NINETY-SIXTH REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS (1983-84)

(SEVENTH LOK SABHA)

REHABILITATION INDUSTRIES CORPORATION LTD.

(Ministry of Labour and Rehabilitation, Department of Rehabilitation)

Presented to Lok Sabha on 30.4.1984
Laid in Rajya Sabha on 30.4.1984

LOK SABHA SECRETARIAT
NEW DELHI

April, 1984/Vaisakha, 1906 (Saka)

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COMMITTEE ON PUBLIC UNDERTAKINGS
(1983-84)

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3. Shri S. C. Gupta—*Senior Financial Committee Officer*

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*Ceased to be a Member consequent on his retirement from Rajya Sabha on 2 April, 1984.

**Ceased to be a Member consequent on his retirement from Rajya Sabha on 9 April, 1984.

COMPOSITION OF STUDY GROUP I OF COMMITTEE ON PUBLIC UNDERTAKINGS ON HMT., LTD., REHABILITATION INDUSTRIES CORPORATION LTD., AND DURGAPUR STEEL PLANT

1. Shri Kamaluddin Ahmed—*Convener*
2. Shri Krishna Chandra Halder—*Alternate Convener*
3. Shri K. A. Rajan
4. Shri B. D. Singh
5. Smt. Gurbrinder Kaur Brar

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Ninety-sixth Report on Rahabilitation Industries Corporation Ltd.

2. The Committee's examination of the working of the Company was mainly based on the Report of the Comptroller and Auditor General of India, 1982, Union Government (Commercial) Part II.

3. The Committee took evidence of the representatives of Rehabilitation Industries Corporation Ltd. on 16 July, 1983 and of Ministry of Labour and Rehabilitation (Department of Rehabilitation) on 4 October, 1983.

4. The Committee considered and adopted the Report at their sitting held on 21 April, 1984.

5. The Committee wish to express their thanks to the Ministry oj Labour and Rehabilitation (Department of Rehabilitation) and Rahabilitation Industries Corporation Ltd. for placing before them the material and information they wanted in connection with examination of the Company. They also wish to thank in particular the representatives of the Department of Rehabilitation and the Company who gave evidence and placed their considered views before the Committee.

6. The Committee also place on record their appreciation of the assistance rendere i by the Comptroller and Auditor General of India.

MADHUSUDAN VAIRALE,
Chairman,
Committee on Public Undertakings.

NEW DELHI;
April 27, 1984
Vaisakha, 7, 1906(Saka)

CHAPTER I

AIMS AND OBJECTIVES

The Rehabilitation Industries Corporation Ltd. was set up in 1959 with the prime object of providing employment to the displaced persons from East Pakistan (now Bangladesh) through industrial development. The paid up capital of the Company as on 31.3.1983 was Rs. 4.11 crores. In addition, the Company had been granted long term loans by Government of India. The total amount of loans and interest due amounted to Rs. 28.50 crore.

The Company had been carrying on three main activities *viz.* industrial financing, indust rial estate management and Industrial and commercial activities.

1.2 During evidence of the representatives of the Rehabilitation Industries Corporation Ltd., the Committee enquired as to the extent to which the primary objective of providing employment had been achieved, the Managining Director of the Rehabilitation Industries Corporation informed the Committee :—

> "The primary objective was to provide employment to the refugees who came from East Pakistan at that time and this has been achieved in a very limited manner."

1.3 Subsequently in a note, the Committee were informed that the number of refugees who had found direct and indirect employment was 5296. The number of displaced persons/migrants and local people who were given employment as on 31.3.1983 by the Company or threngh the Company's schemes was as follows :—

Sl.No.	Employer	No. of heads as on 31st March, 1983		Total
		D.P.	Non-D.P.	
1.	R.I.C. Ltd.	2609	136	2745
2.	Loanee Parties	2105	—	2105
3.	Occupants of Sheds	582	543	1125
Total :		5296	679	5975

1.4 The Government had in November, 1970 accepted the recommendation of the Administrative Reforms Commission that they should, in consultation with the public undertakings, make a comprehensive and clear statement on the objectives and obligations of public undertakings laying down the broad principles for determining their precise financial and economic obligations in matters such as creation of various reserves, the extent to which the enterprises should undertake the responsibilities of self-financing, the anticipated returns on the capital employed and the basis for working out rational wage structure and pricing policies. In November, 1970 Ministries were asked by the Bureau of of Public Enterprises that statements of objectives and obligations for the undertakings should be formulated by the individual enterprises with the approval of Government and that Ministry of Finance should be consulted before finalising the financial aspects of such statements.

1.5 According to Audit the objectives and obligations of the Company in terms of the above directions of BPE have not been laid down.

1.6 The Ministry of Intimated Audit in June, 1982 that plan of the Company laying down the broad financial and physical targets from 1981-82 to 1990-91 had been approved in October, 1981. According to audit, however, the approved plan relates to only targets for a decade and not precisely to the objectives and obligations in terms of Bureau of Public Enterprises instructions. In this connection, the Corporation, in a written note, informed the Committee :—

> "Exercise has already started for laying down the objectives and obligations as envisaged by Bureau of Public Enterprises. In the past pratically the Company did not work on the commercial lines and instead it acted as a relief organisation following the path of dole oriented culture. Since 1981-82 attempts have been made to turn the corner from dole-oriented culture to commercial oriented one. The company is yet to reach the break-even point though the organisation has been looking forward for the same."

1.7 When enquired why the financial and economic objectives of the Company were not clearly spelt out as envisaged in the instructions issued by BPE in 1970 and how in the absence of the specific parameters the performance of the Company was being reviewed by the Ministry, the Secretary, Department of Rehabilitation stated :—

> "We had appointed Committees even before 1970 and later on in order to find out what should be the financial and economic objectives of not only the Corporation but of the various units. This exercise was done. Instructions were issued again and again. Ultimately a conclusion has been arrived at that it is difficult to implement these decisions. If the Committee expects the RIC to achieve the two objectives namely, to find employment for refugees and at the same time to aim at profit also, it would be, if I may say so, very difficult to achieve."

1.8 The witness, however, stated that attempts had been and were being made to give the units specific objectives and both financial and economic targets. The Corporation and the Government found it difficult to stick to those objectives due to various reasous.

1.9 When pointed out that even the basic objective of providing employment to displaced persons was served only to a limited extent, the Secretary stated :

> "It would have been impossible to start more units to employ more people. Moreover this was not the only agency with the Government to rehabilitate these people. Their were other government schemes also to look after their rehabilitation through the Rehabilitation Ministry."

1.10. According to the Annual Report of the Corporation for the year 1982-83, the cumulative loss of the Company at the end of the year was Rs. 2922.72 lakhs which represented 710.78 per cent of the paid up capital. The paid up capital of the Corporation at the end of the year 1982-83 was Rs. 411.20 lakhs.

1.11 On being enquired whether in view of the mounting losses year after year, the continuance of the company was justified, the Corporation informed as under :—

> "As the initial objective of the Company was to provide gainful employment to the displaced persons, it functioned practically as a relief organisation since inception and therefore, the commercial aspect was considered secondary. Now, the emphasis is on commercial viability."

1.12 In this connection the Committee drew attention to the following recommendation of the 1974 Departmental Committee :—

> "While the overriding objective should indeed be rehabilitation of displaced persons, note has also, at the same time, to be taken of the methods and costs so that the opportunities for rehabilitation are sustained over time and as far as possible further enlarged. An industrial undertaking that is viable is obviously in a better position to provide the kind of meaningful rehabilitation to the displaced persons that affords him, among other things, a chance to merge usefully in the mainstream of the company. It is in this context that the question of commercial viability of the various units of the RIC assumes significance."

1.13 The Committee pointed out that the Corporation having been incorporated under the Companies Act, was supposed to be run on economic basis, the Secretary of the Ministry stated that the Corporation should not have been registered as a Company. The Committee of 1971 had clearly said that a Company form of organisation was not suitable. Asked as to whether a suggestion was made to get the Company deregistered, the Secretary of the Ministry stated in evidence :

> "This question has been repeatedly under examination. Even now we are thinking how to run it on a commercial basis. We will put this matter before the Government whether the Company, since it cannot be run on a commercial basis should be wound up. Government should seriously think about it."

1.14 The Rehabilitation Industries Corporation was set up in 1959 with the main objective of providing employment to the displaced persons from East Pakistan (now Bangladesh) through industrial development. The number of displaced persons employed by the Company was, however, only 2609. Even taking into consideration the indirect employment provided to the displaced persons by the parties to whom loans or industrial sheds have been given by the Company, the number of persons who had found direct and indirect employment through various activities of the Company was only 5296. Considering the magnitude of the problem, the Company has thus played a very limited role in providing employment to the displaced persons. On the other hand, the Company had in the process incurred a colossal loss of Rs 29.23 crores upto the end of 1982-83, as against the paid up capital of Rs. 4.11 crores.

1.15 The Managing Director, in his evidence before the Committee admitted that the Company acted until recently as a relief organisation following the path of dole-oriented culture. It was only from 1981-82 that attempts have been made to turn the corner and to adopt a commercial approach. The Committee are surprised to find that there has been lack of deciseon even in regard to the basic approach of the Company in its functioning. It would not have been so, had comprehensive aims and adjectives of the Company been laid down. Although it was in November, 1970 that the BPE had requested all Ministries to lay down objectives and obligations for each public enterprise under their administrative control, it is only recently that an exercise has been started by the Company in this regard. The Committee hope that the objectives and obligations as envisaged by BPE would now be finalised expeditiously and approval of the Ministry obtained.

1.16 In regard to objectives of the Company, the Committee are unable to agree with the view expressed before them that it was very difficult for the Company to achieve the twin objectives of finding employment for refugees and at the same time to be an economically viable unit. It has been conceded that there were various other schemes for looking after the rehabilitation of displaced persons If, in spite of these schemes, the Government decided to set up Rehabilitation Industries Corporation as a Company under the Companies Act, it was supposed to function on commercial lines and should have been managed as an economically viable concern. The Committee are of the opinion that working of the Company on commercial lines was not incompatible with its objective of providing employment to the displaced persons. As pointed out by the Departmental Committee appointed by the Ministry in 1974, an industrial undertaking which is viable is in a better position to provide the kind of meaningful rehabilitation to the displaced persons. The fact that there has been improvement in the performance of the Company during the last two years shows that the Company could be made a viable concern. Evidently, it has not been managed well earlier.

1.17. The Committee desire that effective steps should now be taken to ensure that the Company becomes soon an economically viable unit as otherwise it would be difficult to justffy its continuance as a Government Company under the Compaies Act.

CHAPTER II

INDUSTRIAL FINANCING

The Company granted loans to industrialists etc. to help set up new industries and to expand existing ones with the object of creating more employment potential for displaced persons. The various criteria considered while examining the loan applications were the security offered, employment potential to be created, viability and technical soundness of the schemes, competence and integrity of the loanee industrialists etc. In August, 1969, the Company decided to keep the industrial financing activities in abeyance till the financial position improved. Funds provided upto 1968-69 by the Government of India for re-lending purposes were disbursed upto 1971-72 and from then onwards the activity of the Company in this field was confined only to the recovery of instalments of principal and interest.

2.2 The Company sanctioned loans to the extent of Rs. 177.54 lakhs to 43 loanees out of which 39 loanees drew loans to the extent of Rs. 119.51 lakhs. Loans amounting to Rs. 58.03 lakhs could not be disbursed owing to the failure of the loanees to fulfill the conditions of the loans and completion of the formalities and suspension of the loan activities by the Company. As against the commitment of giving employment to 4679 displaced persons, the loanee industrialist had given employment to only 2105 displaced persons.

2.3 On being enquired what provision were embodied in the agreements with the loonee industrialists to ensure that the employment of displaced persons was as per commitments, the Corporation has stated in a written reply that the commitment of displaced persons employment was imposed in the agreement as a condition of sanction of loan depending upon the scheme of individual loanee industrial employment potentiality which was taken into consideration.

2.4 As regards the action taken against the loanee companies for default in giving employment to the requisite number of displaced persons, it has been stated :

"The only safeguard to ensure the employment of agreed D.Ps was to recall the entire loan and non-grant of displaced person employment rebate on interest."

2.5 As on 30-9-1983 the outstanding loans stood at Rs. 66.55 lakhs and interest due there on amounted to Rs. 48.92 lakhs. Out of this an amount of Rs. 59.46 lakhs towards principal and Rs. 46.49 lakhs towards interest had been provided in the accounts as doubtful of recovery. The Committee were informed that the outstanding loan was recoverable from 25 loanee parties (including 12 Co-operative Societies) only out of which the management of 3 firms has been taken over by the Government of India. The amount involved is Rs. 42.91 lakhs. The claims against these firms have already been lodged to the Commissioner of payments. Number of persons given employment by these loanee parties till 31st March, 1983 is 2105.

2.6 The Committee were further informed that cases are pending in the Court of Law against 5 loanee parties, involvement of which comes to Rs. 4.77 lakhs.

2.7 It was also noticed that although an amount of Rs. 50.17 lakhs was recovered from the loanees upto 31st March 1981, only a sum of Rs. 28.40 lakhs was repaid to Government, the balance amount of Rs. 21.77 lakhs together with the undisbursed loan of Rs. 13.14 lakhs was diverted towards working capital requirements of the Company.

2.8 When enquired about the measures taken at the time of granting loans to ensure their recovery, the Corporation stated that loans were disbursed to the loanee parties and to different cooperative societies by the company against mortgage of assets and personal guarantees.

2.9 As regards the circumstances under which a major portion of loans and interest has become doubtful of recovery, it was stated:

"At the initial stage the loanee parties paid instalment of Principal and Interest thereon and subsequently when they failed to pay the principal they paid the interest only. Legal steps were not taken then with the hope that the parties would refund the principal amount also. But when the financial conditions of the loanee parties became worse they failed to pay the interest also. RIC then issued legal notices in certain cases and started a legal case against M/s. Raymond Paper Mill Ltd., who failed to repay even its Ist instalment. In this connection it may be mentioned that out of the total provision (in the account) of Rs. 59.46 lakhs (Principal), Rs. 45.66 lakhs relates to Private Parties and Rs. 13.80 lakhs to Co-operatives, sponsored by RIC. Action towards realisation of outstanding principal of Rs. 42.91 lakhs could not be taken by RIC due to nationalisation of 3 loanee parties by Government of India. The RIC sponsored Co-operatives were not doing well since inception and hence realisation became a remote chance. Therefore, an amount of Rs. 13.80 lakhs was provided in the Accounts."

2.10 The 1974 Departmental Committee had made the following recommendation as regards recovery of the outstanding loans :-

"The Committee recommend that the entire loaning operation having come to a stop, RIC may now pay urgent attention towards recovery according to the terms and conditions of the loans and wherever defaults have continued the matter be placed before appropriate courts of law so that the Company's interests are adequately safeguarded."

2.11 Asked about the steps taken to accelerate the pace of recovery of huge outstandings against the loanees, the Committee have been informed that Senior Officers of this Corporation are now reviewing the debt cases from time to time and taking effective steps for recovering the dues as far as possible. As per decision of the Board of Directors the Company was trying to settle the disputes with loanee parties outside the court of law. Already the company had entered into agreements with 2 loanee parties and they were paying their dues in instalments as per agreements. An amount of Rs. 2 lakhs has been recovered from 3 loanee parties during the years 1981-82 and 1982-83.

Some of the cases of loans are reviewed hereunder :

(i) Nabarun Taxi Drivers Cooperative Societies No. I to VIII

2.12 The Nabarun Taxi Drivers Cooperative Societies No. I to VIII, sponsored by the company had started operation during 1961/64. Besides the investment in the share capital to the extent of Rs. 2.80 lakhs, the Company paid loans amounting to Rs. 11.74 lakhs during the period from 1962-63 to 1964-65 for purchase of 88 taxis (11 taxis per

Society) to these Societies. Besides, some managerial staff, office accommodation, garage, repairing facilities and fuel services were also provided by the Company, the cost of which (according to the Management) was to be borne by the Societies.

2.13 The secieties defaulted in repayment of principal as well as payment of interest from the beginning and on stoppage of operations were put into liquidation by the Registrar of Co-operative Societies in June 1975. An amount of Rs. 3.49 lakhs outstanding on account of advances paid towards cost of services rendered by the Company have been considered doubtful of recovery in the accounts for the year 1973-74. In order to liquidate the debts of the Societies, the Official Liquidator sought permission of the Company (being the principal and secured creditor of the societies), for disposal of 48 taxis cabs, which was agreed to by the latter in February 1976. Besides investment of Rs. 2.80 lakhs in the share capital, the total outstanding dues against the societies amounted to Rs. 13.08 lakhs (Loan Rs. 7.02 lakhs and interest Rs. 6.06 lakhs). These have been shown as doutful of realisation and provided for in the accounts of the Company.

