TWENTY-FIRST REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS

(1986-87)

(EIGHTH LOK SABHA)

INDIAN PETROCHEMICALS CORPORATION LIMITED—WORKING RESULTS

(MINISTRY OF INDUSTRY—DEPARTMENT OF CHEMICALS & PETROCHEMICALS)

Presented to Lok Sabha on 9 April, 1987
Laid in Rajya Sabha on 15 April, 1987

LOK SABHA SECRETARIAT
NEW DELHI

Price : [illegible]

CORRIGENDA TO TWENTY-FIRST REPORT OF COPU (1986-87) (EIGHTH LOK SABHA)

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*Elected w.e.f. 22.8.1986 in the vacancy caused by appointment of Miss Saroj Khaparde as Minister of State.

Secretariat

1. Shri N. N. Mehra —*Joint Secretary*
2. Shri G. S. Bhasin—*Senior Financial Committee Officer*

INTRODUCTION

I, The Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Twenty-First Report on Indian Petrochemicals Corporation Limited.

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 XII.

3. The Committee took evidence of the representatives of the Indian Petrochemicals Corporation Limited on 30 October, 3, 4, 5, 30 and 31 December, 1985 and also of the representatives of the Ministry of Industry (Department of Chemicals and Petrochemicals) on 24 and 25 Maroh, 1986.

4. The Committee considered and adopted the Report at their sitting held on 3 April, 1987.

5. The Committee wish to express their thanks to the Ministry of Industry (Department of Chemicals and Petrochemicals) and Indian Petrochemicals Corporation Limited 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 Chemicals and Petrochemicals and the Undertaking who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

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

K. RAMAMURTHY,
Chairman,
Committee on Public Undertakings.

NEW DELHI,
April 3, 1987
Chaitra 13, 1909 (*S*)

CHAPTER I

OBJECTIVES AND CORPORATE PLAN

In October 1963, the Government of India appointed a Planning Group to recommend specific steps for implementation of petrochemical projects. As recommended by the Planning Group, a Petrochemicals Division was established in 1964, as part of the Oil and Natural Gas Commission (ONGC). This Division examined the techno-economic feasibility of setting up petrochemical projects around the Gujarat Refinery and drew up project Reports (October, 1966) for Gujarat Refinery Aromatics Projeot (GAP) and the Gujarat Olefins Project (GOP) to be established in the Public Sector. The Indian Petrochemicals Corporation Limited (IPCL), a Public Sector Company with Head Office at Jawaharnagar, near Vadodara, was registered on 22nd March, 1969 with an Authorised Capital of Rs. 30 crores (raised to Rs. 200 crores in 1975-76) to implement these Public Sector Petrochemical Projects (GAP and GOP). Implementation of projects, collectively called Down-stream Units for utilisation of intermediates from GOP, was also entrusted to IPCL. The paid-up capital, as on 31st March, 1985, was Rs. 186 crores subscribed by Government of India.

(*A*) *Objectives*

1·2 The working of IPCL was examined by the Committee on Public Undertakings in 1975. In para 1·35 of their 64th Report (1974-75), the Committee had *inter alia* observed that IPCL had not formulated its statement of objectives/obligations in spite of the fact that IPCL had been asked by the Ministry in 1971 to look into the matter. The Ministry had then admitted during evidence that "in the ultimate analysis, it is the fault of the Ministry" and that they should have pursued it more vigorously. The Committee recommended that the statement of objectives/obligations of IPCL should be finalised without any further delay and placed before Parliament.

1·3 In their action taken note on the recommendation of the Committee on the subject, the Department of Petroleum had informed in March, 1976 that the statement of objectives and obligations of IPCL was expeoted to be finalised by 30th April, 1976.

1·4 However, the statement of objectives and obligations of IPCL, which was approved by the Board of Directors on 28th June, 1977, was submitted to Government of India for approval on 18th July, 1977. These were approved by the then Department of Petroleum only in November, 1983 by which time even the down-stream projects of IPCL (except the VC/PVC units) had been commissioned.

1·5 When the Committee enquired about the reasons for the inordinate delay of 6 years in approving the objectives and obligations by Government, the Chairman-cum-Managing Director (CMD), Indian Petrochemicals Corporation Limited stated during evidence:—

> "The actual confirmation of our micro objectives came in July, 1983. That is a fact........There is no delay on the part of the Corporation either in framing or in implementing the objectives."

He also added that IPCL had from time to time enquired from the Government but had been informed that the matter was under consideration.

1·6 When asked why Government took such a long time to consider and approve the objectives and obligations and on what basis Government had informed the Committee that these were expected to be finalised by 30th April, 1976, the Department of Chemicals & Petrochemicals explained the position in a note as under:—

> "Subsequent to the examination of the working of IPCL by the Committee on Public Undertakings in April, 1975, instructions were again issued to IPCL to finalise the Statement of Objectives and Obligations of the Company. Based on the time frame indicated by IPCL in this regard, the Committee was informed in March 1976 that the statement of objectives and obligations was expected to be finalised by 30th April, 1976. As it is, the draft of the statement of objectives and obligations was however submitted by IPCL in July 1977 only. Time was taken in processing this in the Government and a further setback was in the form of loss of the relevant file in BPE. The delay is sincerely regretted."

1·7 On an enquiry about the yardsticks against which the Ministry was assessing periodically the performance of IPCL, in the absence of approved objectives and obligations, the Committee were informed in a note that the performance of IPCL was being monitored having regard to the role assigned to the public sector as per guidelines issued by BPE from time to time. Specifically the yardsticks used for assessment were the key indicators in terms of time and cost schedules for approved projects and production, sales and financial targets as presented in the Annual Plan and performance Budgets.

1·8 As per guidelines issued by BPE in November, 1970 and reiterated in May, 1979, the statement of objectives and obligations of public undertakings should lay down the broad principles for determining precise financial and economic obligations of the enterprises in matters such as—creation of various reserves, the extent to which enterprises should undertake the responsibilities of self-financing, the anticipated returns on the capital employed and the basis for working out national wage structures and pricing policies.

1·9 The main objectives of IPCL as finally approved by Government are :—

(a) to create a sound base for the manufacture of major petrochemicals in the country and to produce petrochemicals of international standards;

(b) to assist the user industries by providing technical guidance on optimal use of petrochemicals wherever required and feasible;

(c) to create a strong research and development base in the field of such petrochemicals;

(d) to maximise the utilisation of capacity of plants and equipments;

(e) to earn a reasonable return on investment.

1·10 On being pointed out that the above objectives of IPCL were worded in too general terms and needed to be quantified further through micro objectives to guide the Company's detailed functioning, the Department of Chemicals & Petrochemicals stated in a written reply as under:—

"As per BPE guidelines referred to by the Committee the statement of Objectives and Obligations of Public Undertakings should lay down the broad principles." These objectives and obligations should, however, be such that based on these the undertaking should prepare the micro objectives such as precise physical and financial targets which are reflected in the Five Year Plans and in much more detail in the Annual Plan. Further, the Statement of Objectives and Obligations normally do not undergo change for fairly long periods whereas micro objectives in keeping with the spirit of the statement are drawn frequently in accordance with business environments, constraints and growth prospects, etc."

1.11 The working of IPCL was examined by the Committee on Public Undertakings in 1975. In para 1·35 of their 64th Report (1974-75) the Committee had *inter alia* observed that IPCL had not formulated its statement of objectives/obligations in spite of the fact that IPCL had been asked by the Ministry in 1971 to look into the matter. The Ministry had then admitted that "in the ultimate analysis, it is the fault of the Ministry" and that they should have pursued it more vigorously. The Committee was then informed in March, 1976 that the statement of objectives and obligations of IPCL was expected to be finalised by 30th April, 1976. The statement of objectives and obligations was actually approved by the Board of IPCL only on 28th June, 1977. Thereafter the Department of petroleum took six years in processing and part of the delay is attributed to loss of relevant file in BPE. The objectives and obligations of IPCL were finally approved in November, 1983. The net analysis is that while the Company took six years to prepare a draft statement

of objectives and obligations, the Government took another six years to consider that draft statement. Even conceding that part of this long delay is due to loss of the file in BPE the Committee cannot but deprecate this casual approach both on the part of the Undertaking as well as the Ministry. This inordinate delay has resulted in the Company having to work for a long time during crucial years of its development without any specific statement of objectives and obligations.

(B) Corporate Plan

1·12. BPE had issued instructions in 1974 to all the public sector enterprises for preparation of Corporate Plans and submission of the same to the Administrative Ministry for formal ratification. With the objectives and obligations having been approved only in November, 1983, IPCL decided to draw up a long range Corporate Plan only in August, 1984. During evidence the Committee were informed that the Corporate plan was prepared by IPCL in May, 1985, adopted in October, 1985 and was in the process of being submitted to the Government for approval. The First Corporate Plan of the Company has been prepared to cover the period from 1985 to 1995.

1.13 The Committee enquired whether the Corporate Plan had been received and approved by the Ministry. To this, the Ministry replied in a written note as under :—

"IPCL has submitted to the Government its Corporate Plan covering the period 1985-92 as approved by its Board of Directors, on 28th February, 1986. It however does not require the Government's formal approval."

The Ministry further stated :

"The Corporate Plan of IPCL will be reviewed generally with a view to ensure that objectives mentioned therein are in consonance with the perspective plan for the development of Petrochemical Industry as a whole and that the objectives therein shall lead to an intrinsic growth of the organisation technologically and otherwise."

1.14 **Even though guidelines had been issued as far back as in 1974 by BPE to all the public undertakings to prepare their Corporate Plans and get them ratified by the concerned Administrative Ministries, IPCL initiated action in this behalf only in August, 1984. Precious ten years were lost as the statement of objectives and obligations of the company was finalised only in November, 1983. Even thereafter it took IPCL more than a year and a half to finalise and submit their Corporate Plan for approval to the Ministry. The Department of petroleum in one of their circulars issued on 29th June, 1984 requested all the public undertakings under their control to prepare Corporate plans of their organisations and submit the same for formal ratification/approval to the**

Department. Strangely, a stand has now been taken by the Department of Chemicals and petro-chemicals that the Corporate Plans do not require Government's formal approval. In this connection, the Committee would like to recall that in para 1·17 of their 91st Report (7th Lok Sabha) on Bharat Petroleum Corporation Limited, the Committee had recommended that 'specific approval of Corporate plan by Government is necessary having regard to the need to correlate it with the national Five Year Plans and to indicate the direction that the Company should take.' This recommendation had been accepted by the Ministry of petroleum and implemented. It is relevant to mention that IPCL was at that time under the Administrative control of Ministry of petroleum. The Committee desire that the Corporate plan submitted by IPCL in February 1986 may be formally ratified by the Ministry without any further delay and the Committee informed of it within 3 months of the presentation of this Report.

CHAPTER II

QUALITY OF NAPHTHA

(*A*) *Aromatics Plant*

2·1 The main raw material for Aromatics plant and Olefins plant of IPCL is Naphtha supplied by the Gujarat Refinery of the Indian Oil Corporation (IOC). The Xylene Unit of the Aromatics Plant was designed to process Naphtha having precursor content of 44·77 per cent. However, beginning from the start up of the Unit in May, 1973, the C. 8 precursor content of Naphtha supplied by Gujarat Refinery of the Indian Oil Corporation (IOC) varied between 35 to 42·7 per cent. Consequently, the rated capacity for production of xylene was not achieved.

2·2 The Audit has brought out that the production of xylene was less than rated capacity throughout the period from 1976-77 to 1984-85 and a major part of the shortfall was directly attributable to the quality of Naphtha received from Gujarat Oil Refinery during those years as would be seen from the production figures given below:—

(Figures in MTS)

Year	Total shortfall in production	Shortfall due to	
		Naphtha Quality	Ot er reasons
1976-77	5544	1502	4042
1977-78	2796	2745	51
1978-79	1869	2210	+341
1979-80	2456	2486	+30
1980-81	2941	971	1970
1981-82	3752	1424	2328
1982-83	5142	1232	3910
1983-84 .	3441	1828	1613
1984-85	3570	1780	1790

2·3 As regards the quality of Naphtha produced by the Gujarat Refinery, the Committee were informed during evidence that at the time of designing of the IPCL Complex, Gujarat Refinery's maximum crude supply used to come from Ankaleswar and the C. 8 precursor content of 44% was based on exclusive use of Ankaleswar crude. On being asked whether at the time of construction of the Aromatics plant at IPCL the quality of naphtha to be made available to it, was considered, the CMD, IPCL stated during evidence:—

"....In the years 1969-70 when we were planning the aromatic complex we took into consideration what kind of crude will be there and what kind of naphtha will be produced. But today there is no commonality in what we have decided to produce and what we are getting."

2·4 In this connection the Executive Director (Projects) of IPCL stated during evidence:—

"We had a detailed discussion on what could be the type of naphtha that could be supplied when the aromatic plant would come up. At the time the Gujarat Refinery was set up, it was based on the Ankaleswar crude. The Gujarat crude was also coming into picture at that time. So, we thought that these two will be the potential crude which will be supplied to the refinery, and it was on that basis that we fixed the percentage of precursor. But since then firstly, the Ankaleshwar crude has changed to some extent, and secondly, the refinery operation has also changed. In terms of profitability, they have changed their operation to some extent. So, it is the combined result of all these things that has resulted in the decrease in percentage of precursor..........The specific answer would be yes, we knew what would be the analysis of Naphtha over a period of time, but things have changed since then and we are talking of a very long period when a lot of changes took place in the refinery."

