C.P.U. No. 498

COMMITTEE ON PUBLIC UNDERTAKINGS (1982-83)

(SEVENTH LOK SABHA)

SIXTY-THIRD REPORT

Action Taken by Government on the recommendations contained in the Forty-First Report of the Committee on Public Undertakings (Seventh Lok Sabha)

ON

HINDUSTAN PHOTO FILMS MANUFACTURING CO. LTD.

[Ministry of Industry (Department of Industrial Development)]

Presented to Lok Sabha on.

Laid in Rajya Sabha on...................

LOK SABHA SECRETARIAT
NEW DELHI

April, 1983/*Chaitra,* 1905 (*Saka*)

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9. Shri Syed Sibtey Razi

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to submit the Report on their behalf, Present this 63rd Report on Action Taken by Government on the recommendations contained in the 41st Report (Seventh Lok Sabha) of the Committee on Public Undertakings on Hindustan Photo Films Manufacturing Co. Ltd.

2. The 41st Report of the Committee on Public Undertakings was presented to Lok Sabha on 26 April, 1982. Replies of Government to all the recommendations contained in the Report were received in three batches by 29 January, 1983. The replies of Government were considered by the Action Taken Sub-Committee of the Committee on Public Undertakings on 17 March, 1983. The Report was finally adopted by the Committee on Public Undertakings on 23 March, 1983.

3. An analysis of the action taken by Government on the recommendations contained in the 41st Report (1981-82) of the Committee is given in Appendix.

NEW DELHI;

April 4, 1983

Chaitra 14, 1905(*S*)

MADHUSUDAN VAIRALE,

Chairman,

Committee on Public Undertakings.

CHAPTER I

REPORT

This Report of the Committee deals with the Action Taken by Government on the recommendations contained in the Forty First Report (Seventh Lok Sabha) of the Committee on Public Undertakings on Hindustan Photo Films Manufacturing Co. Ltd. which was presented to Lok Sabha on 26 April, 1982.

2. Action Taken Notes have been received from the Government in respect of all the 22 recommendations contained in the Report. The recommendations have been categorised as follows:—

(i) Recommendations/Observations that have been accepted by Government :

Serial Nos. 1-3, 5-13, 18, 19 and 21.

(ii) Recommendations/Observations which the Committee do not desire to pursue in, View of Government's replies :

Serial Nos. 4 and 16.

(iii) Recommendations/Observations in respect of which replies of Government have not been accepted by the Committee :

Serial Nos. 14, 15, 17 and 22.

(iv) Recommendations/Observations in respect of which final replies of Government are still awaited :

Serial No. 20

3. The Committee will now deal with the action taken by Government on some of their recommendations.

Details of capacity utilisation to be depicted in Annual Reports

Recommendation Sl. No. 8 (Paragraph II.8)

4. The Committee had recommended that in, order that Parliament and the public may get the correct picture, the department-wise utilisation of capacity should be brought out in the Annual Reports of the Company and the BPE's survey.

5. In reply Government have stated :

"As regards the suggestion of the Committee that the department-wise utilisation of capacity should be brought out in the Annual Report of the Company, it is submitted that the details to be published in this report have to be in accordance with the provisions of the Companies Act according to which the actual production in respect of finished products meant for sale shall be mentioned. However, the Company will be directed to include departmental/ stage-wise utilisation of capacity in its annual performance report submitted to Government."

6. The Committee need hardly point out that the Annual Reports of the Public Undertakings should, not only satisfy the requirement of Company Law but also of the accountability to Parliament. The Annual Report of the Company should therefore bring out the utilisation of capacity department-wise. Further BPE's annual survey should also do so. The Committee trust necessary action will now be taken in this behalf.

Capacity utilisation of Ambattur (Madras) plant

Recommendation Sl. No. 9 (Paragraph II. 9)

7. The Committee had found that with demand anticipations for X-ray and graphic art films having not materialised, the conversion plant set up at Ambattur (Madras) in 1979 entailing an outlay of Rs. 210 lakhs remained grossly under-utilised. The utilisation was only to the extent of 0·183 and 0·061 million sq. metres during 1979-80 and 1980-81 as against the capacity of 3 million sq. metres.

8. The Government have in their action taken note stated :

"The conversion capacity created in the new plant is 2 million sq. metres of medical X-ray film, 0·25 million sq. metres of industrial X-ray and 0·75 million sq. metres of graphic arts film. These capacities are within the projected demand as worked out by the Consultants.

The demand for medical X-ray film which was expected to go to a level of 5 million sq. metres, however, did not reach that level, as anticipated. Simultaneously, the conversion capacity for X-ray film at the Ooty Plant was also augmented by certain marginal improvements carried out in the meantime and, therefore, it was possible to meet the entire demand for this product from the Ooty Plant itself. That being so, the additional capacity created in respect of medical X-ray film at the Ambattur Plant was not put to use appreciably for this purpose.

When the conversion capacity for graphic arts and industrial X-ray was planned at Ambattur in 1976, it was anticipated that a major share of the market in respect of these products would be taken over by HPF in a phased manner.

However, under the import licensing policy for 1978-79, industrial X-ray and graphic arts film were brought under the OGL list thus enabling importers to import these materials freely. This policy was continued during the next two years and on the Company's taking up the matter with the Government, pointing out that such an import policy had jeopardised the utilisation of the conversion capacity at Ambattur, these items have now been brought under restricted list during the current year (1982-83).

Thus, by the time the Ambattur Plant went into production in 1979, a large quantity of finished materials was imported directly into the country particularly from cheaper Japanese sources, taking advantage of the OGL provisions. This has acted as a major constraint in the utilisation of the conversion capacity at Ambattur Plant especially in view of the fact that all these products have a specified shelf-life.

9. The fact that there was overestimation of demand and that the actual demand for medical X-ray films could be met by augmenting the production at the Ooty Plant after making certain marginal improvements only reinforces the Committee's finding that the creation of additional capacity at Ambattur (Madras) was a patent case of bad planning. In this context the Committee regret that their query whether there was any reliable market survey before embarking upon the Ambattur Project and if not, who was responsible for the omission, has only elicited a cryptic reply that the projected demand was worked out by the consultants. The Committee would, therefore, like to know whether the consultants undertook any reliable market survey for projecting the demand and if not, why. The Committee wish to emphasise that in future market survey should invariably be undertaken before finalising a project proposal of this kind.

Need for independent Enquiry into various allegations against the Company

Recommendations Sl. Nos. 14, 15, and 22 (Paragraph II, 14, 15 and 22)

10. According to a former Chairman of the Company delay in take over of direct distribution of Company's products was an act of sabotage of policy directions. In view of this allegation and in view of the charges of favourtism shown to some distributors, the Committee had recommended that the delay should be investigated and responsibility fixed.

11. In their reply Government have stated that although it was accepted that the implementation of the decision to take over direct distribution could have been expedited, there was no delibrate effort on the part of the Company to resist the implementation of the decision. It has also been stated that since all the officers concerned in the relevant period had left the services of the Company, no purpose will be served by a further investigation to fix responsibility.

12. The committee had also found that the Company had been showing undue accommodation to its erstwhile distributors and at least some of the distributors had been favoured by the Management without safeguarding the interests of the Company. The Committee had therefore suggested an independent enquiry.

13. It has been stated by Government in their reply that as the allegations of favourtism shown to distributors had already been gone into in detail by Committee consisting *inter alia* of two Government Directors of the Company, there was no need for a further formal enquiry.

14. Even though some of the allegations had been enquired into by a teem of officers, the Committee had felt that such an enquiry by officers associated with the Company during the period is neither adequate nor capable of inspiring confidence in all concerned. The Committee had accordingly recommended that there had to be an independent enquiry not only covering the various allegations already made but also the points made by the former Chairman of the Company before the Committee and the points raised by the Committee in their 41st Report (1981-82).

15. The Committee had given cogent reasons why there should be an independent enquiry into the various acts of omission and commission alleged against the management of the HPF as brought out in the 41st Report (1981-82). The Committee are not satisfied with the reply of the Ministry. They wish to reiterate their earlier recommendation.

Export of Silver Nitrate

Recommendation Sl. No. 17 (Paragraph II ·17)

16. Commenting on the export of silver nitrate by the Company Hungary & GDR prior to 1979-80 through an agent without calling tenders, the Committee had recommended that the circumstances under which the exports were made without ensuring the reasonableness of price needed to be investigated.

17. In reply Government have stated:

"The Company had contacted parties in USA, GDR, Hungary and West Germany/Hong Kong to obtain favourable prices. On the basis of the quotations from these parties, the conversion charges obtained by the company may be considered reasonable."

It has also been stated that in these transactions, the company has realised a net profit of over Rs. 4 lakhs which was largely due to the silver price differential in the Indian and the London Bullion Markets.

