TWENTY-NINTH REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS (1986-87)

(EIGHTH LOK SABHA)

INDIAN DRUGS AND PHARAMACEUTICALS LIMITED

MINISTRY OF INDUSTRY—DEPARTMENT OF CHEMICALS AND PETROCHEMICALS)

Presented to Lok Sabha on 30-4-1987

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LOK SABHA SECRETARIAT

NEW DELHI

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COMMITTEE ON PUBLIC UNDERTAKINGS
(1986-87)

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INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Twenty-Ninth Report on Indian Drugs and Pharmaceuticals Ltd.

2. The Committee took evidence of the representatives of Indian Drugs & Pharmaceuticals Ltd. on 9, 10 and 11 February, 1987 and of the representatives of Ministry of Industry (Department of Chemicals and Petrochemicals) on 10 and 18 March, 1987.

3. The Committee on Public Undertakings (1986-87) considered and adopted the Report at their sitting held on 24 April, 1987.

4. The Committee wish to express their thanks to the Ministry of Industry (Department of Chemicals and Petrochemicals) and Indian Drugs & Pharmaceuticals Ltd. for placing before them the material and information they wanted in connection with examination of Indian Drugs & Pharmaceuticals Ltd. They also wish to thank in particular the representatives of the Ministry of Industry (Department of Chemicals and Petrochemicals) and Indian Drugs and Pharmaceuticals Ltd. who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

K. RAMAMURTHY,
Chairman,
Committee on Public Undertakings

NEW DELHI;
April 28, 1987
Vaisakha 8, 1909 (*S*)

CHAPTER I

HISTORICAL BACKGROUND

1.1 With a view to establish production facilities for drugs and pharmaceuticals in the Public Sector, the Govt. of India obtained help from the Soviet Union. The Soviet experts visited India in 1956 and reported in May 1956 about setting up of various units. A team of Indian experts visited the Soviet Union in 1956 and submitted to Govt. its report in December 1956. The Govt. of USSR offered a credit of 80 million roubles to the Govt. of India. Availing itself of this offer, the Govt. of India decided to establish, in the Public Sector, plants for the manufacture of antibiotics, synthetic drugs, surgical instruments, phyto-chemicals and grandular products. The last two were subsequently dropped.

1.2 The main Agreement between the Government of India and the Govt. of the USSR was signed on the 29th May, 1959 for the establishment of manufacturing units for drugs and pharmaceuticals utilising the credit of Rs. 9.52 crores to cover the cost of machinery and equipment to be imported from the USSR and to cover technical services. On 10th June, 1960, four contracts were signed with M/s. Technoexport for Detailed Projects Reports. In the beginning the Projects work was looked after by National Industrial Development Corporation.

1.3 On 5th April, 1961, a wholly Govt-owned company under the name and style of "Indian Drugs & Pharmaceuticals Ltd." was incorporated. In November 1961, the Govt. of India assigned to the company all the rights and obligations under the Agreement with the Soviet Union dated the 29 May, 1959 relating to the loan of Rs. 9.52 crores and the four contracts with M/s. Technoexport, Moscow referred to above.

1.4 The company had three Plants—the Antibiotics Plant at Virbhadra, Rishikesh, U.P., the Synthetic Drugs Plant in Hyderabad, A.P., and the Surgical Instruments Plant at Nandambakkam, Madras, Tamil Nadu. Subsequently the capacities were expanded in two phases each at Rishikesh and Hyderabad and a new plant was installed at Bela, Muzaffarpur, Bihar, for the manufacture of Niacinamide and some bulk chemicals. A new formulation plant was also set up at Dundahera, Gurgaon, Haryana and Madras Surgical Instrument Plant was diversified to produce some light engineering items like valves, fabrications etc. and drug-formulations.

The authorised capital and paid-up capital of the Company as on 31 March, 1986 was Rs. 110 crores and Rs. 95.91 crores respectively.

CHAPTER II

OBJECTIVES AND OBLIGATIONS

A. *Objectives*

2.1 In their Fifty-Sixth Report, the Committee on Public Undertakings (1973-74) has drawn the attention of the Undertaking to the instructions of Bureau of Public Undertakings issued in November, 1970 to all Government companies to formulate a statement of their objectives/obligations clearly and communicate the same to Government for approval. The IDPL had not then formulated their objectives even more than three years after the issue of instructions by BPE. The Committee, therefore, urged that IDPL should finalise the statement of objectives without any further delay.

2.2 In October, 1974, the Department of Chemicals and Fertilizers, while forwarding the action taken replies had informed the Committee that the statement of objectives of IDPL was prepared and sent to BPE for their comments and approval. The Committee had then again emphasised in their Seventy-Sixth Report (1975-76) on the action taken by Government on the recommendations contained in their Fifty-Sixth Report (1973-74) that the statement of objectives of IDPL should be finalised expeditiously so that not only Company had a clear idea of its aims and objectives but it enables others to make a critical evaluation of its performance.

2.3 In the written information furnished to the Committee in September, 1985 the IDPL informed the Committee that in pursuance of BPE's guidelines issued in May, 1970, the Board of IDPL at its sitting held on 20 July, 1974, approved the following statement of objectives :

"It shall be the constant endeavour of IDPL :

(i) to undertake basic manufacture of essential bulk, drugs, chemicals, basic intermediate and formulations in adequate quantities to meet increasing demand for them in context of :

  (a) State taking over increasing responsibilities for the provision of medical relief in the country; and

  (b) necessity of bringing down the prices of essential medicines;

(ii) to make the country self-sufficient and free it from dependence on imports of vital life saving drugs;

(iii) to ensure fair distribution of available bulk drugs, including imported, to all manufacturers, both in the organised as well as in the small scale sector, keeping in view national priorities;

(iv) to undertake manufacture of various surgical instruments for use of the medical profession;

(v) to organise sale and distribution of medicine and surgical instruments to consumers and users through a chain of depots preferred dealers, etc. and

(vi) to undertake export of drugs and surgical instruments as a part of the national drive for boosting exports.

It shall also be the endeavour of IDPL to :

(i) create depreciation and other reserves for renewals, replacement and expansion;

(ii) ensure fair return to the public exchequer on the capital employed;

(iii) ensure a reasonable wage and living conditions to the employees and provide suitable incentive to ensure their growing with the Company;

(iv) fix prices for the products which will be fair both to the company and the formulators/consumers; and

(v) undertake research and development of new antibiotics and drugs;

2.4 The main objectives of IDPL is medicines for the millions rather than millions from the medicines."

During oral evidence of the representatives of IDPL, when the Committee enquired whether the action for the formulation of objectives was initiated only after the Committee on Public Undertakings (1973-74) recommended in that regard, the CMD then admitted "that is possible."