2·5 The Committee pointed out that the very purpose of setting up the IPCL in Baroda was to provide a proper facility of the by-products of the Gujarat Refinery. In that context, the Committee enquired if at the time of evolving its own norms IPCL were not aware of the quality of naphtha that Gujarat Refinery could produce. In reply, the CMD stated during evidence :—

"The design norms were chosen in the year 1972-73 when there was no sign of crude from Bombay High and it was based primarily on Ankleswar crude and the North Gujarat crude scenario. When things have substantially changed after the design is chosen, you cannot build flexibility to the extent of 4% aromatics or 10% aromatics content, That is not possible."

2·6 The Committee were informed that in 1981-82 IPCL realised the necessity of modifications in design on account of the naphtha available from Gujarat Refinery being qualitatively different from what was originally envisaged, 2·7 On an enquiry if the question of quality of naphtha was taken up with the Gujarat Refinery, the CMD *inter alia* stated during evidence:—

> "This problem arose out of the compulsion in refinery operation that they have to use today a mixture of crudes. When this plant was designed it was based on using primarily what is known as the Ankleswar crude which has a rich aromatic blend. Today the situation has dramatically altered. Today with the Bombay High crude, the Gujarat crude and the Ankleswar crude the quality of the naphtha is beyond the refinery's control. They have even told us that they can give us only 40% as against 47% and we have to accept it. It is not possible for them to change. When we talk about the naphtha for the cracker it is also very important that the aromatics content should not be more than 4·5% but we are constantly getting 7 to 10 per cent, because they were compelled to use 2·2 million tonnes of Bombay High crude. So it is not in their hands to improve this. These things were not foreseen when IPCL was built in 1972-73,

2.8 The Committee pointed out that the Gujarat refinery could not maintain the percentage of the quality of naphtha required for the aromatic plant. When asked whether it was due to any mistake in analysis at the earlier stage or the production pattern was changed by IPCL, the Secretary Ministry of Petroleum and Natural Gas informed the Committee as under :—

> "The refinery had agreed to supply naphtha for the aromatic plant IPCL analysed it and found it was not up to the mark. Ankaleswar crude was also depleting and the refinery took some subsequent efforts to improve it. But even then they found it below the rate it has been estimated earlier. They tried all means to rectify this and to increase the C. 8 precursor content by taking special cut naphtha. The problem improved after the Bombay high crude began to be processed from 1979-82. It was finally decided to get the naphtha from Bombay with C. 8 precursor content of 42 percent, which is very close."

2·9 In this connection, the Secretary, Ministry of Industry (Department of Chemicals and Petro-chemicals) also stated during evidence :—

> "The plant was designed on the basis of a figure of 44. It may be quite possible that sometime what they expect is that the future oil supply would be of such and such a quality. I have also analysed the production of the last few years. The capacity utilisation of IPCL based on the present Naphtha is of lower quality than the originally anticipated quality. It was of the order of 85 to 90%. Physically 90% capacity utilisation is not there for any petro-chemical plant. This problem is being sorted out now since IPCL is executing an expansion project. The tech-

nology being adopted is such that they remove all the bottleneck in the Naphtha problem. Both of them are resulting into the capacity utilisation of 90% instead of higher. Both of these will be sorted out in the expansion project which takes more than double the present capacity."

He further stated :

"They think that they will get Naphtha of such and such quality but they don't get. The sample as received by IPCL was taken to their technology consultant and was analysed. It could be said that that particular sample was of different quality; but the later supplies did not totally conform to that sample."

2·10 When asked as to what role did the Department of Petroleum as the administrative Ministry of both IOC and IPCL, play to sort out the issue regarding supply of low quality naphtha and consequent shortfalls in production of xylenes in GAP, the Ministry of Petroleum and Natural Gas informed the Committee in a written reply as under :—

"The design was based on analysis of a sample of naphtha from Ankleswar crude which gave 44·77% by weight of C. 8 precursors. However, it was later found that from the naphtha produced from the Gujarat Crude, it was not possible to get naphtha of this specification. Naphtha supplies for GAP unit commenced in 1973. There was no shortfall in supplying the agreed quantity of 1,20,000 tonnes of the cut range 110—140°C. For the period upto 1975, the compensation for the loss of middle distillates was amicably settled by the parties through discussions. After the introduction of OPC pricing formula in 1975, the production and supply of this quantity was built into the product pattern of the refinery.

As a long term solution, installation of pre-fractionator in IPCL premises was explored. For this they wanted 1,84,000 tonnes of 110—140°C cut. IOC agreed to supply, but pointed out the adverse repercussions on the product pattern including loss of middle distillates and increase in production of LSHS. The economics of investment on a pre-fractionator and higher price for naphtha was not found viable."

2·11 The Committee On Public Undertakings (COPU) was informed in December 1975 that long-term measures for sustained supply of the requisite quality of naphtha were being considered. In March 1976, the Company informed COPU that long-term measures envisaged installation of prefractionation facility which was expected to be in operation by early 1978.

2·12 On the basis of discussions by IPCL with Gujarat Refinery, EIL and Indian Institute of Petroleum EIL undertook (March 1976) studies for the installation of naphtha prefractionation facilities. These envisaged a throughput of 1,80,000 tonnes of naphtha per annum, of which, after prefractionation, 50,000 tonnes of lighter fraction and 1,00,000 tonnes of heavier fraction were to be returned to the Refinery. Gujarat Refinery expressed (May 1976) their inability to supply this quantity of naptha on the ground that it would result in considerable loss to IOC on account of lower production of middle distillates and difficulties in the disposal of the resultant higher output of Low Sulphur Heavy Stock. Further trials conducted in the Refinery to imprve the quality of naphtha being unsuccessful, IPCL considered obtaining naphtha from other sources (December 1976) which was also not feasible on account of problems of transportation.

2·13 IPCL prepared (December 1980) a project formulation Report for setting up naphtha prefractionation facilities at a cost of Rs. 250 lakhs and submitted (January 1981) the same to GOI for approval.

2·14 In March 1981, samples of Bombay High Naphtha were collected from the Gujarat Refinery which showed C-8 Aromatics precursors level of 52 to 54 per cent and sulphur level at 25-30 ppm. However, later samples showed that the sulphur Content which was the main constraint for not using it earlier in xylene plant was within the acceptable limits of IPCL's reforming catalyst. In view of the encouraging C-8 aromatics potential of Bombay High Naphtha, the scheme for putting up a prefractionation facility was considered redundant and dropped.

2·15 Explaining the reasons for non-implementation of pre-fractionation proposal which was formulated in 1975 and aborted in September 1981, CMD stated during evidence *inter alia* as under :—

> "IPCL could not pressurise Gujarat Refinery to produce Naphtha of a good quality because they say you compensate us for the loss of middle distillates. In this particular situation the IPCL management could not proceed with speedy implementation of the proposal between 1975 and 1981. September 1981 situation changed because the unit was sanctioned and we asked the Government to go for 96,000 tonnes xylenes project and we said there is no case of going in for 6,000 tonnes proposal."

2·16 Asked why Gujarat Refinery's proposal for compensation for loss of middle distillates to the refinery was not accepted by IPCL, the Director (Operations) of IPCL stated in evidence :—

> "The Refinery did not have adequate quantity of the quality naphtha required for the Aromatics. The naphtha is specially cut naphtha which has boiling point of 110 degrees and finally going to 140 degrees. The refinery at best would give only 112 to

120 thousand tonnes. We expected to get naphtha upto 180 thousand tonnes. The requirement was more by 60,000 tonnes. This was not available from the refinery till the FCC unit came into being. Even when they came into operation, they were having their teething problems. It was not possible to get adequate quantity till 1982. Our own naphtha cracker unit had gone into operation from 1978 onwards. Whatever was available from existing atmospheric units was given to us."

2·17 The Committee desired to know whether the Gujarat Refinery had made some offer to IPCL to improve the quality of naphtha and the offer was rejected by IPCL. In this connection, the CMD stated :

"The issue of getting 1,80,000, tonnes of Naphtha per year was initiated between IPCL and Gujarat Refinery during the year 1975. Gujarat Refinery has been consistently maintaining that if they have to give us the additional Naphtha, this results in less production of middle Distillates and higher production of a thing called LSHS for the fuel oil production.

They have been asking us whether we would be able to compensate them. They have supplied the figures in 1977, we could not form a case to the Government or to the Gujarat Refinery on this issue. So, between 1977–80 December, IPCL management could not take the offer. In December, 1980, IPCL came to the Government with the report on pre-fractionation facility."

2·18 Regarding the terms of the offer and the amount required to be paid by IPCL to the Gujarat Refinery, the Committee were informed that IPCL would have to pay Rs. 480 per tonne for the losses that the Refinery would have incurred.

2·19 As regards the reasons for rejection of offer the Committees were informed during evidence :—

"We have not been able to say that amount of money so we could not meet that demand. We could not recover in the selling price of Xylenes....in the Internal discussions we had, we found that the reason that prevented us was basically that they could not see a commercial way by which we could pay this additional money to the refinery and get the price by way of higher selling price."

2·20 When the Committee enquired about the quality of naphtha now available, the CMD stated :

"When this plant was designed for making xylenes it was based on Gujarat refinery using Ankleshwar crude for producing re frery products. That was the situation in early 1970. By the time we came to produce Xylene from 1973 we saw the deterioration taking place from 44 per cent to 36 per cent. It affected our production. Then same optimisation work was done by IOC with the help of EIL and Indian Institute of petroleum and that was the time when Bombay High crude started coming to Gujarat refinery. With the mixture of these crudes the average figure improved from 38 to 42 per cent. Today, the situation is such that with all the optimisation and various other things, we are not getting the required standard of naphtha. The average limit is betweeen 40 to 41 per cent. The shortfall in production is something like 8·75 per cent.

From December, 1985 upto third quarter of 1988, we have to reconcile with this present situation. But by September, 1988, there will be some qualitative change because at that time some major changes will be taking place inside the IPCL. When this revamping is done, we will be able to double our production."

2·21 On being pointed out that when it was known that the naphtha supplied by the Gujarat Refinery to IPCL was not of the requisite quality, how this arrangement was allowed to be continued for such a long time, the Ministry of Petroleum and Natural Gas stated in a written reply as follows :

"There was obviously an error in analysis of 110–140°C cut naphtha used for design of this unit as the value of 44·77% of precursors has not been found at any time later even in the series of controlled test runs carried out jointly by ICC with IPCL and EIL, using the operating parameters suggested by EIL. However, new cut ranges had been established and supplies were accordingly made to improve the precursors upto 40–42% for a period of about 7 years from 1975-76 to 1982-83 and continued latter with BH crude."

2·22 Asked to spell out the concrete measures initiated by the Ministry to overcome this constraint, the Ministry of Petroleum and Natural Gas stated that "presently supply of Bombay High Crude to Koyali refinery was maintained as naphtha from this crude has higher C. 8 precursors compared to Ankaleswar naptha. This is to help the Koyali refinery to possible supply preferentially the naphtha cut from Bombay High which is the best thing that can done at present under the circumstances."

2·23 In the same context, the C.M.D. stated during evidence :—

"But for xylenes, I will have to reconcile with the present state of affairs, that is getting not more than 1,20,000 tonnes of Naphtha with the precursor level not more than 41 to 42 per cent. And, therefore, we cannot achieve more than 80 per cent rated capacity of para-xylene and for Orthoxylene, it will be around 93 per cent."

(*B*) *Naphtha for IPCL Naphtha Cracker*.

2·24 In regard to the quality if naphtha used in the Naphtha Cracker to Gujarat olefins project, it has been stated.

"IPCL Naphtha Cracker has been designed to process 4,50,000 MTA of Naphtha. Naphtha Cracker was commissioned in 1978 and Naphtha quality had been close to design till January, 1981 From February 1981 onwards aromatics content in GOP Naphtha had increased and in one or two batches it had gone as high as 14 to 15%. Aromatics being refractory in nature, it had affected the yield of gaseous products and also resulted in more energy consumption.

This problem had been taken up with the Ministry and discussed in the working group on feed-stock for existing petrochemicals and fertilizer plants.

This problem was mainly due to processing of crude from different sources and more of Bombay High crude. As it was difficult to change the pattern of crude processing in Gujarat Refinery to meet IPCL's requirement of Naphtha quality for GOP, other possibilities were looked into :

With the varying crudes in the crude mix available to Indian Refineries the availability of low aromatics naphtha was decreasing and the naphtha this made available would have about 6 to 8% aromatics and may even go upto a maximum of about 10%.

It has been further stated :

"In 1981-82 IPCL was in dialogue with Lummus on energy conservation scheme that can be considered for implementation in our cracker. Some of the schemes suggested were in the heater and hot oil section. Availing this opportunity, hot section/heater revamping is being done to take care of aromatics in Naphtha upto 9% and thus design quantity of ethylene production is likely to be ensured.

This however will result in increased demand of about 5,20,000 MTA by 1987-88 from the current level of 4,50,000 MTA. Against this IOC has expressed that they can supply only about 3,50,000 MTA of GOP Naphtha having less than 10% of aromatics from 1986-87.

For the deficit, following alternatives have been considered :

1. With the commissioning of Bharat petroleum's aromatics plant, two streams i.e. IBP-60 and aromatics plant raffinate are available. IBP-60 is an acceptable feedstock but its RVP is high and it poses problems in transportation. Bharat Petroleum Corporation has been requested to instal facilities to overcome this problem and also for loading etc. The raffinate, however, is earmarked by BPC for Hexane production and hence it is not available.

2. Imported Naphtha : For this rail rake unloading facility and tankage are already provided at IPCL end. The matter is being taken up with Oil Coordination Committee.

