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# HINDUSTAN ORGANIC CHEMICALS LIMITED (HOCL)

## MINISTRY OF CHEMICALS AND FERTILIZERS
## DEPARTMENT OF CHEMICALS AND PETROCHEMICALS

## COMMITTEE ON PUBLIC UNDERTAKINGS
## (2015-2016)

## NINTH REPORT

## (SIXTEENTH LOK SABHA)

**LOK SABHA SECRETARIAT**

**NEW DELHI**

# NINTH REPORT

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## HINDUSTAN ORGANIC CHEMICALS LIMITED

**MINISTRY OF CHEMICALS & FERTILIZERS**
**(DEPARTMENT OF CHEMICALS & PETROCHEMICALS)**

**Presented to Lok Sabha on 8.12.2015**

**Laid on the table of Rajya Sabha on 8.12.2015**

**LOK SABHA SECRETARIAT**

**NEW DELHI**

**8 December 2015 / 17 Agrahayana 1937 (S)**

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*not annexed

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**Lok Sabha**

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13. Prof. Saugata Roy
14. Shri Balasubramaniam Senguttuvan
15. Shri Sushil Kumar Singh

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17. Shri S. Muthukaruppan
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19. Shri C. M. Ramesh
20. Shri Rangasayee Ramakrishna
21. Shri Tapan Kumar Sen
22. Shri Ramchandra Prasad Singh

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21. Shri Tapan Kumar Sen
22. Dr. Janardhan Waghmare

# INTRODUCTION

I, the Chairperson, Committee on Public Undertakings (2015-16) having been authorized by the Committee to submit the Report on their behalf, present this Ninth Report on 'Hindustan Organic Chemicals Limited' (HOCL) relating to the Ministry of Chemicals of Chemicals and Fertilizers (Department of Chemicals and Petrochemicals).

2. The predecessor Committee on Public Undertakings (2013-14) took up the subject for detailed examination and report and took oral evidence of the representatives of HOCL at their sitting held on 28.11.2013. The subject was subsequently carried forward by the successor Committees in 2014-15 and 2015-16. The oral evidence of the representatives of the Ministry of Chemicals and Fertilizers (Department of Chemicals and Petrochemicals) was taken by the Committee at their sitting held on 13.11.2014.

3. The Committee considered and adopted the draft Report at their sitting held on 27.11.2015.

5. The Committee wish to express their thanks to the representatives of HOCL and the Ministry of Chemicals and Fertilizers (Department of Chemicals and Petrochemicals) for tendering evidence before them and furnishing requisite information to them in connection with the examination of the subject.

6. The Committee also wish to express their sincere thanks to their predecessor Committee for their valuable contribution in the examination of the subject.

7. For facility of reference and convenience, the Observations/Recommendations of the Committee have been printed in thick type in Part-II of the Report.

**New Delhi**
**01 December, 2015**
**10 Agrahayana, 1937(S)**

**SHRI SHANTA KUMAR**
**Chairperson**
**Committee on Public Undertakings**

## ABBREVIATIONS

| | |
|---|---|
| ADD | Anti-Dumping Duty |
| BIFR | Board of Industrial and Financial Reconstruction |
| BPCL | Bharat Petroleum Corporation Limited |
| BRPSE | Board for Reconstruction of Public Sector Enterprise |
| CNA | Concentrated Nitric Acid |
| CONCOR | Container Corporation of India Limited |
| CPP | Captive Power Plant |
| CTPT | Current Transformer and Potential Transformer |
| DA | Dearness Allowance |
| DCPC | Department of Chemicals and Petrochemicals |
| DCS | Distributed Control System |
| DG | Director General |
| DGFT | Directorate General of Foreign Trade |
| DPE | Department of Public Enterprise |
| EIL | Engineers India Limited |
| EoI | Expression of Interest |
| ERP | Enterprise Resource Planning |
| FEDO | FACT Engineering and Design Organisation |
| GNFC | Gujarat Narmada Valley Fertilizers and Chemicals |
| HOCL | Hindustan Organic Chemicals Limited |
| ICC | Indian Chambers of Commerce |
| ISRO | Indian Space Research Organisation |
| JV | Joint Venture |
| JNPT | Jawaharlal Nehru Port Trust |
| KRL | Kochi Refineries Limited |
| LPG | Liquefied Petroleum Gas |
| LSFO | Low Sulphur Fuel Oil |
| MDI | *Methyl di-p-phenylene isocyanate* |
| MECON | Metallurgical & Engineering Consultants (India) Limited |

| | |
|---|---|
| MHADA | Maharashtra Housing and Area Development Authority |
| MIDC | Maharashtra Industrial Development Corporation |
| MoU | Memorandum of Understanding |
| MT | Million Tonnes |
| MTR | Mid Term Review |
| MTPA | Million Tonnes Per Annum |
| N2O4 | Di-Nitrogen Tetroxide |
| OA | Operating Agency |
| PDIL | Projects and Development India Limited |
| PU | Polyurethane |
| RCF | Rashtriya Chemicals & Fertilizers Limited |
| RGLNG | Re Gasified Liquefied Natural Gas |
| SBI | State Bank of India |
| SF6 | Sulfur hexafluoride |
| SICA | Sick Industrial Companies (Special Provisions) Act 1985 |
| SPA | Solid Phosphoric Acid |
| SSR | Sunset Review |
| VRS | Voluntary Retirement Scheme |
| USD | US Dollar |

# PART I

# INTRODUCTION

# CHAPTER I

## I. BACKGROUND AND OBJECTIVES

The Indian chemical industry is an integral part of the Indian economy. Hindustan Organic Chemicals Limited (HOCL) is a pioneer producer of basic organic chemicals and intermediates essential for vital industries manufacturing dyes, rubber chemicals, paints, pesticides, resins, laminates, drugs and pharmaceuticals. The main products manufactured by HOCL are Phenol, Acetone, Nitrobenzene, Chlorobenzene and Nitrochlorobenzene. HOCL came under the Companies Act, 1956 on 12 December, 1960. HOCL was the first endeavour of the Government of India to indigenize manufacturing of basic chemicals and to reduce the Country's dependence on import of vital organic chemicals. It has two manufacturing units, viz. one at Rasayani in Raigad, Maharashtra, which manufactures Aniline, Nitro-benzene, Formaldehyde and Nitrogen oxide, and the other in Kochi apart from one subsidiary unit, viz. Hindustan Fluorocarbons Limited, which makes PTFE, a plastic chemical and is situated in Medak District of Telangana. The Cochin Unit was set up for the production of Phenol, Acetone and Hydrogen Peroxide in 1987.

The main objective of HOCL was indigenous manufacture of chemicals and intermediates, to give impetus to downstream industry, resulting in setting up of chemical units and achieving self-sufficiency in these areas for the Country. According to HOCL, the above objective has been achieved, since today more than 500 companies, some of whom compete in international markets, are based on products manufactured by HOCL and earn precious foreign Exchange for the Country.

## II. ROLE OF THE DEPARTMENT

The Company is managed under the supervision and control of Board of Directors with four Functional Directors and two Government Nominee Directors and one Independent Director. The day-to-day operations of the Company is managed by the Chairman and Managing Director along with other three functional directors (Finance, Marketing and Technical). The Administrative Ministry monitors and reviews the operational performance of the Company and also the actual performance against the MoU targets (which are approved by the Ministry) on Monthly/Quarterly basis. The Administrative Ministry extends support to the Company through loans, Government Guarantee etc.

The Administrative Ministry is responsible for initiating the appointment of Directors including Chairman and Managing Director, and two Government Nominee Directors of the Company. The Ministry sets the MoU targets in consultation with the

Department of Public Enterprises (DPE) and periodically reviews the performance of the Company with specific reference to actual achievements against the targeted performance, as per the MoU signed by the Company with the Ministry.

The Department Chemicals and Petrochemicals statedly ensures independent and regular feedback from the Government nominees on the Board of HOCL with regard to the functioning of HOCL who regularly present notes and also take part in review meetings to discuss the functioning of HOCL.

The Department of Chemicals and Petrochemicals periodically reviews the operational performance of the Company and also the actual performance vis-à-vis MoU targets on Monthly/Quarterly basis. The reasons for the underperformance and proposed measures for improving the performance are critically analyzed and directions are given for performance improvement.

As submitted by the Ministry, the Company was set up primarily with a view to attain self-sufficiency in the Organic Chemicals sector under the Five Year Plan and more than 500 downstream units have been set up over the period of time. Thereby the objective of setting up of HOCL has been achieved to a large extent. However, the Company has to reinvent itself to survive in the competitive business environment.

# CHAPTER II

# PERFORMANCE

## I. PHYSICAL PERFORMANCE

Hindustan Organic Chemicals Limited produces a wide range of organic chemicals, viz. Nitrobenzene, Hydrogen, Aniline, Sulphuric acid, Oleums, Formaldehyde, Nitrotoluenes, Concentrated Nitric Acid, Nitrogen tetroxide, Caustic soda Lye, Chlorine, Phenol, Acetone and Hydrogen peroxide. The production performance of HOCL for the its products since 2011-11 till 2014-15 is given in ***Annexure I***.

In his introductory submissions before the Committee during its oral evidence on 28 November, 2013, the Chairman and Managing Director (CMD), HOCL gave an overview of the Company's performance profile: -

> "...it was set up in the year 1961 in the district of Raigad in Maharashtra for helping the downstream industries. Because of the HOCL, the downstream industries like dye-chemicals, pharmaceuticals, rubber industries were our customers till 1987. We had set up another unit in Cochin for the production of phenol and acetone. Along with that, we have set up a subsidiary unit in Medak district of Andhra Pradesh.[*] Till 1995, all these units were making profits and doing good. When globalisation and liberalisation came, we were affected because of the imports and un-competitiveness of these products. In all these plants, we were having altogether 16 products produced. All these products are having low capacity plants, maybe, 5000 to 10000 tonnes capacity whereas the world-class plants have 1 lakh and 2 lakh tonnes capacity. So, after 1995, a lot of imports came to India and other industrialists set up bigger plants. Anti-dumping duty and non-competitiveness in this sector is the reason. So, the units in Rasayani, where 14 products are there, have started making losses. Because of this non-competitiveness, some of the plants were closed down. The number of employees was high. We were having about 2300 employees in the year 1995 but by way of retirement and VRS we have only 1191 employees now. Because

[*] Now in Telangana.

of the stoppage of all these plants, other than four products, the surplus manpower is there. In the Cochin unit, we were having anti-dumping duty till February, 2012. So, anti-dumping duties from countries like USA, Thailand, Saudi Arabia and Japan were withdrawn during this period. Hence, we are not able to compete in the market and we are not able to sell these products at the cost at which we produce. We are not able to get the variable cost also at the present market price."

When the Committee enquired about the cost of production of HOCL vis-á-vis other indigenous companies, the CMD, HOCL admitted as under: -

"We are not at par with them because we have not improved our plants. Our main plants are producing phenol and acetone and they are money earning plants. These plants are not having the latest technology. This technology is of first generation. Now the world over fourth generation technology is there. Now we have put the proposal to the Government for helping us to modernise these plants also. So, our cost of production as compared to the domestic market as well as the international market is high."

When the Committee asked if the Department received any proposal from the Company for expansion/upgradation of its plants and the status of the same, the Department in a written reply dated 10 December, 2014 stated that the Company has submitted proposal for change of catalyst from Solid Phosphoric Acid (SPA) to Zeolite technology catalyst involving a capital expenditure of Rs. 60 crore which is under consideration of Planning Commission.* A proposal was submitted to revamp the Phenol plant with latest technology and to improve the capacity, at a cost of Rs. 200 crore.

The Ministry in its updated replies dated 1 October, 2015 later stated that the request for the Plan Loan of ₹ 60 crore for changing the existing catalyst plant from

* Now renamed 'Niti Aayog'

Solid Phosphoric Acid to Zeolite to achieve improved production efficiency/norms was not approved by the Government.

The Committee then enquired if HOCL ever contemplated a complete overhaul of its production capacities at Rasayani Unit. In this regard the Department on 10 December, 2014 submitted as follows:

> The Rasayani Unit has small capacity plants, outdated technology and surplus manpower and continue to incur losses. However the unit has surplus land available which is having all infrastructure like power, water, and road/rail connectivity, wherein Greenfield projects can be set up. Moreover, the surplus utility and manpower available to some extent can be utilized any new projects. Since HOCL does not have the financial and technical expertise for setting up the new projects, a suitable joint venture partner from the Private/Public sector has to be identified which will be able to revive the operations of the unit and also plan for expansion in the land infrastructure available in Rasayani.

When asked about measures taken to revamp/upgrade/expand the existing production units of the Company during the last two years, HOCL in a written reply submitted on 10 February, 2014 the following unit-wise details: -

a) <u>Rasayani Unit</u>

The Concentrated Nitric Acid plant which produces $N_2O_4$ for ISRO has been revamped with the financial help of ISRO.

b) <u>Kochi Unit</u>

HOCL envisages revamping the Cumene plant by replacing the present solid phosphoric acid catalyst with a high yielding and environment friendly zeolite catalyst at cost of Rs. 60 crore, by which the capacity of the plant can be increased from the present 54000 MTPA to 90000 MTPA and the production cost can be reduced by 5%. It is also proposed to increase the capacity of the existing Phenol plant from 40000 MTPA to 68000 MTPA by debottlenecking / revamping. The cost estimated is Rs. 260 crore and is included in the proposed plan fund for 2015-16 and 2016-17.

The Company has spent the following amounts out of the plan loan assistance received from the Government for improvement in its production set up/ upgrading the infrastructure (ERP) during the last five years.

