of Rs. 399.63 lakh was made after the modernisation scheme had been properly approved by IFCI, should incur loss and become sick. According to SWOT analysis, carried out before IInd phase of modernisation, the weakness was only in case of machineries, which in any case, were being replaced and there was no threat envisaged at that time. The Committee would like to know whether the proposal projected was manipulated so as to receive finance sanctioned and that led to failure of modernisation scheme in Tirupati Cotton Mill.

5. The Committee note that Tirupati Cotton Mill, Renigunta being a unit of NTC (APKK & M) Ltd., was also referred to BIFR alongwith the Subsidiary on 4.9.1992 due to net worth erosion. With the referring to BIFR, net worth of Tirupati Mill has not improved. On the contrary, net worth of that Mill stands at (-) Rs. 1759.93 lakh as on 31.03.2000 and may do down further till a decision is taken by Government either to close down or revive it. The Committee are informed that the mandatory provision concerning the reference of an ailing unit to BIFR as per provision of SICA had an adverse effect on the functioning of the T.C.M., as financial institutions/Bodies and other creditors became skeptical about the credibilities of the Mill resulting in decline and cessation in the flow of incoming funds. The Committee are of the view that serious thought should have been given before incorporating the mandatory provision of reference to B.I.F.R. in the amended S.I.C.A. The Committee urge upon the Govt. to ponder over this provision deeply and if need be, amend it further. Summary reference to B.I.F.R. is otherwise also not a healthy trend. That a unit is sick, should not in any case be enough ground for reference to B.I.F.R. The financial health of each mill requires to be examined analytically by experts before concluding that the mill is really sick to the extent that the BIFR is the only panacea. Premature and hasty reference to BIFR, instead of ameliorating may complicate the condition of ailment. This could precipitate its eventual doom.

6. The Committee appreciates that Government had tried to revive the sick NTC mills by Turn Around Strategy in 1992 and Revival Turn Around Plans in 1995. the Committee note that both the plans could not take off due to non-availability of resources. The Committee are not convinced as to why the financial institutions did not co-operate to carry out the Turn Around strategy in 1992 and whether those financial institutions were not consulted while drafting the Turn Around Strategy, or they backed out after the finalisation of the Plan. Similarly, in case of Revised Turn Around Plan, the Government had heavily depended upon the state Governments, especially, Government of Maharastra for financing their plan. The Committee feel that plan of such strategy should not have been based on a decision of a third party. If at all such decisions have to be taken, prior consultation with state Government or other concerned agencies, should have been made so that Government does not fail in achieving its goals.

7. **In accordance with the Turn around plan of NTC in 1995, sale of surplus land was deemed as the major resource for providing funds for revival of the subsidiary mills, which include Tirupati Cotton Mill also. The Committee recommend that a well thought out strategy, after careful in depth analysis and objective study of each sick mill, should be evolved by the Ministry so that before selling the land, there is a clear cut picture of the deployment of the resources, so generated. Random selling of land to earn resources and recourse to VRS scheme are not the only panacea. So far Tirupati Cotton Mill is concerned, irrespective of the net worth becoming viable within ten or fifteen years, there should be concerted effort to revive it, either giving it in lease to a private owner, or diverting resources from any other source to Tirupati Cotton Mill, so that this unit is not lost and the workers are not rendered jobless. The Committee hold the Government fully responsible to the state of decay to which Tirupati Cotton Mill has been reduced to over the years, and it is their bounden duty to ensure that Tirupati Cotton Mill is revived alongwith other ailing mills.**

8. **The Committee have reasons to believe that surplus amount earned by the mill is diverted to the loss making mill to meet its infra-structural expenses. The Committee are of the view that such a move is not conducive to the health of the profit making unit. Such diversion may one day reduce such mills into loss making unit. The Committee are, therefore, of the view that the gains accrued by the profit making units should be utilized for their infra-structural development, modernisation and expansion so that more resources could be generated.**