2.14 In this connection the following points deserve mention :

(a) Only 48 taxis, with engines and several parts missing, were handed over to the liquidator by the Managers of the 8 Societies. According to the Ministry (June 1982), 41 bodies of the taxis were disposed of for Rs. 9331.

(b) The whereabouts of the remaining 40 taxis were not known.

(c) Neither any statement of the accounts of the societies (in liquidation) nor any account has been received from the liquidator so far (November 1981).

(d) No action was taken for default in repayment of principal and payment of interest against the societies till they stopped operations in June 1975.

2.15 On being enquired about the latest position of 40 taxis whose where-abouts were not known, the Committee were informed :

"Actually RIC Ltd., disposed of the 41 taxis out of the 48 taxis handed over to the liquidator. The remaining 7 taxis were a total scrap and could not be sold. Regarding remaining 40 missing taxis the position remains unchanged. As the officers who were looking after the Co-operatives have left the Company long before and hence further details are not available with this Company."

2.16 As regards the reasons for poor performance of those Societies and the steps taken by the Management to oversee the working of the Societies in which the company had considerable investment, the Corporation has stated :—

"In the Managing Committee of the society the company deputed 3 members of its own. Apart from this for each society the company posted officer to look after the day to day functioning of the Society. Frequent break-down and repair of taxis, pilferage of petrol and spare parts and running of taxis without meters by the member drivers are the reasons for poor performance of the societies."

2.17 When asked to explain the inaction on the part of Management against defaulting Societies till they stopped operation in June 1975, the Corporation stated that the defects were discussed time and again in the Board of Directors Meeting of the company but nothing could be done against the irresponsible member-drivers.

2.18 In this connection, the Joint Secretary of the Ministry informed :

"...the hypothecation was very very poor; there was mal-functioning and the taxis disappeared. The records of most of the cooperatives are non-existent. Investigations by police are reported to be in progress for year after year."

2.19 When asked whether the Ministry appointed any Senior Officer or a Committee to look into the matter, the Secretary replied in the negative.

(ii) *Power-loom Co-operative Societies*

2.20 With a view to reducing losses of its hand-loom units, the Company decided (May 1966) to organise six power-loom co-operative societies with the participation of the workers of the hand-loom units.

It was also decided to contribute Rs. 25,000 towards share capital and to provide loan of Rs. 2.09 lakhs to each of the societies. It was contemplated that the Company would be the sole supplier of the raw materials and also the sole selling agent of the finished products till the loan was repaid. The Company was also to supervise the activities of the societies till the repayment of the loan. As against the decision to organise six co-operatives, only three power-loom co-operative societies—two at Taherpur and one at Bon-Hooghly were set-up in May and December 1966 respectively. Whenever the Company failed to supply raw materials to the societies to earn sufficient service charges to pay wages of the workers, the Company used to pay advance service charges by treating the same as advance to the societies. The performance of the societies was not satisfactory as a result of which these were incurring heavy losses year after year. Owing to accumulation of powerloom products worth Rs. 7.00 lakhs with the Company and difficulty in marketing the same, the Company in May, 1976 stopped supply of yarn to the societies. A situation had thus arisen when the societies had no money to pay wages to the workers. Accordingly, the Company decided (September 1976) to set up a Committee to go into the functioning of the powerloom co-operative societies *vis-a-vis* the Company and make recommendations as to how the funds advanced to the co-operative societies should be treated. The Committee in its report submitted in October, 1976 observed, *inter alia*, as follows :—

(i) By holding about 90% of the paid up share capital of these Societies, Rehabilitation Industries Corporation controls 90% right of ownership in these Societies and as such virtually owns these Societies.

(ii) Since Rehabilitation Industries Corporation is the sole supplier of raw materials, sole selling agent of all products and has also assumed the responsibility of supervising the activities of the Societies, no one else but R.I.C. could be held responsible for financial losses and financial mis-management of the Societies.

2.21 In June, 1977 it was decided that with a view to having a better functional and financial control over the Power-loom Co-operative Societies, the Company should take over their administrative control. Accordingly, the Registrar of Co-operative Societies was requested (August 1977) to intimate the steps to be taken in this regard. The

Registrar of Co-operative Societies in turn issued notice (November/December 1978) to the societies to show cause why they should not be liquidated. Apprehending that in the event of abrupt liquidation of the Societies, the Company would not only face difficulties in absorbing the workers and in realising the dues but also will be unable to run the looms as the licences were registered in the names of the Societies, the Company requested (February 1979) the Registrar of Co-operative Societies to cancel the notice for liquidation and appoint the Company as the sole Administrator till the licences were transferred in its name so as to enable it to run the looms. The Registrar of Co-operative Societies issued notification in April, 1980 cancelling the notice for liquidation and appointed the Company as the sole Administrator.

2.22 The Company had also applied (February 1979) to the Director of Handlooms and Textile, Government of West Bengal to transfer the licences in the name of the company. The licences had not been transferred in the name of the Company till November 1981.

2.23 Audit had pointed out that due to the heavy losses sustained by the societies, the Company is likely to lose the entire outstanding loans and advance of Rs. 77.82 lakhs including accrued interest of Rs. 3.41 lakhs as on 31st March 1981. The Company has made a provision for Rs. 78.32 lakhs in the accounts against the loans and advances (Rs. 77.82 lakhs) and investment in share capital (Rs. 0 50 lakh). As on 31-3-1983 the advances and loans including interest outstanding amounted Rs. 98,02,543.

2 24 When enquired about the specific reasons for the poor performance of these Societies resulting in huge losses despite the fact that the Company was the sole supplier of raw-materials, sole selling agent of finished products and had also assumed the responsibility of supervising the activities of the Societies, the Corporation stated :

"Due to dearth of fund powerlooms societies could not be fed with requisite raw-materials regularly. This resulted in increasing the losses as idle wages had to be paid. Owing to accumulation of powerloom products worth Rs. 7.00 lakhs with the Company and difficulty in marketing the same due to recession the company in May, 1976 stopped supply of yarn to the societies. Other factors like load-shedding absenteeism and uncertaintly of the future of powerlooms also contributed much for the poor performance."

2.25 In view of the observation made by the departmental Committee in October, 1976 that no one but the Company could be held responsible for financial losses and financial mismanagement of the societies, the Committee enquired whether the matter has been investigated. In reply, the Corporation has stated :—

"As the Powerloom Co-operatives could not run of their own RIC had to take the responsibility of supplying raw materials and selling finished stocks thereof to keep the co-operatives running. But due to dearth of funds RIC could not feed the co-operatives regularly and as a result of which performance of the co-operatives suffered and did not improve. Later on RIC attempted to take over the administrative control of the co-operatives but the matter is still lying with the Director of Handloom and Textiles, Govt. of West Bengal in connection with the transfer of licences in the name of the RIC."

2.26 As regards the latest position of transfer of licences in the name of the Company, the Committee has been informed :

"Under the circumstances of these Co-operatives (RIC being the sole administrator), these have to be put into voluntary liquidation first, Liquidator appointed and then licences transferred in the name of RIC. The Registrar of Co-operatives had already been approached by RIC for the same including appointment of Liquidator. We are awaiting action from the office of the Registrar of Co-operatives, West Bengal".

2.27 It has been stated that the total number of displaced persons employed in the poowerloom societies as on 31-3-83 was 185.

(iii) M/s. Sen and Pandit Industries Ltd.

2.28 The Company sanctioned two loans of Rs. 20.00 lakhs and Rs. 9.00 lakhs carrying interest at 6 per cent and 7 per cent per annum, in May 1960 and June 1962 respectively to M/s. Sen and Pandit Industries Ltd., manufacturers of bicycles against first charge on their entire fixed block assets. The loans were repayable within 15 years in half-yearly instalments commencing from the third year of drawal of the loan. The loanee company, however, drew the first loan in full and Rs. 6.81 lakhs against the second loan of Rs. 9.00 lakhs upto October, 1963. The first instalment of Rs. 1.52 lakhs which fell due on 15th November, 1963, was paid by the loanee in instalments during March 1964 and July 1964 and no payment of instalment was made thereafter. However, interest was paid regularly upto March, 1969. Against a legal notice issued on 24th August 1971 for payment of arrears of instalments of principal and interest aggregating Rs. 15.71 lakhs (principal Rs. 12 64 lakhs and interest Rs. 3.07 lakhs) upto August 1971, the loanee company expressed its inability (August 1971) to pay the amount due to various difficulties. Owing to labour troubles and acute shortage of working capital the loanee company closed down its factory at Kalyani with effect from 29th March, 1971; the closure continued for one year.

2.29 Then Company allowed the loanee to create *pari passu* charge on its fixed assets. (which were already mortgaged to the Company) once in favour of the West Bengal Industrial Development Corporation against a loan of Rs 5.00 lakhs in December 1968 and again in favour of the Industrial Reconstruction Corporation of India Ltd. in October, 1971. As no payment of outstanding principal and interest was made by the loanee, the Company again issued a Solicitor's notice on Ist September 1975 demanding early payment of outstanding dues. In the meantime, the Government of India issued a notification dated 8th September 1975 authorising the Industrial Reconstruction Corporation of India Ltd. to take over the management of the loanee company for a period of 5 years and declaring that the operation of all its contracts, agreements, obligations and liabilities etc., would remain suspended. Subsequently, in October, 1980, the loanee Company was nationalised. The claim of the Company submitted to the Commissioner of Payments in August, 1981 had not been settled till November, 1981.

2.30 The dues outstanding against the loanee aggregating to Rs. 42.73 lakhs (principal Rs. 25.29 lakhs and interest Rs. 17.44 lakhs) upto 30-9-1983 have been classified as doubtful of recovery and provided for in the accounts. The loanee Company employed 406 displaced persons only against the commitment of giving employment to 437 persons.

2.31 On being enquired about the reasons for taking 7 years in issuing a legal notice (in August, 1971) for payment of arrears when the loanee had made no repayment of instalments of loan after July, 1964, the Corporation has informed :—

"The firm in question employed 405 displaced persons in their work. After paying the first instalment of principal, the firm started facing problems such as labour troubles, acute shortage of working capital, etc. As a matter of fact, because of the firm's dire need, *Pari Passu* Charge has been created then on the fixed assets of the firm for further loan (in order to obtain funds/working capital) in favour of West Bengal Industrial Development Corporation and IRCI. Incidentally even then ultimately the situation could not be saved.

The firm could not pay more than the interest burden for some time more i.e. upto March, 1969. This cannot be denied that in addition to persuasion for repayment of the loan, actions like issuing of legal notice *vis-a-vis* proceeding in the court of law against the firm, was not considered proper before 1971, probably with the intention, as it appears from the records, to give sufficient chance to the firm to revive so that it could pay the principal as well as the interest after its revival. This is also because employment of 405 displaced persons along with others was dependent on the survival of the firm.

The firm faced liquidation and ultimately was nationalised by the Government of India. On the basis of priority of our claim, it appears, there is not much chance of our recovery of the loan. The position probably would have been the same, had this ultimate end (liquidation/nationalisation) of this firm been accelerated a few years ago by taking legal and other actions contemplated now or subsequently.

It appears, even if the legal action against this firm was a little belated, the same appears to be because of the foregoing consideration only."

2.32 As regards the amount of claim submitted to the Commissioner of Payments in August, 1981 and the latest position of the settlement, it has been stated that a claim amounting to Rs. 42,72,844.36 was submitted to the Commissioner of Payments but nothing has so far been received.

2.33 When questioned about the action taken against this unit for not employing the displaced persons to the extent of commitment, the

Corporation has informed :—

> "Although the quota for this firm was 437, but after some time of running, the firm applied for reduction of the quota from 437 to 400. RIC's reaction to this request was not good, but the major problem at that time the firm faced was the question of its survival. It was not running well at all, rather faced acute problem of fund/working capital, It also faced considerable labour problem affecting its production to a considerable extent. As a matter, of fact, because of these major problems, non-fulfilment of quota of employmement did not weigh much. However, the difference is only 31 i.e. 437-406."

(iv) *M/s. Kusum Engineering Company Limited.*

2.34 The Company sanctioned two loans of Rs. 7.7' lakhs and Rs. 8.30 lakhs on 10th August 1959 and 27th June 1965 respectively to M/s. Kusum Engineering Company Limited for expansion of its factory against mortgage of its fixed assets. The first loan was disbursed between March 1960 and December 1963 in full. However out of the second loan of Rs. 8.30 lakhs, the loanee drew Rs. 5.67 lakhs only in two instalments in March 1967 and October 1967. Loans drawn by the loanee thus aggregated to Rs. 13.37 lakhs.

2.35 After paying Rs. 9.46 lakhs towards principal and Rs. 8.15 lakhs as interest upto January 1976, the loanee Company defaulted in payment of instalments of principal as well as interest falling due from February 1976 onwards. Although a solicitor's notice was served on the loanee in October 1977 for realisation of outstanding dues, no legal action was instituted against the loanee. The loanee paid Rs. 0.71 lakh in 1980-81 towards interest. Total outstanding dues against the loanee upto the end of March 1981 amounted to Rs. 4.84 lakh (principal Rs. 3.91 lakhs and interest Rs. 0.93 lakh) which have been considered good in the accounts.

2.36 The loanee employed 246 displaced persons only as against the commitment of giving employment to 571 persons. The management stated (November 1981) that for want of adequate working capital and labour disturbances there was a shortfall in employment of displaced persons by the loanee Company.

2.37 According to the Ministry of Supply and Rehabilitation, (June 1982) an amicable settlement has been reached with the loanee Company (in March 1982) according to which the recovery of the dues would be made in instalments.

2 38 As regards the latest position of recovery, the Corporation has stated that the Company had received Rs. 1,72,500/- upto March, 1983 on account of principal and in addition to that arrear and current interest has also been received.

(v) *M/s. Raymond Paper Mills*

2.39 In Decemb r 1967, the Company sanctioned a loan of Rs. 2.50 lakhs to M/s. Raymond Paper Mills against security of the fixed assets of the firm and personal security of the partners to enable the firm to set up a paper-board mill at the Ranaghat Industrial Estate with a total employment potential of 80 displaced persons. Apart from the said loan, which was disbursed to the firm during July to November 1968, the Company leased out to the firm a factory shed, specially constructed to its specification at a cost of Rs. 1.52 lakhs, and 10 acres of land at the estate. Production in the firm's factory commenced in March 1969, but owing to paucity of working capital and other factors, the factory was closed down in August 1970. The firm failed to repay the first instalment of the principal which had fallen due to July 1970. A second loan of Rs. 5.00 lakhs sanctioned in August 1969 was not released.

2.40 The partnership firm was constituted into a public limited company in November 1971 as Nadia Paper Machinery Limited, but could not function owing to certain legal complications. Subsequently, under a court order in 1973, the new company was declared defunct and one of the original partners of the firms was made the sole proprietor. The production was restarted in October 1976.

2.41 Out of the total outstanding interest of Rs. 31,862 on loan upto March 1970, the Company was able to release only Rs. 21,890. The balance amount of Rs. 9,972 plus further interest amounting to Rs. 2.29 lakhs besides the principal loan of Rs. 2.50 lakhs and rent amounting to Rs. 2.81 lakhs were outstanding against the firm upto March 1981. The company instituted legal action against the firm for realisation of the outstanding dues in December 1978. The principal

(Rs. 2.50 lakhs) and interest (Rs. 2.29 lakhs) have been considered doubtful of recovery and provided for in the accounts.

2.42 In reply to a question about the reasons for delay in taking legal action for recovery of outstanding instalments of principal and interest, the Committee has been informed :

> "The Company did not take any legal step against the firm though the firm stopped all payment to RIC since April, 1970 as re-opening of the closed factory was expected by this Company. Instead of going to the court the representative of the firm was called for discussion so as to arrive at an amicable settlement, who in turn submitted a payment programme by very easy instalments covering a period of six months only. The proposal was considered very sympathetically and without any alteration. As the position did not improve, the company instituted the legal action against the firm for realisation of the outstanding dues in December, 1978."

2.43 With regard to the latest position of the suit filed in the court for realisation of the dues of the company in December 1978 against the firm, it has been stated :

> "The latest position of the suit is that His Lordship has been pleased to direct the respondent to deposit @ Rs. 10,000/- per month to the Receiver appointed in this connection. Consequent upon this order the Receiver subsequently filed a petition before Court conveying inability to continue as Receiver on account of personal ground. RIC already issued instruction to its Solicitors, M/s. Dutta & Sen to move for appointment of fresh Receiver preferably from RIC."