2009-10 to 2011-12 – ₹ 1503 Lakh

Rasayani Unit

1. Hydrogen Plant upgradation for change of feedstock – ₹ 99 lakh.
2. Dual fired Boiler – ₹ 110 lakh
3. Upgradation of DCS control system – ₹ 180 lakh

Kochi Unit

1. Debottlenecking of Hydrogen peroxide plant - ₹ 185 lakh
2. ERP Implementation – ₹ 929 lakh

2012-13 to 2013-14 ₹ 1760 lakh

Rasayani Unit

1. Nox blower for Nitric Acid Plant refurbishment – ₹ 767 lakh
2. CTPT meter and SF6 breaker – ₹ 174 lakh
3. Electronic weigh Bridge – ₹ 30 lakh
4. Economizer and Gas cooler for C.N.A Plant – ₹ 75 lakh

Kochi Unit

1. Conversion from LSFO to RLNG I Hot oil and steam boiler and CPP- ₹ 567 lakh
2. Reboiler and Hydrogen Lye separator – ₹ 60 lakh
3. Replacement of LPG Line and fire proofing – ₹ 87 lakh.

In addition the Company has undertaken refurbishment of concentrated Nitric Acid Plant financed by ISRO, wherein Di-Nitrogen tetroxide ($N_2O_4$) is a by-product which is supplied to ISRO as liquid propellant for their rocket launching programme during the above period.

The Committee, expressing its surprise at the high cost of production being incurred by HOCL, sought to know the reasons for the same, citing the fact that other organic chemical producers in Gujarat are able to produce the same product line at a much more profitable rate. The CMD, HOCL replied on 28 November, 2013 as under: -

> "Mainly GNFC have got installed capacity of 60,000 tonnes whereas our capacity is only to the tune of 18,000 tonnes. Even we are not able to reach the full capacity. Then, they are also using economy of scale. Gujarat Alkali and Chemicals can use economy of scale. We have not improved our capacity. Compared to other domestic industries as well as world class plants, our capacity is very less. Once we improve the capacity, we can compete with them. For example, for Aniline, our plants require 1.377 tonnes of Nitrobenzene per tonne of Aniline whereas the world class plants require only 1.25 tonnes. So, the consumption norms are less for the higher capacity plants."

When asked to elaborate further on reasons for the high cost of production of various products manufactured by HOCL, the Ministry in the post-evidence replies, submitted as follows: -

> "There was an unprecedented increase (40%) in the main raw material (LPG and Benzene) prices in 2012-13 resulting in increase in the cost of production of various products manufactured by HOCL. Also, the raw material, power and fuel consumption is high compared to global players due to the outdated technology prevailing in the plants. The plants capacities are much smaller in comparison with the world standard and therefore, the Company is not able to get the benefits of economy of scale. However, the finished product prices are facing competition from cheaper imports whereby the Company was unable to pass on the increased cost to the ultimate consumers resulting in HOCL posting huge losses."

The Committee then enquired about measures being taken by HOCL to cut down/streamline cost of production. HOCL submitted in the written replies that the Company has taken several measures to reduce the cost of production as follows:-

Rasayani Unit

1. In order to reduce the overhead cost, the canteen and bus facility have been discontinued.
2. VRS has been launched against which 149 employees have opted for VRS who will be relieved once the required funds are available. It is also proposed to offer VRS to Canteen workers to reduce the cost.
3. The employees allowances like increment and DA has been temporarily frozen till such time the Company achieves a turnaround. Similarly medical facility has been curtailed.
4. It is proposed in the draft revival report by FEDO to debottleneck the Formaldehyde and Aniline plants, which will increase the capacity and reduce the cost of production to a certain extend.

Kochi Unit

1. Employees allowances like increment and DA has been temporarily frozen till such time the Company achieves a turnaround. Similarly medical facility has been curtailed.
2. The de-bottlenecking of Hydrogen peroxide plant has enabled an increase in production capacity from 10400 MTPA to 14000 MTPA with minimum expenditure.
3. M/s. FEDO has proposed the following revamping to reduce the cost of production.

   a) To change the catalyst from Solid Phosphoric Acid to Zeolite for increasing the capacity and for reducing the cost of production of cumene an intermediary product of phenol plant. With the increased availability of cumene, the phenol production can be augmented.

b) To improve the technology and increasing the capacity of phenol plant by debottlenecking by which the yield of phenol will be increased from the present 90% to 97% and it will help to release the raw material consumption there by reducing the cost.

The Committee further observed from the details of the production performance of HOCL, that the Company had been falling short in production targets. When questioned about the reasons for the Company falling short of its production targets, the CMD, HOCL during the evidence held on 28 November, 2013 stated as follows:-

> "These are market driven products. We are not having any technical problems to produce whatever is possible. But when we go to the market, if we are not able to sell in the market at a cost more than our variable cost, we do not sell in the market because we are not fetching anything. So, we are producing whatever is required for the market only. That is what has happened. But while planning we will think that all right we can produce 100 per cent of the installed capacity, that is what we have projected for the next year. But when we go to the market, we know that there are other players who can sell their products at a cheaper rate and we will be losing the money. So, we have restricted our sales to that extent."

The Committee while noting that the abovementioned reply of HOCL pertained to only an *ad hoc* attempt at reducing cost, pointed out that HOCL's production capacities still left a big gap between demand and supply, even in the case of products like acetone and phenol. In reply, the Chairman, HOCL during the oral evidence submitted that: -

> "India requires about 2.5 lakh tonnes to 3 lakh tonnes of phenol. Out of that the domestic market is producing only 80,000 tonnes. The balance 2.2 lakh tonnes is imported. Our competitor is there which is producing another 40,000 tonnes. So, 80,000 tonnes is the installed capacity in India and the balance is imported.

What we have now proposed is and already we have conducted a market study as well as a feasibility study of 2 lakh tonnes phenol plant in one of our premises. Already we have conducted the study and we are in search of a joint venture partner or some budgetary support from the Government. We are thinking about all these things and that is how we are going to fill the gaps of imports. That plant will be a modern plant with less consumption of raw materials."

During Evidence, the Committee pointed out that most of the products produced by HOCL are not even high-tech and would require sizeable investment even if the Company were to go in for improved technology. The CMD, HOCL replied as follows: -

"In phenol there is consumption of one intermediate product called cumene; per tonne of cumene is 1.4 tonnes. When we improve the technology the raw material consumption can be reduced. The raw material required is 1.3 tonnes for modern plants. Also we are getting about 20 per cent waste while producing this phenol. While with world class technology only three per cent is wastage. So, we want to go to the latest technology for which we have to go to a world class plant. That is what we are proposing as one area...We have approached the Government for help. Over the last two years we have not received any plan loan also. We have approached the Government for some plan loan so that the present plant can be refurbished to the modern technology. We have given that proposal to the Ministry and the Government."

The marketing and sales performance of each product category against targets set by HOCL are given in ***Annexure II*.**

The Committee, expressing concern over the closure of production units of HOCL as stated by the Company, sought further information as to the status of the units which are no more in operation and steps being taken to revive them. In this regard, the CMD, HOCL during Evidence stated as follows:-

"Out of the 14 units that we are not operating, that means these are all uneconomical products which we have stopped; we have not stopped that unit. There are other more products also in the same unit which are getting some markets. Such units we are operating now also. May be, it is because of temporary stoppage only. But when we get the working capital, we will be starting those units.

For the other plants we are having some plans for the bigger units. We have also given proposal for that. We are not putting any units for sale. The units will not be closed down. We will be operating them. We have given some revival proposal to the Government for the coming out of this problem. If we get some investment, the plans in other units can be refurbished, capacity can be increased and we can go for the bigger plants. So all these things will fetch money and we can survive again with the long-term plans.

We have other mega plans in our mind but we need money for investment and for that we are trying to get joint ventures with either of the public sectors and private sectors. We are discussing with them because we have got a land bank. In one of the units, one thousand of acres of land is available and that will be utilised for the joint ventures. So in that way we are also trying. So we are not closing down any of the units but we have stopped some of the products which are uneconomical."

When asked about the steps being taken to revive plants/units where production has been stopped, HOCL in a written reply dated 10 February, 2014 submitted that some of the plants at Rasayani have been shut down due to uneconomic operations (Nitro-toluene, Sulphuric acid/Oleum, Caustic soda/Chlorine).The Sulphuric acid plant is more than 30 years old and requires heavy maintenance bi-annually. Since, Sulphuric acid is mainly used by the Company for captive consumption and available as bi-product in the copper manufacturing units at much lower rate than the cost of production, the plant is shut down for the last two years. The Nitro-toluene plant is producing ONT PNT and MNT which is being produced by private sector units. Since, the cost of production of Nitro-toluene is higher compared to the price at which offered by private manufacturers, there is marketing problem for the product. Hence, the plant is shut down for the last 2 years. Caustic soda/Chlorine plant which was revamped during the year 2007-08 has become unviable due to high power cost in Maharashtra. Moreover, Caustic soda is being imported and available at cheaper rates and hence the plant is shut down during the last years. The Company is regularly reviewing the cost benefit to restart the plant as and when there is any improvement.

The Committee then sought to know the reasons for the uneconomic conditions, which according to HOCL, had contributed to its negative growth. In response, the Company in a written reply submitted as follows:

> "Earlier the main products manufactured by the Company i.e. Phenol and Acetone are facing competition from large scale import available at cheaper rates. The Company is forced to reduce the prices and thereby unable to recover the cost of production, incurring losses. In addition there has been steep increase in the cost of inputs i.e. feedstock prices, Benzene and LPG by as much as 40% in the year 2012 which could not be passed on to customer because of imported material available at much cheaper prices. Also the Company was given the benefit of anti-dumping duty till February 2012 and on withdrawal of the same the products became less profitable.
>
> The demand for the major products Phenol and Acetone was good during 2010 to 2011. However, due to global recession demand has come down drastically. The import prices of Phenol and Acetone have reduced drastically resulting in severe pressure on domestic prices of the products. Stiff Increase in raw material prices, voluminous imports of Company’s products as well as downstream products from China, longer credit extended by Merchant Importers to our valuable customers has affected adversely Company’s financial performance."

When asked if similar problems were being faced by the rest of the industry, the Company stated that the problems that are faced by chemical manufacturing industries in India are related to the size of the units, high infrastructure cost, size of employed manpower, high utility cost and interest burden compared to global producers of chemicals who have huge capacity plants, right manpower size, low cost utilities and cheaper finances. Hence the chemical manufacturers from America, Europe and Far East are dumping their material in India where they find huge Demand Supply Gap.

It was further explained, as under: -

> "This has been the general trend in overall chemical industry. The performance of various companies was not up to the expectation. They could survive due to having the product portfolio of downstream products and by carrying out the value addition. Further, the low cost of manpower could be one of the factors for the survival of some companies which is not the case with HOCL. However, Industry Associations such as Indian Chambers of Commerce (ICC) has also requested to keep operating the HOCL in order to keep the prices of the chemical products in check as the Company is playing an important role in providing chemicals at competitive prices to a large number of industries."

Questioned further about the sales performance of HOCL's competitors during the same period, HOCL informed as under: -

> The only other private sector unit manufacturing the main product i.e. Phenol and Acetone in India is Schenectady India Ltd (SI Group). They are, in addition to phenol and acetone, manufacturing downstream products where they are able to absorb their cost of production by means of transfer pricing. Only the surplus quantity of Phenol and Acetone after meeting their internal consumption is sold in the market by M/s SI Group. They are also forced to sell at par with imported material which is always sold at cheaper than the domestic cost of production. In fact they are also a party to the application for imposition of Antidumping filed with the designated authority. Other products of Rasayani Unit like Formaldehyde, Nitrobenzene and Aniline, the competitors performance is

appears to be better because of their capacity, less manpower and latest technology.

The Committee then sought to know if the Department plays any role in the pricing of various chemical and petrochemical products manufactured in the Country. In this regard, the Department submitted that as the chemical and petrochemical sector is almost de-licensed and de-regulated, the pricing of various products is governed by the market forces and as such, the Ministry has no direct role in this regard.

When asked about plant operation at Kochi Unit being affected due to non–supply of raw materials by M/s BPCL as the Company could not clear the earlier dues for supplies due to acute working capital shortage, the Department stated in its replies dated 10 December, 2014 that steps had been taken for revival of the plants operation. The Committee then enquired from the Department if it had taken up the matter with the concerned Ministry to help HOCL tide over the crisis. In this regard, the Department stated that they had taken up the request of the Company for providing a Government of India Guarantee (sovereign Guarantee) for Rs.150 crore with the Finance Ministry in the month of October/November 2013. The guarantee was provided with the approval of Finance Ministry in July 2014 and the Company has mobilized Rs. 150 crore from the Bond market in September/October 2014. The dues to the main raw material supplier M/s BPCL was cleared and plant operations have been restarted in October 2014.

When enquired as to how HOCL's attempt to revive its Caustic soda plant had come to naught, the Committee was was informed as under: -

> The revival of Caustic soda/Chlorine plant was one of the recommendations of M/s SBI CAPS Limited, which had submitted their report on revival of HOCL in the year 2004 considering the then power cost (Rs. 3.26 per unit) and demand supply gap with minimum time and investment required for restart of the Caustic soda-Chlorine plant. Also the byproduct, Hydrogen, produced in the plant could be used in the Aniline plant thereby reducing the cost of production of Aniline.

When further asked about the reason due to which the possibility of high price of power was not factored into before arriving at the decision of reviving the Caustic soda Plant, HOCL stated that even though the consultants had worked out sensitivity analysis and noted the higher power cost prevailing in Maharashtra comparing to neighboring States, the then power cost of Rs. 3.26 was favourable for the operation of Caustic soda-Chlorine plant, considering the demand for Caustic soda-Chlorine in the market. However, even though the SBI CAPS Ltd. arrived the power cost of Rs. 3.26 per unit, the BRPSE had considered the revival package in the year 2006 and the actual implementation of the revival took place only in the year 2008-2009 and by this time the power cost had doubled in the State of Maharashtra. There was a steep increase in the power cost in Maharashtra which made the operations of Caustic soda-chlorine plant unviable.

The Committee then enquired if HOCL or the Department had looked into ways to overcome the problem of high power tariff faced by HOCL units, to which the Ministry submitted in a written reply that the problem of high power tariff can be overcome only by setting up of gas based Captive Power Plant (CPP). However, HOCL was not in a position to mobilize capital investment required for setting up of CPP on stand-alone basis. Moreover the prevailing high cost of Natural Gas was not attracting investment from major players in the power sector to join hands with HOCL in setting up of Power plant. Hence, Captive Power Plant could not be set up.