2.5 When asked whether the objectives and obligations of the Company had since been formulated and approved by Government, the witness stated :

> "I find from the records of the Company that objectives were framed by the Company. These were sent to the Government. The Ministry had forwarded them to the Bureau of Public Enterprises. There has been neither 'yes' nor 'no' from them..... I can only say this much that they presumed that they have been accepted because these were neither criticised nor rejected. That is the only inference that I can draw from it."

2.6 The Committee then pointed out that as per the BPE guidelines the Objectives and Obligations laid down by the Company were required to be approved by the administrative Ministry. This was also spelt out in the Industrial Policy Statement in December 1977, details of which must have been circulated by the Ministry to the Undertakings under its administrative control. The witness replied :

> "The company has itself prepared the objectives and was ostensibly trying to attain those objectives. The sending of these papers to the Ministry and the BPE, probably have not been given the same importance as to get ratification or the approval of the BPE."

2.7 Asked whether any reminder was sent to the Ministry by IDPL in this regard, the witness stated that "Our records show that a reminder was sent in 1984."

2.8 Again asked whether the Undertaking received only communications from their Ministry or all of a sudden after 10 years, it thought fit to send a reminder, the witness stated that "It came as a result of an audit question. The Company itself did not feel it that there was any need."

2.9 When again pointed out that the Company might not have reminded the Ministry if the audit question had not come, the witness admitted 'Yes, perhaps.'

2.10 The Committee then pointed out that it was mandatory on the part of the Company to obtain the approval of the administrative Ministry to the objectives and obligations framed by the Company. To this, the CMD, IDPL admitted that if the Government's sanction was mandatory, then the Company has failed.'

2.11 In this connection, the Committee desired to know about the reasons for such an abnormal delay in approving the objectives of the Company by the Ministry. The Joint Secretary, Department of Chemicals & Petrochemicals stated during evidence :

> "As far as we have been able to get hold of the fact, the IDPL did send the objectives approved by the Board to the Ministry and from whatever records or whatever evidence we could gather, the Ministry or the Department did approve those objectives but the ultimate approval of the Bureau of Public Enterprises, which was necessary, could not be obtained."

2.12 Asked as to whether the approval of the Government was conveyed to the Company, the witness stated :

> "No, Sir. The company has been working on the assumption..... I was not trying to justify the delay of 10 years or whatever the mistake is. All that I was trying to submit was that now we are trying to give things in the present perspective."

2.13 In the post evidence written replies furnished to the Committee by IDPL, it has been stated that an attempt was made in Feb. 1987 to locate the file in the Deptt. of Chemicals and Petrochemicals. The file could not be traced there. An attempt was also made to locate the file in the BPE. The file could not be traced in the BPE also.

2.14 During evidence of Ministry it was pointed out that in the absence of any file or any documentary proof it was not clear how the objectives and obligations of the Company could be taken as approved by Government. The Joint Secretary, Department of Chemicals and Petrochemicals stated :

> "Whatever I am submitting is on the basis of the replies given by the Department in 1976 to the honourable Committee that it had been approved in 1974 and sent to BPE....."

2.15 In regard to the missing file, the Committee enquired about the efforts made by the Department to trace it, the witness stated :

> "....., I made some more efforts to try and trace the movement of file. But I regret to say that we have not been able to trace this file. The basis on which we made this statement was the same that had been done by the erstwhile Ministry of Petroleum & Chemicals, before the Committee on Public Undertakings in 1976.....In spite of our best efforts, we have not been able to trace the file No. or docket No. by which the file had been sent to the Department of Public Enterprises. Some exercise made in the Department of Public Enterprises has also drawn the blank."

The witness also added :

> "There are a certain number of files which are supposed to be weeded out after three years. I recorded that only we go into details by which we will be able to know what decision was taken. If no decision is taken, it must have been weeded out. Since it has been mentioned before the Committee earlier, that the Ministry had approved the objectives and sent to BPE, one presumption is that no action is called for. It is difficult to conjecture this."

2.16 Subsequently, the Committee were informed by BPE in writing that they had not received any letter or file from the Department of Chemicals & Fertilizers relating to the objectives of IDPL.

B. *Micro Objectives*

2.17 During evidence of the representatives of the Undertaking, the Committee pointed out that as per the directive of BPE issued in 1970 and reiterated in 1979 and 1983, the public undertakings in addition to macro-objectives should also have to formulate micro-objectives in contra-distinction to annual plans so that performance of undertakings could be judged with reference to macro and micro objectives and annual plans. To this, the CMD of IDPL stated :

> "Sir, the Company did prepare a set of micro-objectives in February, 1984 and this was placed before the Board on 16-2-1984. The Board wanted it to be redrafted and we redrafted it. This redrafting had taken quite sometime. In the meantime, of course, the Company has been more pre-occupied with its survival.....Now these are being redrawn and it will be put up to the Board."

2.18 The Committee enquired from the representative of Ministry during evidence that in the absence of clear objectives, how was the performance of the Company beng adjudged by the Ministry from year to year. The Joint Secretary in the Department of Chemicals and Petrochemicals then stated :

> "....We presumed that the objectives had been approved by the Ministry and the undertaking had been working according to those objectives. As far as monitoring is concerned, it is being done on the basis of quarterly review, sales, production, profitability etc."

2.19 In regard to delay in reframing the micro-objectives, the Committee wanted to know the reasons for it. In a written note furnished after evidence, the IDPL have stated that "the micro-objectives have been redrafted and are under submission to the Board. There has been some delay due to the following reasons :

(1) At one stage it was felt that external professional help should be availed of to concretize the micro-objectives and give it a formal shape. The job was assigned to the FORE (Foundation

for Organisational Research) along with certain other assignments. FORE completed the other assignments but returned the brief on this assignment as they no longer had the expertise on this aspect.

(2) The Company's financial position had deteriorated considerably. The shrinking of financial and other resources and certain environmental changes had led to the shrinking of strategic options open to the company and some field conditions have altered like competitive rivalries with other Public Sector Undertakings and with new entrants like small scale industry and direction of the company had hence to be reviewed and the central and over-riding objective has to change the emphasis from social obligations to business considerations to enable the company to survive in house task force with external management consultants was formed by the company at the instance of the Central Govt. As this task force went into various strategic options which had a bearing on the micro-objectives and action plans of the company its report was also to be awaited and availed of.