2.44 The Company had been carrying on 3 main activities viz. industrial financing, industrial estate management and running of industrial and commercial activities. Under the scheme of financing the Company granted loans to industrialists etc. to help set up new industries and to expand existing ones with the object of creating more employment potential for displaced persons. The various criteria to be considered while granting loans were the security offered, employment potential to be created, viability and technical soundness of the schemes, competence and integrity of the loanee industrialists, etc. During the period 1959-60 to 1971-72 the Company disbursed loans to

43 loanees to the extent of Rs. 119.51 lakhs after which the activity was confined to the recovery thereof. The performance of the Company in regard to this activity has been disappointing. It failed to enforce the condition of providing employment to the displaced persons as committed to by the industrialists, the number of displaced persons actually employed being 2105 as against the commitment of giving employment to 4679 persons. The recovery of the loans from the loanees has also been extremely poor. As against an amount of Rs. 119.51 lakhs disbursed to various parties an amount of Rs. 115.47 lakhs (Rs. 66.55 lakhs on account of principal and Rs. 48.92 lakhs as interest accrued thereon) remained outstanding, out of which an amount of Rs. 105.95 lakhs was considered doubtful debt and provided for as such in the accounts.

2.45 From the facts stated above, the Committee cannot help concluding that there had been no proper appraisal of the loan applications to ensure credit worthiness of the parties and soundness of projects before granting them the loans

2.46 There had been inordinate delays in taking action for the recovery of the loans. For instance, in the case of one concern from whom an amount of Rs. 42.73 lakhs was outstanding and which did not pay even the first instalment in time it was after 7 years of the default in payment that a legal notice was issued. Even thereafter, no prompt follow-up action was taken except issuing again a solicitor's notice and that too 4 years after the earlier notice. The claim of the Company is now pending with the commissioner of payments as the debtor concern has since been nationalised. In another case, legal action for realisation of outstanding dues against the concern which had failed to pay even the first instalment was initiated after 8 years of the default. Yet in another case, no action was taken for default in repayment of dues amounting to Rs. 13.08 lakhs by 8 Cooperative Societies till they stopped operations and went into liquidation The reasons advanced for the inordinate delays in realising the dues are hardly convincing. The Committee regret to note that the machinery which existed in the Company for the recovery of loans was not effective and there had been lack of serious efforts to recover the loans from the defaulting parties. As a result, the Company is likely to suffer a loss of over Rs. 100 lakhs on this activity. The fact that the Company failed to recover the amount due even from the societies in which it actively participated in management is only indicative of the failures of the officers to safegard the interests of the Company. The Committee have been assured that the senior officers of the Company are now reviewing the debt cases from time to time and taking effective steps for recovery of the outstanding dues. They hope that the matter would be vigorously pursued to effect recoveries as far as possible.

2 47 The committee find that in the case of powerloom cooperative societies, despite the fact that the Company was the sole supplier of raw materials, sole selling agent of finished products and has also assumed the responsibility of supervising the activities of the societies, the Company was likely to lose the entire amount of outstanding loans and advances of Rs. 98.02 lakhs on account of poor performance of these societies The societies are stated to have suffered losses as due to dearth of funds the Company could not feed them with requisite raw materials, etc. resulting in payment of idle wages. Having decided to set up these societies and having taken over the responsibility of supplying raw materials and marketing of products etc., it was expected of the Company to provide necessary inputs. The Committee hope that in case the Company decides to energise the powerlooms again after the licences are transferred to them, effective steps would be taken to make them viable.

CHAPTER III

INDUSTRIAL ESTATE MANAGEMENT

(A) *Creation of Infrastructure*

With a view to providing facilities for setting up of new small-scale industrial unit for employment of displaced persons, the Company had estabilished three industrial estates at Behala, Bon-Hooghly and Durgapur and erected 67, 50 and 11 sheds respectively at three places. In addition, a Cast Iron Foundry had been set up at Durgapur in 1964-65. Subsequently, the Company constructed a second block at Bon-Hooghly, a new small estate at Ranaghat and added some more sheds at the existing Bon-Hooghly (Block I) and Bahala estates :—

3.2 The total capacity created at these five Estates and the capital outlay incurred thereon was as follows :—

No. of sheds	Covered Area (Sq. ft.)	Uncovered Area (Sq. ft.)	Capital Outlay incurred (Rs. in lakhs)
191	561925	2223035	102.57

The above capital outlay represents the cost of sheds, electrical installations etc. but does not include the cost of land. A large area of the land acquired by the Company remained unutilised and was subsequently surrendered to the State Government/Durgapur Development Authority.

3.3 In Bon-Hooghly the company acquired 33.165 acres of land out of which 28.465 acres was utilised. Asked about the latest position of utilisation of 4.70 acres of unutilized land and the position about payment of cost of land at Bon-Hooghly, the Company informed the Committee that in view of the Company's stringent financial position, the Company tried to get the land from Government of West Bengal free of cost. The Government of West Bengal agreed to transfer land on payment of a token sum. No scheme has yet been drawn to utilize the unutilised land of Bon-Hooghly.

3.4 At Ranaghat the Company took possession of 40 acres of land from the Government of West Bengal but only about 10 acres were utilised. When enquired about the basis on which the requirement of 40 acres of land at Ranaghat was assessed and the latest position of the cost of land, the Corporation informed :—

"It is regretted that records available do not reveal the basis of such assessment. However, it is found that setting up of industrial Estates and Industrial Units were contemplated in a big way. As none of the schemes at Ranaghat was found successful construction of further sheds was not considered. The finalisation of cost of land at Ranaghat will be completed along with that for Bon-hooghly and Behala."

3.5 While possession of 40 acres of land at Ranaghat was taken in 1962, the proposal for surrendering surplus 30 acres of land was made only in 1977 (i.e. after 15 years) and was accepted by the State Government in July, 1981. On being asked about the delay in initiating action for surrendering surplus land and the financial implications involved on that account, the Corporation regretted delay in surrendering the surplus land and also informed that there appeared to be no financial involvement.

3.6 The Company acquired 100 acres of land at Durgapur on lease for 60 years from March, 1963. Only 18 acres were utilised for construction of 11 factory sheds and cast iron foundry.

3.7 When enquired about the basis of assessment of the requirement of 100 acres of land at Durgapur, the Corporation informed as under :—

"The Company secured 100 acres of land at Durgapur with the object of setting up of Industrial Estates and RIC's own industries there in a big way, which did not materialise. The procurement was also made on an *ad-hoc* basis. The surplus land had already been surrendered".

3.8 When asked about the amount paid to Durgapur Development Authority on account of unutilized land, the Corporation has stated that the Company paid approximately Rs. 1.01 lakhs to D.D.A. as tax/ground rent etc. on account of unutilized land for the 16 years of possession of surplus land.

(B) Recovery of rent & electricity charges

3.9 The following table indicates the utilisation of sheds as on 31st March, 1981 :—

Name of Industrial Estate		No. of sheds available	No. of sheds let out	No. of sheds used departmentally
1. Bon-Hooghly	Block-I	51	33	18
	Block-II	49	39*	10
2. Behala		78	70	8
3. Durgapur		11	8	3
4. Ranaghat		2	2	—
		191	152	39

* This includes one shed which had been lying vacant since July 1977 and was allotted to the Central Warehousing Corporation in December, 1980.

3.10 The economic rent for the industrial estates in Behala and Bon-Hooghly was fixed in accordance with the instructions issued by the Ministry of Commerce and Industry in July 1960 and for the sheds at the Industrial Estate, Durgapur in accordance with the instructions issued by the Ministry of Industry and Supply (Department of Industry) in August, 1965. In respect of sheds at Ranaghat, however, rent was fixed on a lump sum basis.

3.11 In view of increase in expenditure on maintenance, the Company revised the rates of rent of the sheds on two occasions in December, 1974 and October, 1978 respectively, in accordance with the Government of India orders of 1960 and 1965 mentioned above.

3.12 As there was no provision in the agreements with the existing lessees of Bon-Hooghly, Behala and Durgapur Industrial Estates for revision of rent/licence fees, the Company could not enforce the enhanced rates. As a result, the Company had to forego revenue by way of rent amounting to Rs. 29.09 lakhs up to the end of March 1981 as per details below :–

Name of the Industrial Estate	Loss of revenue (Rs. in lakhs)
1. Bon-Hooghly	
Block-I	6.61
Block-II	7.37
2. Behala	12.98
3. Durgapur	2.13
	29.09

3.13 A clause for recovery of rent at the rates to be revised in future was incorporated in the lease agreements entered into from December 1974 onwards Despite this, no recovery of increased rent effective from October 1979 could be made from 9 new lessees (one each at Block I and Block II of Bon-Hooghly Industrial Estate and 7 at Behala Industrial Estate), who took the occupation of sheds after December 1974. This also resulted in loss of revenue amounting to Rs. 0.82 lakh up to the end of March 1981.

3.14 Asked about the reasons for non-inclusion of a clause for revision of rent/licence fee in the original agreement with the existing lessees of Bon-Hooghly, Behala and Durgapur Industrial Estate resulting in the loss of Rs. 29.09 lakhs to the Company, the Corporation has informed that RIC management could not initially foresee the trouble that might crop up in enhancing the rates of rent and no clause was incorporated in the original agreement.

3.15 As regards the steps taken by the management for realisation of rent at the enhanced rates, the Corporation has informed that :—

> "The Corporation has taken legal actions against many tenants and those are still pending in the court of law. Incidentally some of the sheds, RIC managed to get possession after getting those vacated by the old lessees, were now leased out to other parties at the market rental prevailing at present."

3.16 Asked about the constraints in recovering the rent at the revised rates from December, 1974 from the new lessees despite inclusion of a clause to this effect in the agreement with them, the Corporation stated :—

"RIC was facing difficulty in recovering the dues from lessees who became habitual defaulters in payment of the dues. As per the Board's decision, RIC was making an all out effort outside court of law to realise the said dues amicably. Some administrative steps like discontinuance of electric supply etc. were taken to pressurise the parties for payment. In fact such steps were found fruitful in realisation of the dues. Although taking legal steps were possible for enhancement of rent and recovery thereof, yet considering the foregoing, such steps were not taken apprehending the total non-payment of rent even at the old rate for an indefinite period as court procedures are a long drawn affair."

Outstanding dues

3.17 Besides the lease agreements for recovery of rent, separate agreements for supply of electric energy to the lessees from bulk supply of power received by the Company from the Calcutta Electric Supply Corporation (for Bon-Hooghly and Behala Industrial Estates), West Bengal State Electricity Board (for Ranaghat Industrial Estate) and Durgapur Project Ltd. (for Durgapur Industrial Estate) were also executed.

3.18 As on 31st March 1981, Rs. 37.37 lakhs representing rent (Rs. 29.37 lakhs—136 lessees) and electricity charges (Rs. 8.00 lakhs—137 lessees) remained outstanding against lessees of 5 Industrial Estates, out of these Rs. 9.38 lakhs and Rs. 1.25 lakhs respectively were considered doubtful of recovery and provided for in the accounts.

3.19 In pursuance of the recommendation made by the Board of Rehabilitation in 1968, Government had issued instructions to R.I.C. as follows :

"The Corporation should devise ways and means of further improving their working. The Corporation should also take immediate steps for recovering the outstanding dues from the defaulters. The Corporation should also review the procedure for employing displaced persons in the industrial estates and see that commitments made for such employment could be effectively enforced."

3.20 Asked about the reasons for non-realisation of the outstanding rent of Rs. 29.37 lakhs and the electricity charges of Rs. 8 lakhs, most of which were more than 3 years old, the Corporation has stated:

"Due to various reasons *viz.* general industrial unrest, industrial business recession, non-acceptance of revised rate of rent and electricity, in many cases, on the plea of non-extension of facilities like water supply, repairing of roads and maintenance of sheds etc. in some cases for demand for ownership of the sheds on hire purchase system. At last Corporation took legal actions against many tenants which are still pending in the court of law."

3.21 When enquired how the outstandings to the extent of Rs. 9.38 lakhs (rent) and Rs. 1.25 lakhs (electricity charges) became doubtful of recovery, the Corporation informed the Committee that the said amount became doubtful of recovery mainly due to the closure of the lessee companies and provided for in the accounts with the approval of the Board of Directors.

3.22 As stated by the Corporation, the outstanding dues on account of rent and electricity as on 31-3-1983 stood at Rs. 3[illegible].11 lakhs and Rs. 7.43 lakhs respectively.

(D) Employment of displaced persons

3.22 The table below would indicate that the actual number of displaced persons employed in the Industrial Estates was far below the potential employment indicated in the schemes submitted by the occupants of the sheds, for the six years ending 31st March, 1681:

As at 31st March	Employment of displaced persons (Numbers)	
	Potential	Actual
1976	1597	401
1977	1615	408
1978	1561	395
1979	1593	429
1980	1626	436
1981	1626	436

The Management attributed (November 1981) the following reasons for short-fall in actual employment of displaced persons over the potential employment:

"(1) The parties were not encouraged in spite of incentive offered to them in the shape of rebate on rent at 20% for employing the required number of displaced persons.

(2) The parties expressed their inability to employ the required number of D.Ps. on the ground of non-availability of skilled workers from amongst D.Ps."

3.23 When enquired about the number of displaced persons employed by the occupants of the sheds as on 31-3-1 83, the Corporation informed the Committee that the number of displaced persons employed by the occupants of the sheds as on 31-3-1983 was 582.

3.24 In reply to a question whether any provision was made in the agreements entered into with the occupants to ensure that the employment of displaced persons was actually made as per the indication given in the schemes submitted by them, the Corporation has stated that in the agreement there was a clause for giving employment to a specific number of displaced persons.

3.25 The Board of Rehabilitation suggested in 1969 that the industrial sheds should be passed on to industrialists on hire-purchase basis with stipulation of displaced persons employment for a period of at least five years. This would help the Corporation to recover considerable capital for future investment. In connection with this suggestion the Ministry have stated that it was felt that for an initial period the sheds might be given on rental with the stipulation of employment of displaced persons which could be converted at a later stage into hire-purchase system.

3.26 Asked on what considerations the above decision was taken and why outright sale to the lessees on hire-purchase basis was not favoured, the Secretary of the Ministry stated:—

"We were afraid that once the ownership of the shed was transferred to them, it would have been difficult to safeguard the interests of the displaced perpons employed by them. This view was taken in November, 1969 and remained till February,

1979. Even in the later stage, the hire purchase system could not be implemented because the land on which sheds were constructed was yet to be transferred to RIC. We have been advised that legally and technically the hire purchase schemes would not be possible to implement. The State Government also said that unless the ownership was transferred, it would not be possible to introduce the hire purchase system. The land belongs to the West Bengal Government and they have to transfer it to us. We have been asking the land not on the commercial price but on a token price. The discussion is going on with the West Bengal Government.

3.27 The Committee were subsequently informed in this connection as follows :—

"The Government of West Bengal has agreed in principle to Company's proposal for transfer of land at Behala, Bon-Hooghly and Ranaghat in the name of the Company against a token value of Re. 1/- only. The said proposal is under consideration by the Finance Department, Government of West Bengal."

3.28 The Company's performance in the matter of industrial estate management has been disheartening. Large areas of land (181 acres) were taken over on an adhoc basis without proper assessment of the need. Over 60% of the acquired land (112 acres) was not put to any use and was surrendered to the State Government, after a lapse of 14 to 15 years. The objective of providing employment to the displaced persons was also served to a limited extent as the lessees provided employment to only 582 displaced persons as against the commitment made for employment to 1626 displaced persons. In spite of the directions issued by the Government, the company failed to take measures to see that the commitments made for the employment of displaced persons was effectively enforced.

3.29 The Committee are surprised to note that the agreements entered into with the lessees were defective as these did not provide for an enabling clause for revision of rent/licence fee with the result that the rent enhanced by the Company in accordance with the Government of India orders could not be recovered and it had to suffer a loss of Rs. 29.37 lakhs on this account. Strangely enough, even in case of lease agreements executed with some lessees from December, 1974 onwards

which contained a clause enabling the Company to enhance the rates of rent, no recovery of enhanced rents was made from them. Worse still, a large amount of rent and electricity charges amounting to Rs. 40.75 lakhs as on 31-3 198` remained outstanding against the lessees out of which Rs. 10.63 lakhs were considered as doubtful debts and were provided for as such in the accounts.

3.30. The Committee regret to note that inspite of instructions issued by the Ministry in pursuance of the report made by the Board of Rehabilitation in 1968 to the effect that the Company should take immediate steps for recovering the outstanding dues form the defaulters and to see that the commitments made for employment of displaced persons is effectively enforced, no concrete measures were taken in this direction. They have been informed that legal action has now been taken against some of the tenants for the realisation of the outstanding dues and in some other cases out of court actions have been initiated. The Committee hope that there would be no further laxity in this regard and all out efforts will be made to recover the dues.

3.31 In 1969 the Board of Rehabilitation had suggested that industrial sheds should be passed on to industrialists on hire purchase basis with the stipulation of displaced persons employment for a period of at least five years. The Board was of the view that this would help the Company to recover considerable capital for future investment. According to the Ministry the hire purchase system could not be implemented because the land on which sheds were constructed was yet to be transferred by the State Government to RIC.