18. The basic point raised by the Committee was whether the price at which exports of silver nitrate were made to Hungary and GRD was the best price available and whether other buyers would have offered better price. This assumed importance particularly in view of the statement made by the Managing Director before the Committee that no effort had been made to establish the reasonableness of the prices. The statement now made to the effect that on the basis of the quotations, the conversion charges obtained by the Company may be considered reasonable and that in these transactions by the company net profit of over Rs.4 lakhs had been made hardly establish the reasonableness of the prices realised. The Committee, therefore, cannot but reiterate the need for investigation in the matter.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation (Serial No. 1) (Paragraph 1)

1. The Hindustan Photo Films Mfg. Co. Ltd. was set up in 1960 with the objective of attaining self-sufficiency in the manufacture of photographic products. The Committee examined the working of this company during 1973-74. The Company's record in the matter of fulfilling its objective is, to say the least, poor. It has also been incurring losses since inception upto 1974-75. After setting off of profits earned subsequently, the cumulative losses as on 31st March 1981 were of the order of Rs. 7·42 crores. The profits made in recent years do not impress the Committee. There is considerable under-utilisation of capacity and there are large scale wastages in various stages of manufacture of products besides clear indication of general mismanagement of distribution and sales. The cost and quality control as well as the cash management in company leaves much to be desired. In such a situation, profits can only be attributed to successive price revisions that have taken place exploiting the monopoly position in the market. In any case the company's own products did not contribute much to profits. More than 75 per cent of the profits was on the sale of imported products with very little value added by the company.

Reply of the Government

A note setting out the performance of the Company since 1975-76 is at Annexure-I.

[Ministry of Industry/Deptt. of Industrial Development
OM No. 15(31)/82-CGF(I) Dated 17-11-82]

ANNEXURE-I

PARA-I

The performance of the company since 1975-76 has to be assessed with reference to the following parameters

PERFORMANCE MANAGEMENT RATIOS

Description	1976-77	1977-78	1978-79	1979-80	1980-81
1	2	3	4	5	6
General :					
Production (Rs. lakhs) . .	3540	3577	4230	4903	6604
Sales	3120	3567	3964	4676	5972
Net Profit	143	164	232	267	363

1	2	3	4	5	6
Growth rate % (Correlation to previous year)					
Turnover	40·03	14·33	11·13	17·96	27·72
Production . . .	55·40	1·05	18·25	15·91	34·69
Sales :					
Cost of Sales :					
Net Sales (%) .	95·45	95·40	94·14	94·29	93·92
Personnel :					
No. of employees . . .	2252	2338	2624	2806	2944
Value added (Rs. lakhs) . .	924	1106	1244	1361	1769
Value added per man year (Rs. lakhs)	0·41	0·47	0·47	0·49	0·60
Financial					
Gross margin (Rs. lakhs) . .	480	539	594	649	831
Gross profit " . . .	436	493	545	619	797
Net profit "	143	164	232	267	363
Capital employed (Rs. lakhs) .	1856	2321	2526	3180	3741
Net worth (Rs. Lakhs) . .	—260·14	— 95·10	128·15	345·73	570·86
Net profit :					
Total assets (%) . .	5·36	5·07	5·96	5·81	6·01
Gross fixed . . .	11·58	13·60	18·04	17·94	23·12
Assets :					
Sales (%)	4·58	4·59	5·86	5·70	6·08
Paid up Capital (%) . .	8·74	10·06	14·24	16·34	22·23
Capital employed . . .	7·68	7·07	9·20	8·40	9·70
Net worth per equity . .	—	—	78·95	211·84	460·09

The above record speaks for itself regarding the improvement in performance over the years in terms of production, sales, profitability and capacity utilisation.

As far as self-sufficiency in photographic products is concerned, the company has by its integrated production, largely displaced imports of the following materials:—

—Cine film positive Black and White

—Cine film sound

—Photo paper

—Medical X-ray films

By the programme of Jumbo conversion, the company has reduced the imports of finished material in respect of the following products, since these materials are imported in semi-finished form for being finished at the Company's plants, which results in a saving of 20-25 per cent in terms of foreign exchange as the packing and finishing costs are incurred in rupees.

—Cine film positive colour;

—Amateur roll film black and white;
—Industrial X-ray film; and
—Graphic Arts film.

The company's profitability has also to be viewed in the context of its fulfilling the social obligations as a public sector company as follows:—

(i) providing subsidised housing and transport to the employees and maintenance of a large township of 500 houses;

(ii) Provision of substantial employee benefits in the form of providing education for the dependants by running schools;

(iii) Provision of medical facilities for the employees and their dependants;

(iv) Employment of physically handicapped persons;

(v) Preference in employment for economically weaker sections of society.

As regards capacity utilisation, the integrated production of the plant since 1976-77 has been near full capacity in terms of the end product. As for the capacity for conversion, its utilisation is largely dependant on the company's competitive position in respect of new products vis-a-vis market price of imported finished material. For these reasons, the company has not been able to acquire the anticipated market share in respect of these products, namely, cine colour positive, industrial X-ray and Graphic Art.

As regards wastage levels, a series of steps have been undertaken by the company by way of modernisation of the plant and process improvements. As a result of this, the rejection levels have shown steady declining trend over the years in respect of the following products:—

—Cine positive Black and White

—Medical X-ray

—Cine sound

—Photo paper

In the matter of distribution and sales, the major achievement of the company has been the taking over of the direct distribution of the products in 1978, dispensing with the earlier distributors net-work, pursuant to the directive of COPU/Government. This scheme of direct distribution has been successfully implemented by opening 12 additional marketing outlets through out the country with one centre in each State and also with supporting technical service group to maintain closer liaison with the consumers and to provide service before and after sales.

The larger share of profits from the Jumbo conversion activity has been the result of a deliberate pricing policy adopted by the company which relied on the principle of 'what the traffic can bear' and involved an element of cross-subsidisation between the different products.

While it is conceded that there is room for improvement in respect of the above performance parameters, earnest efforts have been and are being made by the company towards better results—physical and financial.

Recommendation (Serial No. 2) (Paragraph 2)

2. The Company has at present integrated production capability of only cine film positive (black and white), cine film sound, medical X-ray film and photographic paper. Starting from 1972-73 the company has gradually taken up production of medical X-ray, amateur roll, cine colour positive, graphic art and industrial X-ray films with imported jumbos and its production involves very little value added by the Company. Out of the total production of 11·08 million s.q. meters of films during 1980-81 as much as 3·53 million sq. meters (32 percent) of films belonged to this category. Further, the import content of the raw materials, stores and spares and components consumed was of the order of 65·53 per cent. Cine negative film is not manufactured at all in the country. Thus it cannot be said that even after two decades of its existence the company is anywhere near fulfilling the objective of attaining self-sufficiency in terms of either product coverage or production or indigenisation. It is necessary to take steps to realise the objective early.

Reply of the Government

The integrated production of HPF comprises of cine positive (black and white), sound negative, X-ray-photographic paper and other miscellaneous products which form around 65% of the total production. The indigenous content of production of this type (other than paper) is of the order of 95% the import content being 5% only. The base paper (Baryta paper) for biromide paper manufacture however, forms, about 20% of the content and is wholly imported.

As regards conversion of jumbo rolls of cine colour, roll film, graphic art film, industrial X-ray film, etc., which forms around 35% of the total production, the import content has been around 90 % of the total value of production.

Apart from the base raw stocks HPF has to import soda chemicals for emulsion formulations for which equivalents are not available indigenously.

The integrated production and jumbo conversion have been as follows during the past three years:—

	1979-80	1980-81	1981-82
	(million square metres)		
Integrated production .	6·866	7·550	7·515
Jumbo conversion ..	3·288	3·517	3·836
	10·154	11·067	11·351

In respect of graphic arts film, cine negative film, colour paper and aero film, only technological operation documentation was furnished by the collaborator in the 1960s. These are very sophisticated and complex products and in the last two decades, the technology has changed so fast that the documentation furnished by the collaborators in the 1960s would no more be of any avil to produce the products that are currently in the market. Necessarily, the company has to enter into fresh collaboration to take up the manufacture to reach self-sufficiency in respect of those products. However, as a first step to take up the integrated manufacture, the company has set up a conversion plant at Ambattur near Madras for converting Graphic Arts film and Industrial X-ray film.

Further, efforts have already commenced by the company to locate a collaborator to set up full integrated capacity for the manufacture of Graphic Arts Film.

Cine colour Positive Film, though not contemplated under the terms of the earlier collaboration has been taken up for conversion since 1974-75. Here again, with the objective of establishing integrated facility for the total manufacture, a collaborator has since been located and the detailed terms are being negotiated. It is likely that technology for the manufacture of colour paper could also be obtained from the same company. Thus, self-sufficiency through integrated manufacture in respect of these items is likely to be achieved in about the next 4 to 5 years.