(3) It was contemplated that the new micro-objective should be dovetailed to the drugs policy, among other things. The Drugs Policy was under revision by the Government. Because of these changes in the resource pattern and environmental conditions and awaited policy changes of the Government the micro-objectives have taken some time to be defined."

2.20 In this connection, the Committee enquired whether the Ministry reminded the Company for framing the micro-objectives in line with the BPE guidlines. The Joint Secretary, Department of Chemicals and Petrochemicals stated during evidence.

"We wrote to the IDPL to frame micro-objectives in consonance with the macro-objectives."

2.21 When pointed out that framing of micro-objectives in consonance with the broad macro-objectives was absolutely necessary to judge the performance of the Company, the witness admitted 'I admit that it is necessary for the Company to lay down micro-objectives so as to measure its performance.'

C. *Corporate Plan*

2.22 It has been stated that IDPL did not have any Corporate Plan approved by Government. A draft corporate plan was recently prepared by the Company which was still under the process of finalisation.

2.23 During evidence, the Committee pointed out that even so many years after its existence, the Corporate Plan had not seen the light of the day and had not been sent to the Govt. for approval. Thereupon, the CMD of IDPL stated that "Corporate Plan is in existence but it is not finally cleared."

2.24 In this connection, the Joint Secretary, Department of Chemicals & Petrochemicals during oral evidence also stated that "the Company has not formulated any Corporate Plan as yet but now it is being done." As far as guidelines of BPE are concerned, it is not mandatory on the part of the Public Undertakings to obtain the approval of the Ministry to the Corporate Plan.

The witness added :

"There is no doubt about it that the Company must have a Corporate Plan and must act according to the Corporate Plan....."

2.25 Asked as to how in the absence of Corporate Plan, the review of the Working of IDPL was being done, the witness stated :

"Sir, the Ministry had been preparing action plan every year in terms of production, sales and other indices and the review was being done on the basis of that action Plan."

2.26 Inspite of BPE's instructions issued in November, 1970 asking all the Government Companies to initiate action to formulate statement of their objectives and obligations and have them approved by the Ministry, practically no action was taken by IDPL for more than three years. When the Committee took up examination of IDPL in 1973-74 and recommended immediate finalisation of its objectives, only then the action to formulate objectives and obligations was initiated by the undertaking. This was also admitted by CMD during his evidence before the Committee.

2.27 In October, 1974 while forwarding action taken notes, the then Department of Chemicals and Fertilizers informed the Committee that statement of objectives of IDPL was prepared and sent to BPE for their comments and approval. Again in their 76th Report (1975-76) on action taken by Government on the recommendations contained in 56th Report, the Committee re-emphasised the need for expeditious finalisation of the statement of objectives and obligations of IDPL. The Department of Chemicals and Fertilizers have now stated that IDPL did send the objectives approved by their Board to the Ministry and the Ministry approved them and sent them to BPE for their concurrence.

2.28 What is most surprising is that neither the undertaking sent any reminder to the Ministry nor the Ministry pursue the matter with the BPE once they had sent the statement of objectives and obligations for their concurrence on 1974. The undertaking reminded the Ministry only after 10 years i.e. 1984 and that too after an audit question in that regard was received by them. The Company have also stated that they did not feel it necessary to remind the Ministry as the Company, after preparing the objectives, had been trying to attain them but did not give the same importance to the approval of objectives by the Ministry or BPE. However, it was admitted in evidence by CMD that if approval of Ministry was mandatory, the Company had then failed. The Ministry also cannot be absolved of their responsibility in this regard as even on this date their approval in writing to the objectives, reported to have been framed and approved by the Board of IDPL in 1974, has not been communicated to the undertaking. The Committee cannot but strongly deprecate the lackadaisical

manner in which both the undertaking and the Ministry have discharged their responsibilities in this regard. In Committee's view the approval of the objectives by the Ministry is mandatory and they cannot escape their responsibility in this matter.

2.29 The IDPL has also informed the Committee that the attempt was made only in February, 1987 to locate the file in Department of Chemicals and Petrochemicals as also in BPE, but the same could not be traced. The representative of the Ministry also admitted during evidence that inspite of the best efforts they have not been able to trace the file number or the docket number by which the file containing objectives of IDPL was sent to BPE. Subsequently, in March, 1987 during the oral evidence of the representatives of BPE, the Additional Secretary, BPE denied the receipt of any file from the Department of Chemicals and Fertilizers regarding objectives of IDPL. The witness also stated that the approval of BPE was not at all necessary in accordance with the guidelines laid down in 1973. According to them, it was for the administrative Ministry to accord approval to the objectives and obligations of the undertaking. Again, BPE after having checked up their record have categorically stated in their letter dt. 24-3-1987 that they have not received any letter or file from the Department of Petroleum and Chemicals on the subject. The Committee are, therefore baffled as to who should be believed in this regard. The Committee also fail to understand as to why the objectives were sent by the Ministry to BPE when these were not required to be approved by them. Even if the file was sent to BPE as stated by the Ministry, it could have been returned by BPE with the remarks that their approval was not necessary. The Committee recommend that since the loss of file is a serious matter and cannot be overlooked, the question of locating the missing file should be probed into with a view to fixing responsibility. The Committee recommend that since the loss of file is a serious matter and cannot be overlooked, the question of locating the missing file should be probed into with a view to fixing responsibility. The Committee find it interesting to note that a similar file of statement of objectives and obligations of IPCL has also been lost by this very Ministry.

2.30 The Committee are pained to say that both the undertaking and the Ministry have shown scant respect to the recommendations of this Committee as is evident by the fact that in response to recommendation made by the Committee in 1973-74 the Committee had been informed by the Ministry that statement of objectives and obligations of IDPL framed by the undertaking had been sent to BPE for approval but thereafter the matter was forgotten all other for ten years and revived only when an audit question was received. The Committee deprecate this in the strongest terms and desire that responsibility for this indefensible lapse should be fixed and action taken intimated to the Committee within next three months.

2.31 The Committee also desire that the statement of objectives and obligations of IDPL should immediately be approved by the Ministry and communicated in writing to the undertaking so that the Company should have a clear idea of its aims and objectives which will also enable others to make a critical evaluation of its performance. The Committee also desire that a white paper with regard to the actual performance of the Company fulfilling its objectives should be brought out and placed before

Parliament to enable members to assess the growth and achievement of the Company on a realistic basis.