3.32 The Committee regret to note that the Company had not been able to settle the question of transfer of land with the State Government all these years. However, now that the State Government has agreed in principle to transfer the land in the name of the Company at a token value of Re. 1/-, the matter may be pursued vigorously and all connected formalities completed expeditiously. The question of sale of sheds to the industrialists on hire-purchase basis should be considered seriously.

CHAPTER IV

INDUSTRIAL AND COMMERCIAL ACTIVITIES

The Company's industrial and commercial activities fall into the following 3 categories :

(a) Units manufacturing consumer goods.

(b) Units manufacturing engineering goods and performing structural and engineering jobs.

(c) Units rendering services.

There were 22 units at the beginning of 1967-68. Three new units were set up subsequently. Out of 25 Units, 12 units were closed from time to time and 13 units are still running.

(A) *Working Results of Units*

4.2 The Unit-wise accumulated loss suffered on running units is as under : —

		Position as on 31-3-1983 (Rs. in lakhs)
1.	Taherpur Production Centre	(—) 133.53
2.	K.B.M. Production Centre	(—) 112.11
3.	Gayeshpur Production Centre	( ) 70.97
4.	Habra Production Centre	(—) 92.55
5.	Malda Silk Unit	(—) 27.50
6.	Leather Works (Bonhooghly)	(—) 66.41
7.	Garment Factory (Bonhooghly)	(—) 47.59
8.	Fruit Canning Units (Bonhooghly)	(—) 67.08
9.	Sukumar Engineering Works	(—) 146.73
10.	Sheet Metal Factory (Bonhooghly)	(—) 76.61
11.	Cast Iron Foundry (Durgapur)	(—) 56.59
12.	Wood Works (Bonhooghly) (Since merged with Sheet Metal Factory)	(—) 16.55
13.	Textile Processing Unit (Bonhooghly)	(—) 94.99
14.	Project Division	(+) 53.81
	Total loss	(—) 955.40

4.3 In addition to this the Company also suffered a cumulative loss of Rs. 75.29 lakhs on the units closed from time to time and the unit-wise loss is as under :

			(Rs. in lakhs)
1.	Jagadalpur Production Centre	(—)	0.50
2.	Padwa Production Centre	(—)	1.19
3.	Sheet Metal Factory, Gayeshpur	(—)	7.05
4.	Sleeper Factory, Jagadalpur	(—)	15.27
5.	Electrical Ancillary Unit, Behala.	(—)	25.85
6.	Tent Making Unit	(—)	1.15
7.	Wood Works (Rupnarayan)	(—)	3.01
8.	Automobile Workshop	(—)	2.60
9.	Fuel and Service Station	(—)	0.36
10.	Ceramics Unit (Ranaghat)	(—)	10.05
11.	Fruit Canning Unit (Agartala)	(—)	8.26
	Total loss	(—)	75.29

4.4 This was in addition to a loss of Rs. 1907.47 lakhs on occount of Head Office as on 31-3-1983 which includes *int-r alia* interest on unsecured loan of Rs. 1172.29 lakhs (including penal interest Rs. 402.14 lakhs), interest on secured loan Rs. 27.48 lakhs, provision for bad and doubtful debts Rs. 239.81 lakhs and depreciation Rs. 4.86 lakhs which have not been apportioned to the different units.

4.5 The Committee pointed out that in pursuance of the recommendations of the Departmental Committee in 1972, the Ministry decided that in view of heavy losses being incurred by RIC, a thorough reorganisation was needed and with this end in view it was considered necessary to close down the units which were commercially not viable and which had no prospects of being made so in future and instead to develop new units on the advice of qualified technicians/consultants. It was also decided that the new units to be organised must be product-oriented. In conformity with these principles, it was decided that the Managing Director should undertake a study in-depth and recommend to the Board of Directors on :—

(i) The units which should be closed down, being completely non-viable financially.

(ii) The action to be taken in further consolidating and developing such of the units as appear to be viable and which could be further improved upon by re-organisation.

(iii) Setting up of new viable units as part of the reoganisation process wherever feasible and necessary on the advice of qualified consultants to maintain the tempo of activity of the Corporation existing at that time.

4.6 When enquired whether any such in-depth study was made by the Managing Director, the Joint Secretary of the Ministry stated that the Managing Director was asked in February, 1974 to do the feasibility study of the Units, which had not been made earlier, to find out the input requirement, working capital requirement, loan activity, commercial banking activity etc. but by that time another Committee called Chowdhury Committee was asked to look into unit-wise structure of the Company. These things got merged together.

4.7 Asked about the reorganisation made after the receipt of the Report of Chowdhury Committee, the witness stated that some units were closed.

4.8 The Committee desired to know the number of units closed down after 1974. In reply, the Secretary of the Ministry informed the Committee that the following units were closed after 1974 :—

(i) Automobile Workshop Unit was closed in 1974-75;

(ii) Fuel and Service Station was closed down in 1975-76;

(iii) Electrical Ancillary Unit was closed down in 1981-82;

(iv) Ceramics Unit was also closed in 1981-82; and

(v) Tent Making Unit was closed in 1983-84.

(B) Production Performance

4.9 The installed/attainable capacity of the various units had not been fixed till 1980-81. The Ministry informed Audit in June, 1982 that the Company had since worked out an exercise indicating the present capacity and attainable capacity during the current year and the next financial year in respect of the various units.

4.10 The Committee enquired when and what was the capacity of the different production units of the Company fixed by the Company. RIC in a written reply informed that the capacity of the production units of the Company was determined in 1981-82. The percentage Capacity utilization in 1981-82 and 1982-83 was as follows :—

Name of the	Percentage of capacity utilised during	
	1981-82	1982-83
1. Project Division 2. Sukumar Engg. Works	25	21
3. Sheet Metal Factory	67	43
4. Cast Iron Foundry	54	21
5. Garment Factory	22	51
6. Leather Works	60	36
7. Fruit Canning Unit	60	29
8. Textile Processing Unit	32	59
9. Handloom Units (4)	67	52
10. Malda Silk Factory	65	67

4.11 Asked about the reasons due to which the capacities could not be fixed earlier, the Company has stated :-

> "RIC was set up with the main objective of providing employment to displaced persons. In order to cope with the exigency of providing immediate employment to the displaced persons due to heavy influx, the units of the Corporation were suddenly set up/takenover and as such no techno-economic feasibility report could be made before the same came into existence in order to study the economic viability."

4.12 When enquired about the reasons for low capacity utilisation during 1981-82 and 1982-83, the Company in a written note, stated that during 1981-82 production in all the. units was practically suspended upto October, 1981 awaiting Government's decision regarding continuance of the Corporation. The Government decision was received on 7th November, 1981. Thereafter production activities were undertaken and actual production started in December, 1981 on receipt of working capital from the Government. The shortage of working capital was one of the major limiting factors. Company was not sure about its continuance and therefore, could not book sufficient orders also. Customers had no confidence in the Company because of past irregular performance, untimely delivery etc. As regards the low capacity utilisation during 1982-83, the Company has stated that absence of matching machinery and handling equipments and shortage of working space were some of reasons. The management took appropriate action for procurement of machinery/equipments and construction of additional sheds for the units on receipt of plan loan sanctioned by the Government. It took some time to procure and instal the said machinery and equipments for production purposes. Lack of orders, mainly from Public Undertakings and unremunerative orders were also the reasons. Further, because of irregular performance in the past, the Company's image was at its lowest ebb in the market. As a result, the Corporation had to face much difficulties in securing orders from the market. Moreover, due to severe power shortage at the beginning of the year, the production suffered to a great extent.

(C) Targets vis-a-vis actual production

4.13 The table below indicates the targets of production and achievements there—against for the last 10 years ending 31st March, 1983 :—

(Rs. in lakhs)

Year	Targets of production	Actual Production	Percentage of achievement
1973-74	70.45	53.41	75.8
1974-75	104.34	71.10	68.1
1975-76	292.09	89.00	30.5
1976-77	367.45	127.60	34.7
1977-78	260.00	170.15	65.4
1978-79	155.89	106.13	68.1
1979-80	148.94	101.48	68.1
1980-81	112.00	101.20	90.4
1981-82	330.00	266.95	80.89
1982-83	780.00	685.60	87.89

4.14 According to Audit, shortfall in production during the respective years as compared to the targets fixed (except in 1973-74 for which information was not available) was attributed (November 1981) by the Management to the following reasons—

1974-75 : Dearth of orders and capital.

1975-76 : Restriction on production at weaving centres to avoid stock-piling.

1976-77 : Outdated plant and machinery, shortage of working capital, low productivity and restricted production at weaving centres as per decision of the Board, dearth of orders.

1977-78 : Lack of funds, handling facilities and matching machines, restriction on production in weaving Centres as per decision of the Board, dearth of orders and load-shedding.

1978-79 : Flood, prolonged power cut, non-availability of materials viz. steel, leather, cement etc. lack of funds and non-availability of site from Eastern Coal-fields Ltd. for project work.

1979-80 : Shortage of working capital, prolonged unscheduled power cut, non-availability of raw materials and necessary machines, dearth of orders and restriction on production of Weaving Centres as per decision of the Board.

1980-81 : Paucity of funds, dearth of orders, prolonged power cut and absence of top management.

4.15 The Committee enquired about the reasons for wide variations in the targets fixed from year to year, RIC in their reply have stated as under:

"Targets were fixed on higher side depending upon the anticipated future work of the Corporation. From 1975-76 the Corporation undertook project work at different collieries. Therefore, the targets fixed for the years from 1975-76 to 1977-78 were on the higher side. But from the year 1978-79 the targets were lower as the Corporation was facing difficulties as follows :—

(a) Shortage of working capital

(b) Shortage of orders.

(c) Want of raw materials

(d) Absence of peaceful labour relation.

(e) Load shedding.

(f) Restriction imposed on production.

(g) Natural calamities

(h) Outdated and outlived plants and machinery

(i) Low productivity

(j) Lack of handling facilities

Considering the above, annual projections were found to differ."

4.16 Asked about the declining trend in the fixation of targets which were brought down from Rs. 367.45 lakhs in 1976-77 to Rs. 112 lakhs in 1980-81, the Company stated that declining trend in the fixation of targets was mainly for the restriction imposed on production due to heavy stock piling.

4.17 As regards performance in 1983-84, the Committee were informed that the revised target of production of the Company for 1983-84 had been fixed at Rs. 530 lakhs, of which the total production till November, 1983 was Rs. 258.08 lakhs and the balance production of Rs. 271.92 lakhs was expected to be achieved during the remaining period of the year.

Performance of individual units

A brief review on the working of some of the Units is given below :—

(i) Leather Works at Bon-Hooghly

4.18 In July, 1962, the Company started a small footwear manufacturing unit at Taherpur to provide employment to displaced persons. Due to non-availability of workers at Taherpur, the Unit was shifted to

Behala in March, 1963. In October, 1963, the Unit was shifted from Behala to its newly constructed factory shed at Bon-Hooghly Industrial Estate.

4.19 The Unit mostly manufactured footwear of various types manually and since April, 1971, was mainly producing ammunition safety boots against orders.

4.20 During the year from 1975-76 to 1980-81 the production was far below the estimated capacity of production. As against the estimated capacity of production of 47520 pairs of shoes per year, the total production ranged from 7445 pairs to 26317 pairs during 1975-76 to 1978-79. There was a sharp decline in production during 1979-80 and 1980-81 when only 5454 and 2442 pairs respectively were manufactured.

4.21 In this connection, the management stated (November, 1981) as follows :-

> "As production is made against order only and receipt of order depends on the basis of lowest quotation it is not always possible to keep the floor busy with production. Execution of the order in time is not always possible for want of requisite raw materials, erratic load shedding, labour unrest etc."

4.22 As compared to production at sale value, the incidence of raw materials consumed and wages paid was on the higher side. In the following cases it was noticed that the cost of material consumed alone was higher than sale price of the products :-

Sl. No.	Job No.	Description	Materials consumed (Rs.)	Sale value (Rs.)
1.	1AB/73-74	A. Boot	3,299	1,373
2.	2AB/73-74	A. Boot	55,975	47,906
3.	5C/73-74	Black Derby	5,791	4,265
4.	IOL/74-75	Ladies Sandal	2,188	1,498
5.	IL/74-75	Ladies Sandal	3,551	3,112
6.	IAB/74-75	A. Boot B.S.P.	1,84,601	1,58,501
7.	3AB/75-76	A. Boot F.C.I.	19,030	16,737
8.	IC/75-76	Ankle Boot	14,737	13,580
9.	6C/75-76	Kabli	3,748	2,314
10.	3C/75-76	Kabli	1,445	1,148
11.	2C/76-77	Oxford shoe W.B.P.	18,529	14,780

4.23 In this connection, the Management stated (November, 1981) as follows :-

"In some cases orders were accepted at a lower rate not only to avoid payment of idle wages but to have entry in other firms as approved supplier and to eliminate other un-favourable conditions for execution of the orders."

4.24 When enquired whether the shoes were being sold below cost price even now, the representative of the Company stated -:

"So long as the capacity utilisation is lower, the cost will be higher. So, we must strive for achieving capacity production. Production has come up very well. Selling depends on the market forces. Even today, somewhere we are selling slightly below total cost ; but certainly we are covering labour cost and part of factory and head office overheads. This situation will change eventually once we achieve greater capacity utilisation. Losses will remain till we come to the break-even point. Secondly, we had no market study made for us. Even Defence and Mines people were reluctant to place orders on us. So, we took a limited order and executed them in time. We are now getting repeat orders. We had supplied more than 60,000 shoes by now to all these agencies. They have been accepted, passed and used by them. We are getting repeat orders."

4.25 The unit was incurring heavy losses year after year. The cumulative losses at the end of the year 1982-83 was Rs. 66.41 lakhs (excluding expenditure on Head Office account).

4.26 When asked about the steps taken by the management to arrest the mounting losses from year to year, R.I.C. in a note informed :-

"As prime consideration of the organisation was to feed the unit with work action was taken towards procurement of the orders without thinking of the operational results owing to absence of commercial approach. Now the situation has changed. Corporation secured orders to the tune of Rs. 37.58 lakhs and Rs. 20.86 lakhs in the years 1981-82 and 1982-83 respectively against which production was achieved amouniing to Rs. 25.44 lakhs in 1981-82 and Rs. 31.51 lakhs in 1982-83."

4.27 According to Audit production of goods without ensuring their marketability resulted in accumulation of stock of finished goods and consequent loss due to deterioration in quality. 28451 pairs of old stock of footwear valuing Rs. 3.91 lakhs were lying in the Central stores and different sales emporia of the Company till July, 1975. 19126 pairs valued at Rs. 2.80 lakhs were sold in December, 1975 at a price of Rs. 0.76 lakh resulting in a loss of Rs. 2.04 lakhs. Out of the remaining 9,325 pairs of shoes, 9105 pairs valued at Rs. 1.09 lakhs were disposed of at a price of Rs. 0.90 lakh by 31st March, 1981. Thus, 28231 pairs of shoes were sold at a loss of Rs. 2.23 lakhs.

4.28 Asked about the reasons for accumulation of stocks of shoes, the Managing Director of the Company stated that the stocks of shoes went on accumulating because the designs and quality of shoes were inferior, with the result that they had to be disposed of at a loss. He futher stated that the Company has standardized the production of only two qualities of shoes. One is the Defence ammunition shoes for Army and the other is mining shoes. The Company is producing according to orders placed.

(ii) Fruit Canning Unit at Agartala

4.29 In May, 1963, the Company took over the two fruit canning units at Agartala belonging to the then Tripura Administration. The units were taken over on agency basis initially for one year with the stipulation that if these centres could be run profitabisly, the Company could take them over permanently after appropriate valuation of their assets. The units remained under the management of the Company till December, 1969.

4.30 The units could not be run economically. The total loss incurred upto December, 1969 amounted to Rs. 8.26 lakhs. At the time of closure of the units most of the products were very old and had deteriorated in quality. In August, 1970, fruit goods valuing Rs. 2.22 lakhs were declared damaged and written off. Stock worth Rs. 3.30 lakhs was disposed of, the remaining stock worth Rs. 1.17 lakhs and Rs. 0.39 lakh was declared damaged and written off during 1973-74 and 1975-76 respectively. Thus out of the total stock of Rs. 7.08 lakhs as on 31st December, 1969, the stoek worth Rs. 3.78 lakhs had to be written off.

4.31 The Management attributed (August, 1969) *inter alia*, the following reasons for uneconomic running of the Agortala Units :

(i) The Unit processed only pineapples, the season of which lasted only for about three months in a year. The unit, thus remained idle for nine months in a year.

(ii) Heavy transport charges were involved in carrying the finished products for marketing from Agartala.

(iii) Difficulties in supervising the working of the unit from Calcutta.