Asked about the reason for shutting down of the Kochi unit in 2013, HOCL submitted that the Kochi unit of HOCL was sourcing its main raw material LPG and Benzene from BPCL which has an adjacent refinery (KRL). The supply of raw material is through pipeline. Since HOCL incurred substantial losses during the year 2011-12 and 2012-13, the Company could not clear the dues of raw material suppliers which had accumulated to the extent of Rs. 100 crore resulting in BPCL stopping the supply of raw material to Kochi unit. HOCL further informed that the BPCL dues were not paid since the money, generated from the sale of Kochi unit products, is also utilized for payment of salary and other dues to Rasayani unit. Hence the plant had to be shut down at Kochi Unit in 2013 due to non-availability of working capital.

**II. FINANCIAL PERFORMANCE**

**a. BALANCE SHEET**

| Details of Financial Assets & Liabilities | | |
|---|---|---|
| | **As on 31.03.2015** | |
| **I. EQUITY AND LIABILITIES** | | |
| (1) Shareholders' funds | | |
| (a) Share capital | ₹33726.96 | |
| (b) Reserves & surplus | ₹(86632.66) | |
| | | **₹(52905.70)** |
| (2) Deferred government grants | ₹1595.96 | **₹1595.96** |
| (3) Non-current liabilities | | |
| (a) Long-term borrowings | ₹27618.08 | |
| (b) Other Long term liabilities | ₹136.33 | |
| (c) Long-term provisions | ₹8199.77 | |
| | | **₹35954.18** |
| (4) Current liabilities | | |
| (a) Short-term borrowings | ₹5291.09 | |
| (b) Trade payables | ₹11433.45 | |
| (c) Other current liabilities | ₹26949.77 | |
| (d) Short-term provisions | ₹1296.67 | |
| | | **₹44970.98** |
| **TOTAL** | | **₹29615.42** |
| **II. ASSETS** | | |
| (1) Non-current assets | | |
| (a) Fixed assets | | |
| (i) Tangible assets | ₹11589.94 | |
| (ii) Intangible assets | ₹89.06 | |
| (iii) Capital work-in-progress | ₹1066.61 | |
| (iv) Intangible assets under development | - | |
| (b) Non-current investments | ₹889.80 | |
| (c) Long-term loans and advances | ₹2860.79 | |
| | | **₹16496.20** |

| | | |
|---|---|---|
| (2) Current assets | | |
| (a) Inventories | ₹5196.77 | |
| (b) Trade receivables | ₹2198.51 | |
| (c) Cash and cash equivalents | ₹184.67 | |
| (d) Short-term loans and advances | ₹4796.20 | |
| (e) Other current assets | ₹233.17 | |
| | | **₹12609.32** |
| **TOTAL** | | **₹29105.52** |

**b. INVESTMENTS, FINANCIAL ASSETS AND LIABILITIES**
**Total investment in the Company (paid up Capital and loans separately) as on 31 March, 2015.**

**Share Capital**

| | |
|---|---|
| **1. Equity Share Capital**<br><br>a) Central Govt. | ₹. 3948 lakh |
| b) Financial Institutions | ₹. 1 lakh |
| c) Others | ₹. 2778 lakh |
| **TOTAL** | ₹ **6727** lakh |
| **2. Preference Share Capital**<br><br>Central Govt. | ₹ 27000 lakh |
| **TOTAL** | ₹ **33727** lakh |

**Loans**

| | |
|---|---|
| 1. From Govt. of India | ₹ 7504 lakh |
| 2. Bonds | ₹ 25000 lakh |
| 3. Cash Credit from SBI | ₹ 5291 lakh |
| 4. Corporate Loan SBI | ₹ 2250 lakh |
| 5. Other Loans (Canara Bank Housing Loan) | ₹ 114 lakh |
| **TOTAL** | ₹ **40159** lakh |

Financial assets and liabilities as on 31 March, 2015.

**Assets:-31.3.2014**

| | |
|---|---|
| Fixed Assets & Investments | ₹ 16496 lakh |
| Current Assets | ₹ 12609 lakh |
| **Total** | **₹ 29105 lakh** |
| | ========== |

**Liabilities**

| | |
|---|---|
| Deferred Govt. Grant (ISRO) | ₹ 1596 lakh |
| Long term liabilities | ₹ 35954 lakh |
| Short-term liabilities | ₹ 44971 lakh |
| **Total** | **₹ 82521 lakh** |
| | =========== |

**Net worth** **₹ (-) 53416 lakh**

It is evident from the above that HOCL has been resorting to huge amount of loans from various sources to fund its operations. When asked if the Ministry stood guarantee for these loans, the Ministry in its written reply stated that The Government of India guarantee has been issued for Bonds issued by the Company as follows-

(i) HOCL Unsecured Redeemable Bonds series XX for ₹ 100 crore, redeemable on 28th August 2017.

(ii) HOCL unsecured Redeemable Bonds series XXI for ₹ 150 crore, redeemable on 28th October 2017.

The Committee further enquired if the Ministry had taken any steps to help reduce HOCL's excessive dependence on loans for its functioning, the Ministry informed on 10 December, 2014 that the Company as a part of reducing the excessive dependence on loans has started redeeming the High cost debt as follows-

a. Part of the corporate loan of ₹ 30 crore bearing Interest of 15% amounting to ₹ 6 crore has been repaid till now. Further, another ₹ 6 crore at the rate of ₹1 crore per month is proposed to be repaid during the current financial year. Another ₹ 9 crore will be repaid during the year 2015-16.
b. The Company propose to repay the Bonds maturing in the year 2017 out of the sale proceeds of the 8 acre freehold land at Panvel. This will enable the Company reduce its Interest Burden to a substantial extent.

The Ministry however added that the proposal to sell land at Panvel to mitigate the Company's interest burden had been submitted to it but no approval had been granted yet.

When the Committee sought to know if any alternative measures were being taken by HOCL for raising working capital, the Ministry in a written submission stated that the Company proposes to augment the working capital by means of the following.

a. Sale of surplus obsolete unserviceable Plant and Machinery at Rasayani. The Company has already realized ₹ 16.24 crore by way of sale of old plant and machinery so far.
b. An amount of ₹ 72 crore can be realized as upfront lease premium from CONCOR towards 60 Acre of land proposed to be leased at Rasayani which is under consideration.

Further negotiations are going on with M/s HPCL and BPCL for leasing of land which can generate funds to meet the working capital and plant modernization requirements of the Company.

The net worth of the company as on 31st March 2015 and as on 31st March 2014 was (-) ₹ 534.16 crore and ₹310.01 crore respectively. There has been deterioration in the net worth due to continued losses incurred during the year 2014-15.

**c. INVENTORY MANAGEMENT**

With regard to HOCL's inventory, the Committee observed that in 2013, the Company's inventory was 35% of its total current assets. On the Committee's query about HOCL's inventory in the previous year and whether it was in line with its competitors in the private sector, HOCL submitted as follows: -

> "This inventory of ₹ 49.244 crore consists of raw material of ₹ 5 crore, work in progress of ₹ 9.8 crore and finished product of ₹ 17.82 crore and stores and spares of ₹ 26 crore. So, these are the components of this inventory of ₹ 49 crore. As on 31st March, 2012, the inventory was 107 crore. So inventory has been brought down on 31st March, 2013. These inventories were further sold out and stores and spares were kept for repairs and maintenance and other requirements."

When asked about the total inventory along with its value of the Company as on 31 March, 2015, the following information was submitted by the Ministry :-

| | ₹ in lakhs | |
|---|---|---|
| **INVENTORIES:** | | |
| **1. Raw Materials** | 473.57 | |
| Materials-in-transit | - | |
| | 473.57 | |
| Less: Provision for obsolescence | 26.31 | 447.26 (8%) |
| | | |
| **2. Work in progress** | | 814.97 (16%) |
| **3. Finished products** | | |
| i. For captive consumption | 52.93 | |
| ii. Main products for sale | 1626.17 | |
| iii. By-products | 88.92 | 1768.02 (33%) |
| | | |
| **4. Stores and spares** | 2661.57 | |
| Less: Provision for obsolescence | 495.05 | 2166.52 (42%) |
| **TOTAL** | | **5196.77** |

It may be pointed out here that in 2013-14, HOCL had stated that the finished product and raw material stocks were within the norms. However, the stores and spares inventory, were 37% of the total inventory which included high value catalyst, imported items with long delivery period. Some of the critical spares are also kept in stock so that, there is no stoppage of plant for want of spares. Hence, the inventory on stores and spares was on the higher side.

But in its replies providing updated information dated 1 October, 2015, the Ministry submitted that the inventory holding in Stores and Spares works out to 42%

which is higher than the norms. This includes inventory of shut down plants where there has been no movement for three or more years.

**III. RECURRING LOSSES & REFERENCE TO BIFR**

When asked about the recurring losses and circumstances leading to HOCL's referral to Board Industrial and Financial Reconstruction (BIFR) in 2005, the Company submitted in a written reply that as on 31 March, 2004, the accumulated losses (₹ 221.08 crore) of the Company had exceeded the shareholders fund (₹ 148.62 crore), thus attracting the provisions of the Sick Industrial Companies (Special Provisions) Act 1985 (SICA). A reference towards sickness of the Company was filed in the office of the Board of Industrial and Financial Reconstruction (BIFR) on 6 January 2005.

On being questioned further regarding the causes for the accumulation of such huge losses, the Company in a written reply elaborated as under:

> "HOCL was a blue chip Company till mid 1990's but suffered heavily due to steep fall (50-60%) in international prices of its main products, e.g., Phenol, Acetone and Aniline during 1999. Further, the changes in customs duty resulted in loss of revenue to the Company that adversely affected its profitability. The Company could not implement plans and projects to cope with economic liberalization and globalization, started in July 1991. HOCL continued to concentrate only on the conventional existing chemicals and did not increase the capacity of the plants to world class standard and also did not upgrade the technology to reduce the manufacturing cost and to match with the international standards. As a result, it could not compete with the changed environment.
>
> The Company also had borrowings (Bonds) to the extent of ₹ 250 crore, with annual interest burden of ₹ 31 crore, outstanding at the end of 31 March, 2004 which were raised during earlier years to finance the projects started during early 1990s. These projects were Caustic Soda (20,000 MTPA), Hydrogen Peroxide (5225 MTPA), PU Systems, Jawaharlal Nehru Port Trust (JNPT) Tank Terminal etc.

Further, the Company's investment at Rasayani in diversification projects JNPT, Polyurethane (PU) system house, *Methyl di-p-phenylene isocyanate (*MDI) did not materialize and stopped and were discarded mid-way. The Caustic soda/Chlorine projects became unviable with the increase in the power cost of Maharashtra and the plant had to be shut down immediately after commissioning. Subsequent refurbishment efforts with a cost of ₹ 25 crore were also led to a failure. The downstream plants like Monochloro benzene also had to be shutdown due to non-availability of chlorine as the Caustic soda /Chlorine Plant was shut down being economically unviable. The Rasayani unit of the Company with small capacity plants and failure of new investments started making losses and with the decline in margins of Kochi Unit (during 1999-2002), the Company made losses from 1997-98 onwards. The accumulated losses as on 31 March, 2004 came to ₹ 221.08 Crore as against the share capital and reserves of ₹ 148.62 crore resulting in a negative net worth of ₹ 72.46 crore."

Observing from HOCL's reply that its losses were being increasingly compounded over a period of ten years, the Committee enquired as to whether managerial deficiencies in the areas of production, sales and marketing or plant deficiencies were responsible for the accumulating losses which HOCL faced by 2004. In its reply, the Company stated that the factors leading to losses could be summarized as follows: -

a. **Production** – The plants set up at Rasayani Unit during 1970s and 1980s were of small capacity and became unviable due to higher fixed cost. Hence the products could not compete with the private sector manufacturers of similar products. The main raw material used at Rasayani and Kochi were petroleum based like Benzene, LPG, Naphtha, Furnace oil etc. which were sourced from refineries and the prices of these raw materials were dependent on petroleum crude prices that were highly volatile.

b. **Sales and Marketing** – With the opening up of economy and globalization, the products manufactured by the Company mainly Phenol, Acetone and Aniline had to face competition from cheaper imports coming from foreign countries (America, Europe and china). Many times, the increase in raw material prices could not be passed on to the customers due to competition from cheaper imports. The sales and marketing strategy of both the units also failed the Company to a greater extent.

c. **Plant inefficiencies** – The plants at Rasayani have been set up in phases i.e. the Phase - I in 1970s, Phase - II in 1980s and Phase – III in 1990s and all the phases have been put up with almost similar capacities and technologies as that of the Phase - I plants, which did not have the advantage of economies of scale and had higher fixed cost. As a result, HOCL's prices have been high and not competitive, causing losses. Even the Phenol plant at Kochi commissioned in 1988 had a capacity of 40000 MT of phenol and 24640 MT of Acetone, which is much smaller compared to the present world class plants capacities of 2 Million to 10 Million MT per annum.

According to the Company's submission, the Management of the Company is also partly responsible for the losses as it could not foresee the emerging trends and competition, and could not chalk out a strategic plan accordingly to avoid such a situation.

**Reasons for decline and new Revival Plan**

When asked about the procedure followed for approval of revival plan to deal with the sickness of HOCL in 2005, the Company in its written reply submitted that HOCL was declared as Sick Industrial Company by BIFR on 25 November 2005 and State Bank of India was appointed as Operating Agency (OA) with direction to prepare revival scheme for it, if feasible, based on the rehabilitation proposal prepared by the Company.

With regard to the process of formulation and sanction of revival scheme for HOCL during its initial reference to BIFR, the Company stated in a written reply that it submitted its financial restructuring proposal to the Department of Chemicals and Petrochemicals, Ministry of Chemicals and Fertilizers which was approved by the Government of India on 9 March, 2006. The financial restructuring scheme was submitted to BIFR through the operating agency (SBI) as a part of the revival programme of the Company.