[Ministry of Industry (Deptt. of I.D.) O.M. No. 15(31)/82-CGF (2) dated 17-11-82]

Recommendation (Serial No. 3) (Paragraph 3)

3. The collaboration arrangement with M/s Bauchet of France was so unsatisfactory that a number of products envisaged could not be taken up and fresh collaboration had to be sought for with others. A committee constituted on the basis of a recommendation of the Committee on Public Undertakings (1973-74) has brought out a number of lacunae in the collaboration arrangement. What causes even greater concern is the fact that as dealt with in the succeeding paragraph a subsequent collaboration arrangement also reveals that the management has been failing to exercise the requisite care. Therefore, adequate precaution should be taken while entering into such arrangements in future.

Reply of the Government

The Committee's observation that adequate precaution should be taken while entering into collaboration agreements in future has been noted by the Government for compliance.

[Ministry of Industry (Deptt. of Industrial Development) O.M. No. 15(31)/82-CGF (3) Dated 17-11-1982].

Recommendation (Serial No. 5) (Paragraph 5)

5. The black and white cine film in on the way out, and it is already late to start on the production of cine colour films. The Company is stated to have come up with a project costing Rs. 100 crores for establishing manufacture of cine colour positive. There is also a proposal for establishing manufacture of industrial X-ray films at a cost of Rs. 50 crores. The proposal for establishing manufacture of graphic art films is yet to evolve. As lead time for implementation of the various projects is stated to be around 5 to 6 years after finalisation of all arrangements, the Committee urge that Projects should be formulated without delay and early decisions taken on the project proposals. In any case it should not take more than 6 months to clear a project even allowing for time for scrutiny by various agencies of Government.

Reply of the Government

The Committee has urged that projects should be formulated without delay and early decisions should be taken on the project proposals. At present there are two projects of H.P.F. under formulation—(i) setting up of a plant for the manufacture of cine colour positive films and (ii) project for the manufacture of graphic arts and industrial X-ray films. The first project is likely to be formulated by the end of this year and the second by the end of June, 1983. Government will take early decision on the proposals. While taking such decisions, the Committee's observations will be borne in mind. Towards this end, Government has already conveyed approval to HPF's R & D Project and the company has also prepared an implementation schedule.]

The Government has also noted for compliance the Committee's observation, viz., the projects should be cleared in a period of six months, which will include time for scrutiny by various agencies of Government. This observation of the Committee has also been communicated to the Plan Finance Division of the Ministry of Finance (Department of Expenditure) for compliance by the various agencies of Government who scrutinise the project proposals (Annexure I).

[Ministry of Industry (Department of Industrial Development) O.M. No. 15(31)/82-CGF(5) dated 17-11-1982]

Annexure-I

(relating to recommendation No. 5.)

Ministry of Industry
Deptt. of Industrial Development
CGF Section.
Udyog Bhavan,
New Delhi, the 24th July, 1982

OFFICE MEMORANDUM

Subject:—Action taken by Government on the recommendations contained in the Forty-First Report of the Committee on Public Undertakings (1981-82) on Hindustan Photo Films Mfg. Co. Ltd.

The undersigned is directed to forward herewith an extract from the 41st Report of the Committee on Public Undertakings (1981-82) on Hindustan Photo Films Manufacturing Co. Ltd., which was presented to Lok Sabha on the 26th April, 1982 and to request that the observations of the Committee that it should not take more than six months to clear a project may please be noted for compliance. It is also requested that suitable instructions may be issued to all the scrutinising agencies of Government, under intimation to this Ministry.

Sd/-
(S. Ganespandran)
Deputy Secretary to the Govt. of India

Min. of Finance,
Deptt. of Expenditure,
Plan Finance Divn. II

Recommendation Sl. No. 6 (Para 6)

Incidentally, the committee note that Government's reaction to the Corporate Plan of the company submitted in September 1980 was not communicated to them though according to the Secretary, Depatment of Industrial Development, the Government thought that the company could go ahead with the implementation of specific schemes covered in the Corporate Plan. The Committee desire that in future Government should leave the company in no doubt as to the direction that it should take in regard to its corporate plans.

Reply of the Government

The Committee has noted that Government's reaction to the Corporate Plan of the company submitted in September 1980 was not communicated to them. As submitted to the Committee in the course of hearings, the Government was under the impression, after frequent dialogues with the company that it could go ahead with the implementation of specific schemes covered in the Corporate Plan, which the company did. As the Committee is aware, the company had already progressed informulating its proposals like : setting up of R & D Centre, a Plant for manufacture of cine colour positive films and the project for manufacture of graphic arts and industrial X-ray films, without waiting for the Government's formal approval. However, Government has formally conveyed to the company its approval of the Corporate Plan on 7-6-1982.

The Committee's observation that in future government should leave the company in no doubt as to the direction that it should take in regard to its Corporate Plan has been noted for compliance.

[Ministry of Industry (Department of Industrial Development), O.M. No. 15(31)/82-CGF (6) Dated 17-11-82]

Recommendation Sl. No. 7 (Para 7)

According to a former chairman it was a mistake to have taken up import of jumbo rolls and "scuttled the efforts at Developing technology". It is surprising to the Committee that only recently (October 1981) the company had proposed setting up a full-fledged R&D Centre. The Committee desire that the R&D Centre should be established without loss of time in order that the company may be in a position to absorb and adapt the imported technology in various fields and the kind of difficulties that arose out of the initial collaboration arrangement with M/s. Bauchet of France may not occur in future.

Reply of the Government

The Committee's observation that the R&D Centre should be established without loss of time has been noted both by the Government and the company for compliance. The Government's approval for setting up the R&D Centre by Hindustan Photo Films Ltd., at Ooty, was conveyed to the company on 31-5-1982. The company has worked out a project implementation schedule, according to which the R&D complex is expected to be completed by March 1984.

[Ministry of Industry (Department of Industrial Development), O.M. No. 15(31)/82-CGF (7) [Dated 17-11-82]

Recommendation Sl. No. 8 (Para 8)

The Company's claid that the installed capacity has been utilised more than 100 per cent fell through on closer scrutiny. The production at the Ooty plant ranged from 7·017 million sq. metres in 1975-76 to 11·006 million sq. metres in 1980-81. This included conversion of imported jumbo films. The integrated production of films alone ranged from 6·299 million sq. metres to 7·55 million sq. metres. The installed capacity for the integrated production as fixed on 1966 was 6·15 million sq. metres. A task force reviewed the installed capacity and came to the conclusion that it should be refixed as 7·673 million sq. metres. Thus production all these years has been less than the installed capacity as realistically assessed. Further, if each stage of manufacture, i.e. film base, emulsion, coating and conversion is taken into account separately there is considerable under-utilisation of capacity of all but the coating capacity. This is because while the capacity of the plant and equipment was provided for the entire range of products originally contemplated, the company did not take up all the items resulting in excess capacity. In spite of taking up conversion of imported jumbos, the conversion capacity is underutilised to the extent of 20—25 per cent at the Ooty Plant. The conversion capacity at the Ambattur Plant (3 million sq. metres) remain almost wholly unutilised. Efforts should be made to achieve optimum utilisation of capacity in all stages as early as possible. The Committee further desire that in order that Parliament and the public may get the correct picture, the department-wise utilisation of capacity should be brought out in the Annual Reports of the company and the BPE's surveys.

Reply of the Government

The integrated manufacture of photo sensitive products basically has four stages of production, the Cellulose Triacetate base casting, emulsion preparation, icoating and conversion.

At the time of performance tests the collaborators had certain operating speeds for the equipment in different departments based on which the capacity for the individual departments was arrived at to yield an ultimate production of 6·15 million sq. metres at the last stage i.e. the conversion stage. This capacity of 6·15 million sq. metres has been the reference point for determining capacity utilisation levels since the company went into production in 1967.

Since 1972-73, the Company initiated schemes of modernising the existing plant *inter alia* to provide improvements and balancing facilities.

Through the above schemes, the Company has been steadily upgrading the equipment and technology from its own experience and competence as a continuous effort. Over the years, certain modifications and improvements carried out in this direction at a cost of about Rs. 1·5 crores have resulted in increasing the capacity to 7·7 million sq. metres as assessed by a Task Force set up by the Company. The increased capacity, therefore, is not a reassessment of capacity installed *ab initio*, but as a result of continuous improvements carried out in the plant over several years. Since 1981, this capacity of 7·7 million sq. metres has become the reference point for capacity utilisation level.