2.32 The Committee also find that as per directives of BPE issued in 1970 and reiterated in 1979 and 1983, Public Undertakings in addition to macro objectives should also have micro objectives consistant with broad objectives in contra-distinction to annual plans so that the performance of the undertaking could be judged with reference to macro and micro objectives and annual plans.

2.33 According to IDPL a set of micro objectives was prepared and placed before their Board in February, 1984. But their Board wanted the micro objectives to be re-drafted. The micro objectives were being redrafted and were to be placed before the Board for approval shortly. In this connection, the CMD of IDPL admitted during evidence that re-drafting of micro objectives had taken some time as the Company had been more occupied with the question of its survival. The Committee strongly deprecate this inordinate delay in finalising the micro objectives also. The Committee urge that the micro objectives should be finalised by the Company and got approved by the Ministry without further loss of time.

2.34 Besides the micro objectives, the Company also do not have any Corporate Plan approved by the Government. A draft corporate plan is reported to have been prepared by the Company but is still in the process of finalisation. In this connection, the representative of Department of Chemicals & Petrochemicals also admitted during his oral evidence that "the Company has not formulated any corporate plan as yet but now it is being done. He also clarified that it is not mandatory on the part of the public undertakings to obtain approval of the Ministry to the Corporate Plan. The Committee, therefore, urge that the Corporate plan should immediately be finalised and got approved by the Board so as to provide the Company a more definite basis to plan its further activities.

2.35 The Committee are of the firm opinion that dismal performance of IDPL, which will be clear from following Chapters of his report, is the result of several factors, one important factor being its clear failure to frame macro and micro objectives and the Corporate Plan even after 27 years of its being set up. The Ministry are equal partners in this failure.

CHAPTER III

PRODUCTION CAPACITY

A. Capacity Utilisation

3.1 It has been brought to the notice of the Committee that out of 107 essential bulk drugs listed in Drugs Statistics 1982-83 of the then Ministry of Chemicals and Fertilizers, IDPL has licensed capacity to for manufacture only 36 drugs. Further, the same Statistics show that in national health programmes like tuberculosis the IDPL has not implemented licensed capacity for tuberculosis drugs like thiacetazone and isonized. The same applies to diethylcarbamazine citrate meant for the treatment of filarisis. In most of the rest of the drugs, IDPL capacity utilisation is abysmally low and as late as November 9, 1984 the technical division was still being asked to analyse the products where IDPL's capacity utilisation is marginal and where there is no hope of improvement. Drives for capacity utilisation it seems have remained on paper only.

3.2 It has also been reported that as late as August 1984, the IDPL had no idea what to do with the 22 million ampouling capacity at its Gurgaon plant and by November 1984 IDPL seemed to have concluded that it would be rest to simply do away with all the equipment wherein the capacity use in marginal and there is no hope of improving on it in the near future. This would at least improve the financial image of the company. The only trouble is that if official capacity utilisation figures are read with the corporate plan then most of IDPL would have to be wound up on this basis till the nineties. The present production of IDPL worth Rs. 120 crores, as reported in the press, accounts for about 50% of the capacity. Even when IDPL has under-utilized capacity, it is reported to have parcelled out to others in th name of patronising small scale sector units. A large amount of funds are stated to have been advanced to these units.

3.3 The low capacity utilisation of the four Plants being operated by IDPL is discussed in the following paragraphs :—

(i) *Rishikesh & Hyderabad Plants*

According to IDPL, the production to bulk drugs both in Rishikesh and Hyderabad Plants was much below the installed capacities in most of the cases during the years 1980-81 to 1984-85. Even where the targets fixed were less than the installed capacities, the plants failed to achieve the targets in number of products. In the case of Hyderabad Unit, some of the Products are not being manufactured despite their capacities having been created in the Unit.

(ii) *Gurgaon Unit*

The targets fixed for this plant during 1980-81 to 1984-85 for all categories of formulations like tablets, capsules, syrups, ampoules, vials

powders and ointments manufactured etc. were much lower than their installed capacities and that too were not achieved in case of most of the formulations.

(iii) *Madras Unit*

In so far as Madras Unit is concerned, as against installed capacity of 1 million numbers of surgical instruments, the capacity utilisation of these products was 0.290 million in 1980-81. It declined gradually and was 0.178 million in 1983-84 and increased to 0.280 million in 1984-85. In terms of percentage, it declined from 20.9% in 1980-81 to 17.8% in 1983-84. The production of scalpel blades also was less than the installed capacity of 0.5 million number during all these years.

3.4 Madras Unit is also reported to be facing high overhead costs and consequently, higher cost of production than small scale units manufacturing surgical instruments. In 1976, a formulation division, scalpel blade unit and a fabrication unit were added to the Madras Unit under an expansion scheme and this seemed to be the end of IDPL's woes as all the three divisions started well. Despite this, the losses continued to mount as the new units functioned at much below the installed capacity.

3.5 The Committee are informed that the capacity utilisation of Surgicals Instruments Plant is very low because the design of instruments which the Russian collaborators gave is fairly heavy and it is not accepted by the medical profession. The basic problem which is preventing this unit from going to higher occupancy is that the total demand for surgical instruments in the country is virtually being met by small scale industries. Out of 1100 people working in Madras Unit, 50 are being utilised in the general engineering side and 150 in the formulation unit of this plant. The utilization of remaining 900 men in HMT and BEL was also explored but no favourable response has been received from them.

3.6 Surplus manpower is available due to gross under-utilisation of capacity which is again due to lack of demand. This has been the position since inception of the plant. Attempts were made to diversity into formulations, job works in light engineering field etc. but full utilisation of labour was not achieved.

(iv) *Muzaffarpur Unit*

3.7 In Muzaffarpur Unit also, during the years 1982-83, 1983-84 and 1984-85, the targets for production like Acetaldehyde, Acetic Acid, Methyl Ethyl Pyridine. (MEP), Niacin and Niacinamide were fixed much below their installed capacities. The actual production also fell short of even these targets.

3.8 The low capacity utilisation as well as shortfall in targets of production in various units of IDPL are reported mainly due to the following :—

(i) Power interruptions and shortage of power and water;

(ii) Non-availability/shortage of raw materials;

(iii) Restricted Production in view of high inventory of finished goods and reduced offtake by market i.e. market constraints;

(iv) Paucity of funds; and

(v) Labour problem.