On the financial restructuring scheme, on 10 February, 2014, HOCL further elaborated as under:

> The proposal as recommended by SBI Capital Markets involved a total financial package worth ₹ 250 Crore (₹ 75 Crore by way of grant in aid and ₹ 175 Crore by way of redeemable Non-Cumulative preference shares) from Government of India were envisaged in the revival package as recommend by SBI Capital Markets Limited. In case this is not possible, GOI may have to consider extension of guarantee for ₹ 175 Crore for a period of five years and the Company will mobilize fund from the market at 8% per annum on the strength of GOI guarantee. The funds would be utilized for implementing VRS to about 590 employees (₹ 36 Crore) and repaying the long term debts of ₹ 214 Crore (Bonds and Fixed deposits ₹ 183 Crore and Bank of Baroda VRS Loan of ₹ 31 Crore). In order to establish the viability of Rasayani Unit, restart of certain closed plants such as 1. Caustic soda/chlorine, 2. Nitrobenzene I, 3. Aniline-I, leasing out of JNPT tank farm and disposal of certain non-core assets were considered. The amount of capital expenditure involved in the above exercise was ₹ 15.75 Crore to be completed in 2005-06.
>
> In order to improve the viability of Kochi Unit a capital expenditure of ₹ 163 Crore was proposed to be debt financed in a ratio of 1:1, out of which term loans of ₹ 81.4 crore had to be raised during 2007-09. The above exercise was expected to reduce HOCL's overall long term debts to ₹ 160 crore, which in the opinion of M/s SBI Caps was expected to turnaround the Company, besides making it operationally and financially viable. However no capital expenditure was incurred for Kochi Plant for improving the viability and capacity. An amount of ₹ 25 crore was spent on Caustic Soda for its refurbishment and the plant was stopped after a few days of operation because it was found to be economically unviable due to high power cost.

The financial restructuring proposal of SBI Capital Markets was considered by the Board of Directors in the meeting held on 18 February 2005 and submitted the report to the Ministry in March 2005 with the following modification to the recommendation made by the consultant:

1. Grant of ₹ 75 Crore by Government of India to compensate the loss suffered for non-payment by its subsidiary and other PSUs which will wipe out the negative net worth of the Company as on 31st March 2004.
2. Further cash infusion of ₹ 175 Crore by Government of India as 8% non-cumulative preference shares redeemable at the rate of 20% each year after 3rd anniversary of investment for balancing the debt equity ratio.
3. Continuation of Govt. of India guarantee of ₹ 100 crore for full term of 10 years.
4. Waiver of penal interest and interest on interest up to 31st March 2005 on existing term loan sanctioned by Government of India.

The proposal was submitted by the Company to the Ministry in March 2005 and after submission of the report by the Ministry of Chemicals and Fertilizer to BRPSE, it considered the revival proposal and recommended on 18 October 2005

The Committee then sought to know if any study had been undertaken by HOCL to analyze the reasons for its losses which led to its referral to BIFR. In this regard, HOCL stated in a written reply dated 10 February, 2014 as under: -

SBI Capital Markets Limited was appointed to conduct a Techno economic feasibility study for both the units in 2004. M/s SBI Capital Markets had analyzed the reasons for huge losses suffered by the Company and found both Internal and external factors responsible for such dismal financial performance.

Among the internal factors identified by SBI Capital Markets were:

a. High Input consumptions because of obsolete technologies and small capacity plants with no economies of scale.
b. High Fixed overhead expenses because of high manpower cost.
c. High Capital Investments in new projects remained non-starter
d. Inability of Marketing the products at remunerative levels since selling prices are determined at import parity level.

According to SBI Capital Markets, the external factors which led to losses were: -

a. High Imports at cheaper price.

b. Unfavourable input cost mainly petro products, caused low value addition.

c. High domestic interest rate

d. Removal of protective tariff

HOCL further submitted that the management had initiated necessary steps to address the internal deficiencies in a phased manner. The benchmarking of consumption efficiency of major inputs like raw material, power and continuous efforts to achieve the norms were taken but without much success. The high fixed overhead expenses like depreciation, wages to indirect workers, reduction of selling overheads were also taken. A significant reduction plan of overhead expenses through higher production and selling off unviable plants and equipments were envisaged.

The Committee observed that while the Company's net worth had turned negative as on 31 March, 2004, HOCL filed the reference regarding its sickness in BIFR only on 6 January, 2005. When questioned as regards to the delay in the referral to BIFR, HOCL in a written submission stated that as per the provisions of Sick Industries (Special Provisions) Act, 1985, a reference to BIFR under Section 15 shall be made by the Board of Directors of the Company within 60 days from the date of finalization of the duly audited accounts of the Company for the financial year as at the end of which the Company has become a sick industrial Company. The audited accounts of the Company for the year ending 31 March 2004 was adopted by the Company in the Annual General Meeting held on 29 December 2004 and necessary action was taken to report the sickness to the BIFR on 6 January 2005.

However the Company had already appointed external agency M/s SBI Capital Markets Limited to conduct techno economic study to identify the reasons for the losses and suggest restructuring measures much earlier. The Company further stated that this delay did not affect timely resolution of the problems of HOCL.

The Committee found that consequent to the net-worth of HOCL turning positive, it was de-registered from BIFR, with which it was registered since 2005. Questioned further as to the circumstances surrounding the same, HOCL in a written submission stated that with the infusion of ₹270 crore non-cumulative Redeemable Preference share Capital in the month of March 2006, the net worth had turned positive. The BIFR discharged the Company from the purview of the Sick Industrial Company (Special Provisions) Act 1985, in view of the fact that the net worth of the Company had exceeded the accumulated losses as a result of financial restructuring.

However, the Company further added in its preliminary written submissions that the accumulated losses of HOCL as on 31.3.2013 again exceeded the shareholders funds and that a further referral to BIFR was required.

The net worth of the Company was fully eroded as on 31.3.2013 [(-) ₹ 131.15 crore]. The Company made a reference to BIFR in the month of November 2013 for registration as a sick company under SICA, 1985.

During his opening remarks, the Secretary, Department of Chemicals and Petrochemicals, had made the following submission to the Committee on 13 November, 2014 with regard to the position of HOCL following the erosion of the Company's net worth : -

> "Kochi unit was closed in the month of April. It was closed up to September. Now, from October onward, it has started working again. Rasayani unit was shut in 2013. It is till date closed except the ISRO contract production of 550 tonnes which is going on.
>
> In 2013-14, it made an output of ₹237 crore. HOCL has made a loss of ₹176 crore in 2013-14. Medak Unit has made a loss of ₹25 crore in 2013-14. The Company is running in loss. Its net worth is of the order of minus ₹391.04 crore. We have taken steps and the Government has given sovereign guarantee of ₹150 crore. After the Company has taken steps, the Kochi Unit has started performing and shortly the Rasayani Unit near Bombay will also start operating."

During the course of oral evidence, the CMD, HOCL further explained the circumstances, which led to the recurring losses to the Company, with the following submission: -

"In the year 2010-11, we were having good market and good prices. Also, we were having Anti-Dumping Duty. So, till 2010-11, we were managing and selling all the products without much problem. But, after the Anti-Dumping Duty was withdrawn, we could not utilise the full capacity of our plants. We were not able to sell the products in our market. So, this affected us. Also, if you see, the input cost of raw-materials like benzene and propylene has increased. Earlier, there was a margin of $ 300 between our raw-material benzene and phenol. Now, that has come down to $ 150 or $ 180 which is unviable for us. So, these are the reasons why this Company has gone into the red."

When the Committee enquired reasons for not foreseeing such possibilities or at least take suitable corrective measures like updating its plants to international level since it had just recovered from negative growth and undergone fresh financial restructuring, the Chairman, HOCL replied as follows: -

"In the year 2000, we have done only financial restructuring. We have not done any physical restructuring of the plants. So we were having high interest loans or debts to the banks. That was paid back and we have taken soft loans now."

This led the Committee to question whether HOCL had made judicious use of its initial restructuring package, to which the Chairman, HOCL replied as follows: -

"It was not like that. The products like Phenol and Acetone were fetching good margins and we were able to sustain with that. But unfortunately when the Anti-Dumping Duty for that product was withdrawn in the year 2012, we have again gone back to the earlier position. Otherwise, we could have survived without much problem."

It is pertinent to mentions the observations made by the representative of the Ministry during their oral evidence on 13 November, 2014, which *inter alia* was as follows: -

"...HOCL started in 1960 but they have not captured the market scenario in a proper manner. They could have gone into chemicals management, they could have gone into safety and security aspect of chemicals, they could have gone into skill development and they could have positioned themselves strategically because they are there for more than half a century."

Elaborating further on the dwindling position of HOCL, the Chairman, HOCL stated the following during the oral evidence of the Department: -

"...the problems faced by Rasayani unit and Kochi unit are entirely different. First coming to Rasayani, the capacities were built before the globalisation in 1992. After that, only one plant was put in Rasayani which is a caustic soda plant and about ₹150 crore were spent on that. When the plant was conceived, the power cost in Maharashtra was ₹4 per unit but suddenly the power cost went to ₹6 per unit. With the result, that plant became unviable because 90 per cent component of cost of producing caustic soda is power. Now that has become an idle asset. In 2006, in the revival plant, ₹20 crore were earmarked. That was the only physical restructuring given at that time and a balance of ₹250 crore were used for financial restructuring to pay the high interest loans. Then these ₹20 crore were again invested in the caustic soda plant for modernisation but by that time the cost of power had again risen and it again became unviable. So, that unit after spending ₹150 crore has not given any yield or any money back. We had invested ₹31 crore in Jawaharlal Nehru Port Trust.

In 2008-09, in the revival plan, there was a proposal to change the technology of the catalyst. There is a section called cumin where solid phosphoric acid catalyst is used which is an outdated technology. World over, 99 per cent of the phenol plant technology has been changed over to solid catalyst. In the report, it was told that Kochi Unit is making profit. The profits generated out of that unit should be used for the technology improvement and even if Anti-Dumping Duty is not there, that unit can produce profit. But the profit generated out of that unit have to be taken to the other unit for paying salaries. But this proposal was not implemented. One of the proposals in the revival plant was that the existing plant technology will be revived and for that we have been given some budget provision in the plan fund also. Once that is there, 10 per cent of the waste produced will come down. That 10 per cent of the product is tar which is not utilised anywhere. If we can reduce it by 7 per cent, we would gaining a profit of 7 per cent. It can help improvement in profitability and we can compete with the international market even if there is no Anti-Dumping Duty."

When asked if HOCL believed that the reasons for its recurring losses lay beyond the realm and control of Government policies, the Company in a written submission stated:-

HOCL registered a profit of ₹ 25.72 Crore in the year 2010-11 due to buoyancy in the Phenol/Acetone market backed by Anti-Dumping Duty for these product as against loss of ₹ 83.08 Crore in the year 2009-10. Further with the withdrawal of Anti-Dumping Duty in 2012, there was huge quantity of Phenol/Acetone imports resulting in fall in the domestic prices becoming un-remunerative. Further there was a sharp increase in the feedstock (LPG, Benzene) prices during the same period preventing the Company from passing on the increased cost to the customers. This resulted in the Company incurring a loss of ₹ 138 crore in the financial year 2012-13 (Normally Kochi unit makes a profit e.g. in 2009-10, 2010-11 and 2011-12, it made a profit of ₹14.74 crore, ₹130.08 crore and ₹ 26.02 crore respectively, whereas Rasayani Unit made an yearly loss of about 100 crore during the corresponding period). This shows that the Company is incurring continuous losses due to factors which are largely beyond its control and in the realm of policies and government decisions.

Anti-Dumping Duty and Safeguard Duty are the legitimate measures to control / prevent dumping of chemicals in the Country. However, in case of HOCL, the Anti-Dumping Duty on the Company's two major products viz. Phenol & Acetone were withdrawn. Anti-Dumping Duty on Phenol from USA and from Chinese Taipei (Taiwan) were withdrawn from 9 February, 2012. Similarly, Anti-Dumping Duty on European Union and Singapore could not be initiated despite representations made to the concerned authorities. In the case of Korea (RP), Phenol Anti-Dumping Duty was revoked on 23/02/2013. As a result, the Company's performance on production/sales/financial was adversely affected.

During the course of its oral evidence, the Company submitted that with regard to the imposition of the Anti-Dumping Duty, they had represented to the Ministry and given all the details. The matter was taken up by the Ministry in August 2013. The Duty had been withdrawn in February 2012. When the Committee asked as to why it took the Company $1^{1/2}$ years to take up the matter of the harmful effect of the withdrawal of the Anti-Dumping Duty on HOCL with the Ministry and when did they first represent to the Ministry on the matter, the HOCL stated: -

> "We could not do much on that for the last 1½ years. But still we have been following with them. We have represented to them many times... [the first letter on the issue] was sent in the month of July, 2012.

Elaborating further on the condition of HOCL and the efforts being made to redress t he same, the CMD made the following submission to the Committee: -

> "In order to revive the Company, we have engaged M/s Fedo, which is a wing of the FACT. They have made one revival plan and that is being considered by the management for submission to the BRPSE. Last year, we made a loss of ₹176 crore. The Anti-Dumping Duty of the main products of Kochi namely, phenol and acetone were withdrawn in the year 2012 in the month of February and it was re-imposed only in the month of March, 2014. During this period, because of the competition from importers, there is a demand of three lakh tonnes of phenol in India as on date and 1.5 lakh tonnes of acetone in India. Our capacity of phenol is only 40,000 tonnes and acetone is only 24,600 tonnes. Our competitors, the SI group also manufacture about 35,000 tonnes of phenol and 20,000 tonnes of acetone. With both the quantities put together, our capacity is only 75,000 of phenol and 64,000 tonnes of acetone only. The balance quantity is imported at a very cheap rate. We are not able to compete in the market without Anti-Dumping Duty. Because of this reason, for two years also Kochi Unit also made a loss. Therefore, this was the overall loss of the Company during this

period. After getting some working capital by way of sovereign guarantee issued by the Government of India, we could generate ₹150 crore and all the over dues to be paid to the Bharat Petroleum Corporation by way of raw materials was paid back and from the first week of October onwards, the Kochi unit has started and that unit is now working well.