3. Hazira Condensate : As such this also cannot be used due to its very high aromatics content."

2·25 The Committee desired to know why naphtha of the requisite quality was not imported by IPCL. In reply, the Director (Operations) informed the Committee during evidence as under :—

"You have rightly said that naphtha seems to be the problem as for as capacity utilisation of this complex is concerned. We are using naphtha in two plants, mother plants, —the aromatics plant and the olefins plant. The aromatics plant needs naphtha which is rich in aromatics and it has also have a special boiling point because we are keen on getting only C-8, as we call it. If I have a naphtha which is rich in aromatics this is not going to be of any use to me in the case of the Olefins plant which is producing ethylene, etc. it should have naphtha which is very rich in paraffins and it should preferably have a lower boiling point so that the cracking conditions are easy and I get a better yield. In this particular case, because of the input of Bombay High or other oils which are being put through the refinery, we are getting aromatic rich naphtha, and this naphtha cannot be used in the olefins plant. In the international market we cannot dictate saying that we want only C-8 or C-7 or C-6 or that we want 78 per cent or 82 per cent, and so on. This sort of trading is not done in the international market. We have to take what is available and perhaps have some more units which can treat this. We call it 'extraction. There are a number of ways by which, by investing more money, we could make this, naphtha suitable for our further processing. It is very difficult to import what you call 'broad range naphtha' and try to use it within the complex. Naphtha is dependent on the crude oil which comes from different sources, even within India."

2·26 On an enquiry as to why IPCL did not set up its own refinery to overcome this problem the Chairman & Managing Director stated :—

> "There are major organisations and large companies in the world. Most of them run their own refineries and in this kind of operation it is possible to minimise these problems, We have to determine in our own instant case that IPCL production limiting is occasioned by the aromatic content or 5% higher than the stipulated maximum extent."

2·27 The witness futher informed the Committee that it was not possible for IPCL to take up refinery operation. now. On further enquiry whether it was not technically or financially possible to set up such a unit, the Chairman & Managing Director stated :

> "No Sir, primarily on financial grounds and also on important technical grounds IPCL could not have arranged this."

2·28 Asked about their future plan in the event of these sources having been cut off, the CMD informed during evidence :

> "We have to get it from Mathura enough imports. The capacity of Mathura is 6 million tonnes and they will make very large quantity of Naphtha which is not fully committed."

2·29 The CMD further informed the Committee during evidence :

> "We have been having a continuous dialogue with the Refinery because they themselves were not sure about the profile of the crude oil which they will get from Bombay High. Only recently they were unable to give adequate Naphtha because they are also having another problem for reasons of the crude oil availability in Gujarat. That is, with higher production of crude oil from the North Gujarat fields, the North Gujarat crude is going to be the major crude oil in the refinery operation and this is going to considerably reduce the naphtha supply, bring down the quantity of Naphtha from the refinery. There are two problems; one is the aromatic content and the other is the quantity of Naphtha. Taking this into consideration, finally we have decided that we should be allowed to import Naphtha."

2·30 In this connection, the Committee were further informed during evidence :—

> "We have been pursuing with the Bharat Petroleum Corporation Limited for our cracker plant requirements. There, the problem is that the boiling point is very low and it is very difficult to move it in rail tankers. They have to make some modifica-

tions. They need approximately Rs. 3 crores to bring about this change. We have requested the Government that the amount may be sanctioned and they should be allowed to proceed to make this naphtha available. We are in dialogue with IOC which is the canalising agency for bringing naphtha from outside. We need 100 to to 200 thousand tonnes of naphtha. Since the Gujarat Refineries cannot give us anything more than 3,50,000 tonnes , we asked the IOC to let us know the cost and all those things."

2·31 Asked about the action taken on the request of IPCL and how long will it take BPCL to make the necessary modifications to make requisite quality of naphtha available to IPCL, the Ministry of Petroleum and Natural Gas stated in a writen reply :

"An agreement is being negotiated between BPCL ank IPCL regarding the funding of a scheme costing around Rs. 3 crores to make a suitable IBP—60° C cut for movement by railway wagons to IPCL. The time-frame agreed upon between the two companies for completion of this project is approximately two years from the date of approval."

2·32 In reply to a question that since the Ankaleshwar resources are depleting and Gujarat Refinery is not in a position to supply the requisite quality and quantity of naphtha, what action has been taken to make uninterrupted supply of naphtha to IPCL in future, the Ministry of Petroleum & Natural Gas stated in a written reply :

"There has been no shortfall in supplies to GOP naphtha to IPCL till date from Koyali Refinery. IPCL have projected that the requirements of naphtha for GOP will increase to 5,20,000 tonnes per year. The increased requirements cannot be met from the production in the Koyali Refinery due to changed on-shore crude mix available for processing in Koyali Refinery. These are to be met from outside like movement from BPCL, Bombay or imports through Kandla. The facilities at Kandla to receive the naphtha from imports have been established. Agreement is being negotiated between BPCL and IPCL for additional investment in BPCL to produce a suitable quality of low aromatic IBP—60°C cut for supplying to IPCL."

2·33 Asked about the steps taken by IPCL to avoid losses on account of non-availability of good quality naphtha from Gujarat Refinery, the CMD stated during evidence :—

"We have taken several initiatives to improve the state of affairs. The first is, we have provided facilities in our complex to accept material by rail tankers and also storage facilities have been augmented. The infrastructure has been built. Secondly, we have looked at the quality of naphtha being produced by the Mathura Refinery and the Bharat Petroleum Corporation to see whether their naphtha will be better than what the Gujarat Refinery is able to give us. We find that in the Bharat Petroleum Corporation there is one stream which can meat our requirement very satisfactorily. But for that they have to make some modification in their plant. They need approximately Rs. 3 cores to bring about this change. On this particular point we are having discussion. We think that we should be able to get good quality naphtha from Bharat Petroleum Corporation and in a good quantity in the foresceable future. The third initiative we have taken in, we are in dialogue with the Indian Oil Corporation and the Oil Coordination Committee of the Government of India we are exploring the possibility of importing a part quantity of right quality of naphtha and bringing to Kandla and then moving by rakes from Kandla. Fourthly, we are revamping our cracker plant itself so that, even with a comparatively poor quality of naphtha we can maximise the production in our Olefins stream in the foreseeable future. This particular change, what we call, the 'heater modification job' is also underway, and in the next twelve months this work should be completed.... All these things are being done to correct a deficiency to the extent of four to five per cent."

2·34 The main raw material for both the mother plants of IPCL namely Aromatics and Olefins is naphtha, which is supplied by the Gujarat Refinery of the Indian Oil Corporation. The xylenes unit of the Aromatics plant of IPCL was designed to process naphtha having C-8 precursor content of 44·77 per cent. However, right from the start up of the Unit in May, 1973, the C-8 precursor content of naphtha supplied by the Gujarat Refinery has ranged between 35 and 42·7 per cent and has never reached the specified limit. This has adversely affected the production of xylenes so much so that throughout the period from 1976-77 to 1984-85, the production of xylenes was less than the rated capacity. Consequently the Company had to import paraxylene at a total cost of Rs. 21·18 crores during 1981-85 to meet the needs for production of DMT.

2·35 The problem of quality of naphtha suplied to IPCL by the Gujarat Refinery had been highlighted as far back as in 1975 by the Committee on Public Undertakings, when it reviewed the working of the IPCL. The Committee had then been assured that long term measures for the sustained supplies of the requisite quality of naphtha were being taken. It is a matter of deep concern to note that even after more than a decade the problem of supply of naphtha of adequate quality has not been satisfactorily resolved and the shortfall

in production of xylenes and its co-products thus persists due to non-implementation of remedial measures which were identified long back and about which a commitment was made to the Committee on Public Undertakings in December, 1975.

2·36 As regards the quality of naphtha supplied by Gujarat Refinery, the Committee have been informed that at the time or designing of the IPCL Complex, Gujarat Refinery's maximum crude supply used to come from Ankaleswar and the norm of C-8 precursor content of 44% was based on the exclusive use of Ankaleshwar crude by the Gujarat Refinery. However, with the growing use of Gujarat crude and Bombay High crude by the Gujarat Refinery as also the changes in the operation of the refinery, the quality of naphtha supplied to IPCL went beyond refinery's control and naphtha with C-8 precursor content of 44% could never be supplied to IPCL. It is interesting to note that the Ministry of Petroleum & Natural Gas has now come forward with an explanation that there was "obviously an error in analysis of 110-140° C but naphtha used for design of the unit as the value of 44·77% of precursors has not been found at any time later even in the series of controlled test runs. This seems to be an after-thought as in May, 1976, the Gujarat Refinery had expressed their inability to supply adequate quantity of requisite quality of naphtha on the ground that it would result in considerable loss to the refinery on account of lower production of middle distillates and difficulties in the disposal of the resultant higher output of low Sulphur heavy Stock (LSHS). It is also on record that Gujarat Refinery had made an offer to IPCS to improve the quality of naphtha if the IPCL could compensate the refinery for the rusultant loss. This offer was rejected as the IPCL and the refinery could not successfully negotiate the commercial terms on which the refinery could be compensated for the enhanced cost involved in improving the quality of naphtha. It is thus clear that the then Department of Petroleum as the Administrative Ministry of both IPCL and the Gujarat Refinery failed to play a meaningful role in sorting out the issue/regarding supply of low quality naphtha by the refinery and consequent shortfalls in production of xylenes in the Aromatics Plant of IPCL.

2·37 The Committee find that the Company has considered various measures to improve the production of xylenes but the non-availability of naphtha of the requisite specification is still eluding satisfactory solution of the problem. As long term measure considered for getting over the problem of inadequate supply of requisite quality of naphtha envisaged installation of prefractionation facility, but the economics of investment on a prefractionator was not found viable and therefore the proposal for the facility, which was expected to be in operation by early 1978, was considered redundant and dropped in 1982. The present situation is that even after some optimisation work done by IOC with the help of EIL and Indian Institute of Petroleum, IPCL is not getting the required standard of naphtha and the shortfall in production is about 8·75 per cent. This position is expected to continue upto the end of 1988, when the expansion project for increasing the production of xylenes, now under execution, is likely to be completed. It is only to be hoped that the expansion project is completed on schedule.

2.38 From the above, the Committee cannot but conclude that right from the beginning the question of supply of naphtha of requisite quality for the aromatics plant of IPCL has not been handled in a prudent manner. Even though it was patently clear that the Gujarat Refinery could not meet the requirements of IPCL, both for technological and commercial reasons, the problem was allowed to persist for too long. If sincere and concerted efforts had been made at the Ministry's level to sort out an essentially inter-firm problem, the Committee have the least doubt that the problem could have been resolved amicably much earlier to the satisfaction of both the undertakings.

2.39 Apart from the naphtha used in the Aromatics Plant of IPCL, the quality and quantity of naphtha used in the Naphtha cracker of IPCL has also posed problems for the undertaking. It has been stated that Naphtha Cracker designed to process 4,50,00. MTA of naphtha was commissioned in 1978 and naphtha quality had been close to design till January, 1931. Thereafter because of processing of crude from different sources and more of Bombay High Crude, the maintenance of the quality of naphtha supplied for Naphtha Cracker became a problem. As it was difficult to change the pattern of crude processing in Gujarat Refinery, the IPCL's requirements of naphtha for its cracker could not be met. The problem has been allowed to drag on and no satisfactory solution has been found so far. The Committee consider it as a highly unsatisfactory state of affairs which calls for urgent and conclusive remedial measures.

2.40 The Committee are surprised to note that a revamping of the naphtha cracker at IPCL had been planned but it involved increased supply of naphtha by the Gujarat Refinery from the current level of 4,50,000 MTA to 5,20,000 MTA by 1987-88. Against the enhanced requirements, the refinery has expressed that they can supply at best only about 3,50,000 MTA of Naphtha for the cracker having less than 10% of aromatics from 1986-87. For meeting the balance requirement other alternatives are being considered. Among these measures even import of naphtha of adequate quality has been considered. However, no firm decisions seem to have been taken so far. This is despite the fact that the problems in the supply of naphtha to fertilizer and petrochemical plants are regularly reviewed by the Oil Coordination Committee, which suggests solutions that are acceptable to both consumers and suppliers. It is difficult to believe that all these years it has not been possible for Oil Coordination Committee to find a solution for the problems of IPCL. Obviously there has been lack of concerted efforts and the Committee condemn this obvious inaction on the part of the Oil Coordination Committee.

CHAPTER III

RESEARCH AND DEVELOPMENT

3·1 It is noted that research activities at IPCL were started in 1973 even before commissioning of the major plants consisting of Naphtha Cracker and down-stream units. A capital cost of Rs. 8·9 crores has already been incurred on the Research Centre. During the Seventh Plan period, capital expenditure on R&D Schemes is estimated to be of the order of Rs. 31 crores. Scheme-wise details of the proposed expenditure are given below:—

	Rs./Crore
Research & Development Expansion	1·3
Pilot Plant for Fibres	5·3
Pilot Plant for Polymers	3·3
Pilot Plant for Catalysts	6·9
Carbon Fibre and Composite demonstration unit	14·0
	30·8

The Research Centre had a strength of 196 as on 31st March, 1985 which included 44 Scientists with doctoral degree and 13 professional engineers. The current operating revenue expenditure on the research centre is Rs. 1·2 crores per annum.

3.2 On being asked about the justification for so much expenditure on R&D, the CMD, IPCL stated :

> "The first phase of expenditure to the tune of Rs. 8·9 crores is primarily relating to infrastructural facilities, i.e. research buildings, very sophisticated instruments and so on, and general support services like electrical connections, air-conditioning etc. The next phase is not to have a new building and all that This investment of Rs. 31 crores is for the four different pilot plants."