As regrads the suggestion of the Committee that the department-wise utilisation of capacity should be brought out in the Annual Report of the Company, it is submitted that the details to be published in this report have to be in accordance with the provisions of the Companies Act according to which the actual production in respect of finished products meant for sale shall be mentioned. However, the Company will be directed to include departmental/stage-wise utilisation of capacity in its annual performance report submitted to Government.

[Ministry of Industry, (Department of Industrial Development), O.M. No. 15(31)/82-CGF (8) Dated 18-12-82.]

Comments of the Committee

Please see Para 6 of Chapter I of the Report.

Recommendation Sl. No. 9 (Para 9)

Additional finishing capacity of 3 million sq. metres for conversion of X-ray and graphic art films was created at Ambattur, Madras in 1979. This entailed an outlay of Rs. 210 lakhs. The demand anticipation having not materialised, the plant is grossly underutilised. The utilisation was only to the extent of 0·183 and 0·061 million sq. metres during 1979-80 and 1980-81 as against the capacity of 3 million sq. metres. As against anticipated profits of Rs. 135 lakhs the annual loss was Rs. 40 lakhs. Thus this is a patent case of bad planning. The Committee would like to know whether there was any reliable market survey before embarking on this project and if not, who was responsible for the omission.

Reply of the Government

The Company had undertaken an independent market survey through leading market survey consultants both for medical X-ray and graphic arts films. In respect of medical X-ray the demand by 1980, as assessed by the consultant, was 5 million sq. metres. This projection of demand was also confirmed by the Drugs Controller, Ministry of Health.

In respect of the Graphic Arts film, the consultant had projected a demand of around 1 million sq. metres by 1980. Besides, the Company had also collected information on the imports of Graphic Arts Film during the past.

All these estimates of demand were taken into consideration before formulating the scheme for setting up a conversion plant at Ambattur, Madras.

The conversion capacity created in the new plant is 2 million sq. metres of medical X-ray film, 0·25 million sq. metres of industrial X-ray and 0·75 million sq. metres of graphic arts film. These capacities are within the projected demand as worked out by the Consultants.

The demand for medical X-ray film which was expected to go to a level of 5 million sq. metres, however, did not reach that level, as anticipated. Simultaneously, the conversion capacity for X-ray film at the Ooty Plant was also augmented by certain marginal improvements carried out in the meantime and, therefore, it was possible to meet the entire demand for this product from the Ooty Plant itself. That being so, the additional capacity created in respect of medical X-ray film at the Ambattur Plant was not put to use appreciably for this purpose.

When the conversion capacity for graphic arts and industrial X-ray was planned at Ambattur in 1976, it was anticipated that a major share of the market in respect of these products would be taken over by HPF in a phased manner.

However, under the import licensing policy for 1978-79, industrial X-ray and graphic arts film were brought under the OGL list thus enabling importers to import these materials freely. This policy was continued during the next two years and on the Company's taking up the matter with the Government, pointing out that such an import policy had jeopardised the utilisation of the conversion capacity at Ambattur, these items have now been brought under restricted list during the current year (1982-83). Thus, by the time the Ambattur Plant went into production in 1979, a large quantity of finished materials was imported directly into the country particularly from cheaper Japanese sources, taking advantage of the OGL provisions. This has acted as a major constraint in the utilisation of the conversion capacity at Ambattur Plant especially in view of the fact that all these products have a specified shelf-life.

[Ministry of Industry (Deptt. of Industrial Development)
O.M. No. 15(31)/82-CGF (9), dated 18-12-82.]

Comments of the Committee

Please see Para 9 of Chapter I of the Report.

Recommendation (Serial No. 10—Para 10)

According to the Management there are demand constraints in respect of cine colour film positive, industrial X-ray film and graphic arts film. This, according to the management, is partly due to imports allowed under OGL or on replenishment licences and partly due to adverse duty structure on imports. The Committee have been informed that based on the company's representation the Ministry of Finance had increased the import duty for directly imported finished rolls to some extent but even with this increase the duty on the jumbo rolls is higher. The Company's suggestion to shift the industrial X-ray film and graphic arts film from OGL to restricted/banned list is stated to be still receiving the attention of the CCI&E. However, the import replenishment entitlement on export of feature films has been reduced progressively from 50 to 20 per cent in 1981-82. The Committee desire that the fiscal and economic policies of Government may be reviewed and such further adjustments as may be necessary in the duty structure, import policy and export incentive made in order to sustain the indigenous industry better.

Reply of the Government

The observations of the Committee that "the fiscal and economic policies of Government may be reviewed and such further adjustments as may be necessary in the duty structure, import policy and export incentive made in order to sustain the indigenous industry better" has been noted and taken up with the Ministry of Commerce and the Ministry of Finance for compliance.

The kind attention of the Committee is drawn to the latest Import and Export Policy for 1982-83 wherein Graphic Art Films and Industrial X-ray films have been included in Appendix V which relates to the list of automatic permissible items i.e. the equivalent of the restricted list of the previous year. As regards the REP entitlement for import of cinematograph films, not exposed, colour (all types) against export of cinematograph films exposed (feature films) the entitlement has been brought down from 20% of the export value of feature films in the import policy for 1981-82 to 17½ % in the policy for 1982-83, after representations were made by Hindustan Photo Films from time to time and recommendations were made by Government at various levels. The Committee has made a marginal note of the fact that the import of graphic arts films and industrial X-ray films has been restricted in the current licensing policy (page 18 of the report).

[Ministry of Industry (Deptt. of Industrial Development)
O.M. No. 15 (31)/82-CGF (10), dated 17-11-82]

Recommendation (Serial No. 11—Para 11)

The Committee had drawn attention to the huge loss of silver (Rs. 1 crore) in their 55th Report (1973-74) calling for investigation. A High Powered Committee appointed for this purpose submitted its report in 1976. It is regretable that responsibility was not fixed for this loss, the senior officers concerned with decision making during the cultural period having left the service of the company. That such a loss did not come to the notice of either the Board of the company or the administrative department of Government typifies the way they were functioning at that time. By the time it came to be noticed by the Committee and the investigation was made it became too late to fix responsibility. The Committee, however, note that the loss of silver has now come down to 8 per cent from the level of 34·9 per cent in 1972-73. The Committee recommend that there should be effective monitoring at least in future, and the management information system should be streamlined.

Reply of the Government

Following the recommendations of the Committee on Public Undertakings in their 55th Report (1973-74) emphasising the need for proper management control to ensure minimum wastage of silver, silver nitrate, etc., a number of steps have been taken in controlling silver losses and bringing about improvements as a result of which, the silver losses as a percentage of gross input has steadily decreased over the years as shown in the following table :—

Year	Total loss as % on gross input
1972-73	34·19
1973-74	25·99
1974-75	18·14
1975-76	13·80
1976-77	10·32
1977-78	11·00
1978-79	7·26
1979-80	8·75
1980-81	8·36
1981-82	8·60

Attempts are being made to bring the loss further down. The recommendation of the Committee that there should be effective monitoring in future and the quantum of silver losses should be part of the management information system is accepted.

[Ministry of Indsustry (Deptt. of Industrial Development)
O.M. No. 15 (31)/82-CGF(11), dated 18-12-82.]

Recommendation (Serial No. 12—Para 12)

During the last three years the aggregate percentage of rejections in all stages of manufacture of films and paper ranged from 29.9 per cent to 37·85 per cent in the case of cine positive, 40·27 per cent to 42·8 per cent in the case of medical X-ray, 37·25 per cent to 43·48 per cent in the case of cine sound and 10·85 per cent to 13·04 per cent in the case of bromide paper as against DPR norms of 11·3 per cent, 27·01 per cent and 9·18 per cent in the case of cine positive, medical X-ray and bromide paper respectively. According to the management, the rejection norms indicated in the detailed project report pertained only to manufacturing rejections and did not include unavoidable edge wastages and timings. However, it was seen that the rejections were also much in excess of the overall norms recommended by the Bureau of Industrial Costs and Prices in 1974 in the case of cine positive conversion (15·47 to 23·12 per cent as against the norm of 10 per cent), medical X-ray coating (14·73 per cent to 16·61 per cent as against norm of 9 per cent), cine sound coating (5·1 per cent to 5·47 per cent as against norm of 4·4 per cent), bromide paper coating (4·68 per cent to 6·82 per cent as against norm of 2·3 per cent) and bromide paper conversion (6·6 per cent to 7·52 per cent as against norm of 5·35 per cent). In this connection the Committee learnt that one of the directors of the Board of the company had written to the then Minister of State for Industry on 18th July, 1980 and again on 22nd August, 1980 drawing his attention to the high rate of rejections in the Company. Comparing the rejections with those of an international company he had pointed out that one of the major factors affecting the company's performance was the high rate of rejections accepted as normal and surprisingly used also as the basis for working out the price formula in BICP report. However, regrettably no action seems to have been taken on this by the Ministry, nor has the Ministry reviewed the level of rejections at any of its periodical performance appraisal meetings. The Committee feel strongly that the BICP ought to have made international comparisons before suggesting the norms for rejections. In any case the whole question should be gone into afresh by the BICP with a view to laying down realistic norms not to regularise the existing position but to bring about effective management control.