As far as the Rasayani Unit is concerned, we have one plant that is, di-nitrogen tetroxide which is the fuel or the oxidant used by ISRO for their Mangalyan, Chandrayan and other projects. We are the sole supplier and the only manufacturer in India to give such a fuel. We have been able to meet their demand by operating this plant alone in Rasayani. The problems in Rasayani are with the unviable capacities. These plants were there before 90s and they have very low capacity. The consumption rate as well as the power consumption is high and thus our manufacturing cost is more than our competitors in the private sector and public sector and also the importers. These plants are not viable to operate unless some major investment is there for a major capacity plant like world class plants with latest technology of one lakh tonne capacity and get the sales done, we are not able to come out of the situation. Earlier there were about 14 products in Rasayani and all plants became unviable except four plants that is, Aniline, Formaldehyde, Nitrobenzene and so on. These are the only plants which can be operated now. These are the plants which can give some contribution. Other plants have either been shut down or declared as idle asset. For all these plants, initially there were 2000 employees and we have given VRS by way of retirement. Now the strength has come down to 1,100 for both the units put together. We are planning to give some more VRS to the people and about 150 people have applied for VRS but because of paucity of funds, we could not relieve any of these people. Once the strength becomes about 300 for Rasayani, this unit can also become viable. After getting this ₹150 crore we have paid the dues of the raw material suppliers and we have floated tenders for the raw materials. We will be shortly starting two plants in Rasayani also. Still, we are expecting an overall loss this year also. We have taken certain action for the revival of the Company. We have already made the revival plan while will be shortly approved by our Board of Directors. We have advertised in paper for joint venture because there is a very good land parcel available at Rasayani. It has got 1,060 acres of land available at Rasayani. Out of that, 275 acres is occupied by the plant and 250 acres are occupied by the colony and other facilities. The balance land is vacant which can be utilised for further investment there. We have advertised in paper for any Government companies for a joint venture partnership. We have not got any response so far. Again, we have asked RCF to take this HOCL because there is a synergy. Rasayani unit is very close to the Chembur unit of RCF and they require some land for their development. Since this land can be utilised, there was a study conducted by RCF. Because of high manpower, the RCF balance sheet will become negative.

They are not interested in taking over the Company, but they said that if there are any good products available they will be ready for a joint venture. We have made a proposal for one lakh tonne aniline plant, and RCF and GCFC have shown interest in a joint venture partnership there. With that hope the Company can invest some money there and operate at a higher capacity and market these products.

Regarding Kochi unit, the forty thousand tonne capacity is small as far as world-class plants are concerned. That is why we are not able to compete in the international market. The technology in our plant is the first generation technology whereas fourth generation technology is available worldwide and the minimum capacity of the plant is two lakh tonnes per annum. Now we have a proposal for a two lakh tonne phenol plant at Kochi taking the raw material from BPCL who are increasing their capacity from 9.5 million tonnes to 15.5 million tonnes in 2017. There the main raw material five lakh tonnes of propylene will be available. That propylene can be taken through a pipeline and benzene also is available, which is a raw material. This two lakh tonne phenol plant can be set up there.

But the main problem is of finance. We do not have any money. Because of the sickness of the industry we do not have any finance to invest into such big projects. So, unless we invest in both the places and go for world-class plants, we will find it difficult to come out of the red."

When the Committee enquired from the Ministry as to when it became aware of the deterioration of the financial situation of HOCL, the Ministry in a written submission stated that it periodically reviews the performance of the Company. However, when the Company posted a loss of ₹ 25.28 crore for the year 2008-09, it showed decline in the financial situation of HOCL. The Company again posted a loss of ₹ 83.08 crore in the year 2009-10, and then the Ministry became aware of the deterioration of financial situation of HOCL.

Elaborating on HOCL's plan to utilise its land to earn revenue, the CMD, HOCL, stated as under: -

"We have made a revival plan which will be submitted to BRPSE and based on their recommendations we will be acting. We have given some other proposals like leasing of our land to other public sector units. For example, at Panvel near Mumbai new international airport there is eight acres of land available with us. We propose to sell off or jointly develop that land into commercial establishments. That permission we have sought from the Government. Also, Container Corporation of India have shown interest to start a container freight station there. They have requested for 60 acres of land and they are ready to give ₹72 crore as premium. Also, BPCL and HPCL have shown interest for taking about 140 to 150 acres of land at Rasayani on lease basis for their petroleum infrastructure. Once this money comes, and the revival plan and any joint venture that we are trying come in, we are hopeful that we can revive the Company by investing. Once we clear our balance-sheet of all those things, since we are listed in the market we will be able to generate some money for investment from the market. Also we are requesting the Government for some help."

When asked about the steps taken by the Ministry to aid in the improvement of the financial situation of HOCL, the Ministry, in its written submission dated 10 December, 2014 stated that it has taken the following steps: -

a. Sanctioned Plan/Non Plan loan for refurbishment/repairs of plant and machinery and improvement in the systems of the Company as given below-

   2009-10- ₹ 15.03 crore

   2011-12- ₹ 17.60 crore

   Total - ₹ 32.63 Crore

b. The approval for extension of Government Guarantee of ₹ 100 crore up to 2017 with the approval of Cabinet Committee on Economic Affairs (CCEA), since the Company was not in a position to redeem the borrowings of ₹ 100 crore against Bonds
c. Approval for Postponement of the redemption of preference shares from 2011-12 to 2015-16. i.e. for a period of 4 years with the approval of CCEA was obtained.
d. GOI guarantee for another ₹ 150 crore was provided to the Company to enable them to borrow ₹ 150 crore by issue of Bonds backed by Government of India guarantee to repay the Raw Material suppliers dues and other working capital purposes.
e. Ministry has taken up with State Bank of India to provide a corporate loan of ₹ 30 crore to improve the working capital to make available funds for raw material procurement which was sanctioned.
f. The matter for imposing Anti-Dumping Duty on main products Phenol and Acetone was taken up with the Ministry of Commerce where large scale dumping by foreign suppliers at below cost was taking place resulting in injury to the domestic manufacturers.

When asked about the number of occasions and the extent to which the Company sought the intervention of the nodal Ministry to help it stem the tide of loss being faced by the HOCL, the Company in a written submission stated that it has been in constant coordination with the nodal Ministry and had taken up the matter of extension of redemption of ₹ 100 crore Government Guarantee, Anti-Dumping Duty, sovereign guarantee for 150 crore and plan fund with the help of the nodal Ministry. The sale of land at Panvel is also taken up with the help of the nodal Ministry.

The Secretary, Department of Chemicals and Petrochemicals also stated the following with regard to the current situation of HOCL before the Committee during the oral evidence of the Department on 13 November, 2014: -

> "In 2013-14, it made an output of ₹237 crore. HOCL has made a loss of ₹176 crore in 2013-14. Medak Unit has made a loss of ₹25 crore in 2013-14. The Company is running in loss. Its net worth is of the order of minus ₹391.04 crore. We have taken steps and the Government has given sovereign guarantee of ₹150 crore. After the Company has taken steps, the Kochi Unit has started performing and shortly the Rasayani Unit near Bombay will also start operating."

It was further informed as under:-

> The problems faced by the Company have been brought to the notice of the administrative Ministry in the review meetings and also in the MOU meetings and periodical review by BRPSE.

The Company has also approached various government authorities/offices namely Designated Authority (DA) and Administrative Ministry i.e. Chemicals & Fertilizers. Secretary, Director (DGFT), Addl. Director General (DGFT) of Ministry of Commerce. Director General (DG) of Safeguard Duty, Department of Revenue, Ministry of Finance.

Due to continuous follow up by the Administrative Ministry and their positive response we could succeed in imposing ADD on South Africa for Phenol, South Korea for Acetone and European Union for Aniline.

The Committee have been apprised that DCPC has strongly pursued the matter with the Department of Commerce for imposing the Anti-Dumping Duty on items such as Phenol, Acetone and the matter is under their active consideration. Other possible alternatives have been explored such as forming an alliance with Rashtriya Chemicals & Fertilizers Limited (RCF) at Rasayani, land sale efforts for Panvel land, arranging plan loan for changing the old catalyst to Zeolite for producing Phenol/Acetone at Kochi, etc.

Review meetings were taken by the Hon'ble Minister Chemicals & Fertilizers and Secretary (DCPC) for resolving the problems faced by the Company.

When asked about the latest status of HOCL's request for re-imposition of Anti-Dumping Duty on items such as Acetone, the Ministry furnished the following information: -

The Anti-Dumping Duty on Phenol and Acetone has been imposed on various countries/Suppliers as follows-

**Acetone**

| Sr. No | Name of The Country | Anti- Dumping Duty US$/PMT | Validity | Notification |
|---|---|---|---|---|
| 1 | Japan | 95 | 08.04.2016 | Notification dated 19.11.2014 |
| 2 | Thailand | 85 | 08.04.2016 | Notification dated 19.11. 2014 |

Fresh application for imposing of Anti -Dumping Duty on Acetone Import from Korea, Taiwan and Saudi Arabia has been filed. The investigation of Ministry of Commerce is in progress.

**Phenol**

| Sl. No | Name of Country | Anti-dumping Duty US $/PMT | Validity | Notification No |
|---|---|---|---|---|
| 1 | South Africa | 119 | 30.10.2014 | 15/21/2013/DGDAD dated 28.10.2013 |
| 2 | Japan | 547 | 18.04.2015 | Dated 08.06.2010 |
| 3 | Thailand | 172 | 18.04.2015 | Dated 08.06.2010 |
| 4 | Taiwan | 194 | 16.11.2014 | 23/2014 dated 16.05.2014 |
| 5 | USA | 146 | 16.11.2014 | 23/2014 dated 16.05.2014 |

Fresh application for imposing of Anti- Dumping Duty on Phenol Import from European Union, Korea, Singapore, South Africa, USA and Taiwan has been filed. The investigation of Ministry of Commerce is in progress.

The present status of imposition of Anti-Dumping Duty (ADD) on phenol and acetone is as follows:-

| Sr. No. | SSR/MTR/FRESH Application | Date of initiation of investigation | Country Origin | Official investigation status | Quantum of duties (USD/MT) | Duties valid up to |
|---|---|---|---|---|---|---|
| 1. | Acetone: ADD CASE | 02.04.2015 | Japan & Thailand | SSR initiated on 02.04.2015 | 94.96 & 85.85 | 08.04.2016 |
| 2. | Acetone: ADD CASE | 15.06.2012 | South Africa | Investigation completed | 141.95-179.65 | 10.03.2019 |
| 3. | Acetone: SSR: ADD CASE | 02.01.2012 | EU & Singapore | Investigation completed | 277 & 147-240 | 10.03.2019 |
| 4. | Acetone: SSR: ADD CASE | 06.06.2013 | Korea | Investigation completed | 79.75 | 17.02.2020 |
| 5. | Acetone: ADD CASE | 23.07.2013 | Taiwan & S. Arabia | Investigation completed | 86-271 & 132-203 | 15.04.2020 |
| 6. | Acetone: SSR: ADD CASE | 15.06.2012 | USA | Investigation completed | 213.76 | 10.03.2019 |
| 7. | Phenol: ADD CASE | 15.10.2014 | EU, Singapore & Korea | Ongoing case. Oral hearing held on 16.09.2015 | - | - |
| 8. | Phenol: ADD CASE | 07.05.2013 | USA & Chinese Taipei (Taiwan) | Investigation completed | 159.63 & 47-196 | 15.04.2019 |
| 9. | Phenol: SSR CASE | 15.05.2015 | Japan & Thailand | Ongoing case | - | - |
| 10. | Phenol: SSR CASE | 28.10.2013 | South Africa | Investigation completed | 342.76 | 10.07.2020 |
| Abbreviations: 1. ADD: Anti-Dumping Duty; 2. SSR: Sunset Review; 3. USD: US Dollar; 4. MTR: Mid-Term Review | | | | | | |

The Ministry further added that after the withdrawal of Anti-Dumping Duty on Phenol & Acetone , HOCL had filed fresh application for the imposition of Anti-Dumping Duty with the Ministry of Commerce & Industry. Correspondence & meetings were also held with the officials concerned in the Ministry of Commerce (ADD Division) for early investigation and provisional Anti-Dumping Duty on Phenol and Acetone. The matter was also constantly followed up by HOCL with the officials concerned.

When asked about the process adopted ~~by~~ for the appointment of FACT Engineering and Design Organization (FEDO) for conducting the revival study of HOCL and whether findings had been accepted, the Ministry in a written statement submitted that HOCL Board in its 346th meeting held at HOCL Rasayani on Friday 27 September 2013 decided to float the tender for HOCL revival Study on Limited Tender basis to four PSUs (PDIL, FEDO, EIL and MECON). Accordingly, the limited tender was floated to above PSU parties on 3/10/2013 with two bid system. M/s FEDO and M/s PDIL responded. Technical Bids of M/s FEDO and M/s PDIL were opened on 18/11/2013. Both the PSUs found technically suitable. Price Bids of M/s FEDO and M/s PDIL opened on 19/11/2013. M/s FEDO stood L1 and agreed to carry out the revival study. HOCL Board in its 348th Meeting, held on Friday 10 January 2014, approved appointment of M/s FEDO on L1 basis on final negotiated price of ₹ 38 lakh plus applicable taxes.

The draft report of M/s FEDO was presented to the HOCL Board on 29 May 2014. Based on the observations of the Board of Directors, M/s FEDO was asked to review and recast their report. Based on the revised report M/s FEDO made a presentation to the Hon'ble Minister for Chemicals and Fertilizers, Ministry officials and Directors of the Company on 17 September 2014 detailing their observations and recommendation. Further, based on the recommendation of Hon'ble Minister for Chemical and Fertilizer, the report was considered by the HOCL Board in the meeting held on 14 November 2014. The report is yet to be approved.