3.9 In the written note furnished, the Department of Chemicals and Petrochemicals has also admitted that it is true that capacity utilisation in some of the essential bulk drugs has been very low in the IDPL due to various reasons such as paucity of funds, shortage of raw materials, shortage of electricity or water, labour problems etc. Plans have now been drawn up for increased capacity utilisation in the Rehabilitation plan and all efforts will be made to achieve maximum capacity utilisation, specially in essential drugs.

3.10 The Department of Chemicals has also admitted that sometimes IDPL has had to parcel out orders to others because of the difficulties in the manufacture of all the drugs required under drug kits of the Health Ministry. However, at present, no item is being manufactured on loan licence basis.

Expansion Programme

3.11 The details of the expansion carried out in the Hyderabad and Rishikesh Plants, the expenditure incurred and the results achieved are given below :—

(I) *Rishikesh Plant*

Details of pre-revised and revised capacities are as follows :—

Sl. No.	Item	Unit	Capacity	
			Pre-expansion	Approved after expansion
1.	Sodium Penicillin	MMU	53	53
2.	Procain Penicillin	MMU	52	52
3.	Streptomycin	T. Base	85	85
4.	Tetracycline	M.T.	25	200
5.	Oxytetracycline	M.T.	28·5	74·5
6.	Erythromycin	M.T.	Nil	36
7.	Semi-synthetic Penicillins	M.T.	Nil	35
8.	Pot. Penicillin	MMU	130	230

The formulations capacity was also increased by installing an additional vialing line with a capacity of 60 million vials per annum, 3 capsule filling and sealing machines with a capacity of 600 million capsules per annum and a liquid filling line. Facilities have also been created for manufacture of hard galatine empty capsules with a capacity of 400 million capsules per annum.

The expenditure incurred in the expansion of the Rishikesh Plant is Rs. 22.72 crores. In addition, a sum of Rs. 4.05 crores was provided by Government as margin money for working capital.

(II) *Hyderabad Plant*

Details of Second Phase Expansion carried out at IDPL—Hyderabad are as follows :—

Sl. No.	Name of the Product/facility	Capacity (In Tons)		Actual Expenditure (Rs. in lakhs)
		From	To	
1	2	3	4	5
	A. *To increase Capacities of existing products*			
1.	Amidopyrine	200	440	104·83
2.	Analgin			
3.	Piperazine salts	50	115	7·32
4.	Phenobarbitons	10	30	29·97
5.	Sulphadimidine	500	600	147.64
6.	Vitamin B-1	30	120	159·63
7.	Vitamin B-2	5	24	169·87
8.	Folic Acid	2·5	7·5	32·79
9.	Paracetamol & Phenacetin	250	400*	24·15
10.	Sodium Pas	150	200	3·46
	B. *To provide facilities for new products*			
1.	Acetazolamide		3·5	0·80
2.	Vitamin B-6		30	248·41
3.	Sulphamethoxizole		30	22·51
4.	Thiacetazone		5	6·69
5.	Sulphamethizole		12	
6.	Sulphadimethoxine		30	
7.	Sulphamethoxy Pyradazine		15	95·27
8.	Sulpha phenazole		50	6·99
9.	Nitrofuraopne		1	
10.	Nitrofurantoin		15	29·07
11.	Metronidazole		30	
12.	Chlropropamide		30	13·82
13.	Phythalyl Sulpha Thiazole		50	3·83
14.	Doxycycline		5	71·90

*Bootons only

1	2	3	4	5
	C. New Facilities			
1.	Solvent Recovery		—	40·80
2.	Formulation Block		—	303·06
3.	R & D Block		—	126·59
4.	New Refrigeration Station		—	177·87
5.	New HT Substation		—	101·12
6.	Nitrogen and Inert Gas Plant		—	82·73
7.	Hydrogen Plant		—	17·40 (abandoned)
8.	Liquid Raw material Storage		—	41·36
9.	E. T. P.		—	11·14
10.	Township		—	44·73
11.	Service Headers within blocks & outside industrial pipe lines		—	85·66
12.	Workshop		—	6·33
13.	External water supply, Fire Hydrant & internal and external underground pipe line		—	45·61
14.	Site levelling, roads and compound wall		—	44·01
15.	Quality Control		—	12·70
16.	Furnishing of buildings		—	13·64
17.	Project work, work administration and General Exp. training		—	164·37
18.	Commissioning expenses		—	82·12
19.	Interest		—	181·79
20.	Working Capital		—	340·00
	TOTAL			3101·18

3.12 It has been brought to the notice of Committee that in Rishikesh Plant, an ambitious expansion plan was drawn for acquring latest technology for new antibiotics and an agreement was reached with an Italian firm. Officers were sent for training to Italy and about Rs. 25 crores were spent in all. All new sections made under it are almost closed. Officers trained for specific job are not doing these jobs.

3.13 In the post-evidence replies furnished to the Committee, the Department of Chemicals & Petrochemicals has informed that a total of Rs. 26.96 crores was spent for the expansion programme at Rishikesh and Rs. 31 crores spent for this at Hyderabad. This includes all expenses, including training of officers and staff. It is true that some of the officers deputed for such training have now left the Company.

3.14 The poor performance of Rishikesh and Hyderabad Plant is mainly due to low capacity utilisation because of inadequacy of working capital and also because of non competitiveness of the cost of production of new drugs. Presently, efforts are being made to utilise the existing fermentors at Rishikesh for the production of Penicillin and its down stream products. At Hyderabad, expansion for the existing products such as Analgin Folic

Acid, Vit. B1, B2 was successful, but the introduction of new products did not take off due to non competitiveness. Further certain products, for which large capacities were created, were subsequently banned by Government. These are Phenecetin (250 tonnes), Sulpha Nilamide (150 tonnes) and Amido pyrine (40 tonnes). Attempts are being made to utilise the spare capacities for alternative products in the Rehabilitation plan.

3.15 The Committee pointed out that in Rishikesh and Hyderabad the investment made was of the order of Rs. 66.90 crores. The Committee enquired whether this investment was not ill-conceived. Thereupon the CMD of IDPL explained :

> "As far as Rishikesh Plant is concerned, the expansion was carried out at a cost of Rs. 26.77 crores. It is not right that this was ill-conceived. The increase in capacities which were brought in were based on the task force's requirements of these products and this was done by improvement in some of the products and extending the capacity for some items which were then being imported. Mainly Tetracycline and Oxytetracyclin were coming from abroad at that time. So, the capacity of those items was expanded. Also at that time the market for semi-synthetic penicillin was emerging and therefore the capacity for making 6 APA from Potassium Penicillin was also taken up as a part of this expansion. If we had not put the 6 APA Plant at that time, it would have needed to be imported."