Reply of the Government

The recommendation of the Committee that the whole question should be gone into afresh by BICP has been accepted and the BICP has been requested accordingly to undertake a fresh comprehensive study of the various operations of Hindustan Photo Films Manufacturing Company Limited for laying down realistic norms of rejection.

As regards periodical review of rejection levels, a monthly progress report put up by the Company to the Board include a report on rejection levels and these are reviewed by the Board from time to time. A continuous attempt is being made by the Company to establish cause and effect relationship for the rejections and action has been taken from time to time to create facilities for bringing down rejections at various stages.

Incidentally, it may be pointed out that the quality of the products and the levels of rejection are to be viewed in relation to the technology and equipment available with the Company. Most of the plant and the technology was supplied in the 60's and the performance cf the plant with respect to quality/rejections will not stand comparison with the latest plants abroad. There are only a few production units of photographic materials in the world and these companies are not communicative with regard to such details.

Some time back when the company was struggling hard to reduce the rejection levels in the various sections of their plant, they asked for assistance from Kodak who are one the reputed international manufactures. Kodak had agreed to bring down the rejection levels. (The rejection levels and the output offered to get achieved by Kodak involved, among others, a technical fee of Rs. 450 lakh besides an additional investment of Rs. 322 lakhs to Rs. 488 lakhs in different areas of the plant). A comparision between the rejection levels proposed by Kodak and those currently attained by the Company shows that at present in a few sections, the current rejection levels are even better than those proposed by Kodak. The present position with respect to rejections in the case of these products is given below:—

Item	Base		Subbing		Coating		Conversion	
	Kodak	HPF	Kodak	HPF	Kodak	HPF	Kodak	HPF (80-81)
Cine Pos. . .	20	8·73	10	4·41	2·5	4·40	15	15·98
Cine Sound .	20	9·37	10	4·51	2·5	5·47	15	21·47
X-ray . .	20	8·74	10	5·35	10·0	16·61	15	17·07

It may also be mentioned here that about 80% of the rejected material is recycled and the net loss on account of rejections would be only 20% of the material rejected.

[Ministry of Industry (Deptt. of Industrial Development)
O.M. No. 15(31)/82-CGF(12) Dated 18-12-82]

Recommendation Sl. No. 13 (Para 13)

The quality of the products of the Company in general does not appear to have been quite satisfactory to consumers. There have been a lot of complaints. The Committee desire that the quality control set up in the company should be strengthened and complaints should be attended to with promotitude for making improvements.

Reply of the Government

The Company has been striving to build an assured quality at all stages of production starting from supplies of vendors through manufacture and service of the product while in use by the customer.

As regards the finished products of HPF, these are tested according to the standards of American National Standards Institute (adopted initially in 1964 and modified from time to time upto 1981), which are followed by all photographic film manufacturers.

The various steps taken by the Company to ensure quality include—

1. A systematically planned quality sampling/inspection procedure with the guidance of the Indian Statistical Institute;
2. Upgradation of machine and improvement in process capability;
3. Development of quality conciousness among the operators through a planned training programme;
4. Dissemination of quality information among employees.

As a result of the above steps, the complaint levels from the market on company's products have considerably come down.

As part of company's policy for effective after sales service, a Technical Service Centre at an investment of Rs. 25 lakhs has been set up in June 1982. This centre is expected to play a vital role in test-marketing and evaluating new products and systems, developed by the R & D Centre of the Company besides handling product complaints and providing timely feedback to the manufacturing operations. To begin with, the Technical Service is expected to cover graphic arts film, medical and industrial X-ray film and in due course such facilities would be extended to the other product groups as well.

With a view to further improving the process of manufacture and the quality of end products, Government have recently sanctioned the setting up of a full-fledged R & D Centre entailing an investment of Rs. 197 lakhs. This centre apart from taking up the development of new products and improvement of existing products, will also take up basic research in the photographic science. This centre is expected to be ready by middle of 1984.

It must, however, be admitted that quality improvement is a continuous process and the Company will continuously strengthen its R & D and quality control efforts.

[Ministry of Industry (Deptt. of Industrial Development)
O.M. No. 15 (31)/82-CGF (13) Dated 18-12-82]

Recommendation Sl. No. 18 (Para 18)

The cost of production has registered 50 per cent increase in the case of cine positive film and 40 per cent in the case of cine sound film during the period 1978-81. Further, the cost of production of cine positive film was consistently more than the budgeted cost in all these years. The cine sound film was sold below cost in all the three years and X-ray film as well as cine positive black & white film were sold below cost in two years. There were substantial price increases during these years. An analysis of the profits on the company's own products during the year 1980-81 has revealed that heavy losses were incurred on cine film positive and cine film sound but substantial profits were made on medical X-ray film (Rs. 81·65 lakhs) and bromide paper (Rs. 94·89 lakhs). The Committee have been informed that as a matter of deliberate policy there was cross subsidisation in that the black & white films were sold below cost and the loss was covered by profits on cine colour films and other converted products. However, the Committee do not approve of the pricing of medical X-rays with a high margin of profit. Having regard to the social implications the medical X-ray films should be sold, as far as possible, on cost basis as suggested by the BICP. Further, the Committee desire that taking note of the lacunae, effective cost control system should be introduced in the company. They would particularly commend the idea of integrated financial and cost accounting system.

Reply of the Government

The company had to resort to price increase on account of the cost of inputs going up and/or due to the impact of various statutory levies on the raw material inputs. On account of the increase of prices of various raw materials, mainly silver, the selling prices of the products of company's integrated manufacture had to be revised upwards in December, 1979 which included medical X-Ray film. Since the price increase was effected only in December, 1979 the benefit accrued only for a part of the year and the overall selling price did not fully cover the cost of production during that year (1979-80). Subsequently, due to reduction in silver coating weight from 17 gms. to 15 gms. in the case of X-ray film which was not contemplated in the budget, it resulted in economy and the cost of production dropped by itself though the selling price remained the same during 1980-81. The margin of profit achieved in the case of X-ray film was not, therefore, due to indiscriminate increase in prices but by effecting economies in the cost of production and technological improvements. In any case, the proposed comprehensive review of the Pricing System of the Company by the BICP will no doubt make suitable recommendations in this regard.

While considering the propose for increasing the price of the company's products in February 1980, to cover the entire cost of production, the Board decided that the company's pricing policy for cine products should be on the basis of the principle of "what the traffic can bear". The Board felt that as the black & white sector may not be able to bear a further hike in price, the more affluent colour sector perhaps could take this burden and therefore, deliberately decided to load the impact of legitimate increase due on the black & white films on the cine colour positive film. Therefore, the "apparent" loss on account of cine positive (black & white) being sold below the cost as in February 1980 has been adequately compensated by way of increase in the selling prices of the cine colour positive film. In other words, the cross-subsidization was between the black & white and Colour film.

With a view to improving and streamlining the existing system of financial accounting and cost accounting in HPF, the task of preparation of Accounts Manual, Cost Accounts Manual and Budget Manual was entrusted in 1971 to a consultant. In the preparation of these Manuals, the Management Consultant had devised a scheme of integrated- Financial and Cost Accounting System in the Company. This integrated financial and cost accounting system is in vogue in the Company since 1971.

However, as recommended by the Committee, all efforts will be made to make the system more effective.

[Ministry of Industry (Deptt. of Industrial Development)
O.M. No. 15 (31)/82-CGF (18) Dated 18-12-82.]

Recommendation Sl. No. 19 (Para 19)

A controversy surrounding the price increase given effect to in December 1979 came to the notice of the Committee. Though the price revision was decided upon by a Committee of Directors consisting of Sh .N. Rajan, Sh. Manish Behl (Government Directors) and the Managing Director our portedly on the basis of a decision taken in the Board meeting held on 23 November 1979, this was disputed at the Board's meeting held on 15 December, 1979. In this connection the Committee wish to draw attention to the fact that according to the former Chairman of the company, misleading information was given in regard to the prices although these were considerably higher than those recommended in the BICP report's fair price formula. The Committee feel that the cost structure of the company and the pricing policy require a review. The Committee have already indicated that the norm for rejection should be refixed realistically.