When asked to state as to what according to the Ministry are the reasons for the failure of HOCL to utilize the revival package provided to it in 2006, the Ministry stated that the revival package of 2006 basically involved financial restructuring only. Major portion of the funds (about 70%) were marked for financial restructuring and a very small proportion of the package only was allocated for modernization and diversification for long term sustainability of operation of the Company. It was proposed to send 590 employees on VRS from Rasayani Unit but only 111 employees were sent on VRS. The revival package was not fully successful because VRS Scheme could not be implemented fully as envisaged and no setting up of big project/ plant was provided in the package.

The Committee further enquired if the latest revival package factored in the need of HOCL to reduce overhead costs and improve plant efficiency. In this regard the Ministry stated that the proposed revival study, conducted by M/s FEDO, has factored in the needs of HOCL to reduce overhead cost and improve the plant efficiency as follows-

a. Implementation of VRS for about 300 employees at Rasayani to reduce the manpower cost.
b. Refurbishment of plant operations (Nitrobenzene, Aniline and Formaldehyde) at Rasayani involving an expenditure of ₹ 23 crore.
c. Changeover of the catalyst technology at Kochi from Solid Phosphoric Acid to Zeolite and debottlenecking operations of Cumene and Phenol plant to increase the capacity and also reduce the cost of production involving a capital expenditure of ₹ 260 crore.

When asked if there was a time frame within which the Company is expected to break even, the Ministry replied that as per the Revival Plan contained in the report of M/s FEDO, the Company is expected to break even with the implementation of Refurbishment of Formaldehyde and Aniline plants in Rasayani unit and Implementation of Zeolite catalyst and Revamp of Phenol Acetone Plant at Kochi unit involving a capital expenditure of ₹ 318 Crore in the year 2015-16/2016-17.

HOCL further stated that it has filed the application for reference to BIFR on 27 November, 2013 and awaiting the registration.

When asked about any special efforts being made by the Company to ensure that at least the new revival plan would help it finally turn around for good, HOCL submitted the following steps which it will adopt for the same: -

**Internal Measures**

- Idle plant assets sold at ₹ 12.57 crore in September 2013.
- Second phase of idle assets sold at ₹ 3.71 crore in August 2014
- VRS Scheme introduced from 12 September 2013 and 152 applications received.
- Internal Revival Schemes prepared for both Kochi & Rasayani internally and cost cutting measures undertaken.
- ₹ 30 crore additional loan sanctioned and released by SBI for working capital.
- LNG conversion work was completed at Kochi.
- Capacity of Hydrogen Peroxide enhanced from 12000 MT to 14000 MT per annum by internal debottlenecking.
- Changing of catalyst from SPA to Zeolite for Cumene manufacture is being undertaken with the Plan Loan. (Plan Loan Amount Approx. ₹ 60 crore)
- Revamping of Phenol plant to enhance the capacity is under study.
- State/Central Govt. Permission sought for selling / leasing land at Panvel / Rasayani.

**External Measures**

- Study conducted for Merger or Strategic Alliance with RCF
- Invited Expression of Interest from corporates for setting up Joint Ventures with HOCL.
- Market and Techno Feasibility study for 200,000 MTPA phenol plant has been done by Mott MacDonald,
- To set up 100,000 MTPA grass-root MDI plant at Rasayani. EoI has been invited for forming Joint Venture. Preliminary Feasibility study has been done by M/s Deloitte.
- CONCOR have visited Rasayani unit for developing logistics facility and also JNPT Tank Terminal and is willing Logistics Park in approx. 60 acres of land..
- MHADA has shown interest for purchase of 8 acres of land at Panvel.

- MIDC have expressed their interest for purchase of about 500-600 acres industrial land at Rasayani.
- BPCL indicated to set up Petroleum infrastructure facility at Rasayani. Site visit has been done by BPCL.
- RCF has shown interest in forming JV for 1,00,000 MTPA Aniline Plant.
- GNFC has also shown interest in the existing Aniline plant operations and also has shown interest to join as a JV Partner in the Aniline Project.

The Committee was very keen to see the revival plan prepared for turnaround of HOCL. During the oral evidence of HOCL on 28 November, 2013, Hon. Chairperson of the Committee had directed as under: -

"…you please send us a plan that you have of restructuring, how you propose to finance it so that we can take note of that in preparing our report…"

Again, on 13 November, 2014, during the oral evidence of the Department of Chemicals and Petrochemicals, the Chairperson reiterated as under: -

"…We have asked…for executive summary of their proposal to BIFR and about the plans for revival of the Company. Only after studying that, the Committee can decide anything…"

Though on both occasions, the CMD, HOCL consented, however the said plan was not sent to the Committee.

The Department, when asked about the status of the same, furnished the latest status as on 28 September, 2015 regarding reference of HOCL to the BIFR, as under:-

In the hearing held in BIFR on 22.07.2015 on the reference made by HOCL for registration under SICA, 1985, as a sick company, considering the facts on record and the submissions made in the hearing, the Board observed that neither the secured creditors nor any party present in the hearing raised objection against the sickness of the Company. As HOCL was found to fulfill the various criteria for sickness under SICA, 1985, BIFR was satisfied that HOCL had become a sick industrial Company in terms of Section 3(1)(o) of SICA, 1985 and, accordingly, declared HOCL as a sick company.

BIFR has appointed State Bank of India as the Operating Agency (OA) with directions to prepare a viability study report and revival scheme for the Company. HOCL has been directed to submit the draft rehabilitation proposal to the OA within 8 weeks. OA is required to examine the rehabilitation proposal on its receipt from HOCL, convene a joint meeting with all the stakeholders and submit the minutes thereof to BIFR before the next date of hearing scheduled on 04.11.2015.

Further, the Committee of Secretaries in the meeting held on 07.07.2015 on roadmap for revival/closure of CPSEs has recommended that this Department may formulate a clear proposal for revival/closure of HOCL for the consideration of the competent authority at the earliest.

The consultant (M/s JPS Associates) appointed by HOCL has finalized a revival plan for the Company and the same has been approved by the Board of Directors of HOCL on 03.09.3015. Comments of the OA (SBI) on the revival plan report, which was called for by 18.09.2015, is still awaited. However, based on the information contained in the Board approved revival plan report received in the Department from the Company, a revival/restructuring plan for HOCL is presently under consideration of this Department.

A copy of the revival/restructuring plan for HOCL has not been submitted to BIFR as the same is presently under consideration of the Department.

In October 2015, the Ministry further added that the revival study report of M/s FEDO (FACT Engineering & Design Organisation), which had been appointed as a consultant for the same in January 2014 was not approved by the Board of Directors of HOCL on the grounds that the report did not take into account the scenario prevailing in the domestic and international market, crashing crude oil prices and the drastic downfall in the prices of phenol and acetone.

# CHAPTER III
# ORGANISATION AND MANPOWER

## I. ORGANISATION

With regard to its organisational structure, HOCL in its preliminary submissions stated that the Company is under the overall supervision and control of Board of Directors and the day-to-day operations are under the control of the functional Directors, Chairman and Managing Director, Director (Finance), Director (Marketing) and Director (Technical). The Company has its Corporate and Marketing office at Mumbai, apart from the 2 manufacturing units at Rasayani and Kochi.

The organisational set up of the Unit is given in ***Annexure III***.

The present composition of the Board consist of 4 functional directors: Chairman and Managing Director, Director (Finance), Director (Marketing) and Director (Technical) and 2 Government nominee directors Joint Secretary (Chemicals), Department of Chemicals and Petrochemicals and Special Secretary and Financial Advisor, Ministry of Fertilizers and Chemicals.

The composition of the Board of Directors of HOCL was as per the Department of Public Enterprises (DPE) guidelines with regards to the functional Directors and Government Nominee Directors as on 30 June, 2014. However, the number of Independent Directors, was only one as against the requirement of six. The Company had then submitted that the appointment of the required number Independent Directors was taken up by the Department with DPE for filling all the vacancies. However, only two Independent Directors were approved, out of which only one consented to join and the matter was being taken up with DPE for filling up the remaining vacancies. In its replies dated 1 October, 2015, the Ministry submitted that 6 numbers of Independent Directors posts are vacant at present.

When asked if the vacancies were affecting smooth functioning of the Company, the Ministry submitted that the vacancies of independent Directors amounts to non-compliance of the relevant provisions under the Companies Act, 2013, Corporate

Governance norms, Listing Agreements with the Stock Exchanges and also of guidelines of the Department of Public Enterprises. The Company has received Show Cause Notices seeking explanations from Statutory Authorities apart from attracting fines/penalties.

## II. MANPOWER

With regard to HOCL's manpower, when asked about the sanctioned and actual staff strength of the Company in 2013 both at the Executive and Non-executive levels vis-à-vis the figures of 2008, HOCL submitted the following information:

**Rasayani Unit**

Sanctioned and actual staff strength of HOCL, Rasayani Unit at present both at the Executive and the Non-executive levels.

| Particulars | Sanctioned strength | Actual Strength as on 1/09/2015 | Position in 2008 |
|---|---|---|---|
| Executive Level (Officers') | 265 Nos. | 125 Nos. | 263 Nos. |
| Non-executive Level (Non-Officers') | 867 Nos. | 504 Nos. | 674 Nos. |

**Kochi Unit**

The sanctioned and actual staff strength of Kochi unit are given below*:*

| | As on 1.09.2015 | | As on 31.03.2008 |
|---|---|---|---|
| | Sanction | Actual | Actual |
| Officers | 151 | 126 | 142 |
| Workers | 356 | 238 | 292 |

Considering the deteriorating financial condition of HOCL, the Committee enquired whether the Company had conducted any study to assess the manpower requirement of the Company to which HOCL provided the following written information:

**Rasayani Unit**

Manpower assessment study was conducted by M/s SBI Capital Market. As per SBI Capital Report, 499 employees are required to be retained for the operation of Rasayani Unit. Summary of manpower recommendation of SBI Cap is as under :

Support staff per product : 12

Number of product : 08

**Total support staff 96**

Number of streams : 13

Line staff per stream : 31

**Total line staff 403**

**Total staff : 499**

The company introduced various VRS Schemes to handle the situation of overstaffing. Further, to handle the situation of understaffing, the company recruited need based and essential posts only.

**Kochi Unit**

The number of officers has been restructured in 2003 and the same has been reduced to 152 and subsequently to 151. In the case of the strength of workers, the same is determined on the basis of a negotiated settlement and based on Man Power requirements. There is no overstaffing / understaffing.

Company has engaged the following number of employees on fixed tenure basis during the last three years.

2010-11 ---- 6

2011 -12---- 6

2012-13 ---- 1 (till August 2012)

The total number of sanctioned and actual staff strength of HOCL as on **1 September, 2015** is as follows:-

| Category | Sanctioned strength | Actual Strength |
|---|---|---|
| Executives | 416 | **253** |
| Non Executives | **1223** | **742** |
| Total | **1639** | **995** |

Number of staff who have opted for VRS scheme and also number of staff recruited, category-wise, until 2013-2014 was as follows:-

| Year of VRS | Officers | Non Officers | Total |
|---|---|---|---|
| 2006 | 39 | 25 | 64 |
| 2007 | 06 | 13 | 19 |
| 2012 | 18 | 10 | 28 |
| 2013-14 | 71 | 71 | 142* |
| Total | 134 | 119 | 253 |

*** Applied but yet to be relieved.**

Number of staff recruited category wise, during 2013-14: Nil

The Ministry further submitted in its updated replies dated 1 October, 2015 that as on 1 September, 2015, no recruitment was carried out for any category of staff since 2014.

With regard to contract labour employed at the units of the Company, HOCL submitted the following details: -

**Rasayani Unit**

The year-wise details of the contract labour engaged are as under :

| Years | No. of contract workers |
|---|---|
| 2010 | 351 |
| 2011 | 316 |
| 2012 | 354 |

**Kochi Unit**

The following work are being executed through contractors in Kochi Unit

1. Canteen
2. Security System
3. House Keeping and Miscellaneous job

Company is engaging contractors for the above work through open tender basis from time to time. These contractors are engaging around 126 workers on daily basis for the above work. As such there are about 126 contract workers engaged on daily basis in Kochi Unit.

**a. INDUSTRIAL RELATIONS AND HUMAN RESOURCE DEVELOPMENT**

On its Industrial Relations and Human Resources Development policies, HOCL stated that its strength is its Human Resource. The Company continues to recognize that human asset is very much valuable for the continual improvements in the performance of the company, particularly in the context of competition all around. The company greatly values their contribution and dedication and is committed to the development and growth of this vital resource. In order to attain the twin objective of reducing manpower and restructuring of human resources for optimum utilization of available man power Company continues to implement Government Policy of Reservation for SC/ST and other categories.

Human Resource is the most important asset of the Company though which highest level of performance can be achieved and company has recognized this aspect right from its inception. Company gives utmost importance to train its human resource in various areas of safety information technology, advanced technologies. Modem management techniques, attitudinal skills, energy and environment, participative management, etc. In-house as well as outside training programmes are arranged for the benefit of the employees in the said areas.

The overall Industrial Relations situation continues to be peaceful and cordial. There are no strikes or lockout affecting production and profitability.

HOCL's HRD policy aims are as follows:-

(i) To attract and retain competent personnel by providing a productive comparable to industry practice.

(ii) To build and nurture work culture that focus on work ethics and commitment to productivity, cost consciousness and commercial orientation, team work and dedication and to take pride in the company

(iii) To provide welfare facilities and amenities that will ensure highest standards of quality of life both at work place and outside.

(iv) To encourage high performers through performance management system and recognition contribution.

(v) To provide opportunities for competence development on a continuous basis, by various HRD interventions such as job rotation, in- house and external training programmers etc.

With regard to the Kochi Unit, the Company continues to recognize that human asset is very much valuable for the continual improvements in the performance of the company, particularly in the context of global competition. The company greatly values their contribution and dedication and is committed to the development and growth of this vital resource.