The witness added :

> "It was expected that we will meet the requirements by expanding this way. This was based on the projections of the task force. We have been running Tetracyclin Plant around 140 tonnes as against the capacity production of 200 tonnes. That means 70% capacity utilisation. What has happened is that with the introduction of the Semi-Synthetic Penicillin and the growth of resistence, the Tetracyclin for the various bugs in the country, the growth of Tetracyclin market has become zero. It is not growing and has become stable. In the coming years it would even decline if one goes by what has happened in the western world. That is why we have been running it only at 70% capacity utilisation."

3.16 The Committee enquired as to what was the position of capacity utilisation of Madras Unit. The CMD of IDPL informed the Committee that "It is 28% and the base of this 28% is the demand of Government hospitals and institutions". When the Committee enquired about the over-head cost of Madras Unit, the witness stated :

> "It is a very direct employment cost—1000 employees in the Madras Plant. Some changes in the design of the instrument led to reduction of the capacity to one million because they were more complicated. What was subsequently being made consisted of more than one component and the number of instruments came down .....a problem arose from this was that Russians started it on the basis of technology using high chromium stainless steel. All instruments should be made from this; this was to be imported; this was quite expensive. The design which have was fairly heavy

and it was not really accepted by the medical profession. The basic problem which is preventing this unit from going to higher occupancy is that the total demand for surgical instruments in country is virtually being met by small scale industries located in Punjab, Calcutta & Kerala."

3.17 When again asked whether the Doctors were satisfied with the instruments supplied by small scale entrepreneur, the witness stated :

"Unfortunately, they are satisfied because they can use them once or twice and throw them away and have a new instrument, whereas in the instrument which we are talking about we expect the doctor to keep them. The other factor in this area is that the cost of man-power on this unit is about Rs. 2½ crores. Now, even if we make the instrument the small scale industries can very well supply them."

3.18 Asked whether IDPL was able to compare with other countries in the matter of surgical instruments produced by Madras Unit, the witness stated :

"That is the investigation which is being done. We are in the business of drugs. That was only an ancillary activity. That is not part of our activity. If was felt that either HMT or BEL might be able to use it. But they have also not come up with any sort of suggestions."

The witness also stated :

"The dialogue was started with the HMT and BEL two or three years back. The Govt. have appointed Expert Committee to look into the whole situation as to what can be done with this Plant and what are the alternatives etc. The matter has been looked up again and again but nobody could find solution. The only solution that we could find was that 150 workers have been shifted to formulation unit which has been set up in Tamil Nadu with the help of that Govt. So at least 150 out of 1100 persons have found a sort of perennial occupation."

3.19 The Committee pointed out that in spite of the fact that the production of the Madras Unit had been stagnant or had been coming down, the Madras Unit is reported to have earned a profit of Rs. 20.75 lakhs in 1982-83. In the following year i.e. 1983-84, the Madras Unit again suffered a loss of Rs. 0.6 lakhs. When asked about the reasons for this variation, the witness stated :

"The reason is wide production mix. Some additional work was done in Madras by a contractor and notionally the profit of that was shown as the profit of the Madras unit."

3.20 When pointed out that the Madras unit should not have taken the credit, for the additional work done by a contractor, the witness admitted :

"Yes, Sir. Madras has a formulation plant and it was set up to cater to the requirement of the Tamil Nadu Government. From time to time we send business to Madras. In Hyderabad, the

capacity utilisation is between 60% to 70% whereas in Madras it is between 80% to 100%."

3.21 As regards the manpower utilisation in the surgical unit the CMD stated that : "the general engineering is utilising about 50 persons; the formulation is taking about 150 persons and the balance about 900 persons are in the surgical unit. Major problem is the utilisation of these 900 men in the surgical side. This is a sorry state of affairs. They are without any work. They come, sit and go back and this state of affairs has been going on for a very long time."

3.22 The Committee pointed out that UP Government was reported to have set up UP Drug & Pharmaceuticals mainly because IDPL tried to squeeze the State Government by the virtue of its monopoly. Thereupon the witness stated, "That is not correct. UPDPL is a subsidiary of IDPL. Majority of the directors of UPDPL are nominated by the IDPL." The Chairman of IDPL then informed the Committee that the basic problem is that far too much formulation capacity had been created. The total capacity for formulation in the country is far beyond anybody's requirement and that is what is causing the entire problem.

3.23 Thereupon, the Committee enquired why did the IDPL encourage the setting up of the subsidiary when they were themselves having adequate formulation capacity and as a result of that lot of problems have been created and State Government was buying drugs from the subsidiary at a lower price. To this, the witness stated "it was set up because UP Government wanted to set up a Unit in UP." On enquiry whether IDPL took up the matter to the notice of the Planning Commission that so much capacity should not be created as the demand therefor might not be there. The witness then admitted, "I would say that IDPL has remained as a passer-by." Again asked whether at any time IDPL pointed out that these subsidiaries would create problems for them, the witness then stated :

> "Last year, for the first time, IDPL refused to support further addition to capacity by UPDPL. IDPL took the stand that they will not support this because so much of idle capacity already exists. This is now a bone of contention between U.P. Government and the Central Government that IDPL is stopping the growth of UPDPL. We have, for the first time, taken a stand that further creation of capacity is not justifiable. This matter is now being dealt with between the Chief Minister of U.P. and the Industry Ministry."

3.24 Again asked whether the Planning Commission was involved with regard to creating of subsidiaries of IDPL and whether after the creation of these subsidiaries the consequences in terms of capacity utilisation were also looked into by them, the witness then replied :—

> "What must have happened is that they must have presented a very rosy picture for capacity utilisation. Otherwise it might not have gone through the proposal. If a dismal picture of capacity utilisation had been presented, nobody in his senses would have agreed to that."

3.25 The Committee were informed in evidence by CMD of IDPL that many states are starting their own Drug Units which will not only badly effect the IDPL market but also bring down the capacity utilisation. For example, Andhra Government has decided to put up their own formulation Plant in Hyderabad where IDPL has got a huge amount of formulation capacity as a result of this IDPL will not only lose market but the capacity utilisation of its Hyderabad Plant will further come down. The CMD, therefore, desired that some sort of regulation should be brought out in this regard.