In the same context, the witness added :

> "Regarding the investment of Rs. 30 crores in research, I would like to say that we are a national organisation and there is no other body in the field comparable to our size. We should be encouraged in this kind of long term work so that we can become a pioneering corporation. We are setting up very significant pilot plant facilities, without which we cannot be a ble to meet

the plans of tomorrow. We are going to build four different pilot plants in the area of catalysts, polymers, synthetic fibres and carbon fibres. This will take about Rs. 18 to 22 crores total, i.e. the capital investment. Our running cost today is less than Rs. 1·2 crores per annum and it will go upto near about Rs. 2 crores in future. I think that for a company of our size, which has got a sales value of approximately Rs. 600 crores per annum to spend in research about Rs. 1·2 crores and a capital expenditure of Rs. 30 crores in the next five years is quite reasonable in my judgement."

3.3 When asked to state the present stage of completion of the various programmes and the extent of benefits accrued in the production performance of the Company upto 31 March, 1985, IPCL stated in a written reply that out of the various programmes that were being carried out and that had been completed at the Research Centre, the total average annual benefits for the Company had been approximately Rs. 206 lakhs on the four research programmes taken up for implementation between 1981-82 and 1984-85.

3.4 In reply to a recommendation made by the Committee on Public Undertakings in Paragraph 8·12 of their 64th Report (1974-75) that Government should undertake an objective appraisal by an independent expert body of the work done by the Research & Development Centre from year to year in order to see how far the Centre has succeeded in achieving the objectives for which it has been set up, the Committee had been informed that at an appropriate time suitable mechanism for reviewing the performance of the R&D Centre would be devised.

3.5 When the Committee enquired about the implementation of the above recommendation of the Committee, the Chairman and Managing Director of IPCL stated during evidence:—

"This recommendation of the COPU in 1975 was to the Government that they should organise from year to year a review. In fact, year to year review has not taken place. Internally, in IPCL, we have a system by which every three months we review all our projects to find out whether they are succeeding or failing or whether they require any change. In addition, we have a Research Advisory Committee which comprises eminent scientists from outside IPCL. They come and look at our projects and advise us accordingly."

3.6 When asked about the mechanism devised for reviewing the performance of R&D Centre, the Department of Chemicals & Petrochemicals informed the Committee in a written note as under:—

"The matters relating to R&D Centre of IPCL are generally reviewed in the periodic performance review meetings taken by the

Ministry and also by the Scientific Advisory Committee constituted for the purpose in the Ministry of Petroleum. In the Scientific Advisory Committee, experts from Department of Science & Technology, Council of Scientific and Industrial Research, Engineers, India Ltd., Indian Petrochemicals Corporation Limited and experts in chemical fields are represented. Whenever new proposals planned by the Company for R&D are posed to the Scientific Advisory Committee who examine all the matters like desirability of setting up the facilities, the adequacy of proposal etc. before these facilities are taken up for implementation. Whenever the cost of establishing R&D facilities exceeds more than Rs. 10 crores, the views of the appraising agencies such as Planning Commission, Department of Science & Technology, Department of Economic Affairs etc. are also obtained before seeking the approval of the Cabinet for investment approval. For the project costing less than Rs. 10 crores, IPCL Board has got the powers to approve the proposal after examining the necessity of establishing such facilities. Government is represented by its representatives in IPCL Board. IPCL has also constituted Research Advisory Committees consisting of experts from various academic national institutes to review the performance of the R&D Centre."

3.7 It has been stated by that Department that with the recent bifurcation of the Petrochemicals Division from the Ministry of Petroleum, the Petrochemical Division has now been placed under the Ministry of Industry. It is, therefore, now proposed to set up separate Scientific Advisory Committee consisting of experts scientists for dealing with the matter relating to petrochemicals division only.

3.8 On an enquiry whether the performance of the Centre needed to be evaluated by an expert body and if so, what action had been taken or was proposed to be taken in the matter, the Department of Chemicals & Petrochemicals stated in a written reply as under :

"IPCL has already been asked to prepare an action plan for all its R&D activities including those leading to cost reduction, energy conservation, etc. It should indicate time schedule for developing each of new technologies and improvement of existing technologies. For each of such R&D activities when proposed to be done in-house, IPCL has been asked to fix targets in terms of scientists' days on a quarterly basis. In case technologies are proposed to be obtained from outside, they should indicate target dates for introduction of new technologies. Over and above, the normal reviews which are taken, it is proposed to take a special review by Scientific Advisory Committee which is being re-constituted for the Department of Chemicals & Petrochemicals."

3·9 IPCL has a Research and Development Centre on which a capital cost of Rs. 8·9 crores has ralready been incurred and during the Seventh Plan period further capital expenditure of the order of Rs. 31 crores is envisaged. The current operating revenue expenditure on the research centre, which has a strength of 196 scientists, is stated to be Rs. 1·2 crores and is likely to go up to Rs. 2 crores in future. When asked about the extent of benefits accrued in the production performance of the Company with the establishment of R&D Centre, the Committee have been informed that the total average benefit has been of the order of Rs. 2·06 crores per annum. It is no doubt necessary that an organisation like IPCL should have a fully equipped R&D facility. At the same time it is equally important that a periodic evaluation should be made to ascertain whether the expenditure on the R&D outfit has been commensurate with the benefits derived. In 1975, the Committee had suggested that an objective appraisal by an independent expert body of the work done by the R&D Centre might be undertaken. Unfortunately no such assessment has so far been made. The Committee would like to reiterate that an objective appraisal of the performance of the R&D Centre is a must and it should be carried out without any further delay to assess how far the Centre has succeeded in achieving the objectives for which it was set up.

CHAPTER IV

INVENTORY HOLDING

4·1 The following table indicates the comparative position of inventory and its distribution at the close of each of the four years from 1981-82 to 1984-85:—

(Rupees in lakhs)

	1981-82	1982-83	1983-84	1984-85
(i) Raw materials .	1016·97	1086·80	1396·82	1019·75
(ii) Stores and spare-parts (including catalysts and chemicals) .	3650·61	4217·62	4282·91	4513·97
(iii) Stock-in-process	576·97	833·78	1194·56	1125·97
(iv) Finished goods (including by-products)	5171·58	5655·60	2766·50	3221·97
(v) Others stores (loose tools) including material suspense and goods-in-transit	339·69	623·98	421·36	1025·78
	10755·82	12417·78	10062·15	10907·44
In terms of number of days of sale . .	97	102	77	68

4·2 It is seen that the inventory of raw material which was of the order of Rs. 1016·97 lakhs in 1981-82 rose to Rs. 1396·82 lakhs in 1983-84 but came down to Rs. 1019·75 lakhs in 1984-85. Similarly the value of stores and spare parts also increased from Rs. 3650·61 lakhs in 1981-82 to Rs. 4513·97 lakhs in 1984-85.

4·3 When asked about the reasons for such heavy increases in the inventories of raw materials, stores and spare parts, IPCL stated in a written reply as under:—

> "The increase in inventory was mainly in respect of raw materials and stores and spares. The reasons thereof are given below:—
>
> **Raw Materials**
>
> The increase in the inventory as at 31-3-1984 of Rs. 3·10 crores was on account of stock of imported paraxylene. The value of inventory as at 31-3-1985 has come down to Rs. 10·19 cores, which shows a decrease of Rs. 3·77 crores.
>
> **Stores anc Spares**
>
> Approximately 30 per cent to 40 per cent of the total requirement is imported with longer lead time for procurement.

During 1982-83 the increase in the inventory was due to procurement of engineering spares to meet the maintenance requirement for the planned turn-around in the following year (1983-84). The actual consumption of engineering spares during 1983-84 was Rs. 11·57 crores compared to Rs. 7·66 crores during 1982-83."

4·4 Audit has pointed out that ABC analysis of inventory was introduced for the first time in 1979-80. From the following information given by Audit with respect to the analysis of inventory for the years 1979-80 to 1981-82 it would be seen that there was very high inventory under Category C and also other demanded items:

Class	No. of items			Inventory value (Rs. in lakhs)			Inventory in terms of months		
	1979-80	1980-81	1981-82	1979-80	1980-81	1981-82	1979-80	1980-81	1981-82
(Annual usage less than Rs. 10,000)	12387	16400	22831	590	687	892	22·9	32·4	35·1
Other demanded items.	39837	36526	30864	2305	1730	1611	12·2	11·5	19·2

4.5 When asked if any norms have been fixed for inventory holdings in each of the three ABC categories and if so, how do they compare with the actuals, IPCL informed the Committee in a written reply as under:—

"The norms for inventories have been fixed as under:

A class items (annual usage above Rs. 50,000) . . .	Less than 3 months consumption
B Class items (annual usage between Rs. 10,000 and Rs. 50,000) . .	Less than 8 months consumption
C Class items (annual usage less than Rs. 10,000) . . .	Less than 12 months consumption

As on 31-3-1985, the actual inventories were as follows :

A Class	0·9 months
B Class	7·7 months
C Class	31·0 months
Overall	3·9 months stock

In case of C Class items, following measures are being taken to bring down within the prescribed norms:

1. Identifying non-moving items and declaring them as surplus items as per the recommendation of the survey committee.
2. Disposing of the surplus items.
3. Transferring project oriented items to the new projects.
4. Reclassifying into insurance items wherever possible.

The stock in terms of months of consumption for the last four years are given below:—

	31-3-1982	31-3-1983	31-3-1984	31-3-1985
Number of months .	4·5	4·6	4·3	3·9"

4·6 It has been reported that a Survey Committee was constituted in December, 1979 by the Management for survey of various groups in inventory. In a meeting held in September, 1980, 14 main groups, accounting for an inventory of Rs. 20 crores were identified for immediate analysis. Instructions were issued in November, 1980 stressing the need to complete the survey work of all high value items by the end of December, 1981 Realisation by sale of some surplus material between November, 1980 and November, 1981 was Rs. 40.07 lakhs and had gone upto Rs. 79·16 lakhs by March, 1983. IPCL was aiming to increase the total disposals to Rs. 2 crores by March, 1984. The realisation, however, went up to Rs. 97·58 lakhs during 1983-84. The target fixed for 1984-85 was Rs. 2 crores.

4·7 In view of the fact that there was still very heavy surplus material in hand, IPCL were asked to spell out the details of action plan for liquidating the same. In their written reply IPCL informed the Committee as under :

> "Between 1982-83 and 1984-85 surplus stores valued at Rs. 1·44 crores have been disposed off, and on a further review items valued at Rs. 3 crores have been identified as usable by the projects, out of which items valued at Rs. 1·75 crores have already been issued to the projects and action is on hand to issue the remaining items."

4·8 Proposals to declare surplus material valued at Rs. 6·8 crores were submitted and approved by Management in November, 1981, as there was no possibility for their use in maintenance of plants. A task force was constituted (December, 1981) to undertake visits to various public sector undertakings where new expansion projects were coming up so as to explore the possibility of sale of these surplus stores.

4.9 On being asked about the outcome of the visits of the Task Force to various Public Undertakings and the steps taken to liquidate the surplus stores valued at Rs. 6·8 crores, IPCL stated in a written note that the Task Force visited various public undertakings but the response was not encouraging and only Rs. 30 lakhs worth of surplus could be disposed of.

4·10 On enquiry whether the Task Force had identified the items of surplus stock of project oriented material to be disposed of and if so, the total amount recovered on account of disposal of such surplus material, IPCL informed the Committee in a written note as under:—

"In March, 1982, Rs. 6·8 crores worth of surplus belonging to the, categories like pipe, pipe fittings, valves, cables, fasteners, flanges plates etc., were identified for disposal:

The present position of this surplus is as follows:—

(Rupees in lakhs)

1. Disposal by direct contact to public sectors . . .	30
2. Disposal through press tenders	114
3. Items which have been or are under transfer to new projects .	300
	444
Balance surplus . .	236"

Non-moving items

4.11 Table below gives the total number of items in the inventory, their value and number and value of items that have not moved for over two years at the close of years ending March, 1980 to March, 1985.

(Value in lakhs of rupees)

Year	Number of items in stock	Value	Number of items not moved for over two years	Value
March, 1980	59,223	40·62	5,421	2,38
March, 1981	59,367	42·14	12,870	5·07
March, 1982 .	60,661	46·67	26,892	11·24
March, 1983 .	59,730	42·99	25,689	11·70
March, 1984 .	60.661	41·59	24,261	10·25
March, 1985 . . .	55,227	45·74	21,508	10·31

4·12 It has been stated that the items that have not moved for over two years broadly comprise catalysts and chemicals, project oriented material and stores for repairs and maintenance.

4·13 The Committee find that the number of stores items not moved for over 2 years and value thereof stood at 24,261 (Rs. 10·25 crores) in March, 1984 as against 25,689 (Rs. 11·70 crores) in March, 1983 thus registering only marginal reduction in the high inventory of non-moving stores since March, 1982, The value of such items as on 31-3-1985 stood at Rs. 10·1 crores (21508 items).

4·14 On an enquiry about the details of the action plan worked out for early liquidation of non-moving stores which had resulted in locking up of over Rs. 10 crores since 1982 onwards, IPCL informed in a written reply:

"The value of the inventory of raw materials, stores, spares, chemicals and catalysts as at 31-3-82, 31-3-83, 31-3-84 and 31-3-85 and the value of items not moved over 2 years are given below:

	31-3-82	31-3-83	31-3-84	31-3-85
Total (Rs./crores)	46·67	53·04	56·80	55·34
Nonmoving	11·24	11·70	10·25	10·31

A regards nonmoving stores, items valued at Rs. 3·36 crores have been classified as insurance items, items valued at Rs. 1·75 crores are being transferred to projects and items valued at Rs. 2·36 crores as surplus, The likely demand for the remaining items valued at Rs. 3·34 crores is being reviewed by survey committees and necessary action will be taken based on their reports."