Reply of the Government

From the perusal of the records of the Company, it appears that the Sub Committee was duly authorised by the Board to consider price revision and to give effect to it. This is substantiated by the fact that the action of the Managing Director for implementing the price increase effective from 10 December 1979 was confirmed by the Board at its 121st meeting held on 15 December 1979 by a 6 : 1 majority. Further, while the initial report of BICP had indicated that the prevailing price of HPF in case of certain products were higher than their selling price, the Company had pointed out certain factors which the BICP had not taken into consideration, such as wage increases subsequently effected, etc. in arriving at the fair price formula. On the basis of the clarifications furnished by HPF, the BICP had subsequently confirmed that the prices of HPF were only about 0·05% more than the fair price formula.

However, in accordance with the recommendations of the Committee under Para 12, at the request of Government, BICP are conducting a fresh study into the pricing policy of the Company.

[Ministry of Industry (Deptt. of Industrial Development)
O.M. No. 15 (31) /82-CGF (19) Dated 18-12-1982.]

Recommendation Sl. No. 21 (Para 21)

The sales of the company consistently lagged behind the production in all the years 1977 to 1981, with the result that there was a heavy build up of the inventory of finished goods. The level of finished goods inventory holding was of the order of Rs. 18·32 crores on 31st March, 1981. The outstanding dues to the company were of the order of Rs. 13·88 crores. The heavy inventories and faulty credit policy have combined to push up the working capital needs of the company. The working capital as on 31st March, 1981 was Rs. 30·69 crores and this represented about six months' value of production at cost. The company has been facing cash flow problems. Its borrowings from banks have gone up to Rs. 18·84 crores in 1980-81. The company has not been able to repay the loans and advances granted by government and these overdue instalments together with the interest were of the order of Rs. 14·47 crores as on 31 March, 1981. The default in repayment has occurred since July, 1975. The Committee have no doubt that the production and sales management as well as the cash management in the company are unsatisfactory. They hope that steps would be taken to put the company on a sound financial footing.

Reply of the Government

Hindustan Photo Films Manufacturing Company Limited, being the only unit engaged in the manufacture of various types of photo sensitized films and also keeping in view the very special nature of the products and the process time, it is desirable that the company should maintain a reasonable level of buffer stock of finished goods. An inventory level of finished goods equivalent to two months' sale of the company was suggested by the RBI in February, 1978 when the company had authorised distributors for the sale of its various products. The authorised distributors were also maintaining in addition a stock of finished goods equivalent to about one month's sale. But with effect from July, 1978 the company dispensed with the system of sale of its products through authorised distributors and adopted the direct distribution system. In doing so, it became necessary for the company to hold an additional inventory of finished goods that was previously held by the authorised dealers. Thus, the inventory level of finished products that may have to be carried by the company revolves around three months' average sale of the company.

The finished product inventory holding of the company during the last four years was as under :—

Year ending March 31	Value of inventory of finished goods	No. of months sales
	(Rs. lakhs)	
1979	722·89	2·2
1980	1064·33	2·8
1981	1832·98	3·7
1982	2394·05	4·4

From the above details, a rising trend can be observed in the closing stocks, over and above the limits considered reasonable.

The heavy inventories do have their resultant effect on the cash flow position. The company had to adopt a flexible approach in regard to the credit policy to keep the inventory holdings as low as possible. The short-term borrowings by the company from the commercial banks are as per the cash credit limits sanctioned by the RBI within the Credit Authorisation Scheme. However, as advised by the Committee efforts will be made by the company to improve sales and cash management and to bring down the inventory to satisfactory levels.

[Ministry of Industry (Deptt. of Industrial Development)
O.M. No. 15(31)/82-CGF(21) Dated 25-1-1983]

CHAPTER III

RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF GOVERNMENT REPLIES

Recommendation (Serial No. 4—Para 4)

An agreement was entered into in 1977 with M/s. VEB Film Fabric, Wolfen, GDR for the manufacture of amateur roll film in all its stages. Although the entire amount of Rs. 57 lakhs due under the agreement was paid to the collaborator the HPF has not been able to take up commercial production as yet for want of coating capacity. A scheme for establishing coating capacity costing Rs. 2 crores is stated to have been cleared by Government only recently. It would take another 2 years to establish production of amateur roll film. In this connection the Committee have been informed by a former Chairman of the company that the speed of the coater proposed to be acquired is only 20 metres per minute as against the speed of 150 metres per minute of a coater in any modern plant. Thus, not only has there been delay in establishing the production facility but the scheme itself appears to be unsound. This requires critical examination and appropriate action by Government.

Reply of the Government

Initially when the proposal for integrated production of roll films was mooted, it was anticipated that only technology was to be imported and that the manufacture of amateur roll film (black and white) would be taken up with the existing hardware in the factory and any additional facility required would be only marginal. Accordingly, approval of Government was sought for entering into a collaboration agreement involving a payment of Rs. 57 lakhs. In accordance with the terms of payment, the lumpsum was to be paid in four instalments: (1) first instalment being due after the documentation, (2) the second instalment after trial production and the third and fourth instalments one and two years respectively after the second instalment. The second instalment was paid by middle of 1979 after commencement of production and the third and fourth instalments were paid one and two years thereafter. The Company, thus, absorbed the technology by mid 1979 but regular production of roll film could not be established because of the diversion of available coating capacity to the more urgent requirement of X-ray films.

In the meanwhile, in May 1978 itself, a proposal for an additional outlay for increasing the production and expansion of the plant including the creation of additional coating capacity was put up for consideration of the Board. In August 1979, a fresh proposal entailing an investment of about Rs. 2 crores was put up by the Company to the Board to go in for a short-term expansion project for increasing the coating capacity required to meet the growing demand for X-ray films as well as to take up the integrated production of roll film. The proposal envisaged the fabrication of the coating machine indigenously and this was suggested since the installation of a modern coater with a higher speed would take a lead-time of 4 to 5 years apart from a heavy investment of the order of Rs. 50 to 60 crores. After the Board approved the proposal in August 1979, the feasibility report was prepared in November 1979 and submitted to Government in March 1980. Government sanction for the additional coating machine costing Rs. 2 crores was given in July 1981. The additional coating capacity is now expected to be completed by July 1983. As capacity for all other stages of roll film production is available, with the implementation of this scheme, it is expected that regular manufacture of roll film would commence by July 1983. Meanwhile small batches of roll film are being produced from time to time to enable the Technicians to keep in touch with the technology and there has been no production problems.

On a closer examination of the scheme for setting up additional coating facility costing Rs. 2 crores, it was found that the Company's Board had taken into consideration the merits/demerits of the two alternatives open to it at that time, *viz.* (i) the setting up of additional coating facility indigenously at an estimated cost of Rs. 2 crores with a coating speed of approximately 20 metres per minute and (ii) acquisition of a modern sophisticated coater with a speed of 60 to 70 metres/minute, with an estimated investment of about Rs. 60 crores. The following are the comparative highlights:—

Indigenous Coating Facility	High Speed Modern Coater
*Investment was of the order of Rs. 2 crores.	Investment—about Rs. 50 to 60 crores.
Lead time—24 months	Lead time—48 to 60 months
At the rate of growth of demand, the existing coating capacity would cater to the total demand of the country in the interim period of 24 months, by which time this facility could be brought into operation.	As the demand for Medical X-ray film was growing at a fast rate, before this plant is installed, the demand would far outgrow the supply, necessitating the company to go in for jumbo conversion—a situation not in line with the Company's policy of progressive indigenisation.
Entirely designed and fabricated within India involving no foreign collaboration.	The technology and equipment being of the latest design, foreign collaboration was inevitable.
This scheme has the merit of total involvement of the company's personnel—a testing ground to prove such capability for future expansion programmes.	Wholly designed and fabricated outside India more or less on a turnkey basis.

Conisdering the above factors and seeing the merits in the first alternative, viz. the setting up of the additional coating facility at a cost of Rs. 2 crores indigenously, the Company's Board took a conscious and unanimous decision to opt for alternative (i) keeping open the option to go in for the modern coater at the appropriate stage.

[Ministry of Industry (Deptt. of Industrial. Development)
O.M. No. 15(31)/82-CGF(4). dated 18-12-82]

Recommendation (Serial No. 16—Para 16)

It is surprising that the reasonableness of the price paid for the import of jumbo rolls and the price obtained for the export of silver nitrate has not been ascertained by the management. Annual import of jumbo rolls ranging from Rs. 12·44 crores to Rs. 22·54 crores have been made during the last 3 years. These imports have been made from two sources. According to a former chairman of the company the price paid to them was much in excess of the price of the competitors. Even though the competitors may be unwilling to supply the jumbo rolls the least that is expected of the management is that they should have attempted to settle the price in tune with the international market. This should be ensured at least in future. The Committee have reasons to believe that crores of rupees could have been saved if the management was vigilant.