9. **The Committee have been apprised that IFCI Ltd. has been appointed as the Operating Agency for NTC (APKK & M) by BIFR on 29.7.1993. The Committee have also been informed that the Draft Rehabilitation Scheme (DRS), as prepared in February 1996 as per direction of BIFR and published by it in April 1996, could not be implemented due to non-implementation of Turn Around Strategy of 1995. The Committee are of the view that much time has been spent in consultation and furnishing of facts between BIFR and the Ministry of Textiles. The Committee feel that the Ministry of Textiles are not aware of ground realities and their decisions in planning strategies lack initiatives. Otherwise, decision to revive or close a sick unit should not take eight years despite a clear Textile Policy Statement of 1985. During this period, a sharp fall in the coast of land was also noticed. The cost of 88.83 acres of Tirupati Cotton mill is reported to be Rs.73 crore whereas in 1994, the cost of surplus land (47.44 acres) itself was estimated to fetch Rs. 1.89 crore.**

10. **The Textile Policy announced in 1985 acknowledged the significant contribution being made by NTC in the production of yarn and fabrics in the organised sector. It had also diagnosed the reasons for sickness in the textile industry and had emphasized to make greater effort to implement programmes of selective modernisation so that as many more units as possible become profitable. The Government were optimistic that with implementation of a programme of modernisation of equipment, strengthening and improvement of management, raising productivity of labour and improvement of work culture, NTC would provide a stabilizing and healthy compensation in the textile industry. The Committee, however, note that things did not go as envisaged in that Policy**

statement. The number of mills going sick has increased. No doubt, many employees/workers have opted for VRS, but that has worsened the situation in the mills as some of the mills have been virtually closed. The Committee have been apprised that with the introduction of VRS in 1996-97, 355 employees/workers have already taken VRS and as on 30.6.2000, only 97 employees/workers are in the roll of Tirupati Cotton Mill. The mill has spindles but the manufacturing activity has remained suspended since April 1998. Had the timely action been taken either to revive or close the Mill, the Committee are of the view that such a situation could have been avoided.

11. The Committee have also seen the Textile Policy 2000. It has also spelled out that it would continue to follow the policy of not taking over/nationalising sick units. Although the Policy has not mentioned about the various options to be explored in case of unviable NTC, the Committee are of the view that Government would work out a strategy that is pragmatic and swift, as protracted deliberation would only worsen the situation.

12. The Committee have been apprised through the note that BIFR has asked the operating agency during its heaving on 02.06.2000 followed by its letter on 6.7.2000 to issue an advertisement inviting offers for purchase of NTC (APKK & M) and its constituent units, including Tirupati Cotton Mill. It has been reported that an offer from one party for purchase of Tirupati Cotton Mill has been received. Interest shown by private party indicates that the Tirupati Cotton Mill has the potential to be revived, otherwise, the Committee feel, there is no reason for the private party to show an interest in its purchase. The Committee strongly feels that Government should have the political will to revive it instead of disposing of. The workers/employees could be motivated, managerial level posts can be filled and the expenditure can be curtailed by reducing expenses on perks and paraphernalia of all the NTC mills. The Committee are of the view that the Government should not lose the noble goal with which the mills were taken over. The committee recommend that the textile industry, which has the unique place in the economy of our country and the niche which NTC has made in the lives of the common people, should not be lost. The Committee, therefore, recommend that comprehensive plan may be charted out so that NTC Mills can survive by producing cloths for Government departments Railways, Hospitals, Armed Forces or people living below poverty line.

13. The Committee note that Textile Industry is the biggest employment providing sector in the country. About 150 million employees are linked to this industry. The country cannot afford to lose the ailing units. Let bygones be bygones and a new chapter be opened. The Committee learn that countries like Singapore, Thailand, China and Bangladesh have been able to modernise in the global backdrop and have achieved sufficient expertise, though facilities as in India, are not available in many countries. The Committee would like the Government not to feel shy to learn anything from the aforesaid countries. The feeling of sickness should go and all out efforts should be made so that no unit is lost. Too much recourse to V.R.S. gives an impression that the issue is being side tracked. There was a rationale behind the recruitment of manpower; how all of a sudden this manpower has become surplus is not known. By 2010, it is presumed that Global

Trade may touch the figure of $ 550 billion. India should not lose this opportunity when developed countries are mainly leaving the manufacturing of textiles to less developed countries. The Committee strongly feel that India should come up globally and take this opportunity to turn the loss making units into profit making units by recourse to structural changes in tune with global norms, with more emphasis on F.D.I.