4·15 IPCL informed Audit in January, 1982 that at the project stage, certain indigenous and imported spares were procured based on the recommendations of manufacturers, process licensors and engineering consultants. The total value of spares required for repairs and maintenance is Rs. 228·16 lakhs.

4·16 Audit has stated that the company has progressively indigenised the requirements of stores and spares and has set a target of Rs. 13·75 crores for catalysts, chemicals and engineering items through indigenous sources during 1984-85.

4·17 In reply to a question if the Company had studied the effect of progressive indigenisation on the non-moving imported stores and if so, the results of the study, IPCL stated in a written reply that there had been a regular attempt on import substitution activity since 1981-82 and the cumulative effect of such indigenisation worked out to Rs. 13·11 crores.

4·18 The Committee find that the position of inventory holdings in IPCL over the years has not been quite satisfactory. The inventory of raw materials which was of the order of Rs. 10·16 crores in 1981-82 rose to Rs. 13·96 crores in 1983-84. The position in respect of stores and spares was particularly bad as their total inventory increased from Rs. 36·50 crores in 1981-82 to Rs. 45·13 crores in 1984-85 thus registering an increase of about 25%. Further although the actual holdings of 'A' & 'B' class items as on 31-3-1985 were more or less according to the norms laid cown, the holdings of 'C, Class items represented 31·00 months consumption against the normative figure of 12 months consumption. Thus, in Committee's opinion

the inventory holdings constitute an area which needs monitoring on a regular and sustained basis.

4·19 The Committee have been informed that in March, 1982 surplus stores worth Rs. 6·8 crores had been identified for disposal. However, so far surplus stores worth Rs. 4·44 crores only have been disposed of leaving a balance of one third of stores worth Rs. 2·36 crores identified as surplus five years back still lying undisposed. The Committee are sure that during the intervening five years the inventory of surplus spares must have gone up. The Committee, therefore, recommend that a further exercise be undertaken on an urgent basis to identify the surplus stores on a specified date and thereafter action plan may be drawn up for disposal of such stores which must be occupying considerable precious space.

4·20. The liquidation of non-moving stores is another area which merits attention. Since 1982 onward over Rs. 10 crores are locked up in the form of non-moving stores. It has been stated that Survey Committees were reviewing the position and necessary action for the disposal of those non-moving items will be taken based on their reports. The Committee desire that a fixed schedule for these Survey Committees completing their task should be laid down and strictly adhered to. The Committee would like to be informed about the final outcome in this behalf.

CHAPTER V

PRICING POLICY

5·1. In paragraph 5.75 of their Sixty-Fourth Report (1974-75) the Committee on Public Undertakings had recommended that the Corporation should take steps to reduce the cost of production by achievement of full rated capacity, stablising production and keeping the overheads to the minimum. The Committee also recommended that the Government/Corporation should consider fixing the prices on a fairly long term basis taking into account all the relevant factors and the Board should review the prices periodically to ensure that the prices were competitive and the price increase did not contribute to the inflationary trend. The Committee stressed that since petro-chemical intermediates were the raw materials for a number of industries, Government should take effective measures to see that the prices of the petro-chemicals which were used as raw materials were reasonable and internationally competitive and the benefit of any reduction in the prices was always availalbe to the common man.

5·2 While noting the recommendation, the Ministry in their reply stated that all possible measures were being undertaken by IPCL to remove operational bottlenecks to ensure that the plants achieve their respective rated capacities.

Prices fixed by IPCL for its products were meant to be operative for fairly long periods. However, prices were adjusted from time to time to take into account changes in cost of production and the local market situation.

5·3. It was also stated that considering the scales of IPCL's operations and the cost of inputs, the objective of being internationally competitive in the products was difficult to achieve. IPCL's product prices might be construed as a reasonable balance between the interests of IPCL and the local market situation.

5·4. As regards the pricing policy adopted by IPCL, the Committee were informed in a written note as under :

"IPCL's pricing policy for over forty of its saleable products is generally governed by the following major considerations.

(i) Recovering fully the variable cost of production and fixed cost on appropriate basis.

(ii) Ensuring an overall return of minimum 12 percent on net worth, after tax

(iii) For bulk products low density polyethylene, polypropylene, linear alkyl benezene, polyvinyl chloride protect the interest of certain customers in the small scale sector at 96 per cent of total. This is done by maintaining uniform ex-distribution point price at 44 centres in the country.

(iv) The prices of most of the products are positioned close the landed costs of identical products being imported into the country.

In general, IPCL endeavours to hold the prices of its saleable products stable for atleast one year after fixing the prices at the beginning of the financial year based on details of Union Budget, estimated inflation etc."

5·5. It has been stated by Audit that as against B.P.E. guidelines that is desirable that prices fixed should be operative for 2 to 3 years. IPCL has been frequently resorting to revision of selling prices of their major porducts since 1973.

5·6. On enquiry about the reasons for not following the guidelines issued by BPE, IPCL stated in a written reply :

"BPE guidelines stipulate that :—

(i) Prices should be written within the basis of landed cost (not CIF) of comparable imported goods.

(ii) Where exports from country of origin are subsidised, the landed cost can be based on normal price in the country of origin.

(iii) Prices levels should bear the factor of resonable ROI.

(iv) Prices, desirably, be operative for 2-3 years.

IPCL has been consistently following the above guidelines except item (iv). In IPCL's type of business, it becomes difficult to maintain prices for 2-3 years. IPCL operates in a market highly susceptible to changes in the international context, fiscal policies and levies, health of the end product consuming industry, impact of Union/State budgets, changes in raw material and other input costs.

IPCL has been endeavouring to maintain prices steady and since 1982-83, has generally kept its prices steady for a period of one year. IPCL's price are close to landed costs and in many cases, lower."

5·7. During evidence the Chairman and Managing Director explained IPCL's pricing policy as under :

"IPCL pricing policy tries essentially to be within the guidelines laid down by the Bureau of Public Enterprises except to the extent of keeping prices stable for period of 2 to 3 years' time.

"We follow three or four major determinants in deciding the prices. The first most important one is that the selling prices should enable us to get a reasonable return on the capital. We have defined this as either 12% return on the net worth after tax or 18% return on capital employed, 'capital employed' being defined as the average of the fixed assets plus the average of the net working capital. This is the very first point that we follow that we employ to-day Rs. 450 crores worth of gross block and we must have a return of this magnitude. Second we should try to cover fully the variable cost of production. The third is that we should try to ensure that for some large volume products we should try to sell tham at an all-India equalised freight price. IPCL unlike many other public sector companies sells its products on an equalised price structure throughout the country for bulk products. We sell them at a uniform sales price ex-warehouse anywhere in India at 44 selling points and we try to make sure that our selling prices are within the landed costs of the equivalent products brought in from outside India. You may be interested to know that out of the 12 or so products that we sell in large quantities, 7 of them we are selling today at a cost lower than the landed cost. These are the factual aspects four pricing policy".

5·8 The Committee desired to know what pricing policy had been laid down by IPCL in their Corporate Plan. The witness explained :

"There are 10 major procucts. 7 are lower than landed cost. 3 are higher. These are facts. IPCL management does not fixed price on the basis of landed price at all. The policy is this : We see what it costs us to make. Using the raw material, power, utilities, labour, what does it cost us to make—on the most efficient production basis. We see that. We are doing reasonably well in this area of efficiency. 12% criteria we spread on all products. In some products we over-charge. In some products we do not get 12%. That happens. We calculate cost of production, return on capital and spread the cost on all our 30 or 40 products. Government's import duty policy depends upon many considerations. 30-40% excise duty is there on some products."

Explaining further in the matter, the witness stated :

"The first determinant is the profitability for the Corporation. We have an investment of over Rs. 450 crores, and we have said that our return should be 18 to 20 per cent of the capital employed. There are about 35 products which we make and sell. In the case of each product we see its sale price minus variable costs, and we have said that, for a Corporation of our size, we should work for a contribution percentage between 30 and 35 per cent. It will give us the derived figure of 18 to 20%. The third important determinant is the landed cost of the products which are being imported and most of these products are under OGL. They come is through various imported sources. The fourth determinant is that of the Indian competitors price, for many of our products are made by other private sector people in the country. The last determinant is the production that we like to give to the small scale sectors. A large number of our customer population is in the small and tiny scale sectors and while evolving our pricing policy, we keep them also in mind. These are the five major determinants which we use in deciding our pricing policy.

But the fundamental thing we try to observe is the guideline that the Government has issued saying that the prices should be within the landed cost. Of the twelve major products that we have, most of them are being sold at prices less than the landed cost. There are only three major products where our prices today are higher than the landed cost.

We have satisfied ourselves that the CIF cost, plus the prevailing customs duty does not exceed the landed cost. The imported cost of definition also says that CIF cost plus customs duty as prevalent from time to time."

5·9 On being pointed out by the Committee that cost of production was a variable thing and whether the prices fixed by IPCL also varied according to cost fluctuation, the witness stated :—

"At the beginning of the financial year the administered prices have increased. The cost of the major inputs has gone up in the budgetary decision. We worked out product line contribution, what is the additional level that the Government has imposed and on which we have to price it, and then worked out the pricing policy. We don't change that during the year unless there are some extraordinary circumstances. There is a product called PVC which is used in very large extent—over 150,000 toones. We are one of the largest producers of this product. We currently produce about 35,000 tonnes. It is used primarily for making pipes, for carrying water and cables, for making poor man's shoes. Today there is a large scale dumping taking place from Rumania and South Korea, at lower prices. With the result even our variable prices are not covered. We have fixed at Rs. 17,000 per tonne. At this price also we are unable to match the imported price. We are stil holding this back in the belief that the Government will help us. If the

Government does not listen to us, we may have to roll back our prices. These are the extraordinary circumstances IPCL is facing."

5·10. On being pointed out that the guidelines prescribed by Bureau of Public Enterprises were not being followed and that IPCL was frequently resorting to increase in prices, the Chairman and Managing Director of IPCL stated during evidence :

"I said so that what we have not been able to follow is in the aspect of maintaining of stable prices for periods of 2 to 3 years. We deal with hydro-carbon based products. You know the hydro-carbon prices are administered prices of the Government of India and these prices have been revised fairly regularly by the Government for reasons of revenue considerations. So when the supplier refinery revises the prices because the Government changes the administered prices, we are compelled to revise our prices also. The BPE guidelines cannot be used in a mechanical sense. We cannot just do that.

Secondly, we operate in the market place unlike many other public sector companies, in very close competition with a very large number of operators in the private sector and also the foreign sector and also from the imported sector because a lot of our products we make and sell, the Government allows them to be imported under OCL. IPCL publicly stated to all its customers that unless the Government changes the administered prices of its products, we shall not ordinarily change the selling price during the financial year. We revise our prices every year by April and we try to maintain these prices stable unless the Government sometimes for their own reasons change the basic input costs. There are very few exceptions that we normally do......As a basic price revison, the IPCL does it in the financial year after the Budget is announced in the Parliament. This is the only aspect where we are unable to follow the BPE guidelines of keeping the prices stable because we are not able to get the raw materials and when our own cost goes up due to the administered prices revision."

5·11 On enquiry whether frequent revision of prices do not affect adversely the credibility of the Company, the IPCL stated in a written reply as under :—

"In a market for IPCL's type of products, price changes/occur on a week to week basis depending on the international market. IPCL's price changes were made after considering all aspects including the need to keep the prices steady to the extent possible.

IPCL has gained quite an amount of credibility in the market place. The fact that IPCL's finished goods inventory levels have shown a steady drop in the past four years proves to a great extent that IPCL's prices are acceptable to the industry."

5.12 From the information placed before them, the Committee note that the cost of production of LDPE was Rs. 12,660 per metric tonne whereas its selling price was between Rs. 20,000 to 25,000 per metric tonne. When the Committee enquired about this difference in the cost of production and selling price of the product, the Chairman & Managing Director of IPCL informed the Committee during evidence :—

"The low density polyethylene is a group of products of which there are many different applications. For each different products have to be made. We call them different grades of polyethylene. The product which is mostly used is in the film grade application whose price is the lowest. That price is Rs. 15,209 against the cost of production of Rs. 12,666. This Rupees 19,000/- figure is for some specific small volume grades used in the cable sector. The simple answer would be that over 70–80 per cent of low density polyethylene is sold at price at the lower end of the scale and the balance is sold at higher price because the cost of production is higher. In the price 31·5 per cent is the content of excise duty."

5.13 On being pointed out that in the case of polypropylene (PP) the cost of production was Rs. 16,880 per metric tonne and its selling price was between Rs. 24,000 to 26,500 per metric tonne, the witness explained the variation in the cost of production and selling price of PP as under :—

"Polypropylene has got three major applications. The most important application is for making consumer durables like cups and saucers. There is another specialised application to make sparkling type of film. That has higher price. Injection moulding scale is at the lower end. Here the ratio is 60 per cent in the area of injection moulding and 40 per cent in the area of film. The excise duty content in the price is 28·35 per cent."

5.14 In reply to a question, if the Government had been reviewing the IPCL's pricing policy from time to time and if so, with what results, the Department of Chemicals and Petrochemicals in their written reply *inter alia,* stated as under :—

"The pricing policy of IPCL. is in conformity with the objective and obligations approved by the Government which state that IPCL should provide quality products at a fair and reasonable prices. They are also kept within the guidelines of pricing given by BPE.

Normally in the competitive market where most of the items are under OGL, IPCL sells its products at prices which are very close to the landed cost. IPCL is constrained to sell at a price higher than landed cost only in such cases where their own cost of production is higher and landed prices are much lower due to dumping which sometime takes place in the international market. Sometimes when there are wide fluctuations in the international market, it is not advisable to vary the indigenous price frequently to match the landed prices. IPCL sometimes tries to provide stability in the market by providing reasonable price for a period of time so that the industry at large is not affected by such frequent fluctuations.