4.32 When enquired if these reasons were not known to the management before take-over, RIC, in a note, informed that apart from processing of pineapple products, it appears, the management had the idea of processing other fruit products also to keep the unit busy throughout the year. But ultimately, the other line of products could not be opened and prevailing one turned to be uneconomical.

4.33 In view of the uneconomic running of the Units at Agartala, the Company handed them over to Tripura Government in December, 1969. On the closure of the Units the stocks of the finished products worth Rs. 7,08 lakhs were transferred by the Company to its Bon-Hooghly Central Stores at a cost of Rs. 0.11 lakh.

4.34 The Committee desired to know the reasons for accumulation of food products and whether the reasons for it had been investigated and responsibility fixed. In reply, the Company stated :

"Finished goods produced at Agartala Unit did not find suitable market there and for which accumulation took place. The product being new, it did not have the acceptance in the market although, the quality, it appears, was superior. This was investigated. The investigation was conducted by a team of officers and report submitted to the Board and Board desired that action should be initiated for taking departmental action against the concerned General Manager on deputation from Government of West Bengal. However, it appears, responsibility had not been fixed on any individual."

(iii) *Bon-Hooghly Fruit Canning Unit*

4.35 In 1963-64, the Company had set up fuit canning unit at Bon-Hooghly, Calcutta for canning of fruit jams, jellies, juices, sauces etc. to cater to the domestic market The Unit also produced pineapple slices in syrup and mango juice for export against specific orders.

4.36 The Unit suffered a cumulative loss of Rs. 75.34 lakhs upto the end of the year 1982-83.

4.37 In 1977 the Company exported 6500 cartons (each carton containing 24 tins of 850 grams each) of pine-apple slices to 3 parties of Yugoslavia from the Bon-Hooghly fruit canning unit on FOB basis against letter of credit opened by the parties as per details below:-

Name of Party	Quantity (Cartons)	Sale price (Rs. in lakhs)
A	4,000	4.11
B	1,000	1.03
C	1.500	1.52

4.38 All the parties informed the Company in November, 1977 that the cans containing the pine-apple slices had metals not conforming to the specificdtions as stipulated in the contracts and that the pine-apple slices had developed organoleptic character with too much corrosion on the cans, rendering the fruit slices unfit for human consumption. The buyers demanded refund of the full price paid by them. After protracted correspondence and negotiations, party B and Party C agreed to settle the disputes on payment of Rs. 0.48 lakh and Rs. 0.70 lakh to the parties respectively by the Company. The Company, therefore, suffered loss of Rs. 1.37 lakhs. Party A did not agree to any settlement and preferred an arbitration proceeding (June 1978) as per provision of the contract before the Foreign Trade Arbitration Federal Chamber of Commerce, Belgrade. The Ministry stated (June 1982) that the Arbitration Court has held its first hearing in February, 1982.

4.39 The Committtee enquired whether the goods or the cans supplied by Metal Box Company were defective and whether the matter has been investigated and responsibility fixed. In reply, the Company has stated :—

"Fresh goods were supplied by the Corporation. Supply was effected after inspection conducted by FPO. An analysis indicated that there were higher percentage of tin content and some heavy metals arising out of inferior quality of tin plates. Corresfondence were made with M/s. Metal Box Company which avoided the responsibility on technical ground i.e. percentage of sulpher in sugar was higher and manoeuvred the entire case in their favour and disowned any responsibility in the matter."

4.40 Asked about the latest position of the case under arbitration, the Company has informed :—

"No progress has yet been made. Correspondence between RIC and Ministry of Rehabilitation is in progress. It may be added in this connection that Arbitration Court had its sitting in. February 1982 at Belgrade but no decision was arrived at."

(iv) Handloom Units Cotton

4.41 The Company took over between May 1962 and September 1962 from the Government of West Bengal five handloom centres (at Taherpur, Habra, *Khosbasmahalla, Gayeshpur and Chakda*) which were being run as training cum-production centres. These centres were taken over with all their assets free of charge. The Board of Directors of the Company decided (September, 1962) that the centres should be run by the Company for the time being with the ultimate object of handing them over to Co-operative Societies to be formed by the workers and a time limit of 5 years was fixed for effecting such transfer. The Company has, however, not been able to implement this decision owing to agitation launched by the workers and staff of the handloom units against such a transfer.

(a) Production Performance

4.42 The Company was generally not able to achieve targets of production during the years from 1973-74 to 1980-81. A review of the targets of production and actual production during these years has revealed that the targets ranged from Rs. 10 lakhs to Rs. 46.80 lakhs whereas the actual production ranged from Rs. 2.24 lakhs to Rs. 27.75

*These units were merged into one in 1963-64.

lakhs. Paucity of funds, non-availability of raw materials, load shedding, absence of firm orders and restriction imposed on production to avoid accumulation of stock were attributed (November 1981) by the Management as the reasons for shortfall in production over the targets.

4.43 When enquired about the performance of the 4 Handloom Units during 1981-82 and 1982-83, the Company informed as under :—

(Rs. in lakhs)

Year	Target		Achievement		% of Achievement	
	Prodn.	Sale	Prodn.	Sale	Prodn.	Sale
1981-82	23.00	23.00	18.27	22.27	79.43	97
1982-83	83.00	83.00	93.42	51.27	112.55	61.77

(*b*) *Productivity*

4.44 It was also noticed that there was very low productivity of workers. The following table shows the average wage vis-a-vis production per worker per year from 1973-74 to 1980-81 :

Year	Average wage per worker per year (Rs)	Average production per worker per year (Rs.)
1973-74	1,597	2,897
1974-75	2,253	2,187
1975-76	2,717	1,769
1976-77	2,699	234
1977-78	2,549	743
1978-79	2,742	1,048
1979-90	3,250	1,617
1980-81	3,586	505

4.45 Asked about the position in this regard during 1981-82 and 1982-83, the Secretary of the Ministry stated in evidence that the average value of production per worker in 1981-82 was Rs. 2147 and it had gone upto Rs. 11,736 in 1982-83. As regards the wages, he stated :—

"If one goes according to Government rate of pay scales, it would be about Rs. 4000 to Rs. 4500."

(c) *Working Results*

4.46 The unit had incurred a cumulative loss of Rs. 409.16 lakhs upto the end of 1982-83 (excluding expenditure on head office account).

4.47. In this connection, the Secretary of the Ministry stated that the handloom units formed major part of the Company's losses. He also stated that 'no commercial company would have taken the 5 handloom units from West Bengal when the units were prima facie sick and were not making profit from the very beinning. He further added that various Committees had investigated into the reasons for their inability to run on profit and the following remedial measures had been suggested :

(a) Return the units to West Bengal;

(b) Convert them into Cooperative Societies; or

(c) Close them down.

He added that it was impossible to implement any of the above suggestions becuase wherever the Units were closed, the retrenched workers of those units had to be transferred to other Units whether those Units needed them or not.

4.48 Asked about the steps taken by the Company to improve working of these units, RIC informed in a note that new looms were installed to increase production. Attempts were made to feed the units with raw materials as far as possible depending on availability of funds. Before the products reach marketable standard and the workers acquire competitive skill attempts were made to keep them engaged on looms to made them trained.

During evidenc the Managing Director of the Company added :—

"We are on production of Janata dhotis and Sarees. The handlooms cannot compete with powerlooms. It is an unequal competition If handloom sector has to be viable, it should produce items which cannot be made by the powerloom sector. So, we decided to have a product-mix with high value added. These handloom weavers are artistic people; they are intelligent people. They have got the talent. I harnessed these qualities. I started making experiments to go in for high value added items."

4.49 When asked during evidence whether the handloom products were also being sold at less than the cost price, the M.D. stated :

"Losses will be there till we achieve a certain working capacity. On 70% to 80% capacity utilisation, we arrived at a standard cost, and try to recover it. If we are working on partial working capacity the result will be loss."

4.50 Due to very slow movement of finished products, there was heavy accumulation of stock in the Handloom units. In 1971-72, the Company disposed of non-moving handloom products worth Rs 7.20 lakhs at a rebate of 45% and suffered a loss of Rs. 3.24 lakhs. Out of the closing stock of finished goods worth Rs. 14.10 lakhs as on 31st March, 1981, stock valued at Rs. 1.12 lakhs was non-moving. The accumulation of closing stock was attributed (November 1981) by the Management mainly to high price of Company's goods, obsolete and back dated designs and absence of sufficient sale outlets etc.

4.51 When enquired about the latest position of disposal of non-moving stock worth Rs. 1.12 lakhs, the Company has stated that as on 31.3.1982 the position stood at Rs. 0.72 lakh which is only 2.7% of total stock.

4.52 The Committee are unhappy at the poor performance of the industrial and commercial units of the Company. All the units with the exception of one had incurred heavy losses and are mainly responsible for the cumulative loss of Rs. 29.32 crores suffered by the Company upto the end of 1982-83. The Committee find that the various units were set up/taken over from the State Governments without any planning and without giving any thought to their techno-economic viability For instance, the 5 handloom units which have accounted for a substantial part of the total loss were taken over from the Government of West Bengal and run as factory units when admittedly such units are normally run as a cottage industry or as cooperative societies. Strangely enough, the Company decided to run these centres initially for a limited period and

then to hand them over to the cooperative societies—a decision which could not be subsequently implemented owing to agitation launched by the workers and staff against such a transfer. The Committee would like to point out that the objective of providing employment to displaced persons was not necessarily served by giving them direct employment but could well be achieved by being an instrument for generation of employment. They see no reason why the handloom units could not be organised as cooperatives from the very beginning and the required managerial and financial inputs provided to them. Had this been done much of the losses incurred by the Company on account of running them as factory units could have been avoided.

4.53 The Committee also find that not only these units as well as other units were set up without proper planning but even subsequently no steps were taken for their reorganisation. As far back as 1972, the Ministry had decided that in view of heavy losses being incurred by the Company a thorough rearganisation was needed and with this end in view it was considered necessary to close down the units which were commercially not viable and which had no prospects of being made so in future and instead to develop new product oriented units on the advice of qualified technicians/consultants. It is distressing to find that no serious efforts were made to reorganise the various units to make them viable as decided. It should not have been difficult to do so without sacrificing the objective of keeping persons in employment as they could have been absorbed in the new organised units. The Committee would like to be informed of the reasons for this failure resulting in heavy loss of public funds.

4.54 The production performance of the various units presented a dismal picture. It was not until 1980-81 that the installed or attainable capacity of various units had been fixed. The Committee could get no satisfactory explanation for this failure. Even with reference to capacities fixed lately, out of 13 running units the capacity utilisation in 1982-83 in 12 of them was below 60% and in 3 of them it was even less than 30 per cent. The production was far below even the targets fixed every year. As against the present break even point of Rs. 18 crores the annual production ranged from Rs. 53 laks to Rs. 170 lakhs during 1973-81. Even after belated implementation of the revitalisation plan in 1982, the value of production was Rs. 6.86 crores in 1982-83 and this has again slipped to anticipated Rs. 5.30 crores in 1983-84. Not only the production was low but the producs manufactured were in many cases of inferior quality and of out-dated designs. There was also lack of quality control. In one of the Fruit canning units of the Company a loss of Rs 1 37 lakhs was incurred as the Pine Apples slices exported to three parties were found to be unfit for human consumption. The Committee view with concern the poor performance of the Comany resulting from mismanagement, lack of foresightedness and business prudence. They desire that effective measures be taken to increase the production in these units at least to the break even level at the earliest.

4.55 The sales performance of the Company was equally bad. There was heavy accumulation of finished goods on account of failure to make proper market study and to produce goods as per demand. Accumulated stocks had to be disposed of at heavy losses. For instance, 19126 pairs of shoes were sold in December, 1975 at an incredibly low price i.e. of about Rs. 4 per pair on an average. Similarly, the handloom products worth Rs. 7.20 lakhs had to be disposed of in 1971-72 at unusually high rebate of 45%. The canned fruit worth Rs. 3.78 lakhs had to be written off as these had deteriorated in quality on Account of long storage. The Committee are distressed to find that the marketing and production planning left much to be desired. They would stress the need for qualitative strengthening of the sales and marketing organisation of the Company to ensure that the Company is able to sell what is produces.

4.56 The Company also suffered on account of ineffective cost control. Most of the products were sold below cost and in some cases the sale price did not cover even the direct cost (material and labour). Amazingly there were instances in leather works units where the sales value of production was even lower than the value of materials consumed. Thus, it would have been more economical to pay idle wages than to produce.

4.57 The labour productivity was exceedingly low in various units. The value added per man month was far below the average emoluments. In handloom units in 1980-81, the value of production per worker was only 15 per cent of the average wages. It is distressing to find that little efforts had been made until recently to improve labour productivity by taking up production of high value items requiring manual skills and to train the workers for doing such jobs Had this been done earlier, the manpower available to the Company would have become an asset instead of being a liability. The Committee desire that at least now there should be conscious planning towards making best use of human resources so that the Company is able to reduce its cost of production and its products are competitive in the market.

(*D*) *Cost Control*

4.58 The following deficiencies in the costing and cost control system of the Corporation have been pointed out in the Audit Report :—

(a) No comprehensive cost accounting manual was in existence.

(b) The system of reporting variation in cost against the estimate to different levels of management for exercising effective cost control was not in vogue.

(c) No classification of overhead expenses into fixed and variable components had been made.

(d) No norms had been prescribed for wastages and rejections.

(e) There was no system of reconciliation between the cost and financial accounts.

(f) There was no system of standard costing.

(g) There was no effective system of recording idle time for labour and machines.

The Management stated (November 1981) as follows :—

(i) A draft regarding accounting manual which also includes cost accounting has been prepared and final shape ofw hich is likely to take place shortly.

(ii) The system of Management reporting had been started fully from April, 1980 and the standard costing system had been introduced from April, 1981. The system of reconciliation between cost and financial accounts had been started partly from April, 1980. Attempts are being made to introduce in full reconciliation system between cost and financial accounts.

4.59 When enquired how control on costs was exercised in view of various deficiencies pointed out in the costing and cost control system, the Company informed the Committee as under :—

"It is a fact that costing system and cost control could not be effectively introduced earlier but all round efforts are now being made to formulate and streamline the system as far as practicable."

4 60 As regards the latest position of finalisation of the accounting manual, it has been stated that all efforts are being made to complete the accounting manual by the end of December, 1983.

4 61 In this connection, the Secretary of the Ministry stated during evidence :—

"It is a fact there was no Manual, formal Cost Accounts Manual. The Ministry has taken note of it and has asked the Company to do it. The Accounting Manual which will include Costing al o, should be ready by the end of this year (1983). Costing was done in a rough and ready method. There-by products became very costly. So, value of stock became very high. The result was reduction of price, and liquidation of stock. When we wanted to find out why the need for Costing Manual was felt, we were told that since products were not selling, the Company was making losses. The need for Scientific Costing was not so urgent then as now, when we are really entering the area of more production and are trying to sell more."

4 62 The Committee enquired whether deficiencies regarding cost control system were ever pointed out by Statutory Auditors or the Comptroller and Auditor General and when this matter came to the notice of the Department of Rehabilitation. In this regard the Ministry has informed in a note as under :—

"According to the information received from Rehabilitation Industries Corporation, there have been no specific comments by the Statutory Auditors in their main Annual Reports on the annual accounts of the Corporation regarding cost control deficiencies as pointed out in the Report of the Comptroller and Auditor General—Union Government (Commercial) Part II

1982 on the Rehabilitation Industries Corporation covering the working of the Company from 1967-68 to 1980-81. However, another annual Supplementary Report of the Statutory Auditors is given annually in order to supplement the main Report. This includes, *inter alia*, report on systems of internal control, cost accounts etc. Under the head "Cost Accounts", they did mention about details of job costing or other costing system as implemented by the Corporation for their various production units. They had also pointed out the need for comprehensive plans for cost control, cost reduction etc., from 1976-77 onwards.

The Office of the Comptroller & Auditor General had also not specifically mentioned the cost control* deficiencies in their annual reviews of the Statutory Auditors Reports. However, the Comptroller and Auditor General in their Report—Union Government (Commercial) 1979—Part IV containing resume of the Company Auditors Reports and comments on the Accounts of Government Companies did mention certain shortcomings under "Cost Control" such as cost of production was more than estimated/standard cost, there was no system of ascertaining idle time for labour and machinery specifying the reasons therefore etc. but Rehabilitation Industries Corporation was not shown along with those companies in the case of which the Comptroller & Auditor General had pointed out that costing system was not in operation/standard costing system had not been introduced/fixed. The Rehabilitation Industries Corporation had informed the Director of Commercial Audit in February, 1981 about the progress of action taken to remove the shortcomings pointed out by Audit.