DR. S. VENUGOPAL

NEW DELHI;
29, Agrahayana, 1922 (SAKA)

Chairman
Committee on Government Assurances

APPENDIX – I

MINUTES
TENTH SITTING

MINUTES OF THE TENTH SITTING OF THE COMMITTEE ON GOVERNMENT ASSURANCES HELD ON SEPTEMBER, 04, 2000 AT 1500 HOURS IN COMMITTEE ROOM 'E', BASEMENT, PARLIAMENT HOUSE ANNEXE, NEW DELHI.

The Committee met on Monday, September 04, 2000 from 1500 hours to 1700 hours.

PRESENT

Dr. S. Venugopal - Chairman

MEMBERS

2. Shri Padam Sen Choudhry
3. Shri Priya Ranjan Dasmunsi
4. Adv. Uttamrao Dhikale
5. Shri Brahma Nand Mandal
6. Shri Sudarsana E.M. Natchiappan
7. Shri Ravindra Kumar Pandey
8. Shri Sukhdeo Paswan
9. Dr. Prasanna Kumar Patasani
10. Shri Jitendra Prasad

SECRETARIAT

1. Dr. Ashok Kumar Pandey - Additional Secretary
2. Shri T. Chakraborty - Deputy Secretary
3. Km. J.C. Namchyo - Assistant Director

REPRESENTATIVES OF THE MINISTRY OF TEXTILES

1. Shri Anil Kumar - Secretary
2. Shri T. Nandakumar - Joint Director
3. Shri Ajit Kumar - Director

NTC MILLS

1. Shri K.K. Mishra - CMD, NTC (Holding Company)
2. Shri B.C. Thaosen - CMD, NTC (APKKM)

2. The Committee took oral evidence of the representatives of the Ministry of Textiles in connection with an assurances given on 25.07.1997 in reply to USQ No.547 regarding NTC Mills, Tirupati.

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

4. The Chairman thanked the officials of the Ministry of Textiles for furnishing valuable information to the Committee as also for views expressed on various points raised by the Members.

5. After withdrawal of the officials of the Ministry of Textiles, the Committee decided to hold their next sitting on September 29, 2000 as also to undertake a study tour w.e.f. October 19 to 24, 2000 to Patna, Lucknow and Bhopal.

The Committee then adjourned.

APPENDIX – II

MINUTES
THIRTEENTH SITTING

MINUTES OF THE THIRTEENTH SITTING OF THE COMMITTEE ON GOVERNMENT ASSURANCES HELD ON DECEMBER 20, 2000 AT 1500 HOURS IN CHAIRMAN'S ROOM (133, 1ST FLOOR) PARLIAMENT HOUSE ANNEXE, NEW DELHI.

The Committee met on Monday, December 20, 2000 from 1500 hours to 1550 hours.

PRESENT

Dr. S. Venugopal - Chairman

MEMBERS

2. Shri Haribhai Chaudhary
3. Shri Padam Sen Choudhry
4. Adv. Uttamrao Dhikale
5. Shri Brahma Nand Mandal
6. Shri Sudarsana E.M. Natchiappan
7. Shri Ravindra Kumar Pandey

SECRETARIAT

1. Shri T. Chakraborty - Deputy Secretary
2. Km. J.C. Namchyo - Assistant Director

2. The Committee considered the draft 4th Report and adopted the same with sight amendments. The Committee authorized the Chairman to present the Report during the current Winter Session of Parliament.

The Committee then adjourned.