Reply of the Government

Before entering into annual contracts for supply of jumbo rolls for conversion, offers for supply of jumbo rolls are invited by HPF from all the leading manufacturers in the world. Different brands have different levels of technology built into them and each one of them commands an exclusive price of its own in the international market. Therefore, the offers are not readily comparable on the basis of the quoted price alone. In fact, considerations like consumer preference, colour rendition, colour balance, the processing facilities in the various laboratories and the demand for different brands, etc. govern the ultimate choice of the source of supply besides the capacity of the supplier.

Further, experience of the Company in the last few years has been that they have been left with offers for colour jumbos from only two suppliers. So, within the constraints of limited sources of supply, the company has been negotiating the purchase price for jumbo rolls in such a way that the ultimate converted roll does not cost the consumer more than the directly imported finished roll and that the company does not lose in the bargain but earns a reasonable profit.

[Ministry of Industry (Deptt. of Industrial Development)
O.M. No. 15(31)/82-CGF(16), dated 18-12-82]

CHAPTER IV

RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation (Serial No. 14—Para 14)

The Committee on Public Undertakings (1973-74) had recommended taking over of direct distribution so as to eliminate intermediaries, and government had accepted the recommendation as early as February, 1975. Further, a decision taken by government in a meeting of Chief Executives of public sector undertakings in July 1975 that with a view to ensuring that customers got the right quality of goods the company should try to deal directly with the photographers/other consumers instead of through dealers, was communicated to the company in September 1975. However, the company continued the arrangement with private distributors till about the middle of 1978. The explanation given to the Committee for this long delay in implementing their recommendations is not convincing. Clearly the management has been blowing hot and cold and dragging its feet for long. Though government had intimated to the Committee that the Marketing Division of the Company had been fully reorganised and strengthened the management had pleaded subsequently that the strength of the Marketing Division was inadequate for direct distribution. Earlier the management was of the view that direct distribution would result in loss but after nearly 2 years changed its views. There was needless delay in considering the report of the management consultant who was appointed to advise on distribution arrangements. Finally, it was stated to be at the instance of the government that direct distribution was taken over by the company. According to a former chairman of the company delay in take over of direct distribution was an act of sabotage of policy directions. He informed the Committee that the 11 private distributor concerns engaged by the company were actually held by 5 families. In view of his allegation and in view of the charges of favouritism shown to some distributors, the Committee suggest that the delay should be investigated and responsibility fixed.

Reply of the Government

While it is accepted that the implementation of the decision to take over direct distribution of the products of the Company could have been expedited, it is felt that there was no deliberate efforts on the part of the Company to resist the implementation of the decision. The Company had to place before its own management the points of strength and weaknesses in implementing the decision and its own appreciation as to how the problems have to be faced. The then Chairman of the Company felt that the stage had not been reached in terms of preparation and image of the brand name 'INDU' and hence the distribution should be further phased.

It may be further added that the then Chairman Shri M.K. Raju (holding office from 20-7-72 to 9-9-77), Shri K.K. Abraham, the then Managing Director (from 31-8-74 to 11-5-76), Shri S. Nagarajan, then Financial Controller (from 11-5-76 to 28-5-81), Shri R.N. Viswanathan (Chief Marketing Manager from 2-4-73 to 18-9-75) and Shri N. Meenakshisundaram (Chief Marketing Manager from 1-2-1976 to 12-12-78) are no more in the services of the Company. As such, it is felt that no purpose will be served by a further investigation to fix responsibility which will not lead to any result since ultimately the Company have taken over the distribution of all its products by July 1978.

[Ministry of Industry (Deptt. of Industrial Development)
O.M. No. 15(31)/82-CGF(14). dated 18-12-82]

Comments of the Committee

Please see para 15 of Chapter I of the Report.

Recommendation (Serial No. 15—Para 15)

The company has been showing undue accommodation to its erstwhile distributors. The credit limit allowed to them was much in excess of the bank guarantee obtained from them. In a number of cases it exceeded to 20 times the guarantee. Despite the Board's decision in 1974 that the bank guarantee should be adjusted to the volume of business from time to time, virtually no action was taken until the company took over the distribution in 1977-78. Further in a number of cases the distributors had failed to honour their hundies on the due dates. The value of such dishonoured hundies during the period 1975-79 in respect of 5 distributors was of the order of Rs. 3·75 crores. In the case of one distributor (Gopal Films) the number of hundies dishonoured were as high as 121 in one year (1976-77). Though there were heavy outstanding dues and their hundies were dishonoured, surprisingly further supplies were made to them. In spite of the fact that in one case (Gopal Films) the then Chairman directed that stock remaining unsold on the date of take-over of distribution by the company should not be resumed by the company and there was divergence of opinion regarding the quality of the unsold stock, the stock was finally taken over. Not all of it has been sold yet. The company also hired an accommodation in Bangalore in 1978 for setting up a sales depot from the mother of a partner of Gopal Films. She was only a subtenant of a contractor, who had taken the building on lease.

According to the Managing Director, he was entirely guided by the regional Manager. Incidentally, the Committee note that allegations of act of favouritism towards Gopal Films were made. All these show that at least some of the distributors were being favoured by the management without safeguarding the interests of the company. Therefore, the Committee would suggest an independent enquiry as mentioned in the foregoing paragraph.

Reply of the Government

The company has pointed out that bank guarantee was in lieu of a caution deposit and was never intended to cover the entire outstandings against a distributor at a given time. The bank guarantee limit was fixed between Re. 1 and Rs. 10 lakhs for the various distributors several years ago. The credit extended, in some cases and at times, varied between five to twenty times of the guarantee and the Board was concerned with the matter. It directed the company to work out the guarantees required from the distributors on a rational basis. Accordingly, in May, 1976 the company decided upon the following formula linking guarantee to the credit extended :—

Bank guarantee=Sales × credit period × 20% amount (If the product sale × credit period exceeds Rs. 100 lakhs the bank guarantee will be 10%)

The Company informed all the distributors of this requirement and they had also agreed in principle to furnish bank guarantees accordingly. Meanwhile, the company decided to take over distribution directly and with the tenure of operation of the distributors being very limited, it was difficult to persuade all of them to furnish bank guarantees as per the revised formula.

In regard to the dishonouring of hundies, the company has reported that during the years 1976 to 1978, the distributors dealing in still materials (roll film and photographic paper), were holding heavy stocks with them and were also finding it difficult to collect their dues from the customers in time. As a result, many of these distributors had failed to honour their hundies on their due dates but were settling them subsequently—either against a specific invoices or by ad-hoc lumpsum amounts. However, interest at the rate of 18% was charged from the distributors for the defaulted period. Delayed payments against hundies, therefore, were not an unusual feature in the transactions at that time and the case of Messrs. Gopal Films was one among them. Stocks continued to be supplied not only to Gopal Films but to all distribuors right up to the end of June, 1978 so that a sudden shortage in the market did not develop on account of the Board's decision to take over distribution direct.

As per the agreement with the distributors, the company reserved the right to resume the stock on termination of the agreement. The stocks supplied to the distributors during the currency of the agreement were supposed to be sold by them even after the expiry of the agreement. Some of the distributors including M/s. Gopal Films had represented to the Company to take over the remaining stocks. While the stocks were taken over in the respect of almost all the distributors, they could not be taken over from M/s. Gopal Films. Some stocks of M/s. Gopal Films were old and the matter was discussed by the Board on three occasions and ultimately,t he stocks were taken over in December, 1979/January, 1980.

As regards allegations relating to favours shown to distributors, these were gone into in detail by a Committee consisting of Shri N. Rajan, AS/FA Shri Manish Behl, Joint Secetary and Shri C. Mallikarjunan, Chief Vigilance, Officer, in the Deptt. of Industrial Development. The Committee found that no special favours were shown to any of the distributors. The findings of this Committee were also referred to the Central Vigilance Commission. The Commission observed that the prevailing system was far from satisfactory and advised the Department of Industrial Development to review the prevailing distribution policy with a view to ensuring that the company did not incur bad debts. As, however, the company had made its own distribution arrangements for its products since July 1978, the question of review of the arrangements prevalent prior to July was of no practical significance.

As regards hiring of accommodation at Bangalore, this has been gone into in detail by the enquiries conducted by the Director General, Industrial Contingency and subsequently by the Rajan Committee mentioned above. Both these enquiries have concluded that due procedures had been followed and no special favours had been shown to any party and that the rent paid was found reasonable. This had also been referred to the CVC which did not advise pursuing the matter further.

In the circumstances, this Department feels that a further formal enquiry into these matters may not be necessary.

[Ministry of Industry (Deptt. of Industrial Development)
O.M. No. 15(31)/82-CGF(15), dated 25-1-83]

Comments of the Committee

Please see para 15 of Chapter I of the Report.