A developed human resource is an asset for the enterprise. Company has recognized the importance of Human Resources and as a plan of upgrading Skills and Knowledge of the employees emphasis is continued to be given for training by organizing in-house training programme and also by deputing for external training. Company gives utmost importance to enhance the skills of our employees through Training & Development Programmes.

Training is imparted based on identification of Training Needs in areas such as Safety, Advanced Technology, Modern Management Techniques, Soft Skills, Energy and Environment Management Systems, First Aid, Participative Management and Workers Education, Information Technology etc.

By and large the climate of harmonious and cordial Industrial Relation was maintained in the Company and there was no strike or lockout affecting production/profitability during the last three years.

Asked about the rate of attrition in the Company and the steps taken to check the same, HOCL provided the following unit-wise information: -

**Rasayani Unit**

| Year | No. of emp. On roll | No. of emp. Left on resign | Rate of Attrition/% of left employees |
|---|---|---|---|
| 2010-11 | 936 | 04 | 0.004 |
| 2011-12 | 896 | 10 | 0.011 |
| 2012-13 | 849 | 05 | 0.005 |

HOCL further stated that they are convincing the concerned employees to restrain from resigning from the services of the company. They also conducted exit interview to know the reasons of leaving.

**Kochi Unit**

The attrition rate for the last three years is not significant and comes below 01 percent. The number of employees left the organization during the last three years are given below:

2010-11 ---- 1 no.

2011-12 ---- 1 no.

2012-13 ---- 8 nos.

The status of the rate of attrition of employees of HOCL for the last two years, up till 1 September, 2015 is as follows: -

| **Category** | **Attrition Rate for last two years up to 1 September, 2015** |
|---|---|
| **Rasayani** | |
| Officers | 6.6% |
| Non-officers | Nil |
| | |

| **Kochi** | |
|---|---|
| Officers | 5.15% |
| Non-officers | 3.24% |

The Committee then enquired about the extent of employee's participation in management and if any steps had been taken to augment worker's participation in management. HOCL in a written reply submitted as follows:-

**Rasayani Unit**

At various levels the workers participation in management is done through various committees of the workers and meetings with the Unions to achieve organizational effectiveness and satisfaction of the employees to achieve organization goal.

**Kochi Unit**

To ensure and promote worker's participation in Management the following Committees are functioning effectively in Kochi Unit:

1. Works Committee:- Constituted under Section 3 of the Industrial Disputes Act 1947 with equal number of representatives from management and workmen side. This committee normally discuss and settle the matters for securing and preserving amity and good relations between the employer and workmen.
2. Safety Committee:- Constituted Under the provisions of Kerala Factories Rules 1957 and this Committee deals with safety matters.
3. Canteen Managing Committee:- Constituted Under the provisions of Kerala Factories Rules 1957 and decides the menu, time of supply mode of supply etc. of the Industrial Canteen.
4. Township Welfare Committee:- To give suggestion to improve the facilities at township.

When asked to explain the Company's recruitment policy, the Chairman, HOCL, during the course of the oral evidence submitted as follow: -

"Sir, I can answer in short. Till the liberalisation and after the liberalisation, most of our employees were selected during 1980s and the average age of our employees is around 50. Once these employees are selected by us, we give them training and we have all categories of people, engineers, etc. We have got R&D unit. We have developed many products, even for Defence organisations, like ISRO.

So, our human development is extremely good and we give consideration or categorisation of the SC, ST, OBC and all. We have 15 per cent SC people, 10 per cent ST people. Then, regarding OBC, since the people were selected before 1993 and all, before this rule came, some shortfall in the recruitment of OBC is there. Otherwise, for the new recruits, we are following that procedure also. We are following all the norms as per the Government rules."

When asked about the status of the HOCL request to Government of India for providing Government Guarantee to the extent of Rs. 150 crore to meet working capital and VRS requirements, the Company stated that the Ministry had recommended the proposal for issue of Government of India Guarantee of Rs. 150 Crore to Finance Ministry in November/December 2013. The proposal however was not agreed to by the Finance Ministry initially in January 2014. A fresh proposal was again submitted for re-consideration of Finance Ministry in April 2014 against which approval was received in the month of July 2014.

Based on the approval of the Finance Ministry for issue of a Government of India Guarantee (Sovereign Guarantee) for Rs. 150 crore, the Ministry has given approval for the proposed Bond Issue for Rs.150 crore by HOCL based on which the company has raised Rs.150 crore from the Bond market in the month of September/October 2014.

The company had come out with a VRS scheme in the month of October/November 2013 against which the company had received 151 applications. Out of the applications 8 applicants were relieved and 12 applicants had superannuated. The balance 131 applications are kept pending for want of funds.

In order to relieve the balance 131 employees funds to the tune of Rs. 18 crore is required for their final settlement. Another round of VRS to reduce the surplus manpower of around 200 employees at Rasayani unit is also proposed. The company proposes to relieve the 131 employees as and when sufficient funds are available.

**b. RESEARCH AND DEVELOPMENT**

With regard to research and development activities of the Company, HOCL in its preliminary information submitted that its R&D efforts for the 'in-house' developed vapour phase continuous process for ISRO-specific grade kerosene has succeeded in scale up of the laboratory scale process to the pilot plant (HOCL's multi-purpose pilot plant) scale. Initial runs and samples from the same meet the desired specifications. Further runs to establish the plant scale process parameters were also successful. Optimization of the same is being done to establish technology for commercial scale implementation. Five Indian patents have been granted to the Company in the area of Intellectual Property Rights (IPR). The Company earned a royalty of ₹ 11. 5 lakh based on the MoU for joint technological development of improved chrome-free copper oxide catalyst, with M/s Sud-Cheme (I) Pvt. Ltd.

Future R&D plans are as follows: -

(a) Pilot plant parameters optimization for commercial scale implementation.

(b) Identification of vendors for supplying packaged unit type multi-tubular reactor systems.

(c) Intellectual Property Rights (Patents) (IPR) further work.

HOCL Kochi unit does not have a full-fledged R&D wing. Recently ISRO has approached the Company to study the feasibility of concentrating Hydrogen Peroxide to 98% for the use as a rocket fuel. Primary discussion is over and the subject is under consideration of the ISRO team.

The Company's website contains further information on HOCL's R&D activities, as follows: -

**R&D Overview**

**Objectives and strategy for R & D of HOCL**

R&D unit of HOCL was established in April 1971 at Rasayani in District Raigad, Maharashtra State. It is recognized by DSIR, Ministry of Science and Technology, Government of India. It was set-up to undertake development work to utilize a number of by-products and to increase the profitability of operations by improving the yields and raw material and utility consumption norms and to develop the processes identified for Long Range Growth.

**The specific areas in which R & D is undertaken and the future plan of action**

- Catalyst Development and evaluation, and
- Process Development and Process Scale-up activities in Pilot Plants.
- Other activities are focused towards Assimilation, Absorption and Improvement of Imported Technology, and Recovery of by-products and their utilization through value added products.
- Further, collaborative development work along with other Divisions viz. Production, Technical Services, Quality Control, Industrial Health and Hygiene, Corporate Long Range Planning etc.

**R&D Achievements**

Major achievements during the last five years with respect to the following processes/projects during the last five years are listed below:-

**Aniline Plant**

1.1 An eco-friendly chrome-free copper oxide catalyst jointly developed by Hindustan Organic Chemicals Ltd and Sud-Chemie India Private Ltd has been improved further and used in the commercial production of aniline. The catalyst has got a very good export potential. Through its first export consignment to Japan , the Company has earned royalty.

1.2 An improved process has been developed for the regeneration of spent chrome-free copper oxide catalyst for the commercial production of aniline. The regenerated catalyst has shown promise for producing quality aniline similar to that of the fresh catalyst.

1.3 Under a collaborative research programme with Sud-Chemie India Private Ltd., a process has been successfully developed to repelletize spent chrome free Copper

Oxide catalyst at 1 Kg scale for reuse to produce aniline. Further scale up to 5 kg Level is under progress.

**Formaldehyde Plant**

2.1 A process for the reutilization of the spent iron-molybdenum oxide catalyst has been developed and implemented in the commercial formaldehyde plant. The spent catalyst produced 20500 MT of quality formaldehyde which resulted in saving on imported catalyst cost.

2.2 Spent iron oxide-molybdenum oxide catalyst powder from commercial plant was repelletized and evaluated for the production of formaldehyde from methanol in an in-house designed pilot plant. The results are encouraging. Further studies to improve the catalyst activity are in progress.

**Cyclohexylamine Plant**

3.1 The successful implementation of Medium pressure CHA process has resulted in substantial variable cost reduction of the product. Moreover, it has resulted in an inherently safe process and ease of operation without extra investment.

3.2 Reuse of regenerated CHA catalyst has been established on plant scale. This has a potential saving on procurement of catalyst.

**Meta-toluidine Plant**

4.1 A batch process for the conversion of MNT to MTD has been developed and implemented in one of the existing plants without any modification of the latter. It has produced about 3.4 MT of quality MTD.

4.2 A continuous processes for the liquid phase hydrogenation of nitrotoluenes to toluidine isomers has been developed. The process is carried out initially in a stainless steel tubular reactor by using commercially available noble metal catalyst in fixed bed at medium pressure and scaled-up to 10 times. The process is available for licensing to the interested parties.

**Collaborative Research Programs**

5.1 A laboratory scale catalytic process has been developed and successfully used to produce a kerosene fuel for use by ISRO. The quality of fuel produced is approved by ISRO. The scale up of the process is under consideration.

5.2 A collaborative research programme with M/s.Dujodwala Products Ltd., a camphor manufacturer, for the conversion of Dipentene (which is a by-product) into para Menthane (which is a value added product) has been successfully completed at Laboratory scale.

## PART II

## RECOMMENDATIONS/RECOMMENDATIONS OF THE COMMITTEE

**1. The Committee in the course of its examination of HOCL are pained to note that this Company, which was considered a blue chip Company till the 1990s, functioning in a productive manner for a substantial period of thirty-five years, has become a sick PSU with a negative net worth and seems to be unable to revive its fortunes. Although the Company has stated to have largely succeeded in fulfilling the objectives for which it was set up, however, in the last one decade, it has gone into severe financial troubles and has been twice referred to the Board of Industrial Finance and Reconstruction (BIFR) in 2005 and again in 2013. While HOCL claims that its problems started only post-liberalisation, the Committee have noticed that HOCL exhibited little ability to adapt to the changing economic situation of the Country or to undertake measures to reduce its power and fiscal costs in a major way so as to cut the cost of production. This is further evident when HOCL went to BIFR for the first time in 2005 and was given the financial package of ₹270 crore by the Government. The Committee opine that at that time though a revival plan was prepared, yet a greater diligence was required in the management of the Company so as to understand the need to diversify its products, to cut the cost of production and upgrade technology in its various plants to withstand the competition in the liberalised global situation. Accordingly, a comprehensive plan for financial and technical restructuring of the Company should have been prepared and followed. Unfortunately, either such a vision was completely missing in HOCL or the Government of India did not extend requisite support to its own PSU. In the light of HOCL referral to the BIFR for the second time in 2013, the Committee feel that HOCL's initial revival plan was an opportunity lost.**

**Production performance**

**2. The Committee observe from the statistics furnished to them providing the production performance of HOCL for each of its products, that all its products except Hydrogen Peroxide, have registered negative growth for the financial year 2013-14. The Committee also observe that in the past too, out of all the products in HOCL's portfolio, only nitrobenzene, aniline and hydrogen had not registered any negative growth. In addition, the Committee find that HOCL has hardly been able to meet the yearly targets for each of its products. The Committee opine that the continuous gap between HOCL's production target for its products and the actual production reflects poorly on the Company's overall performance. The Committee recommend that in the light of HOCL's growing dismal performance record, it would not be feasible for HOCL to carry on producing items for which it is neither able to meet its own internal targets nor produce the same profitably. The Committee would therefore recommend a thorough study to be initiated by HOCL to assess the viability of its product profile and make suitable inclusion or exclusion of products in the same, which will find market and thus help revive the Company's financial health. Although at present, the Company is producing very few products, the Committee recommend HOCL to adopt a realistic method based on its production capability to set its yearly targets and meet those diligently to bring about a turnaround in the Company's performance.**

**Upgradation/modernisation of Plants**

**3. The Committee, while reiterating that HOCL's revival plan in the years 2005-06 was wasted since the Company is once again knocking at the door of BIFR, has taken serious note of the lack of concrete vision in HOCL's former revival plan to suggest suitable technology upgradation so as to reduce the cost of production and remain at par with other companies. They fail to understand the rationale of HOCL remaining in the sector with its plants having just first generation technology, while the CMD had very candidly admitted before the Committee, that international companies were running their plants with the fourth**

**generation technology. The Committee also noted the failure of HOCL to utilise the Government of India support of ₹32.63 crore between 2009-12 for the purpose. A lack of suitable action is quite evident in the matter due to which HOCL has been unsuccessful in the requisite upgrading or modernising of its plants and take advantage of the economy of scale and efficient and increased production, an opportunity more modern plants have utilised optimally. As a result, HOCL has been left far behind in the organic/inorganic chemical sector in India, even by similar PSUs run by State Governments like Gujarat. The Committee hope that HOCL, in its restructuring plan submitted to the Government now, have included concrete proposals to technologically upgrade its units capable of producing those chemicals which will help the Company recover physically and financially while also serving the industrial demands of domestic and overseas markets. In this connection, the Committee note the revamping of the Rasayani Unit of HOCL with financial help from ISRO. They would like to be apprised of the improvements envisaged for the Cumene Plant and Phenol Plant in Kochi, for which ₹260 crore was proposed to be included in the Plan fund for 2015-16 and 2016-17.**