The Government keeps a close watch on the pricing policies of IPCL. There are strong consumer interests in these various items which also represent to the Government when changes take place in the pricing of such products. Government tries to ensure that IPCL should sell the products at a fair selling price."

5.15 On an enquiry whether any guidelines were issued by BPE that the prices should be lower than the regulating prices of similar imported products, the Secretary, Department of Chemicals & Petrochemicals stated during evidence :—

"This is a fluctuating area world over. So, we cannot do it. Wherever the problem of this nature occurs, nothing can be done because of the fluctuating nature of prices."

5.16 About the machinery in the Department of Chemicals and Petrochemicals which ensured that the prices of all the products of IPCL were within the landed cost, the Committee were informed in a written note as under :—

"There is no specific machinery in the Department to ensure that prices of all products of IPCL are within the landed cost.

However, the Government keeps a close watch on the pricing of IPCL products. There are a number of consumer associations and interests who represent to the Government when changes in IPCL's prices affect them. Government tries to ensure that IPCL sell its products at a fair selling price."

5.17 On an enquiry if there were any products which were priced higher than the landed cost and if so, which were those and the reasons for not following the prescribed guideline in their case, the Department of Chemicals & Petrochemicals informed in a written reply as under :—

> "During the year 1985-86 IPCL had priced its PVC, polypropylene, orthoxylene and MEG at prices higher than landed costs of imports.
>
> However, it may be mentioned that for all these four products, the prices of IPCL were very close to or lower than landed cost of imports in the first quarter of 1985, when IPCL revised its prices consequent to changes brought in by the Union Budget. Subsequently due to radical changes in tne international markets, particularly for PVC and MEG the landed cost of imports fell much below the price of IPCL.
>
> IPCL had maintained its prices for these products, in spite of landed costs going down, in an effort to provide price stability and recover its cost of production in consonance with the pricing policy."

5.18 The Committee find that as against the BPE guidelines that it was desirable that prices fixed should be operative for two to three years, IPCL has been frequently resorting to revision of selling prices of their major products. It has been pleaded on behalf of IPCL that since it operates in a market highly susceptible to changes in the international context, fiscal policies and levies and cost of raw materials and other inputs, IPCL cannot maintain its prices steady for 2 to 3 years as contemplated in the BPE guidelines. As a result IPCL has been revising its prices every year in April in the light of changes in levies and cost of feedstocks made through budgets in Parliament. The Committee do appreciate the difficulties of IPCL in strictly following the guidelines on the question of maintaining prices. However, they emphasize that there has to be a distinction between the standards which a public sector undertaking has to follow vis-a-vis private industrialists. In that context IPCL as a major producer of the petrochemicals which are used as a raw material by a large segment of industry should ensure stability in its price structure for a longer duration in the larger public interest. IPCL should, therefore, endeavour to maintain its prices for longer periods even by absorbing small increases in input costs by improving its operating efficiency.

5.19 In regard to the pricing policy followed by IPCL it has been stated that out of 10 major products selling in large quantities, prices of 7 products are lower than the landed cost of imported products and in the case of remaining 3 products selling prices are higher than the landed cost. The other important ingredient in the pricing policy of IPCL is that prices are fixed in such a manner that an overall net return of 12% on the total investment of over Rs. 450 crores is ensured. In order to get an overall return, the IPCL has to over-charge in some products. Thus IPCL has been fixing the selling prices

of some of the products on its own assessment of what the market could bear and the prevailing demand pattern apparently dictated by the considerations of return on investment. In such cases, the actual cost of production or the concept of fair selling price get relegated to the background. The Committee feel that in pursuing such a policy there is a serious snag which should not be overlooked. From the data made available to the Committee, it is seen that in the case of some major products like LDPE, PP, DMT, PVC etc. the selling prices charged by IPCL are much higher than the cost of production but very close to the prices charged by other competitors. In such cases the other producers who may be having a better operating efficiency and hence lower cost of production are allowed the benefit of unearned profits in the form of higher margins. The Committee, therefore, feel that it is necessary that while fixing its selling prices in respect of major products where IPCL has a dominant position and acts as a trend setter, IPCL should not follow a policy which results in unintended benefit to its competitors at the cost of consumers.

CHAPTER VI

FINANCIAL POSITION AND WORKING RESULTS

6.1 I.P.C.L., started earning profit, from the second year of its operation i.e. 1974-75. The company continued to earn profit upto 1984-85 except during the year 1978-79 when it showed a loss of Rs. 1008.98 lakhs. This loss was mainly due to charging depreciation (Rs. 1261.33 lakhs) for the whole year on various production units of olefins complex and downstream units commissioned progressively during the year.

6·2 The Balance Sheets of IPCL as on 31-3-1981, 31-3-1982, 31-3-1983, 31-3-1984 and 31-3-1985 show the following position :—

(in crores)

	31-3-81	31-3-82	31-3-83	31-3-84	31-3-85
Share Capital	186	186	186	186	186
Reserves	56	112	163	194	226
Loans	166	121	103	64	39
	408	419	452	444	451
Net fixed assets & capital works-in-progress	251	248	262	275	265
Working Capital	157	171	190	169	183
Misc. Expenses	—	—	—	—	3
	408	419	452	444	451

6.3 It is seen that profit after tax earned by IPCL was Rs. 33·69 crores (1980-81), Rs. 55·13 crores (1981-82), Rs. 51·29 crores (1982-83), Rs. 31·72 crores (1983-84) and Rs. 54·89 crores (1984-85). Till 1983-84 no dividend was paid to the Government on their share capital of Rs. 186 crores in spite of the availability of sizeable free reserves from 1980-81 onwards. For the year 1984-85, a dividend at the rate of 10% has been declared.

6.4 Asked why dividends had not been paid prior to 1985-86 to the Government of India on its investment of Rs. 196 crores in equity even when the company had a comfortable financial position, the Company stated in a written reply as under :—

> "In order to meet the requirement of additional working capital the Corporation is having cash credit arrangements with the State Bank of India since December, 1978.

The authorised cash credit limit was Rs. 23 crores upto 15-5-81 and raised subsequently to Rs. 40 crores. The Public Deposit Scheme as a source of financing came into operation in 1981-82. During the year 1980-81 there was little scope for raising additional funds since the balance under the cash credit account at the end of 1980-81 was Rs. 20·19 crores. In view of this limitation no dividend was recommended for the year 1980-81.

The Corporation could have theoretically declared as dividend for the years 1981-82, 1982-83 and 1983-84 limited to the extent of 25% to 30% of the surplus. The additional funds necessary could have been raised within the limits of the cash credit arrangement with the Bank. No dividend was, however, declared as the Corporation had embarked on a large investment programme involving an investment of over Rs. 400 crores on Baroda-based projects.

The Government while approving the Baroda based projects stipulated that the projects would be financed through internal resources and no budgetary support (loan or equity) would be sought from the Government. Till September, 1984, the external source of funding available to Indian Petrochemicals Corporation Limited was only cash credit from bank and public deposit. Because of this limitation and the stipulation of meeting the capital expenditure through internal resources only, the entire surplus was earmarked for utilization on expansion projects in Baroda. In September, 1984, the Government revised the guidelines for issue of debentures by public limited companies whereby the public sector companies have also become eligible to issue non-convertible debentures. Due to the availability of this new source of finance and the Government having accepted in principle Indian Petrochemicals Corporation Limited's proposal to raise non-convertible debentures to the extent of Rs. 300 crores during the Seventh plan period, the Corporation decided to declare dividend of Rs. 18·60 crores for the year 1984-85. Provision for dividends has also been made in the financial projections for the Seventh Five Year Plan period. This has been done despite the large investment on the Maharashtra Gas Cracker Complex (approved cost Rs. 1167 crores) and on the Baroda-based projects)."

6.5 When asked about the Company's policy with regard to payment of dividend during the last ten years and for how many years the

Company had paid dividend so far, the Chairman & Managing Director stated during evidence:—

"The facts are that 1984-85 was the first year where the IPCL paid dividend to the President of India. Right from its incorporation IPCL has not paid any dividend to its owners. There are two important reasons for that. First is that since 1976 onwards at least the Government, whenever they approved projects for expansion and diversification, it was laid down that we must do it from our internal resources and that there will be no budgetary support. For the sake of prudent management, we tried to save this money. Members of the Audit Board were legitimately pressing us, saying, this is rather conservative way of financial management, why do you use your money for working capital, you can borrow from banks and all that. There has been along debate over it. On profits generated our first charge is on the loan. The second charge is towards dividend. The third charge will be to create reserves for internal generation."

6.6 In view of the fact that the Company had a comfortable financial position from 1980-81 onwards, the Committee desired to know why no dividend had been paid prior to 1984-85 to the Government on its investment of Rs. 186 crores in equity. In their written reply the Department of Chemicals and Petrochemicals informed the Committee as under :—

"The financial position of the company cannot be said to be comfortable for the year 1980-81.

Since 1980-81, the Corporation has not been seeking any budgetary support from the Government and has been financing the spill-over schemes and new schemes out of its internal generation. The liquidity position of IPCL during the year 1980-81 was not comfortable and the Corporation postponed the repayment of the last instalment of loan to Government (Rs. 10·20 crores) and OIDB (Rs. 2·36 crores). Its authorised cash credit limit was Rs. 23 crores upto 15-5-81 (subsequently raised to Rs. 40 crores) and the cash credit availed was Rs. 20·19 crores as on 31-3-81. The Public Deposit Scheme as a source of financing came into operation since 1981-82. There was thus little scope for raising additional funds and the Corporation could not have declared any dividends for the year 1980-81.

The Corporation could have theoretically declared a dividend for the year 1981-82, 1982-83 and 1983-84.

As at the beginning of 1981-82, the cost of spill-over capital schemes was Rs. 103 crores. Further the estimated cost of Baroda-based projects approved by the Government or by the IPCL Board involved an outlay of Rs. 334 crores. While sanctioning the schemes or including them in the Annual Plans, the Government stipulated that the outlay on them would be financed through internal resources and no budgetary support would be provided. As against an outlay of Rs. 437 crores envisaged, the distributable surplus at the end of 1984-85 was only Rs. 218 crores, Till September, 1984 the external source of funding available to IPCL was only cash credit from banks and public deposits. Because of this limitation, the entire surplus was earmarked for expansion. In September, 1984, the Government revised the guidelines for issue of debentures whereby Public Sector companies have also become eligible to issue non-convertible debentures. Due to the availability of this additional source of financing, the Corporation declared a dividend of Rs. 18·60 crores for the year 1984-85."

6.7 In this regard the Secretary, Department of Chemicals & Petrochemicals informed the Committee during the course of his evidence as under :—

"I agree with this commercial approach that as a company, it must pay dividend. But, again, you may please look into the manner in which in some cases, they have started working."

He further added :—

"Even the Private Sector Company is paying dividend but when he wants to expand he has a channel of going to the shareholders and asking for more money. Here one shareholder means, the Government. Sometimes, the Government itself tell them to go by your own resources and don't come to us."

6.8 In the guidelines issued by BPE as far back as in 1968, it had been suggested to the undertakings that of the net surplus available for distribution, part of it may be appropriated to build up reasonable reserves and to augment their internal resources to finance the approved schemes of capital expenditure and the balance should be utilised for distribution as dividends on equity capital. Although it has not been specified as to the maximum percentage of profit that can be utilised for building up internal resources, it had been emphasised in the guideliens that at least a minimum portion of the surplus should invariably be utilised for the declaration of dividends.

6.9 On an inquiry why BPE guidelines were not followed by the Company in the matter of payment of dividends, the CMD stated during evidence :—

"You will hear again from the administrative Ministry that since 1982 when capital programmes of over Rs. 400 crores have been approved by the Government of India, they directed us that these capital programmes are being sanctioned in the assumption that you will not seek any budgetary support. So, I cannot do both. If I give dividend, I have to ask you money."

6.10 Asked if there was any direction in this regard, the witness stated :—

"No direction, PIB minutes will show that this proposal is agreed to on the condition that no budgetary support will be asked for."

6.11 The attention of the witness was drawn to the recommendation made by the Committee on Public Undertakings in their 15th Report (1967-68) on Financial Management in Public Undertakings which states "The Committee feel that unless the maximum percentage of profit that can be utilised for building up internal resources is laid down, dividend may not be declared for years despite profits."

6.12 The Committee enquired if any policy in this regard had been formulated by the Company, the CMD stated in his evidence:—

"We are formalising it. For the next 3 years, we are considering giving dividend of 10 per cent per annum. It is 76 per cent of the allocable surplus, it is quite substantial."

6.13 In reply to a suggestion that a maximum limit on the profits that should be utilised for building up internal resorces needs to be laid down in order to ensure hat a minimum portion of the surplus is declared as dividend, the Department of Chemicals & Petrochemicals informed the Committee in a written note :—

"It would not be practicable to prescribe a maximum limit as circumstances would differ from case to case. In this connection, it may be mentioned that the deployment or utilization of profits of a Public Sector company is finally determined by the Government. Even in case of schemes approved by the Company's Board of Directors within its delegated powers, no expenditure can be incurred by the Company without (a) the scheme being included in the Annual Plan approved by the Government and (b) the expenditure to be incurred on the scheme being within the total outlay approved in the Annual Plan. Since the utilization of resources generated by a Public Sector Company is decided by the Government, the need to separately prescribe any limit on the utilization of profits for building resources does not appear necessary."