3.26 The Committee pointed out that in Hyderabad Plant, IDPL has unutilized capacity for a drug like Vitamin B6 as there is no liquidity with them. When asked as to what assistance has been rendered by the Ministry, the Joint Secretary, Department of Chemicals and Petro-chemicals stated :—

> "In December 1986 they sent certain proposals for giving them cash injection for improving their working capital position. All those matters are under examination....We hope to give them funds by the end of this month or even earlier. The Secretary has called a meeting day-after-tomorrow to discuss the matter. We feel out of the savings we will be able to give them some cash."

B. *Drug Policy*

3.27 According to New Drug Policy announced by Govt. of India (Ministry of Industry) in December, 1986, it has been decided to continue, to a substantial extent, the present policy of reservation for manufacture by the public sector of certain important bulk drugs. At present 17 bulk drugs including Penicillin and Polio Vaccines are exclusively reserved for production by the public sector units. Considering the projections of requirement of Penicillins, it is decided to expand the capacity of Penicillin in the existing public sector units along with Induction of more advanced technology. However, it is felt that even with these measures the public sector units will be themselves not be in a position to meet the entire requirements of the country of these two basic and essential drugs. The 1989-90 demand of Penicillin is estimated to be as high as 2470 mmu as against the existing installed capacity of 637 mmu inclusive of 390 mmu in the public sector. Thus the present gap in the demand and production of this crucial drug would further widen by the end of 7th plan period unless corrective steps are taken to narrow it. At present, in order to meet the requirements of this essential drug, imports are also resorted to which result in an outgo of foreign exchange to a substantial extent, this outgo being of the order of Rs. 24 crores in the year 1985-86.

3.28 It has also been stated that keeping in view the large gap between the capacities created and the 1989-90 demand for Penicillin and Polio Vaccine, the need to reach self-sufficiency in these two vital products, it is decided to open these two products for production by all sectors. The demand for these essential drugs would continue to be met through imports also till such time as indigenous production has reached a level where imports become unnecessary. However the following 15 other bulk drugs

which are presently reserved for the public sector would continue to be so reserved :

(1) Streptomycin
(2) Tetracycline
(3) Oxytetracycline
(4) Gentamycin
(5) Sulphaguanidine
(6) Sulphadimidine
(7) Sulphamethoxy-pyridazine
(8) Sulphadimethoxine
(9) Vitamin B1
(10) Vitamin B2
(11) Folic Acid
(12) Quinine
(13) Analgin
(14) Phenobarbitone
(15) Morphine

(N.B. Bulk Drugs would include salts, esters and derivatives, if any).

3.29 During evidence, the Chairman-cum-Managing Director, IDPL informed the Committee that for historical reasons, the Rishikesh Plant/possesses huge amount of capacity for manufacturing penicillin. Originally, when the technology was received from Russia, the state of technology was such that productivity was low. They were producing 8000 units of penicillin per Milli litre. In 'seventies' with the introduction of Italian technology in the Rishikesh plant, it increased to 20,000. Subsequently, at the intervention of Government, they found that HAL had better process of penicillin and IDPL had better process of streptomycin. Thus, by mutual technology exchange and by incoporating HAL process the output of penicillin went upto 40,000 units per Milli litre in the Rishikesh plant, thereby increasing the yield of penicillin five folds. Out of 44 fermenters in the Rishikesh plant only 8 are in use for Pencillin. The intention of the Company is to modernise the plant with the mobilisation of all the 44 fermenters by bringing in certain technologies available in Europe which would reduce the cost of production also. With that, they can produce enough penicillin for the country's need upto 2000 A.D. Many of the machines have been lying unused for decades, they have to spend a couple of crore of rupees. But they are quite confident that they will be able to meet he country's demand which is likely to arise upto 2000 A.D.

3.30 The CMD also stated that the Company has obtained the approval of the Government for modernisation of the plant on the line of technology available in Europe. Which will reduce the cost of production. The CMD however, expressed his concern the dereservation of penicillin production and throwing it open to multinationals under the New Drug Policy. The new approach he apprehended will badly affect the interest of IDPL who have already got the plant.

3.31 The CMD also informed that "15 Indian firms with foreign tie-up have approached the Ministry for manufacture of penicillin. It seems that Dutch company which is refusing to talk to us on technology is wanting to come with collaboration here to start production in India."

3.32 IDPL's production figures for Pot. Penicillin for the last 5 years as reported by Deptt. of Chemicals and Petrochemicals are as follows :

Year	Unit
1981-82	65·7
1982-83	92·7
1983-84	123·1
1984-85	129·4
1985-86	136·4

3.33 At present the country imports up to Rs. 25 crores of Penicillin per annum due to the inability of the public sector to cope with the domestic demand. Moreover, while IDPL's price of Penicillin is Rs. 650/BU, the international price is Rs. 325/BU. Penicillin is now an important intermediate for the production of several life saving, semi-synthetic Penicillin such as Ampicillin, Amoxicillin, Cephalexin etc. Therefore, it is essential to bring down the domestic price by cost effective methods.

3.34 According to the Department of Chemicals and Petrochemicals, although the IDPL has only very recently made claims to be able to meet the domestic demand, the policy of dereservation was decided based on the past performance of the company. Moreover, out of the 44 fermenters in Rishikesh only 9 were orginally meant for Penicillin, of which 8 are in use at present. Moreover, Penicillin, has only been dereserved and not delicenced. Considerations of demand and production capability will be kept in view while considering licence applications.

3.35 The Department of Chemicals & Petro-Chemicals has also stated that Industrial Licence Application for the manufacture of Penicillin 'G' have been received from the following 9 companies.