The Corporation had a costing system in the past. The system was not so sophisticated. The idea was to formulate, in the

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* At the time of factual verification the Audit stated that "such deficiencies are not commented upon by the CAG on the accounts of the Companies U/S 619(4) of the Companies Act, 1956 but are brought out in the Report on Resume of the Company Auditors' Report prepared by the CAG as well as in the appraisal reports of the respective companies whenever taken up. Such deficiencies were pointed out even before 1979, in the Resume of the Company Auditors' Reports."

first instance, a basic system within the framework of existing resources, to be followed by sophisticated system. That system was, however, discontinued. In 1982, the deficiencies regarding costing system and cost control were specifically brought to surface in the Report of the Comptroller & Auditor General—Union Government (Commercial)—Part II 1982 exclusively on Rehabilitation Industries Corporation prepared after a detailed performance audit covering the period 1967-68 to 1980-81. Instructions were issued to the Corporation by the Department of Rehabilitation in May, 1982 to comply with the audit observations. Necessary action was also initiated by the Corporation. Efforts were being made to finalise the comprehensive Cost Accounts Manual by December, 1983 and remove the other deficiencies also to the extent possible.

According to the latest information, the Cost Accounts Manual had not, however, yet been finalised. The deficiencies in costing system as pointed out at pages 68-69 of the "Report of the Comptroller & Auditor General of India—Union Government (Commercial)—Part II 1982—Rehabilitation Industries Corporation Limited" are still persisting."

4.63 **The Committee find that there are several deficiencies in the costing and cost control system. Inspite of the fact that some of the deficiencies in cost control had been pointed out by the C&AG in his reports since 1979, they are still persisting. The Committee desire that an efficient cost control system suited to the industrial and commercial activities of the Corporation be introduced early by the Company taking into account the various deficiencies pointed out by the C&AG.**

4.64 **In this connection, the Committee regret to note that although the Secretary of the Ministry had assured the Committee that the cost accounts manual would be ready by the end of the year 1983, it has not yet been finalised. They desire that it should be finalised without further delay.**

CHAPTER V

PERSONNEL MANAGEMENT

(A) *Changes in Top Management*

The 1971 Departmental Committee suggested that having regard to the nature of the operations, the Chief Executive should be a man with strong commercial bias and outstanding qualities of man-management irrespective of his basic discipline. If necessary, the position should even be upgraded from grade D to Grade C. He must be appointed in the first instance for a minimum period of 5 years, should be willing to serve another term, if required, and prepared to swim and sink with the Corporation as long as he is with the RIC.

5.2 When enquired about the implementation of the 1971 Departmental Committee recomendation regarding appointment of Managing Director, the number of Managing Directors changed during the last 10 years, the period of their employment and the reasons for their change, the Ministry informed the Committee in a written note as under :—

> "The report of the Committee was received in 1972. It was observed that the officers with necessary qualifications were normally not willing to accept the post of Managing Director of the RIC, as the pay scale was not considered sufficiently attractive. It was, therefore, felt that the post should initially be filled up from suitable officer empowered for Schedule 'D' post, in order to keep a suitable officer who makes appreciable improvements in the working of the Corporation, the post could be considered for upgrading at the appropriate time.
>
> As regards the Committee's recommendation that the Chief Executive must be appointed in the first instance for a minimum period of 5 years, it may be stated that the Government policy in this regard alrealy provides that the tenure of incumbents of top posts in public enterprises should normally be for a period of 5 years subject to their performance being

satisfactory. So far as deputationists from the Central Government Services were concerned, the policy obtaining at that time was that they should exercise their option for absorption in the concerned undertaking or revertion to the parent cadre within specified time limit. This policy was intended to ensure that there were no frequent changes in the incumbancy of Chief Executives of public enterprises and this would also make for a greater identification on the part of the incumbents with the affairs of the concerned enterprise. The following officers held the post of the Managing Director after receipt of the 1971 Committee Report :—

Sl. No.	Name	Period of service	Total period of service with the RIC
1.	Shri D.C. Mukherjee	15-5-1973 to 24-3-1974	10 months
2.	Shri M.K. Majumdar	25-3-1974 to 7-1-1977 During the period from 8-1-1977 to 1-3-1977, the Financial Advisor and Chief Accounts Officer of the Corporation held the charge of Managing Director.	2 years 9 months
3.	Shri S.C. Banerjee, IMP	2-3-1977 to 1-6-1980	3 years 3 months
4.	Shri A.K. Deb, IAS	1-6-1980 to 17-9-1980	3½ months
5.	Shri A.R. Kohli	17-9-1980 to date	Continuing.

Shri A.K. Deb was appointed only as a temporary measure pending appointment of the regular incumbant. Shri A.R. Kohli was appointed Managing Director for the normal period of 5 years with effect from 17th September, 1980. He is still continuing. The earlier Managing Directors had left the Corporation on medical grounds or for taking up some other assignments, etc."

(B) Incumbents to Senior level posts

5.3 There was lack of experienced persons at senior level positions. The 1971 Departmental Committee pointed out that some of the units were headed by persons without any technical qualifications although the job content of the unit was of technical nature and that it might be necessary to replace those unit heads by properly qualified persons. No effective measures, however, appear to have been taken in this regard as BPE again pointed out in their Report in 1979 (seven years after the Report of the first Committee) that the marketing and production planning in respect of all the units needed to be considerably strengthened by redeployment and induction of senior level experienced officers.

5.4 Asked about the steps taken to strengthen the management at senior level positions, the representative of the Ministry stated that the latest position was that the Managing Director was in position from September, 1980 and he had a team of 10 persons of the top management level. They were well qualified.

(C) Strength of Head Office and Units

5.5 The table below indicates the staff strength both at the Head Office and Units of the Company for the six years ending 31st March 1981 :—

Particulars	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
Number of persons employed at the end of the year						
(i) Managerial						
(a) Head Office	14	15	15	15	17	15
(b) Units	7	9	10	2	7	11
(c) Total	21	24	25	23	24	26

(ii) Supervisory						
(a) Head Office	20	21	21	21	21	19
(b) Units	14	14	16	16	15	17
(c) Total	34	35	37	37	36	36
(iii) Others (clerical & Grade IV)						
(a) Head Office	180	178	198	204	209	213
(b) Units	819	795	794	807	832	916
(c) Total	999	973	992	1011	1041	1129
(iv) Workers						
(a) Head Office	—	—	—	—	—	—
(b) Units	1577	1570	1574	1544	1589	1579
(c) Total	1577	1570	1574	1544	1589	1579
(iv) Total Employees	2631	2602	2628	2615	2690	2770
Ratio of other staff to workers	1:1.5	1:1.5	1:1.5	1:1.4	1:1.4	1:1.3

5.6 According to Audit, neither the detailed project reports of the various units indicating staff requirements were prepared nor a comprehensive analysis of the man-power requirements of units and Head Office of the Company was made. The sanctioned strength of the various units as well as that of Head Office was also not made available to Audit.

5.7 The Committee enquired about the justification for the non-existence of the detailed project reports of the various units indicating staff requirements and absence of comprehensive analysis of the man-power requirements thereof as well as at the Head Office of the Company. In this connection, the Company has informed in a written note as under :—

"Having regard to the circumstances, neither the detailed project reports of the various units indicating staff requirements were prepared nor a comprehensive analysis of the manpower requirements of the units and Head Office could have been made earlier. With a view to revitalisation of the Company and to keep the activities confined purely to the commercial line, feasibility reports were prepared for all the units, which received approval of the Government in the latter part of 1981."

5.8 When asked whether the Company had at any time made any assessment of the exact manpower requirements at the units as well as at the Head Office and the extent of surplus manpower with the company, R.I.C. has in their reply stated that the question of the extent of surplus manpower has been considered by the Board of R.I.C. recently. This aspect has been taken up and n six months' time complete identification of excess manpower will be made.

5.9 When enquired about the total number of employees in the Company during the last two years, the Ministry informed the Committee in a written reply that there were 2753 and 2745 employees as on 31-3-1982 and 31-3-1983 respectively.

5.10 The Review Committee pointed out in 1975 that "at present the headquarters staff of RIC number 8350 (as against 311 earlier), with salary and other administrative charges to the tune of Rs. 27 lakhs per annum as against estimated production of Rs. 75 lakhs in 1973-74. No commercial undertaking with RIC's present outturn of production could hope to carry such disproportionate load of administrative overheads. It, therefore, suggested that there should be complete overhaul of the existing set up and much of the Headquarters staff might be routed to the outlying units grouped into clusters treated as Divisions with sufficient powers delegated to them so that the Divisions may become largely self-sufficient in respect of day-to-day management."

5.11 Asked whether the organisational set up was restructured as suggested, the Secretary of the Ministry stated that the organisational set up was restructured in 1974-75 and about 10% of the staff was transferred from Head Office to different units. Adequate powers were delegated to Managers in February, 1976 and they were also empowered to run units independently. He, however, admitted that :

> "It is a fact that the staff was top heavy in the sense that the staff recruited in the categories of non-workers was from the beginning very heavy. The staff at Headquarters was more than required. It was difficult to retrench."

5.12. According to the Annual Report of the Company for the year 1981-82, the total expenditure as on 31-3-1982 on salaries and allowances of office staff was Rs. 87,03,248 while the expenditure on account of wages of industrial workers was Rs. 1,03,54,671. The Committee enquired about the reasons for disproportionate expenditure on office staff as compared to industrial workers. In his reply, the M.D. explained as under :-

> "I agree, it is very much on the high side. The entire number includes security staff also. We converted about 100 into blue-collared employees over a period of time. We had inherited a large number. I am not defending myself that it is correct and that it should continue. It will not continue. After the normal retirement or resignation by any of them, we do not recruit any new person in this particular category; there is a total ban in letter, spirit and practice. At the same time what we have done is, we have started our trading activities of the products which we manufacture, so that these people can be utilised effectively. Some of them are being converted into salesmen. Today I have a trained sales-force of 150 people as compared to 50 people about two years back. They are being referred as staff. Gradually over the next two years, you will find a sales staff of 300 people. These trading activities give a margin of 10 to 15 per cent. This is how we recover the overhead. We have been able to reduce the security staff also and turn them into blue-collared employees."

5.13 As per Annual Report of the Company for the year 1982-83, the expenditure on salary and allowances of office staff was Rs. 1.05 crores as against wages of industrial workers amounting to Rs. 1.16 crores.

(*D*) *Labour Productivity*

5.14 According to the B.P.E. Survey, the average monthly emoluments per employee were much more as compared to the value added per man month during the years from 1979-80 to 1982-83 as is evident from the following table :

	1979-80	1980-81	1981-82	1982-83
Average monthly emoluments per employee	Rs. 555	Rs. 842	Rs. 687	Rs. 798
Value added per man month	Rs. 121	Rs. 218	Rs. 256	Rs. 719

The reasons for low productivity were surplus clerical staff and the employees being untrained displaced persons.

5.15 The 1971 Departmental Committee pointed out that the creation of surplus clerical staff is the fault of the management at some point of time and the present state of acute dissatisfaction among the labour is very largely the creation of management over the years. The Committee held the view that if 15 or 20 persons working under the same roof and doing the same job as is the case in the RIC are subject to 2 or 3 different wage scales, the management could only invite labour troubles. The Committee *inter-alia* suggested (i) sending back to their parent organisations all the deputationists ; (ii) uniformity in wage scales/wage rates and reduction in the number of grades ; (iii) evolving a system of linked productivity with payment, punishing the slack employees and rewarding the good ones in consultation with labour representatives and enforcing it first on a pilot basis and thereafter extending it generally.

5.16 During evidence the Secretary of the Ministry admitted that the employment of untrained displaced persons was partly responsible for low productivity and consequent losses.

5.17 Asked whether any scheme was framed during the last 20 years to impart training to the workers in the units with a view to increasing productiviry, the Secretary of the Ministry stated :

"There is no specific scheme for training as such. But the training on job is being given to those people whose production norms are noticed less than what are prescribed. Since they have to be paid, it is a training on the job. In the last year or two, the Company has introduced a new product. For that purpose, they give special training to the people who are going to produce this particular type of product."

5.18 When asked about the number of workers trained during the last 2 years under "On the Job" training scheme, the Ministry informed the Committee in a note that during the years 1981-82 and 1982-83, 148 preparatory workers were converted to weavers in the Handloom Units of the Corporation ofter giving them "On the Job" training. During these years, about 300 weavers were also trained on their own looms.

5.19 On being asked whether any productivity linked incentive scheme has been introduced, the representative of the Ministry informed the Committee that for increasing productivity, production norms have been laid down. If the workers produce less than the norm, deductions are made in the wages. If they produce more than the norms incentives are given. According to him 95 per cent of the workers have achieved the norms. At this stage the Joint Secretary of the Ministry informed that the productivity linked bonus was also there.

5.20 When enquired about the number of deputationists reverted to their parent departments, the Secretary of the Ministry stated that since 1980 there were no deputationists in the Company. The present policy of the Company was that no deputationists should be taken unless it was absolutely necessary.

5.21 Asked about the reasons for disparity in wage scales of the workers doing the same job, the Secretary stated :

"When a particular unit is closed, the people were not sent home but they were shifted from one unit to another. I am told that these pay scales have been rationalised and this anomaly has been removed."

5.22 The Company had suffered on account of organisational deficiencies and lack of proper manpower planning. There had been frequent changes in the top management. During a period of 8 years from 1973 to 1980 there were as many as 5 changes in the incumbents to the post of Managing Director. There is no gain-saying that such frequent changes at the top level adversely affect the performance of any organisation. There has to be a careful selection of the top executives to ensure continuity in top management for a fairly long period. There was also

lack of experienced persons in senior level positions. Some of the units were headed by persons without any technical qualifications although the job content of the units was of a technical nature. Regrettably even after this deficiency had been pointed our by a Departmental Committee in 1971 no serious efforts were made for qualitatively strengthening the various units by induction of experienced officers. The Committee were assured by the Secretary of the Ministry that with the appointment of new MD there were changes in the senior level positions and these were now being held by qualified persons. The Committee hope that the new team would be able to take effective measures to progressively improve the performance of the Company.

5.23 While on the one hand there was lack of experienced persons at the senior levels, on the other hand the Company had suffered on account of excessive overheads. No detailed analysis of the manpower requirements of the units and Head Office was made. The total expenditure on salaries and allowances of officers and staff during 1982-83 was of the order of Rs. 1,05 crores as against Wage Bill of Rs. 1.16 crores for industrial workers. The Secretary of the Ministry conceded during evidence that the staff at the headquarters was more than required. The Committee find that a Review Committee on the working of the Company had observed as early as in 1975 that the headquarters staff of the Company was highly excessive and no commercial undertaking with a low out-turn like this Company could afford such disproportionate load of administrative overheads. The Committee regret to note that but for a few half-hearted attempts, no serious efforts have been made over the years to rectify this position.

5.24 The Committee were informed by the Managing Director of the Company that question of extent of surplus manpower had been considered by the Board of the Company recently and complete identification of excess manpower would be made within six months' time. They hope that this excercise would be completed as promised and the surplus manpower employed productively on other jobs.

5.25 During the evidence, the Secretary of the Ministry made a point that employment of untrained displaced persons was partly responsible for low productivity and consequent losses. The Committee feel that on-job training though useful is not sufficient. They would, therefore, like to stress that some employees from each trade may be provided opportunity to receive short term training in the Prototype Development-cum-Training Centres or Industrial Training Institutes to enable them to improve their skills. Those who receive such training facilities may on return impart those technical skills to other persons of the Company in that trade.

5.26 During their visit to some of the units, the Committee observed that most of the operations, especially in the Footwear Unit and Fruit Canning Units were done manually. The Committee feel that if some mechanisation is introduced in repetitive jobs, the production would increase. The quality would also improve; thus making goods competitive in market.

5.27 The Committee would also like the company to explore the possibility of deriving benefits or collaborating with well-known organisations engaged in Research and Development activities relating to the operations of the Company with a view to improve the technology employed in its various units.

CHAPTER VI

FINANCIAL MANAGEMENT AND OTHER MATTERS

(A) *Working results*

In view of heavy losses incurred by the Company since its inception in 1959, a number of Committees were set up by Government from time to time to undertake detailed technical and financial appraisals of the working of various units of the Company so as to identify the factors responsible for continued losses and to suggest means for placing the Company on sound economic footing. Conversion of handloom units co-operatives of the workers, transfer of ownership of the industrial sheds to industrialists on hire-purchase basis with stipulation for employment of displaced persons, recovery of arrears of rent and electricity charges from lessee industrialists, dispersal of H ad Office staff to the units to reduce administrative overheads, closing down of some units and transfer of certain units to other analgous public sector units, etc. were the main recommendations of these Committees. Most of the recommendations, however, could not be implemented and the company continued to incur losses.

6.2. The cumulative losses as on 31.3.83 amounted to Rs. 2922.72 lakhs thereby wiping out the paid-up capital of Rs. 411.20 lakhs and the outstanding loan of Rs. 1796.05 lakhs.