6.14 It is seen that IPCL which had an authorised limit of Rs. 40 crores for cash credit borrowings from banks, liquidated the entire short-term borrowings, which was Rs. 13·64 crores as on 31-3-83, during 1983-84 and 1984-85 and also repaid long term loans of Rs. 53·28 crores to Government and Oil Industry Development Board in 1983-84 and 1984-85 of which Rs. 15·84 crores were actually due only in 1984-85 but repaid in 1983-84. IPCL did not avail of any fresh long term loans between 1980-81 and 1984-85.

6.15 IPCL, which was accepting deposits from public from 1981, suspended further acceptance of public deposits from January, 1984 onwards as it had a comfortable cash position. As on 31-3-84, the public deposits collected amounted to Rs. 22·06 crores and with repayments (and renewals), this amount was reduced to Rs. 21·04 crores as on 31-3-85. This was against the maximum amount of Rs. 95·07 crores and Rs. 107·70 crores as on 31-3-1984 and 31-3-1985 respectively, that the company could have availed of by way of deposit from the public.

6.16 IPCL also gave short-term loans of Rs. 20 crores to BPCL and HPCL in July 1984 @ 15% interest and still had a cash and bank balance of Rs. 23·68 crores as on 31-3-1985.

6.17 The Committee desired to know why the Company had not been paying dividend to the Government even when it had advanced loans of Rs. 20 crores to BPCL and HPCL in July, 1984 at the rate of 15 per cent interest. In his reply, the CMD stated during evdience:—

> "If you ask me, I have to comply with your wishes. I am only saying that this Rs. 20 crores is a short-term loan rather than giving it, if I may say to the Government of India in the form of dividend. Then we have to ask for money. But, this is giving me Rs. 3 crores interest accrual. It has brought down my interest burden from Rs. 12 crores in 1983-84 to Rs. 6·00 crores."

6.18 On being pointed out that without paying dividend to Government, the Company was investing money and earning interest on profit, the Director (Finance) of IPCL stated during evidence:—

> "In the Sixth Plan, there were projects worth Rs. 400 crores and under the stipulations the money is to be met from internal sources only. When the Maharashtra Gas Cracker project was approved in 1984, the Government said that about 300 crores of rupees should be from the internal resources of the IPCL. Later they said that the entire funds have to be met by the IPCL through its own resources. Till August or September, 1984, the only source for public sector to raise resources is either budgetary support or cash credit. Once we knew that we could raise resources from the public, we changed our policy and we declared dividend in 1984-85."

6.19 He also stated that the outlay in the Seventh Plan for IPCL was of the order of Rs. 1400 crores and that too was without any budgetary support. Supplementing this information, the CMD stated before the Committee:—

"The concept of dividend is a normal commercial objective of any enterprise whether it be public or private. Because we have to approach the Government itself for support, we followed a more prudent and conservative financing policy than you would recommend. We thought it would always be better to err on the side of caution rather than on the side of extravagance."

6.20 The Committee wanted to know that with the Company meeting even its working capital requirements from its own funds and carrying huge cash and bank balances but not paying any dividend on the equity capital, can it be said that the comapny is being managed in accordance with sound business principles and prudent commercial practices. The Department of Chemicals & Petrochemicals explained the position in a written note as under :—

"It is true that the company had comfortable financial position from 1981-82 onwards. But the Company had during this period earmarked its resources for funding approved capital schemes. As soon as external or extra budgetary sources for financing capital schemes became available after the issue by the Government of revised guidelines for non-convertible debentures, the Company has started paying dividends to the Government. Its financing plans during the Seventh Five Year Plan period include raising of debentures to the extent of Rs. 300 crores, cash credit and public deposits of Rs. 188 crores. World Bank Loan of Rs. 262 crores (equivalent to US $ 210 million), etc. The Company has thus started paying dividends as well as resorting to large scale borrowings to meet its requirements for capital expenditure and working capital."

6·21 The Committee wanted to know that considering the emphasis now being placed on the need for the public enterprises paying a reasonable return on the investment made by Government thereon, will it not be desirable to ask the Company to compensate the Government for non-payment of dividends for 1980-81 to 1983-84 by issue of bonus shares, so that Government gets enhanced returns in future. In their written reply, the Department of Chemicals and Petrochemicals informed the Committee as under :—

"IPCL was not asked for payment of dividend for the period 1980-81 to 1983-84 since IPCL was required to finance its approved capital programmes from its own funds. However, in future

IPCL could be asked to consider payment of dividend at a higher rate depending upon the profit bility and financial position of the company. It would, therefore, not be desirable at this stage to increase its paid-up capital by issue of bonus shares."

6.22 The Committee note that IPCL started earning profit from the second year of its operation i.e. 1974-75. The Company continued to earn profit all these years except in 1978-79 when it showed a loss of Rs. 10·08 crores. In spite of the availability of sizeable free reserves from 1980-81, IPCL did not pay any dividend till 1983-84 to the Government who had provided Rs. 186 crores as share capital. It was only from 1984-85 that the company paid dividend of Rs. 18·60 crores to the Government at the rate of 10 per cent. The Committee are of the view that this practice of not paying a dividend on the share capital by a company even when it has a very sound financial position is not healthy one and needs to be curbed.

6.23 It is relevant to point out that the guidelines issued by BPE as far back as in 1968 stipulate that a manufacturing enterprise after appropriation of surplus earnings to build up reasonable reserves, to augment internal resources to finance capital expenditure and to meet its immediate financial obligations without much strain should aim at declaring dividend ranging between 6 per cent to 15 per cent. Despite the clear cut and unambiguous guidelines on the subject and despite the fact that IPCL was admittedly in a happy position to pay a reasonable dividend from 1981-82, the management has not considered desirable to pay a dividend on its borrowed capital. Strangely the Government has also not insisted on a reasonable dividend being paid on its own investment in the company. The Committee consider it as serious lapse and against the cannons of healthy commercial practice.

6.24 The main argument given by IPCL for not following an accepted commercial practice of paying dividend from earned profits is that it has been appropriating a major share of the net surplus available for distribution for augmenting their internal resources. The Committee do not consider it to be fully convincing. The Committee find that IPCL which had an authorised limit of Rs. 40 crores for cash credit borrowings from banks liquidated its entire short-term borrowings of Rs. 13·46 crores as on 31-3-1983 during 1983-84 and 1984-85 and also repaid long term loans of Rs. 53·28 crores to Government and Oil Industry Development Board by 1983-84 of which Rs. 15·84 crores were due only in 1984-85. The Company suspended further acceptance of public deposits from January, 1984 onwards as it had a very comfortable cash position. furthermore the company also gave short-term loans of Rs. 20 crores to BPCL and HPCL in July, 1984 at 15 per cent interest and still had a cash balance of Rs. 23·68 croreas as on 31-3-1985. This would clearly indicate that even though the company was literally flush with funds,

it did not care to think of paying a reasonable dividend on its share capital. It was only when the Audit brought out the need for following better financial management policies that IPCL considered the question of payment of dividend in 1984-85. The Committee are constrained to conclude that in so far as the financial management is concerned, the Company has not been following sound business principles and prudent commercial practices.

6.25 It may be recalled that the Committee on Public Undertakings in their 15th Report (1967-68) on Financial Management in Public Undertakings had emphasised the need for laying down a limit on the percentage of profit earned by an Undertaking that can be utilised for building up internal resources as that would ensure that a minimum portion of the surplus is declared as dividend. In reply to a suggestion whether a maximum limit on the profits that should be utilised for building up of internal resources should be laid down, the Department of Chemicals and Petrochemicals has stated that it would not be practicable to prescribe a maximum limit as circumstances would differ from case to case. It has also been argued that since the utilisation of the resources generated by a Public Sector Company is decided by the Government the need to separately prescribed any limit on the utilisation of profits for buildin resources does not appear necessary. The Committee cannot agree with this argument. The Committee would like to remind that even in the guidelines issued by BPE on 20th December' 1968 it was emphasised that it may not be desirable to prescribe any hard and fast rule about the percentage of the dividend to be declared or the profits to be appropriated to the reserves. Nevertheless, the Government had desired that keeping in view the spirit behind the observation made by the Committee on Public Undertakings it should be ensured that at least a minimum portion of the surplus is invariably utilised for the declaration of the dividends. The Government had further impressed upon its representatives on the Boards of the Companies to ensure that the interest of the Government as a share-holder was fully kept in view by the Boards of Directors at the time of considering the appropriation of profits towards internal resources and for declaration of dividends. The Committee cannot but reiterate the views expressed by them earlier and desire that the question of laying down a maximum limit on the appropriation of profits for internal reserves with a view to ensure payment of a minimum of dividend on the share capital should be considered at the highest level for decision, which should be applicable to all he profit making undertakings.

6.26 The Committee also feel that when funds are easily available from commercial banks for meeting the working capital requirements of a concern' it would be desirable that the company makes fullest use of this facility. Such a practice is bound to instil a sense of financial discipline and will be conducive to better performance.

NEW DELHI
April 3, 1987
Chaitra 13, 1909 (*S*)

K. RAMAMURTHY,
Chairman,
Committee on Public Undertakings

APPENDIX

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

Sl. No.	Reference to Para No. of the Report	Conclusions/Recommendations
1	2	3
1	1·11	The working of IPCL was examined by the Committee on Public Undertakings in 1975. In para 1·35 of their 64th Report (1974-75), the Committee had *inter alia* observed that IPCL had not formulated its statement of objectives/obligations in spite of the fact that IPCL had been asked by the Ministry in 1971 to look into the matter. The Ministry had then admitted that "in the ultimate analysis, it is the fault of the Ministry" and that they should have pursued it more vigorously. The Committee was then informed in March, 1976 that the statement of objectives and obligations of IPCL was expected to be finalised by 30th April, 1976. The statement of objectives and obligations was actually approved by the Board of IPCL only on 28th June, 1977. Thereafter the Department of Petroleum took six years in processing and part of the delay is attributed to loss of relevant file in BPE. The objectives and obligations of IPCL were finally approved in November, 1983. The net analysis is that while the Company took six years to prepare a draft statement of objectives and obligations, the Government took another six years to consider that draft statement. Even conceding that part of this long delay is due to loss of the file in BPE the Committee cannot but deprecate this casual approach both on the part of the Undertaking as well *as* the Ministry. This inordinate delay has resulted in the Company having to work for a long time during crucial years of its development without any specific statement of objectives and obligations.

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2.	1·14	Even though guidelines had been issued as far back as in 1974 by BPE to all the public undertakings to prepare their Corporate Plans and get them ratified by the concerned Administrative Ministries, IPCL initiated action in this behalf only in August, 1984. Precious ten years were lost as the statement of objectives and obligations of the company was finalised only in November, 1983. Even thereafter it took IPCL more than a year and a half to finalise and submit their Corporate Plan for approval to the Ministry. The Department of Petroleum in one of their circulars issued on 29th June, 1984 requested all the public undertakings under their control to prepare Corporate Plans of their organisations and submit the same for formal ratification/approval to the Department. Strangely a stand has now been taken by the Department of Chemicals and Petrochemicals that the Corporate Plans do not require Government's formal approval. In this connection, the Committee would like to recall that in para 1·17 of their 91st Report (7th Lok Sabha) on Bharat Petroleum Corporation Limited, the Committee had recommended that specific approval of Corporate Plan by Government is necessary having regard to the need to correlate it with the national Five Year Plans and to indicate the direction that the Company should take. This recommendation had been accepted by the Ministry of Petroleum and implemented. It is relevant to mention that IPCL was at that time under the administrative control of Ministry of Petroleum. The Committee desire that the Corporate Plan submitted by IPCL in February, 1986 may be formally ratified by the Ministry without any further delay and the Committee informed of it within 3 months of the presentation of this Report.
3.	2·34 & 2·35	The main raw material for both the mother plants of IPCL namely Aromatics and Olefins is naphtha, which is supplied by the Gujarat Refinery of the Indian Oil Corporation. The xylenes unit of the Aromatics plant of IPCL was designed to process naphtha having C-8 precursor content of 44·77 per cent. However, right from the start-up of the

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		Unit in May, 1973, the C-8 precursor content of naphtha supplied by the Gujarat Refinery has ranged between 35 and 42.7 per cent and has never reached the specified limit. This has adversely affected the production of xylene so much so that throughout the period from 1976-77 to 1984-85, the production of xylenes was less than the rated capacity. Consequently the Company had to import paraxylene at a total cost of Rs. 21.18 crores during 1981--85 to meet the needs for production of DMT.
		The problem of quality of naphtha supplied to IPCL by the Gujarat Refinery had been highlighted as far back as in 1975 by the Committee on Public Undertakings, when it reviewed the working of the IPCL. The Committee had then been assured that long term measures for the sustained supplies of the requisite quality of naphtha were being taken. It is a matter of deep concern to note that even after more than a decade the problem of supply of naphtha of adequate quality has not been satisfactorily resolved and the shortfall in production of xylenes and its co-products thus persists due to non-implementation of remedial measures which were identified long back and about which a commitment was made to the Committee on Public Undertakings in December, 1975.
4.	2·36	As regards the quality of naphtha supplied by Gujarat Refinery, the Committee have been informed that at the time of designing of the IPCL Complex, Gujarat Refinery's maximum crude supply used to come from Ankaleswar and the norm of C-8 precursor content of 44% was based on the exclusive use of Ankaleswar crude by the Gujarat Refinery. However, with the growing use of Gujarat crude and Bombay High crude by the Gujarat Refinery as also the changes in the operation of the refinery, the quality of naphtha supplied to IPCL went beyond refinery's control and naphtha with C-8 precursor content of 44% could never be supplied to IPCL. It is interesting to note that the Ministry of Petroleum and Natural Gas