**<u>Lack of foresight</u>**

**4. After examining HOCL, the Committee have concluded that while HOCL's losses have partly been caused by the change in the economic environment of the Country post-liberalization and other policy measures like non-imposition of Anti-Dumping Duty on imported organic chemicals, a very strong reason for the losses incurred by the Company is poor management on the part of HOCL and the Department of Chemicals and Petrochemicals. The Committee, acknowledging the candid submission of the Department with regard to HOCL's poor record in the face of economic liberalization and globalization and lack of world-class standard plants, feel that no robust measures were taken by the Company or the Ministry to reach the economy of scale in order to face the abovementioned challenges. The measures implemented via the initial revival**

**plan also reflect very poor foresight on the part of the Company management from the 1990s till date in helping HOCL thrive in the new economic conditions, when similar manufacturing companies in both the public and private sectors have managed to thrive. The Committee could not get a specific reply from either HOCL or the Department as to why the initial package given to them was spent solely on paying the debts and not on any other aspect to strengthen its functioning. They, therefore, would like a specific response on the aspects where the initial revival package went wrong and the reasons, both external and internal, responsible for it.**

**<u>Role of the Department</u>**

**5. The Committee feel that the role of the Department of Chemicals and Petrochemicals, Ministry of Chemicals and Fertilizers in the losses incurred by HOCL in the last two decades also needs to be understood. The Committee agree with the Department's assessment that the management of the Company is partly responsible for the losses as it could not foresee the emerging trends and competition, and plan accordingly to avoid such a situation. However, they would also like to point out that the management of the Company, especially the Board of Directors, is constituted with the approval of the Department and other relevant Government Ministries. Hence, the Committee feel that the Government also failed in its duty to appoint suitable persons to the Board of Directors of HOCL or to review the performance of the Board during the crucial years of economic liberalization in India and the trend of recurring losses being faced by the Company, as a result of which the Company was referred to BIFR for a second time. The Committee recommend that necessary action be taken by the Department so as to ensure the appointment of such persons who have the necessary skill and calibre to help turn around HOCL's loss-making run. Also, the Committee would urge the Department to expeditiously complete the procedures concerning comments of SBI, the operating agency, and wind up their consideration of HOCL's revival/restructuring plan so as to facilitate its early**

**submission to the Board of Industrial and Financial Reconstruction. The Committee believe that the Government is making positive efforts to revive sick PSUs and thus expect the Department to timely utilise the opportunity in favour of HOCL. They desire to be apprised of the latest development on the matter at the action taken stage.**

**Revival plan**

**6. Returning to the issue of HOCL's initial revival scheme and its consequent failure to prevent the Company from going into the red again, the Committee concur with HOCL's assessment that lack of plans for physical restructuring of plants was one of the reasons which led to the Company's second referral to BIFR. As a result, the advantages of the initial revival plan which included plans for financial restructuring have been frittered away. The Committee hope that HOCL have not repeated the same mistake in their revival plan submitted to the Government again. Though they were very keen to familiarize themselves with the Company's revival plan, the Committee express their disappointment over the fact that despite several assurances, HOCL did not keep its word to send its restructuring plan to them in time so as to enable them to understand and appreciate the situation better for nearly two years. The same has been provided at the post evidence stage. Now, when the said plan is currently under consideration, the Committee reserve its observations till the same is approved. They desire to be apprised of the progress made in this regard at the action taken stage.**

**Anti-dumping duty**

**7. The Committee note that the Anti-Dumping Duty has played a negative role in the fortunes of HOCL. The withdrawal of the Anti-Dumping Duty from the year 2012, on the imports from USA, Thailand, Saudi Arabia and Japan, which prevented the flooding of the domestic organic chemical market with cheap imports, had a detrimental effect on the tenuous revival of HOCL in the first decade of the 21st century. As a result, in spite of the measures taken under the**

**initial revival package, HOCL began posting losses again, even in its relatively more profitable Kochi production unit, as their products could not find a market due to the cost factor. The Committee further note that HOCL had taken up the matter with the competent authority to investigate the 'injury' to the acetone producing industry due to the withdrawal of Anti-Dumping Duty on import of the same. They are of the view that the Government should reconsider the imposition of Anti-Dumping Duty on these products if the domestic PSUs are to be saved from closure. HOCL, being the sole manufacturer and supplier of fuel for ISRO's rocket launching programme, must remain afloat and the Committee, therefore, desire the Department to make sincere efforts to get the decision on re-imposition of Anti-Dumping Duty in its favour.**

**<u>Delay in revival of Caustic Soda Plant</u>**

**8. The Committee find that the non-viability of HOCL's Caustic Soda Plant is a classic case of the general apathy of the Government towards the PSUs. Caustic Soda production is a high energy intensive activity and thus when the revival plan for HOCL's Caustic Soda Plant was suggested by M/s SBI CAPS Ltd in 2004, the price of power in Maharashtra was ₹3.26 per unit, a rate which was affordable to HOCL. However, the BRPSE considered this revival proposal after two years, i.e. in the year 2006 and by this time the cost of power had nearly doubled in Maharashtra which made the operations of Caustic Soda plant unviable. Unable to set up a captive power plant to sustain power-intensive production, HOCL was rendered helpless in the matter. The Committee therefore cannot but concur that revival of sick PSUs need better attention and efforts on the part of the Government too. They further reiterate that ensuring power supply to its Companies should be a priority of the Government as PSUs producing chemicals need reasonably-priced power for their energy-intensive production. Otherwise, their products, being expensive, may lose in today's highly competitive markets.**

**Manpower**

**9.While noting the efforts of HOCL in streamlining its manpower strength through VRS and in turn aiding the cost-cutting efforts of the Company, the Committee are concerned about the submission of HOCL with regard to the average age of the staff still retained by it. In the course of the examination of the Company, the Chairman, HOCL had submitted that the average age of its employees is 50 since most of them were recruited in the 1980s. Since HOCL is now once again being referred to the BIFR, the Committee are concerned with regard to the productivity of the staff retained. In addition, the Committee also feel that the lack of recruitment in HOCL has limited the opportunities for bringing in younger talent into the workforce of HOCL who could have benefited from the experience of its older staff while bringing fresh energy to the functioning of HOCL's plants. The Committee are also concerned about the lack of funds in HOCL to provide VRS dues to the willing staff. They, therefore, desire to have details of the future plans on the matter.**

**Financial matters**

**10. The Committee note that HOCL is proposing to undertake a number of steps to raise financial capital, for instance sale of idle assets worth ₹12.57 crore, surplus industrial land and leasing out of surplus land to other PSUs in petroleum and infrastructure sector, in addition to a number of other steps in order to aid in its second revival initiative. The Committee, while noting the steps taken by HOCL to raise working capital to enable it to run its units apart from paying the dues for employees who are being offered Voluntary Retirement so as to reduce the cost being incurred on its manpower, recommend that HOCL should resort to such methods in a judicious and transparent manner so as to not fritter away precious resources to aid the Company only momentarily. The Committee, in particular, are very apprehensive about the selling of land owned by HOCL, for instance, sale of 8 acre freehold land in Panvel, as such an action should not be normally resorted to, considering the scarcity of land in the Country for industrial**

**purposes. Besides, as the chemical industries are considered environmentally hazardous, hence, once HOCL's surplus land is sold, any further expansion of HOCL units to enhance its production that requires land, may not be viable. The Committee desire that sale of HOCL land should not be considered as an option to earn cash for repaying its loans unless a final decision is taken by the Government for closure of the Company itself, which, at present, is not an option. The Committee, therefore, urge that possibilities need to be explored to utilise the Company's surplus land for lease/rent further in addition to the 60 acres proposal to be given to CONCOR at Rasayani, so as to generate funds to settle the Company's liabilities.**

**Revision of the Company's name**

**11. The Committee note that HOCL not only produces Benzene derivatives like aniline, nitrobenzene, etc. which are organic chemicals but also hydrogen, sulphuric acid, hydrogen peroxide, caustic soda, chlorine and concentrated nitric acid, which are inorganic. Hence, they are of the view that the name of the Company 'Hindustan Organic Chemicals Limited' needs to be revised to project a complete picture of its product profile in the market. The Committee, therefore, recommend that the Department may consider revising the Company's name as 'Hindustan Chemicals Limited' too, while considering and finalizing its financial and physical restructuring plan. They desire to be apprised of the view of the Department on the matter at the action taken stage.**

| | |
|---|---|
| **New Delhi** | **SHRI SHANTA KUMAR** |
| **01 December, 2015** | **Chairperson** |
| **10 Agrahayana, 1937(S)** | **Committee on Public Undertakings** |

**APPENDIX I**

**COMMITTEE ON PUBLIC UNDERTAKINGS**
**(2013-14)**

**MINUTES OF THE SIXTEENTH SITTING OF THE COMMITTEE**

The Committee sat on Thursday, the 28th November, 2013 from 1130 hrs to 1225 hrs in Room No. 62, Parliament House, New Delhi.

**PRESENT**

Shri Uday Singh - Acting Chairman

**MEMBERS**

***Lok Sabha***

2. Shri Hansraj Gangaram Ahir
3. Shri Raja Ram Pal
4. Shri Nama Nageswara Rao
5. Prof. Saugata Roy
6. Shri Bhisma Shankar *alias* Kushal Tiwari

***Rajya Sabha***

7. Shri Naresh Agrawal
8. Shri Anil Desai
9. Shri Janardan Dwivedi
10. Shri Naresh Gujral
11. Dr. Janardhan Waghmare

**SECRETARIAT**

| | | |
|---|---|---|
| 1. | Shri A. Louis Martin | Joint Secretary |
| 2. | Shri P.C. Koul | Director |
| 3. | Shri M. K. Madhusudhan | Additional Director |

**WITNESSES**

**HINDUSTAN ORGANIC CHEMICALS LIMITED**

| | |
|---|---|
| Shri V.B.R. Nair | Chairman and Managing Director |
| Shri J.N. Suryawanshi | Director (Marketing) |
| Shri S.B. Bhide | Director (Technical) |
| Shri Suresh Kumar R. | Director (Finance) |

2. At the outset, Joint Secretary, Lok Sabha Secretariat informed the Committee that the Hon'ble Chairman would not be able to attend the Sitting owing to ill health. The members then, under Rule 258 (3) of Rules of Procedure and Conduct of Busines in Lok Sabha, chose Shri Uday Singh to act as Chairman for the Sitting. The Acting Chairman thereafter, directed that the witnesses be ushered in.

*(At around 1135 hours, the witnesses took their seats.)*

3. The Acting Chairman welcomed the representatives of Hindustan Organic Chemicals Limited (HOCL) to the Sitting. He also drew their attention to Direction 58 of the Directions by the Speaker regarding confidentiality of evidence before the Parliamentary Committees and asked them to introduce themselves.

4. The Committee, thereafter, took oral evidence of the witnesses in connection with the comprehensive examination of HOCL. The Chairman and Managing Director, HOCL made a brief statement explaining the functioning of the Company and the various constraints/problems being faced by it. Thereafter, the Chairman and members raised queries on issues relating to the reference of the Company to the Board of Industrial and Financial Reconstruction (BIFR), progress made in financial restructuring and revival of the Company, impact of rise in input costs, cheaper imports coupled with withdrawal of anti-dumping duties thereon, obsolete plant machinery, poor capacity utilization and high inventories, etc. In respect of points for which information was not readily available with the representatives of the Company, they were asked to furnish the same to the Committee Secretariat by 9 December, 2013.

*The witnesses then withdrew.*

*A verbatim record of the proceedings has been kept separately.*

*The Committee then adjourned.*

**APPENDIX II**

## <u>COMMITTEE ON PUBLIC UNDERTAKINGS</u>
## (2013-14)

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Shri Uday Singh - Acting Chairman

**MEMBERS**

***Lok Sabha***

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3. Shri Raja Ram Pal
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**SECRETARIAT**

| | | |
|---|---|---|
| 1. | Shri A. Louis Martin | Joint Secretary |
| 2. | Shri P.C. Koul | Director |
| 3. | Shri M. K. Madhusudhan | Additional Director |

## WITNESSES

## HINDUSTAN ORGANIC CHEMICALS LIMITED

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*The witnesses then withdrew.*
*A verbatim record of the proceedings has been kept separately.*
*The Committee then adjourned.*

**APPENDIX III**

**COMMITTEE ON PUBLIC UNDERTAKINGS**
**(2015-2016)**

**MINUTES OF THE FOURTEENTH SITTING OF THE COMMITTEE**

The Committee sat on Friday, the 27th November 2015 from 1500 hrs to 1545 hrs in Committee Room 'D', Ground Floor, Parliament House Annexe, New Delhi.

**PRESENT**

Shri Shanta Kumar - Chairperson

**MEMBERS**

***Lok Sabha***

2. Shri Baijayant Panda
3. Dr. Kambhampati Haribabu
4. Shri Prahlad Singh Patel
5. Shri Sushil Kumar Singh

***Rajya Sabha***

6. Shri Praful Patel
7. Shri Rangasayee Ramakrishna

**SECRETARIAT**

| | | |
|---|---|---|
| 1. | Smt. Sudesh Luthra | Joint Secretary |
| 2. | Smt Anita B. Panda | Director |
| 3. | Shri G.C. Prasad | Deputy Secretary |

2. At the outset, the Chairperson welcomed the Members to the Sitting of the Committee convened for consideration and adoption of the following draft Reports: -

(i) Corporate Social Responsibility in Select CPSUs;

(ii) Hindustan Organic Chemicals Limited (HOCL); and

(iii) Action Taken by the Government on the Observations / Recommendations contained in the Sixth Report (Sixteenth Lok Sabha) of the Committee on Public Undertakings (2014-15) on Bharatiya Nabhikiya Vidyut Nigam Limited (BHAVINI).

3. xxxxx xxxxx xxxxx xxxxx

4. The Committee then took up for consideration the draft Report on 'Hindustan Organics Chemicals Limited (HOCL)' and adopted the same without any changes.

5. xxxxx xxxxx xxxxx xxxxx

6. The Committee then authorized the Chairperson to finalise the aforesaid draft Reports on the basis of factual verification by Ministries/ Departments concerned and present the same to Parliament.

***The Committee then adjourned.***