6.3 According to Audit the Management attributed (January 1981/ November 1981) the following reasons for the losses sustained by the Company :—

"(a) Originally the Company was being treated as a developmental and welfare organisation, the main function of which was to provide economic rehabilitation to displaced persons from erstwhile East Pakistan. The commercial aspect of the Company was then treated as a secondary one.

(b) The taking over of the uneconomic handloom units from the Government of West Bengal and subsequently coverting them to factory units and introduction of wage structure on the recommendation of the 8th Tribunal Award increased the losses.

(c) Most of the units of the Company are not properly planned and laid out. The engineering units of the Company cannot be called modern factories since there are deficiencies regarding balancing equipment.

(d) As the main idea was to provide employment, the same figure increased gradually without looking into the cost structure and economic viability. The sale price in some cases has to be fixed at lower than cost to stand competition in the market for at least partial engagement of labour.

(e) The manufacturing process in some cases has to be done manually resulting in unavoidable increased labour cost.

(f) As most of the employees are untrained displaced persons, the productivity was low.

(g) Initially the Company had undertaken a large variety of non-commercial activities which added to the losses.

(h) Non-availability of sufficient working capital in time attributed to the decreased productivity and increased losses.

(i) Rate of interest on loans taken by RIC both from Central Government and Banks is too high considering the type of business carried out by RIC.

(j) Central and State Government's concessions and subsidies are not forth-coming to RIC handloom units which are allowed to different small scale industries and co-operatives.

(k) RIC with its vast overhead cost had to compete in the open market with small scale entrepreneurs for which no price preference is allowed both by Central and State Governments.

(l) Apart from the above, in recent years, floods and regular load shedding has helped to increase the losses."

While indicating the factors responsible for losses of the Company (which are more or less the same as indicated above) the Ministry stated

(September, 1982) that as a result of implementation of the revitalisation programme there is now a hope for the Corporation to turn the corner.

6.4 In view of the continuous losses aggregting Rs. 880.7 lakhs (including cash loss of Rs. 477.43 lakhs) incurred by the Company from inception to 1975-76, the Company approached the Government in April 1977 for restructuring of its capital. The proposal envisaged conversion of loan (Rs. 477.43 lakhs) into equity to the extent of accumulated cash losses; the treatment of balance loan (Rs. 213.12 lakhs) as interest free loan for a period of 5 years, with a moratorium on repayment during that period.

6.5 At the instance of the Ministry of Supply and Rehabilitation, the Company, between october, 1980 and September, 1981 submitted feasibility reports in respect of its various units alongwith projections for production/sales, cash flow etc. for the period from 1981-82 to 1990-91. The proposals included *inter alia*, conversion of loans to the extent of Rs. 700 lakhs (out of total loan burden of Rs. 1488.05 lakhs) into equity and waiver of penal interest amounting to Rs. 739·22 lakhs. On the basis of the above proposals and projections the Ministry conveyed (November 1981) the following measures for revitalisalion of the Company :

(1) Ceramic Unit and Electrical Aneillary Unit should be closed down.

(2) The four handloom units should be continued on a trial basis only for 2 more years, 1981-82 and 1982-83 and their performance closely watched. The handloom production should be diversified to improve earnings and attempt should also be made to form workers into co-operatives who can takeover the handloom sections progressively.

(3) All loans outstanding on 31st March, 1981 to be interest free from 1st April, 1981 to 31st March, 1986.

(4) Moratorium for a period 85 years on repayment of instalments of all loans outstanding as on 31st March, 1981.

(5) For capital outlay in 1981-82 and 1982-93, Rs. 1.16 crores to be made available by way of equity and loan in the ratio of 1:1.

(6) Grant of a non-plan loan of Rs. 1.84 crores for 1981-82 to make good the cash losses for the year and for working capital requirement.

(7) From 1982-83 onwards, the Company to arrange to meet its further working capital requirement from commercial banks. No non-plan loan to be given from 1st April, 1982

As a result of the Government's decisions mentioned at (3) and (4) above, the liability of the Company in respect of Government loans (including normal and penal interest) amounting to Rs. 2502.93 lakhs as on 31st March, 1981 would remain frozen during the period from 1st April, 1981 to 31st March, 1986.

6.6 According to the Annual Report of the Company for the year 1981-82 the Electrical Ancillary and Ceramic Units of the Corporation were closed down in 1981 and the employees of the said units were re-deployed in other units of the Corporation. The plant and machinery were partly disposed of and partly transferred to other units, and the shed occupied by the Ancillary Unit was let out to NFDC. In the Annual Report for 1982-83 it has also been stated that no acceptable terms and conditions for selling out of the defunct ceramic factory could yet be obtained.

6.7 Asked about the efforts made to form cooperative societies of handloom workers, the representative of the Ministry informed the Committee that workers did not want to form cooperative societies. The trade unions threatened agitation if Government forced them. The State Government was also against it.

6.8 As regards poor performance of the Company, the Managing Director stated in evidence before the Committee :

"When the Company is producing goods worth less than a crore of rupees and paying wages almost Rs. 2 crores a year, it is actually a very poor performance. Out objective has to be something like Rs. 15 crores to come to the break even level."

6.9 In this connection, the Secretary of the Ministry also *inter alia* stated :

"The results of the Company are not fully satisfactory. We are not fully satisfied and even the ChairmanrManaging Director is also not satisfied with the performance. We would certainly like to improve. The Government in the past was trying to find out how the Company's performance could be improved. But it was only in 1981-82 that the Government took note of certain constraints faced by the Company.

As regards the reasons for heary losses, he added :

"The Company suffered for two or three basic reasons. One was salary structure which was not competitive. Second was the product which was produced could not mee the market competition. Third was the amount of working capital which shoold have been generated to increase the total production was not readily available. It has been found that unless the Company produced a turnover of not less than Rs. 1 crore per month, that is Rs. 120) lakhs per year, it may not be able to break even. The Government's intention and the Company's target is to reach this figure in the next two to three years so that the company will start breaking even. Another thing that happened was that the company, instead of producing in the textile wing only cheaper varieties of cloth, has started producing high-cost textile products which are very favourably received in the market. That has also given the company a higher production value-wise, and the sales figures are also going up."

6.10 When asked about the action taken on the recommendations of various Departmental Committees, to make the Company viable, the Managing Director of the Company stated :

"From 1968 to 1980 six committees were appointed to go into the causes of sickness of this company. By the time the report of one Committee came, another committee came in picture. With the result, the productivity never picked up. They are all small scale units estallished without any studies made in the past.........The basic problem was that no proper feasibility study was done when these units were established. The second thing was that the proble n was so gigantic and the people did not go into fuller details as to what was required. When the problem of refugees came, it was a sudden influx. At that time it was not possible to prepare the feasibility report. Once a company starts losing, it becomes difficult to bring it on the road of recovery."

6.11 In this connection, the Secretary of the Ministry informed the Committee during evidence as under :—

"Various Committees were making various recommendations. The Committee which was appointed in 1980, took a very conscious decision how to make the Corporation more viable and profit earning one by having a revitalisation scheme worked out. So, the Government took into consideration the Corporation's constraints in October, 1981 and gave them the necessary finances on a very large scale. Then, we did get a very dynamic Managing Director. He had also his own team properly selected and then the Corporation was put in a better position. So, the Government had a proper revitalisation scheme and the Government could put in charge a good team properly selected and fortunately industrial relations also picked up. All these things put together the Corporation was put on a very good position."

6.12 When enquired about the achievements made by the Company as a result of implementation of the revitalisation plan, the Committee were informed in a note as under :—

"The Corporation has already completed two years of the revitalisation plan. During these years, there has been considerable improvement in the working of the Corporation. Both production and sales have picked up sizeably. From the production of the value of about Rs. 1 crore during 1980-81, it rose to about Rs. 2.67 crores worth in 1981-82 and Rs. 6.86 crores worth in 1982-83. Similarly, sales increased from about Rs. 1 crore worth in 1980-81 to about Rs. 2.79 crores in 1981-82 and Rs. 6.80 crores in 1982-83. There has also been reduction in cash loss. The cash loss during 1981-82 was Rs. 1.50 crores as against Rs. 1.70 crores in 1980-81. The cash loss was further reduced to Rs. 0.90 crores during 1982-83. Since there has been some slippage in the programme, the revitalisation plan of the Corporation has been reviewed by a Sub-Committee of the Board of Directors. The Board of Directors have also approved the recommendations made by the Sub-Committee in their meeting held on 29 August, 1983. The entire working of the Corporation including the progress of implementation of the original revitalisation plan sanctioned in 1981, the modified projections now approved by the Board on the basis of the report of the Sub-Committee of the Board, are under consideration of the Department of Rehabilitation."

6.13 According to the note dated 27-9-1982 of the Department of Rehabilitation, the Company was expected to reach a zero loss figure by the end of the year 1982-83 after taking into consideration the various concessions like interest holiday on loans for the period 1981-86, moratorium of 5 years in repayment of instalments of loans outstanding, etc.

6.14 On being enquired if the Corporation has been able to break even in 1982-83, the Corporation has in a note stated as follows:—

> "As per RIC's records and the original feasibility report and projection, the Corporation was expected to make a profit of Rs. 45 lakhs in the year 1982-83. However, it has not measured upto the expectation."

6.15 With regard to the point at which the Corporation expected to reach break even, the Corporation has informed that as per revised analysis of the working of the Company and the projection made, the Corporation is expected to reach the break even in 1985-86.

6.16 Subsequently, in a note, RIC has informed that the Corporation would break-even with a turnover of Rs. 18 crores provided a realistic and beneficial capital restructuring is done. The present debt/equity ratio is very adverse. However, with a turnover of about Rs. 18 crores, there would not be any cash loss. The present debt-equity ratio is 4:1 as against Government policy of debt/equity ratio of 1:1 in general.

(B) *Performance Review Meetings*

6.17 In pursuance of the recommendations of the Committee on Public Undertakings made in 1967-68, ins ructions were issued by BPE in 1969 for holding regular performance review meetings of the undertakings under their administrative control. The number of such meetings which were earlier required to be not less than once in six months was raised to once in every quarter by the instructions issued in 1975.

6.18 When asked about the number of performance review meetings held by the Ministry since 1970, the Secretary of the Ministry stated :

> "It is a fact that no performance review meetings were held prior to 1981. We do not want to gloss over it.........Since 1981, they were being held. Two meetings were held, i. e. in January and December, 1981; then in March, August and December, 1982; and then in April, 1983, In July, 1983, the Secretary herself reviewed. Another review will be made by me."

He further added :

> "The formal performance review meeting might not have taken place but the working of the Campany was being reviewed from time to time (1) when the budget came for scrutiny in the Ministry; and (2) when the reports of the various committees came to Government's attention. Government was trying to find out what should be done and at various times Government did issue various instructions and directives."

6.19 The Committee regret to note that the Company had been incurring losses continuously since inception and the accumulated losses at the end of the year 1982-83 were a staggering figure of Rs. 29.23 crores. Considering the way in which the Company had been managed since the beginning nothing better could be expected from it. Apart from the failures of the management, the Ministry of Rehabilitation could not also be said to have discharged its responsibility towards the Company under its control. One of the contributory factors for the losses of the Company was paucity of funds. In view of the heavy losses suffered by the Company it faced severe resources constraints forcing it to curtail production and consequential heavier losses. It was expected of the Ministry to take timely measures for providing adequate financial support if it was convinced of the need for continuance of the Company The Committee regret to note that even after the Company approached the Government in April, 1977 for restructuring its capital in view of heavy losses suffered by it, it was not until November 1981 that the Ministry became alive to the need and took measures for revitalis tion of the Company. In the meantime, the Company went further into the red and the losses which were Rs. 880 74 lakhs upto 1975-76 went up to Rs 2616 07 lakhs by the end of 1980-81. The Committee could find no satisfactory explanation for this lack of timely decision in regard to revitalisation of the Company which could have helped in reducing the heavy losses of the Company.

6 20 The Ministry also failed to discharge properly its function of monitoring and reviewing the performance of the Company. Although 6 Committees were set up at different times to undertake detailed technical and financial appraisal of the working of the various units of the Company, it is regrettable that most of the recommendations of the Committees were not implemented defeating the very purpose of appointing these Committees. Further, in spite of clear instructions issued by the BPE in 1969 and 1975 for holding the performance review of meetings, no such meetings were held till 1981, Even during 1981 and 1982, the review meetings have not been held every quarter as required under the guidelines issued by the BPE in 1975. The Committee regret to note that the Ministry failed to discharge this important function in-spite of the fact that the Company was incurring huge losses since inception and its regular performance appraisal was, therefore, all the more necessary. The Committee hope that at least in future the performance of the Company will be kept regularly under review on the basis of reports received under the Management Information System as well as by holding action-oriented quarterly review meetings.

6.21 Even after belated implementation of the revitalisation plan which provided the Company various concessions in regard to the liability of the Company in respect of Government loans, the Company is not yet out of the woods. The Ministry expected that the Company would reach a zero loss figure by the end of the year 1982-83. However, according to the latest assessment of the Company, it was expected to reach break-even point only in 1985-86 and that too provided there is restructuring of the capital and the unfavourable debt-equity ratio is suitably altered. The Committee have been informed that the entire working of the Company including the progress of implementation of the original revitalisation plan and the modified projections were under consideration of the Department of Rehabilitation. The Committee desire that the deliberations by the Deptt. should be expedited and measures taken to ensure that the Company becomes soon an economically viable unit as otherwise it would be difficult to justify its continuance any longer.

(C) Extra expenditure of Rs. 3.75 lakhs in civil construction work undertaken by the Company.

6.22 With a view to utilising surplus man-power, the Company secured (August 1976) a work order from Coal India Limited (Eastern Divison) for construction of regional and unit workshops including administrative and other buidings, roads, boundary walls, drainage system etc. at different collieries in Asansol Coalfield area for Rs. 2 crores, on turn-key basis. The masonary walls of the regional workshops at Ukhra and Mugma and unit workshop at Nabokajora constructed by the Company at a cost of Rs. 7 lakhs collapsed due to a cyclon in March/May, 1978. A Committee was set up (April, 1978) by the Company to investigate into the causes of the damage of the walls. The Committee in its report of April, 1978 on damage to the brickwalls of workshops at Ukhra and Nabokajora, attributed the damage, *inter alia*, to the use of substandard materials and defective construction The investigation in respect of Mugma was not conducted as the walls were constructed by the same contractor based on a similar design. Walls were reconstructed by the Company at a cost of Rs. 3.75 lakhs. No responsibility was, however, fixed for the lapse (November, 1981). The Ministry had desired (1978) a report on the subject from Eastern Coalfields which has not been received by the Ministry so far. The Ministry stated (June, 1982) that efforts were still being made by the R I.C. to get the report from the Eastern Coalfields Limited and fixation of responsibility could be examined only after the report was received.

6.23 When enquired about the nature of the report sought from Eastern Coalfields Ltd., and whether the report has been received from them, Rehabilitation Industries Corporation in a written reply stated :—

> "For having impartial view on the collapse of walls, M/s. ECL were requested to conduct investigation into the matter. No report has been received despite several written requests."

6.24 Asked about the justification for the abnormal delay in fixation of responsibility for the lapse involving considerable loss to the Company, the Committee were informed by REC as under :—

> "Fixation of responsibility has not been possible as yet owing to non-receipt of the report from M/s. ECL. Moreover, all responsible officers either left the Company or their services have been terminated."

6.25. The Committee take a serious view of the fact that the Company has resorted to use of sub-standard material in Civil construction work for another Public Sector Company (Coal India) and had to incur an additional cost of Rs. 3.75 lakhs on reconstruction of the defective walls. Although the matter had come to the notice of the Ministry in 1978, no action has been taken so far to fix the responsibility. The Committee regret to note the inordinate delay in this regard and desire that the enquiry should be expedited and action taken against the guilty persons.

NEW DELHI;
27 April, 1984
7 Vaisakha, 1906 (Saka)

MADHUSUDAN VAIRALE,
Chairman,
Committee on Public Undertakings.