Recommendation (Serial No. 17—Para 17)

Prior to 1979-80 the company had exported silver nitrate to Hungary and GDR. The export to GDR was through an agent. No effort has made to find out whether the price was best price available and whether other buyers would offer better price. No tender was called for. Nor was any effort made to negotiate beneficial price with the help of the authorities concerned. The circumstances under which the exports were made without ensuring the reasonableness of price calls for an investigation.

Reply of the Government

Silver nitrate is one of the products for which Hindustan Photo Films Manufacturing Company Ltd. has been granted an industrial lincence. Against a licensed capacity of 90 tonnes, the production of silver nitrate during the years 1976-79 was as follows :—

1976-77	86·30 tonnes
1977-78	73·70 tonnes
1978-79	73·00 tonnes

As the company had some surplus production capacity, it exported a small portion of the production during the years 1976-79 as indicated below :

1976-77	6·50	tonnes
1977-78	5·00	„
1978-79	2·30	„

Approximately two-thirds of silver nitrate is accounted for by pure silver and, therefore, the price is related to the ruling price of silver in the Bullion market. The company negotiated price adopting the following formula, viz. 0·635 of London Bullion Market silver price per Kg plus conversion charges including a small margin for the company. In these transactions, the company has realised a net profit of over Rs. 4 lakhs which was largely due to the silver price differential in the Indian and the London Bullion Markets.

The company had contacted parties in USA, GDR, Hungary and West Germany/Hong Kong to obtain favourable prices. On the basis of the quotations from these parties, the conversion charges obtained by the company may be considered reasonable. With the imposition of a ban on the export of silver compounds/silver chemicals/silver salts with more than 50% silver content, in March, 1979, HPF has ceased to export this item thereafter.

[Ministry of Industry (Deptt. of Industrial Development)
O.M. No. 15(31)/82-CGF(17), dated 25-1-83]

Comments of the Committee

Please see para 18 of Chapter I of the Report.

Recommendation (Serial No.. 22—Para 22)

The committee's examination of the HPF for the second time left them with the impression that all is not well with the company yet. The image of the company has also suffered on account of a number of allegations made by responsible men. These were enquired into by a team of officers, including two government directors of the company. According to the Secretary the enquiry was not intended to be an independent full dress enquiry. The

Committee feel that such an enquiry by officers associated with the Company during the period is neither adequate nor capable of inspiring confidence in all concerned. It can be argued that such a limited enquiry may not be objective. The Committee after examining the company have inevitably come to the conclusion that there has to be an independent enquiry not only covering the various allegations already made but also the points made by the former Chairman, which as indicated in Section I of Part I of this Report and the points raised by the Committee in this part of the Report. There should be a proper vigilance set up in the company. Further, the Committee wish to stress that there ought to be a better control by the administrative Department and for the purpose at least the performance appraisal meetings should be held regularly in future.

Reply of the Government

The specific issues brought out by the Committee including the need for independent investigation in certain cases, have been dealt with in the foregoing paragraphs.

The Government accept the recommendations of the Committee for a proper vigilance set up and periodical review of performance. The Company obtained the services of a Deputy Collector from the State Government on deputation who was the Vigilance Officer of the company between 21-4-80 and 31-8-81. On his reversion to his parent department, the company has since selected an Officer of the Department of Industrial Development and he is expected to join shortly as Vigilance Officer of Hindustan Photo Films Mfg. Co. Ltd.

[Ministry of Industry (Department of Industrial Development)
O.M. No. 15(31)/82-CGF, dated 29-1-83]

Comments of the Committee

Please see para 15 of Chapter I of the Report.

CHAPTER V

RECOMMENDATIONS IN RESPECT OF WHICH FINAL REPLIES OF GOVERNMENT ARE STILL AWAITED

Recommendation (Serial No. 20—Para 20)

One of the price revisions made recently was given effect to from 1 July 1980 and this involved a 40 per cent increase in the case of cine colour films. There was an alleged clandestine sale after the price revision but at the old price which entailed a loss of Rs. 4·1 lakhs. Although CBI which enquired into it recommended prosecution against three officials of the company and a director of a private firm, the management of the company had curiously come to the conclusion that the CBI had not conclusively established case for prosecution. The matter was instead referred to the CVC who desired that the case may be referred through the Department of Industrial Development. One of the officers who was allegedly involved in the clandestine sale was involved in a CBI case for his misconduct even before his appointment in the company. This officer, who was initially taken as a purchase manager, was surprisingly appointed as Chief Marketing Manager in the company even after the past antecedents came to the notice of the company. The Committee are, therefore, constrained to urge that prosecution should be launched as suggested by the CBI, if necessary, in consultation with the CVC and the circumstances under which the Chief Marketing Manager was appointed should be enquired into for appropriate action.

Reply of the Government

The CBI registered and investigated two cases against the present Chief Marketing Manager, Hindustan Photo Films Mfg. Co. Ltd. One of these cases related to some misconduct alleged to have been committed by him while he was the Deputy Materials Manager, Fertiliser Corporation of India. The second case related to the part played by him as Chief Marketing Manager, HPF, along with two other officials, on 30 June 1980 on the eve of the revision in price of films by the Company.

2. The advice of the Central Vigilance Commission (CVC) to whom the two cases were referred as per the prescribed procedure in force has since been received in June, 1982. In the first case, though the Commission's Inquiry Officer found that the charges against the Chief Marketing Manager of HPF were not established, the Commission did not accept his findings but instead advised imposition of a major penalty.

3. In respect of the other case relating to sale of cine colour positive film, the CVC advised on 24-6-82 that out of the three persons against whom the

CBI had proposed prosecution the case against two of them could be closed and said that there was justification for prosecuting the Chief Marketing Manager of HPF.

4. The Disciplinary Authority after examining the advice of the CVC in both the cases, has requested the Department of Industrial Development on 12-1-83 to seek the advice of CVC again in the light of his findings and further submissions made in this regard. The Disciplinary Authority's proposal to make another reference to the CVC is now being processed in the Department of Industrial Development*.

5. As regards the circumstances in which Shri B. Seetharamaiah was appointed as Chief Marketing Manager while disciplinary proceedings were pending against him, the company has explained that the post of Manager, Marketing Division fell vacant in December, 1978 and as it was lying vacant for a long time, the Board decided that a senior officer in the same grade should be laterally transferred and posted as Chief Marketing Manager temporarily, pending appointment of a suitably qualified and experienced Chief Marketing Manager. Till such time a permanent incumbent was selected, Shri B. Seetharamaiah, who was Manager, Purchasing Division at Ooty in the scale of pay of Rs. 1800-2250, was transferred and posted as Chief Marketing Manager in Madras in October, 1979 in his existing rate and scale of pay. After interviewing external and internal candidates, the Selection Committee recommended the appointment of Shri B. Seetharamaiah himself to the same post and this was approved by the Board's Sub-Committee on Personnel in May, 1980. The company has also clarified that the appointment of Shri B. Seetharamaiah as Chief Marketing Manager did not entail any promotion to him and he was posted in the same grade which he was holding before functioning as the Chief Marketing Manager. The company has been instructed that such appointments of persons against whom there are vigilance enquiries should be referred to Government.

[Ministry of Industry (Deptt. of Industrial Development)
O.M. No. 15(31)/82-CGF(20), dated 29-1-83]

NEW DELHI :	MADUSUDAN VAIRALE,
April 4, 1983	*Chairman,*
Chaitra 14, 1905 (Saka)	*Committee on Public Undertakings*

*At the time of factual verification, the Ministry intimated the following upto-date position :—

"The Disciplinary Authority's findings and further submissions have since been forwarded to the Central Vigilance Commission and the latter's final advice is awaited. This is likely to be received by the end of this month. The final advice of the Central Vigilance Commission shall be acted upon."

[Ministry of Industry - (Deptt. of Industrial Development)
O.M. No. 15(31)/82-CGF, dated 26-3-83]

APPENDIX

(*Vide* para 3 of Introduction)

I.	Total number of recommendations	22
II.	Recommendations that have been accepted by the Government (*Vide* recommendations at Sl. Nos. 1, 2, 3, 5, 6, 7, 8, 9, 10, 11, 12, 13, 18, 19 and 21	15
	Percentage to total	68·2%
III.	Recommendations which the Committee do not desire to pursue in view of Government's reply (*Vide* Recommendations at Sl. Nos. 4 and 16)	2
	Percentage to total	9·0%
IV.	Recommendations in respect of which replies of Government have not been accepted by the Committee (*Vide* Recommendations at Sl. Nos. 14, 15, 17 and 22)	4
	Percentage to total	18·2%
V.	Recommendations in respect of which final replies of Government are still awaited (*Vide* recommendations at Sl. No. 20) . .	1
	Percentage to total	4·6%

MGIPF—992LSS/82—2·4·83—1125.