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		has now come forward with an explanation that there was "obviously an error in analysis of 110-140°C cut naphtha used for design of the unit as the value of 44·77% of precursors has not been found at any time later even in the series of controlled test runs." This seems to be an after-thought as in May, 1976, the Gujarat Rafinery had expressed their inability to supply adequate quantity of requisite quality of naphtha on the ground that it would result in considerable loss to the refinery on account of lower production of middle distillates and difficulties in the disposal of the resultant higher output of Low Sulphur/Heavy Stock (LSHS). It is also on record that Gujarat Refinery had made an offer to IPCL to improve the quality of naphtha if the IPCL could compensate the refinery for the resultant loss. This offer was rejected as the IPCL and the refinery could not successfully negotiate the commercial terms on which the refinery could be compensated for the enhanced cost involved in improving the quality of naphtha. It is thus clear that the then Department of Petroleum as the administrative Ministry of both IPCL and the Gujarat Refinery failed to play a meaningful role in sorting out the issue/regarding supply of low quality naphtha by the refinery and consequent shortfalls in production of xylenes in the Aromatics plant of IPCL.
5.	2·37	The Committee find that the Company has considered various measures to improve the production of xylenes but the non-availability of naphtha of the requisite specification is still eluding satisfactory solution of the problem. As long term measure considered for getting over the problem of inadequate supply of requisite quality of naphtha envisaged installation of prefractionation facility, but the economics of investment on a prefractionator was not found viable and therefore the proposal for the facility, which was expected to be in operation by early 1978, was considered redundant and dropped in 1982. The

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		present situation is that even after some optimisation work done by IOC with the help of EIL and Indian Institute of petroleum, IPCL is not getting the required standard of naphtha and the shortfall in production is about 8·75 per cent. This position is expected to continue upto the end of 1988, when the expansion project for increasing the produotion of xylenes, now under execution, is likely to be completed. It is only to be hoped that the expansion projeot is completed on schedule.
6.	2·38	From the above, the Committee oan not but oonclude that right from the beginning the question of supply of naphtha of requisite quality for the aromatics plant of IPCL has not been handled in a prudent manner. Even though it was patently olear that the Gujarat Refinery could not meet the requirements of IPCL, both for technological and commercial reasons, the problem was allowed to persist for too long. If sincere and concerted efforts had been made at the Ministry's level to sort out an essentially inter-firm problem, the Committee have the least doubt that the problem could have been resolved amicably much earlier to the satisfaction of both the undertakings.
7.	2.39	Apart from the naphtha used in the Aromatios plant of IPCL, the quality and quantity of naphtha used in the Naphtha cracker of IPCL has also posed problems for the undertaking. It has been stated that Naphtha Cracker designed to process 4,50,00 MTA of naphtha was commissioned in 1978 and naphtha quality had been close to design till January, 1981. Thereafter because of processing of crude from different sources and more of Bombay High Crude, the maintenance of the quality of naphtha supplied for Naphtha Cracker became a problem. As it was difficult to change the pattern of crude processing in Gujarat Refinery, the IPCL's requirements of naphtha for its cracker oould not be met. The problem has been allowed to drag on and no satisfactory solution has been found so far. The Committee consider it as a highly unsatisfaotory state of affairs which calls for urgent and conclusive remedial measures.

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8.	2·40	The Committee are surprised to note that a revamping of the naphtha cracker at IPCL had been planned but it involved increased supply of naphtha by the Gujarat Refinery from the current level of 4,50,000 MTA to 5,20,000 MTA by 1987-88. Against the enhanced requirements, the refinery has expressed that they can supply at best only about 3,50,000 MTA of Naphtha for the cracker having less than 10% of aromatics from 1986-87. For meeting the balance requirement other alternatives are being considered. Among these measures even import of naphtha of adequate quality has been considered. However, no firm decisions seem to have been taken so far. This is despite the fact that the problems in the supply of naphtha to fertilizer and petrochemcical plants are regularly reviewed by the Oil Coordination Committee, which suggests solutions that are acceptable to both consumers and suppliers. It is difficult to believe that all these years it has not been possible for Oil Coordination Committee to find a solution for the problems of IPCL. Obviously there has been lack of concerted efforts and the Committee condemn this obvious in action on the part of the Oil Coordination Committee.
9.	3·9	IPCL has a Research and Development Centre on which a capital cost of Rs. 8·9 orores has already been incurred and during the Seventh Plan period further capital expenditure of the order of Rs. 31 crores is envisaged. The current operating revenue expenditure on the research centre, which has a strength of 196 scientists, is stated to be Rs. 1·2 crores and is likely to go up to Rs. 2 crores in future. When asked about the extent of benefits accrued in the production performance of the Company with the establishment of R & D Centre, the Committee have been informed that the total average benefit has been of the order of Rs. 2·06 crores per annum. It is no doubt necessary that an organisation like IPCL should have a fully equipped R & D facility. At the same time it is equally important that a periodic evaluation should be made to ascertain whether the expenditure on the R & D outfit has been commensurate with the benefits derived. In 1975, the Committee had suggested that an objective

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		appraisal by an independent expert body of the work done by the R & D Centre might be undertaken. Unfortunately no such assessment has so far been made. The Committee would like to reiterate that an objective appraisal of the performance of the R & D Centre is a must and it should be carried out without any further delay to assess how far the Centre has succeeded in achieving the objectives for which it was set up.
10.	4·18	The Committee find that the position of inventory holdings in IPCL over the years has not been quite satisfactory. The inventory of raw materials which was of the order of Rs. 10·16 crores in 1981-82 rose to Rs. 13·96 crores in 1983-84. The position in respect of stores and spares was particularly lead as their total inventory increased from Rs. 36·50 crores in 1981-82 to Rs. 45·13 crores in 1984-85 thus registering an increase of about 25%. Further although the actual holdings of 'A' & 'B' class items as on 31-3-1985 were more or less according to the norms laid down, the holdings of 'C' Class items represented 31·00 months consumption against the normative figure of 12 months consumption. Thus, in Committee's opinion, the inventory holdings constitute an area which needs monitoring on a regular and sustained basis.
11.	4·19	The Committee have been informed that in March, 1982 surplus stores worth Rs. 6·8 crores had been identified for disposal. However, so far surplus stores worth Rs. 4·44 crores only have been disposed of leaving a balance of one-third of stores worth Rs. 2·36 crores identified as surplus five years back still lying undisposed. The Committee are sure that during the intervening five years the inventory of surplus spares must have gone up. The Committee, therefore, recommend that a further exercise be undertaken on an urgent basis to identify the surplus stores on a specified date and thereafter action plan may be drawn up for disposal of such stores which must be occupying considerable precious space.
12.	4·20	The liquidation of non-moving stores is another area which merits attention. Since 1982 onwards over Rs. 10 crores are locked up in the form of non-moving stores. It has been stated that Survey Committees

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		were reviewing the position and necessary action for the disposal of those non-moving items will be taken up based on their reports. The Committee desire that a fixed schedule for these Survey Committees completing their task should be laid down and strictly adhered to. The Committee would like to be informed about the final outcome in this behalf.
13.	5·18	The Committee find that as against the BPE guidelines that it was desirable that prices fixed should be operative for two to three years, IPCL has been frequently resorting to revision of selling prices of their major products. It has been pleaded on behalf of IPCL that since it operates in a market highly susceptible to changes in the international context, fiscal policies and levies and cost of raw materials and other inputs, IPCL can not maintain its prices steady or 2 to 3 years as contemplated in the BPE guidelines. As a result IPCL has been revising its prices every year in April in the light of changes in evies and cost of feedstocks made through budgets in Parliament. The Committee do appreciate the difficulties of IPCL in strictly following the guidelines on the question of maintaining prices. However, they emphasize that there has to be a distinction between the standards which a public sector undertaking has to follow vis-a-vis private industrialists. In that context IPCL as a major producer of the petrochemicals which are used as a raw material by a large segment of industry should ensure stability in its price structure for a longer duration in the larger public interest. IPCL should, therefore, endeavour to maintain its prices for longer periods even by absorbing small increases in input costs by improving its operating efficiency.
14.	5·19	In regard to the pricing policy followed by IPCL it has been stated that out of 10 major products selling in large quantities, prices of 7 products are lower than the landed cost of imported products and in the case of remaining 3 products selling prices are higher than the landed cost. The other important ingredient in the pricing policy of IPCL is that prices are fixed in such a manner that an overall net return of 12% on

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		the total investment of over Rs. 450 crores is ensured. In order to get an overall return, the IPCL has to overcharge in some products. Thus IPCL has been fixing the selling prices of some of the products on its own assessment of what the market could bear and the prevailing demand pattern apparently dictated by the considerations of return on investment. In such cases, the actual cost of production or the concept of fair selling price get relegated to the background. The Committee feel that in pursuing such a policy there is a serious snag which should not be overlooked. From the data made available to the Committee, it is seen that in the case of some major products like LDPE, PP, DMT, PVC etc. the selling prices charged by IPCL are much higher than the cost of production but very close to the prices charged by other competitors. In such cases the other producers who may be having a better operating efficiency and hence lower cost of production are allowed the benefit of unearned profits in the form of higher margins. The committee, therefore, feel that it is necessary that while fixing its selling prices in respect of major products where IPCL has a dominant position and acts as a trend setter, IPCL should not follow a policy which results in unintended benefit to its competitors at the cost of consumers.
15.	6·22	The Committee note that IPCL started earning profit from the second year of its operation i.e. 1974-75 The Company continued to earn profit all these years except in 1978-79 when it showed a loss of Rs. 10·08 crores. In spite of the availability of sizeable free reserves from 1980-81, IPCL did not pay any dividend till 1983-84 to the Government who had provided Rs. 186 crores as share capital. It was only from 1984-85 that the company paid dividend of Rs. 18·60 crores to the Government at the rate of 10 per cent. The Committee are of the view that this practice of not paying a dividend on the share capital by a company even when it has a very sound financial position is not healthy one and needs to be curbed.
16.	6·23	It is relevant to point out that the guidelines issued by BPE as far back as in 1968 stipulate that a manu-

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		facturing enterprise after appropriation of surplus earnings to build up reasonable reserves, to augment internal resources to finance capital expenditure and to meet its immediate financial obligations without much strain should aim at declaring dividend ranging between 6 per cent to 15 per cent. Despite the clear cut and unambiguous guidelines on the subject and despite the fact that IPCL was admittedly in a happy posiition to pay a reasonable dividend from 1981-82, the management has not considered desirable to pay a dividend on its borrowed capital. Strangely the Government has also not insisted on a reasonable dividend being paid on its own investment in the company. The Committee consider it a serious lapse and against the canons of healthy commercial practice.
17.	6·24	The main argument given by IPCL for not following an accepted commercial practice of paying dividend from earned profits is that it has been appropriating a major share of the net surplus available for distribution for augmenting their internal resources. The Committee do not consider it to be fully convincing. The Committee find that IPCL which had an authorised limit of Rs. 40 crores for cash credit borrowings from banks liquidated its entire short term borrowings of Rs. 13·46 crores as on 31-3-1983 during 1983-84 and 1984-85 and also repaid long-term loans of Rs. 53·28 crores to Government & Oil Industry Development Board by 1983-84 of which Rs. 15·84 crores were due only in 1984-85. The Company suspended further acceptance of public deposits from January, 1984 onwards as it had a very comfortable cash position. Furthermore the company also gave short-term loans of Rs. 20 crores to BPCL and HPCL in July, 1984 at 15 per cent interest and still had a cash balance of Rs. 23.68 crores as on 31-3-1985. This would clearly indicate that even though the company was literally flush with funds, it did not care to think of paying a reasonable dividend on its share capital. It was only when the Audit brought out the need for following better financial management policies that IPCL considered the question of payment of dividend in 1984-85. The Committee are constrained to conclude that in so far as the financial management is concerned, the Company has not been following sound business principles and prudent commercial practices.
18	6·25	It may be recalled that the Committee on Public Undertakings in their 15th Report (1967-68) on Financial Management in Public Undertakings had emphasised the need for laying down a limit on the percentage of profit earned by an Undertaking that

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		can be utilised for building up internal resources as that would ensure that a minimum portion of the surplus is declared as dividend. In reply to a suggestion whether a maximum limit on the profits that should be utilised for building up of internal resources should be laid down, the Department of Chemicals and Petro-Chemicals has stated that it would not be practicable to prescribe a maximum limit as circumstances would differ from case to case. It has also been argued that since the utilisation of the resources generated by a Public Sector Company is decided by the Government the need to separately prescribe any limit on the utilisation of profits for building resources does not appear necessary. The Committee can not agree with this argument. The Committee would like to remind that even in the guidelines issued by BPE on 20th December, 1968, it was emphasised that it may not be desirable to prescribe any hard and fast rule about the percentage of the dividend to be declared or the profits to be appropriated to the reserves. Nevertheless, the Government had desired that keeping in view the spirit behind the observations made by the Committee on Public Undertakings it should be ensured that at least a minimum portion of the surplus is invariably utilised for the declaration of the dividends. The Government had further impressed upon its representatives on the Boards of the Companies to ensure that the interest of the Government as a shareholder was fully kept in view by the Boards of Directors at the time of considering the appropriation of profits towards internal resources and for declaration of dividends. The Committee can not but reiterate the views expressed by them earlier and desire that the question of laying down a maximum limit on the appropriation of profits for internal reserves with a view to ensure payment of a minimum of dividend on the share capital should be considered at the highest level for decision, which should be applicable to all the profit making undertakings.
19.	6·26	The Committee also feel that when funds are easily available from commercial banks for meeting the working capital requirements of a concern, it would be desirable that the company makes fullest use of this facility. Such a practice is bound to instil a sense of financial discipline and will be conducive to better performance.

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