APPENDIX

Statement of Conclusions/Recommendations of the Committee on Public Undertakings Contained in the Report

S. No.	Reference to Para No. in the Report	Conclusions/Recommendations
1	2	3
1.	1.14	The Rehabilitation Industries Corporation was set up in 1959 with the main objective of providing employment to the displaced persons from East Pakistan (now Bangladesh) through industrial development. The number of displaced persons employed by the Company was, however, only 2609. Even taking into consideration the indirect employment provided to the displaced persons by the parties to whon loans or industrial sheds have been given by the Company, the number of persons who had found direct and indirect employment through various activities of the Company was only 5296. Considering the magnitude of the problem, the Company has thus played a very limited role in providing employment to the displaced persons. On the other hand, the Company had in the process incurred a colossal loss of Rs. 29.23 crores upto the end of 1982-83, as against the paid up capital of Rs. 4.11 crores.
2.	1.15	The Managing Director, in his evidence before the Committee admitted that the Company acted until recently as

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		a relief organisation following the path of dole-oriented culture. It was only from 1981-82 that attempts have been made to turn the corner and to adopt a commercial approach. The Committee are surprised to find that there has been lack of decision even in regard to the basic approach of the Company in its functioning. It would not have been so, had comprehensive aims and objectives of the Company been laid down. Although it was in November, 1970 that the BPE had requested all Ministries to lay down objectives and obligations for each public enterprise under their administrative control it is only recently that an exercise has been started by the Company in this regard. The Committee hope that the objectives and obligations as envisaged by BPE would now be finalised expeditiously and approval of the Ministry obtained.
3.	1.16	In regard to objectives of the Company, the Committee are unable to agree with the view expressed before them that it was very difficult for the Company to achieve the twin objectives of finding employment for refugees and at the same time to be an economically viable unit. It has been conceded that there were various other schemes for looking after the rehabilitation of displaced persons. If, in spite of these schemes, the Government decided to set up Rehabilitation Industries Corporation as a Company under the Companies Act, it was supposed to function on commercial lines and should have been managed as an economically viable con-

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		cern. The Committee are of the opinion that working of the Company on commercial lines was not incompatible with its objectives of providing employment to the displaced persons. As pointed out by the Departmental Committee appointed by the Ministry in 1974, an industrial undertaking which is viable is in a better position to provide the kind of meaningful rehabilitation to the displaced persons. The fact that there has been improvement in the performance of the Company during the last two years shows that the Company could be made a viable concern. Evidently, it has not been managed well earlier.
4.	1.17	The Committee desire that effective steps should now be taken to ensure that the Company becomes soon an economically viable unit as otherwise it would be difficult to justify its continuance as a Government Company under the Companies Act.
5.	2.44	The Company had been carrying on 3 main activities *viz.* industrial financing, industrial estate management and running of industrial and commercial activities. Under the scheme of financing the Company granted loans to industrialists etc. to help set up new industries and to expand existing ones with the object of creating more employment potential for displaced persons. The various criteria to be considered while granting loans were the security offered, employment potential to be created, viability and technical soundness of the schemes, competence and integrity

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		of the loanee industrialists, etc. During the period 1959-60 to 1971-72 the Company disbursed loans to 43 loanees to the extent of Rs. 119.51 lakhs after which the activity was confined to the recovery thereof. The performance of the Company in regard to this activity has been disappointing. It failed to enforce the condition of providing employment to the displaced persons as committed to by the industrialists, the number of displaced persons actually employed being 2105 as against the commitment of giving employment to 4679 persons. The recovery of the loans from the loanees has also been extremely poor. As against an amount of Rs. 119.51 lakhs disbursed to various parties an amount of Rs. 115.47 lakhs (Rs. 66.55 lakhs on account of principal and Rs. 48.92 lakhs asinterest accrued therean) remained outstanding, out of whith an amount of Rs. 105.95 lakhs was considered doubtful debt and provided for as such in the accounts.
6.	2.45	From the facts stated above, the Committee cannot help concluding that there had been no proper appraisal of the load applications to ensure credit worthiness of the parties and soundness of projects before granting them the loans.
7.	2.46	There had been inordinate delays in taking action for the recovery of the loans. For instance, in the case of one concern from whom an amount of Rs. 42.73 lakhs was outstanding and which did not pay even the first instalment in time it was after 7 years of the default in payment that a legal notice was issued. Even thereafter, no prompt follow-up action was taken

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		except issung again a solicitor's notice and that too, 4 years afner the earlier notice. The claim of the Company is now pending with the commissioner of payments as the debtor concern has since been nationalised. In another case, legal action for realisation of outstanding dues against the concern which had failed to pay even the first instalment was initiated after 8 years of the default. Yet in another case, no action was taken for default in repayment of dues amounting to Rs. 13.05 lakhs by 8 Corporation Societies till they stopped operations and went into liquidation. The reasons advanced for the inordinate delays in realising the dues are hardly convincing. The Committee regret to note that the machinery which existed in the Company for the recovery of loans was not effective and there had been lack of serious efforts to recover the loans from the defaulting parties. As a result, the Company is likely to suffer a loss of over Rs. 100 lakhs on this activity. The fact that the Company failed to recover the amount due even from the socieities in which it actively participated in management is only indicative of the failures of the officers to safeguard the interests of the Company. The Committee have been assured that the senior officers of the Company are now reviewing the debt cases from time to time and taking effective steps for recovery of the outstanding dues. They hope that the matter would be vigorously pursued to effect recoveries as far as possible.
8.	2.47	The Committee find that in the case of powerloom cooperative socieites,

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		despite the fact that the Company was the sole supplier of raw materials, sole selling agent of finished products and has also assumed the responsibility of supervising the activities of the socieities, the Company was likely to lose the entire amount of outstanding loans and advancer of Rs. 98.02 lakhs on account of poor performance of the societies. The societies are stated to have suffered losses as due to dearth of funds the Company could not feed them with requisite raw materials,.etc. resulting in payment of idle wages. Having decided to set up these societies and having taken over the responsibility of supplying raw meterials and marketing of products etc., it was expected of the Company to provide necessary inputs. The Committee hope that in case the Company decides to energise the powerlooms again after the licences are transferred to them, effective steps would be taken to make them viable.
9.	3.28	The Company's performance in the matter of industrial estate management has been disheartening. Large areas of land (181 acres) were taken over on an *ad hoc* basis without proper assessment of the need. Over 60% of the acquired land (112 acres) was not put to any use and was surrendered to the State Government, after a lapse of 14 to 15 years. The objective of providing employment to the displaced persons was also served to a limited extent as the lessees provided employment to only 582 displaced persons as against the commitment made for

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		employment to 1626 displaced persons. Inspite of the directions issued by the Government, the Company failed to take measures to see that the commitments made for the employment of displaced persons was effectively enforced.
10	3.29	The Committee are surprised to note that the agreements entered into with the lessees were defective as these did not provide for an enabling clause for revision of rent/licence fee with the result that the rent enhanced by the Company in accordance with the Government of India orders could not be recovered and it had to suffer a loss of Rs. 29.37 lakhs on this account. Strangely enough, even in case of lease agreements executed with some lessees from December, 1974 onwards which contained a clause enabling the Company to enhance the rates of rent, no recovery of enhanced rents was made from them. Worse still, a large amount of rent and electricity charges amounting to Rs. 40.75 lakhs as on 31-3-1983 remained outstanding against the lessees out of which Rs. 10.63 lakhs were considered as doubtful debts and were provided for as such in the accounts.
11	3.30	The Committee regret to note that inspite of instructions issued by the Ministry in pursuance of the report made by the Board of Rehabilitation in 1968 to the effect that the Company should take immediate steps for recovering the outstanding dues from the defaulters and to see that the commitments made for

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		employment of displaced persons is effectively enforced, no concrete measures were taken in this direction. They have been informed that legal action has now been taken against some of the tenants for the realisation of the outstanding dues and in some other cases out of court actions have been initiated. The Committee hope that there would be no further laxity in this regard and all out efforts will be made to recover the dues.
12	3.31	In 1969 the Board of Rehabilitation had suggested that industrial sheds should be passed on to industrialists on hire purchase basis with the stipulation of displaced persons employment for a period of at least five years. The Board was of the view that this would help the Company to recover considerable capital for future investment. According to the Ministry the hire purchase system could not be implemented because the land on which sheds were constructed was yet to be transferred by the State Government to RIC.
13	3.32	The Committee regret to note that the Company had not been able to settle the question of transfer of land with the State Government all these years. However, now that the State Government has agreed in principle to transfer the land in the name of the Company at a token value of Re. 1/- the matter may be pursued vigorously and all connected formalities completed expeditiously. The question of sale of sheds to the industrialists on

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		hire-purchase basis should be considered seriously.
14	4.52	The Committee are unhappy at the poor performance of the industrial and commercial units of the Company. All the units with the exception of one had incurred heavy losses and are mainly responsible for the cumulative loss of Rs. 29.23 crores suffered by the Company upto the end of 1982-83. The Committee find that the various units were set up/taken over from the State Governments without any planning and without giving any thought to their techno-economic viability. For instance, the 5 handloom units which have accounted for a substantial part of the total loss were taken over from the Government of West Bengal and run as factory units when admittedly such units are normally run as a cottage industry or as cooperative societies. Strangely enough, the Company decided to run these centres initially for a limited period and then to hand them over to the cooperative societies—a decision which could not be subsequently implemented owing to agitation launched by the workers and staff against such a transfer. The Committee would like to point out that the objective of providing employment to displaced persons was not necessarily served by giving them direct employment but could well be achieved by being an instrument for generation of employment. They see no reason why the handloom units could not be organised as cooperatives from the very beginning and the required managerial and financial

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		inputs provided to them. Had this been done much of the losses incurred by the Company on account of running them as factory units could have been avoided.
15	4.53	The Committee also find that not only these units as well as other units were set up without proper planning but even subsequently no steps were taken for their reorganisation. As far back as 1972, the Ministry had decided that in view of heavy losses being incurred by the Company a thorough reorganisation was needed and with this end in view it was considered necessary to close down the units which were commercially not viable and which had no prospects of being made so in future and instead to develop new product oriented units on the advice of qualified technicians/consultants. It is distressing to find that no serious efforts were made to reorganise the various units to make them viable as decided. It should not have been difficult to do so without sacrificing the objective of keeping persons in employment as they could have been absorbed in the new organised units. The Committee would like to be informed of the reasons for this failure resulting in heavy loss of public funds.
16	4.54	The production performance of the various units presented a dismal picture. It was not until 1980-81 that the installed or attainable capacity of various units had been fixed. The Committee could get no satisfactory explanation for this failure. Even with reference to capacity fixed

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		lately, out of 13 running units the capacity utilisation in 1982-83 in 12 of them was below 60% and in 3 of them it was even less than 30 per cent. The production was far below even the targets fixed every year. As against the present break even point of Rs. 18 crores the annual production ranged from Rs. 53 lakhs to Rs. 170 lakhs during 1973-81. Even after belated implementation of the revitalisation plan in 1982, the value of production was Rs. 6.86 crores in 1982-83 and this has again slipped to anticipated Rs. 5.30 crores in 1983-84. Not only the production was low but the products manufactured were in many cases of inferior quality and of out-dated designs. There was also lack of quality control. In one of the Fruit canning units of the Company a loss of Rs. 1.37 lakhs was incurred as the Pine Apples slices exported to three parties were found to be unfit for human consumption. They Committee view with concern the poor performance of the Company resulting from mismanagement, lack of foresightedness and business prudence. They desire that effectiue measures be taken to increase the production in these units at least to the break even level at the earliest.
17	4.55	The sales performance of the Company was equally bad. There was heavy accumulation of finished goods on account of failure to make proper market study and to produce goods as per demand. Accumulated stocks had to be disposed of at heavy losses. For instance, 19126 pairs of shoes were sold in December, 1975 at

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		an incredibly low price i.e. of about Rs 4 per pair on an average. Similarly, the handloom products worth Rs. 7.20 lakhs had to be disposed of in 1971-72 at unusually high rebate of 45%. The canned fruit worth Rs. 3.78 lakhs had to be written off as these had deteriorated in quality on account of long storage. The Committee are distressed to find that the marketing and production planning left much to be desired. They would stress the need for qualitative strengthening of the sales and marketing organisation of the Company to ensure that the Company is able to sell what it produces.
18	4.56	The Company also suffered on account of ineffective cost control. Most of the products were sold below cost and in some cases the sale price did not cover even the direct cost (material and labour). Amazingly there were instances in leather works units where the sales value of production was even lower than the value of materials consumed. Thus, it would have been more economical to pay idle wages than to produce.
19	4.57	The labour productivity was exceedingly low in various units. The value added per man month was far below the average emoluments. In handloom units in 1980-81, the value of production per worker was only 15 per cent of the average wages. It is distressing to find that little efforts had been made until recently to improve labour productivity by taking up production of high value items requiring manual skills and to train the workers for

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		doing such jobs. Had this been done earlier, the manpower available to the Company would have become an asset instead of being a liability. The Committee desire that at least now there should be conscious planning towards making best use of human resources so that the Company is able to redue its cost of production and its products are competitive in the market.
20	4.63	The Committee find that there are several deficiencies in the costing and cost control system. In spite of the fact that some of deficiencies in cost control had been pointed out by the C&AG in his reports since 1979, they are still persisting. The Committee desire that an efficient cost control system suited to the industrial and commercial activities of the Corporation be introduced early by the Company taking into account the various deficiencies pointed out by the C&AG.
21	4.64	In this connnection the Committee regret to note that although the Secretary of the Ministry had assured the Committee that the cost accounts manual would be ready by the end of the year 1983, it has not yet been finalised. They desire that it should be finalised without further delay.
22	5.22	The Company had suffered on account of organisational deficiencies and lack of proper manpower planning. There had been frequent changes in the top management. During a period of 8 years from 1973 to 1980 there were as many as

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		5 changes in the incumbents to the post of Managing Director. There is no gainsaying that such frequent changes at the top level adversely affect the performance of any organisation. There has to be a careful selection of the top executives to ensure continuity in top management for a fairly long period. There was also lack of experienced persons in senior level positions. Some of the units were headed by persons without any technical qualifications although the job content of the units was of a technical nature. Regrettably even after this deficiency had been pointed out by a Departmental Committee in 1971 no serious efforts were made for qualitatively strengthening the various units by induction of experienced officers. The Committee were assured by the Secretary of the Ministry that with the appointment of new MD there were changes in the senior level positions and these were now being held by qualified persons. The Committee hope that the new team would be able to take effective measures to progressively improve the performance of the Company.
23	5.23	While on the one hand there was lack of experienced persons at the senior levels, on the other hand the Company had suffered on account of excessive overheads. No detailed analysis of the manpower requirements of the units and Head Office was made. The total expenditure on salaries and allowances of officers and staff during 1982-83 was of order of Rs. 1.05 crores as against Wage

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		Bill of Rs 1.16 crores for industrial workers. The Secretary of the Ministry conceeded during evidence that the staff at the headquarters was more than required. The Committee find that a Review Committee on the working of the Company had observed as early as in 1975 that the headquarters staff of the Company was highly excessive and no commercial undertaking with a low out-turn like this Company could afford such disproportionate load of administrative overheads. The Committee regret to note that but for a few half-hearted attempts, no serious efforts have been made over the years to rectify this position.
24	5.24	The Committee were informed by the Managing Director of the Company that question of extent of surplus manpower had been considesed by the Board of the Company recently and complete ideatification of excess manpower would be made within six months' time. They hope that this exercise would be completed as promised and the surplus manpower employed productively on other jobs.
25	5.25	During the evidence, the Secretary of the Ministry made a point that employment of untrained displaced persons was partly responsible for low productivity and consequent losses. The Committee feel that on-job training though useful is not sufficient. They would, therefore, like to stress that some employees from each trade may be provided opportunity to receive short term training in the Prototype Development-cum-Training Centres or Industrial Training Institutes to enable them to improve their skills. Those who

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		receive such training facilities may on return impart those technical skills to other persons of the Company in that trade.
26	5.26	During their visit to some of the units, the Committee observed that most of the operations, especially in the Footwear Unit and Fruit Canning Units were done manually. The Committee feel that if some mechanisation is introduced in repetitive jobs, the production would increase. The quality would also improve; thus making goods competitive in market.
27	5.27	The Committee would also like the Company to explore the possibility of deriving benefits or collaborating with well-known organisations engaged in Research and Development activities relating to the operations of the Company with a view to improve the technology employed in its vaoiaus units.
28	6.19	The Committee regret to note that the Company had been incurring losses continuously since inception and the accumulated losses at the end of the year 1982-83 were a staggering figure of Rs. 29.23 crores. Considering the way in which the Company had been managed since the beginning nothing better could be expected from it. Apart from the failures of the management, the Ministry of Rehabilitation could not also be said to have discharged its responsibility towards the Company under its control. One of the contributory factors for the losses of the Company was paucity of funds. In

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29.	6.20	The Ministry also failed to discharge properly its function of monitoring and reviewing the performance of the Company. Although 6 Committees were set up at different times to undertake detailed technical and financial appraisal of the working of the various units of the Company, it is regrettable that most of the recommendations of the Committes were not implemented defeating the very purpose of appointing these Committees. Further, in spite of clear instructions

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		issued by the BPE in 1969 and 1975 for holding the performance review meetings, no such meetings were held till 1981. Even during 1981 and 1982, the review meetings have not been held every quarter as required under the guidelines issued by the BPE in 1975. The Committee regret to note that the Ministry failed to discharge this important function in-spite of the fact that the Company was incurring huge losses since inception and its regular performance appraisal was, therefore, all the more necessary. The Committe hope that at least in future the performance of the company will be kept regularly under review on the basis of reports received under the Management Information System as well as by holding action—oriented quarterly review meetings.
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