Sl. No.	Name of the Company	No. and date of IL application	Capacity applied
1	2	3	4
1.	M/s. Gujarat Lyka Labs.	119(86)-IL dt. January, 1986	1000 MMU
2.	M/s. Southern Petrochemicals Corporation Ltd	6(87)-IL (MRTP) dt. 6-1-1987	1000 MMU
3.	M/s. Cepham Medical Leasing Ltd.	15(87)-IL dt. 7-1-1987	1000 MMU
4.	M/s. Ferro Alloys Corporation Ltd.	1526(86)-IL dt. 22-7-1986	1000 MMU
5.	M/s. Dr. Reddy's Labs. Ltd.	93(87)-IL dt. 29-1-1987	1000 MMU
6.	M/s. Shri G. Rama Raju.	143(87)-IL dt. 5-2-1987	1000 MMU
7.	M/s. Shri J. A. Modi	170(87)-IL dt. 12-2-1986	1000 MMU
8.	M/s. Standard Medical	2154(86)-IL dt. 31-12-1986	1200 MMU
9.	M/s. Kesar Enterprises Ltd.	289(87)-IL-MRTP dt. 12-3-1987	1000 MMU

3.36 When asked as to what was the status of utilisation of installed capacity in so far as Penicillin was concerned the Joint Secretary in the Deptt. of Chemicals & Petro-chemicals stated during evidence :

"The IDPL has got 44 fermentors in Rishikesh. These are there for manufacture of different items, such as production of penicillin, which gives a maximum contribution also. They are planning to have 1,000 MMU by 31st March, 1988, We have also given them permission to increase the capacity utilisation. The present management of the company hopes to become cash neutral by the end of the year 1987-88."

3.37 The Committee pointed out that under the new drug policy Penicillin has now been dereserved. The Committee enquired as to what was the guuarantee that IDPL would be able to achieve full capacity utilisation for the manufacture of penicillin especially when Penicillin has ben dereserved and its production has been opened to multi-national companies. The Witness then stated :—

"The IDPL is increasing the manufacture of penicillin. It has started picking up, Till now, the total capacity of the penicillin in country was only 630 MMU and the requirement of the country according to the Planning Commission Working Group's estimates was of the order of 2500 MMU by the end of 1988-89/90.....Now IDPL will come upto 1000 MMU only. There is still a gap. There was such a gap that we were spending such a lot of money. On imports last year itself, the Government had spent about Rs. 24 crores.....I would like to submit here that so far, we have not received a single application for licence from any multi-national company for penicillin. Penicillin has got a very protected technology and we do not expect too many companies to really come forward to manufacture the penicillin."

3.38 The Committee drew attention of Deptt. of Chemicals & Petrochemicals to the following statement made by the CMD of IDPL before the Committee during his evidence :

"We have latent capacity to produce enormous amount of Penicillin 'G'. We have failed in our duty to produce. We accept it. But now we are prepared to run this plant and produce it and meet the needs of the country. It would damage us if somebody puts in capacity for penicillin, as it has remained reserved for us. Sarabhai, HAL and others are making it. We have capacity. We have invested public money in producing penicillin. Our efforts to utilise this capacity for national good should not be jeopardised."

3.39 When enquired about the reaction of the Government to the above statement of the Chairman of IDPL and whether the impact of the dereservation of penicillin was contemplated in view of the potentiality and capability of public undertakings. The witness then stated :—

It is only after the new Chairman, i.e., the present Chairman has come to this Company, he has started talking in terms of utilising these 44 fermentors only for penicillin. These 44 fermentors of Rishikesh; were not originally earmarked entirely for the penicillin but also for the manufacture of other items.

As far as past record of penicillin is concerned and past production of IDPL, this is the breakup : Fermenthers—9 were earmarked for penicillin 7 for streptomycin, 10 for tetracycline 5 for oxi-tetracycline etc.

Going by this, by past record the fact that the country was spending so much of foreign exchange on the import of penicillin, and also the fact that the price difference between the prices of imported penicillin and that of idigenous penicillin was almost double, I would submit that as far as Government is concerned, it has to take into consideration the interests of the manufacturers, as well as consumers. High prices were prevalent in the market; of course, IDPL has now a better utilisation of capacity. I hope the cost of production will go down."

The witness added :

"As far as the reservation policy is concerned, even now there are 17 drugs which are reserved exclusively for the public sector. There are only two drugs which have been dereserved and we have given adequate reasons for that. In the case of penicillin, there was very wide gap in demand and availability and in the case of polio vaccine. no one was even manufacturing it; it was all being imported. So, only in respect of these two drugs, the decision to dereserve was taken."

3.40 The Committee then put a categorical question whether the Ministry did or did not consult IDPL or HAL before finalising the new drug policy, the witness then admitted "I can say that there was no formal consultation." The Committee also asked whether the Government specifically put to IDPL that it proposed to dereserve the penicillin. To this, the witness stated 'No, that has not been put". The witness also added :

"I would only like to say on behalf of the Department that although it has been dereserved, there were some very valid reasons for that. The earlier production did not at all look healthy enough for us to assume that these two public sector companies will be able to meet the entire demand of the country. The installed capacity itself was 630 MMU and IDPL's capacity was 120 MMU. It is only recently the IDPL showed increase in production. I would only say that we have only dereserved it. We have not delicensed it. At the time of giving the licence this factor of what the demand is going to be and what the production is going to be will be taken into consideration. And we have decided to consider not to give any letters of intent but to give composite licences for this."

3.41 As regards dereservation of penicillin, the Committee enquired whether even at this stage the Government will have further consultation with IDPL so as to find out their capability to meet the penicillin need of the country the basis of which the Government could re-consider the policy of dereservation of penicillin. The witness then stated :—

"Even after dereservation, there is nothing to prevent us in restricting licence to any individual on the ground of demand. If we

are satisfied that IDPL and HAL can go to this level even after one year and achieve production which will meet the requirements of the country substantially, we can certainly take a view on restricting new licences."

C. *Research & Development*

3.42 The Committee have been informed by IDPL to improve the economics of the company and contribute towards its sustained growth, the following R&D schemes were taken up by the Company during last three years.

(i) *Technology Development*

(a) Process improvement of existing product-mix like Vitamin B1, B2 olic Acid, Penicillin, Streptomycin and Grisofulvin.

(b) Development of Basic Technology for other drugs like Ethambutol, Mebendazole, Chloroquin Diphosphate, Methyl Dopa, Ampicillin Trihydrate, Vitamin B6, Rifampycin, Cephalosporins etc.

(ii) *Discovery of New Drugs*

Under this activity, many novel components were synthesised and evaluated for biological screening in animals. Special thrust was in the area of tropical diseases which are highly relevant to the developing countries like ours.

3.43 The total expenditure incurred by IDPL on R&D during last three years, and its percentage to total sales are as follows :

Value : Rs. in lakhs

	1982-83	1983-84	1984-85	1985-86
(1)	(2)	(3)	(4)	(5)
(i) Expenditure incurred . . .	232·42	173·72	176·48	178·14
(ii) Sales Turnover .	10545	10745	11954	11746
(iii) Its % to sales turnover . .	2·20%	1·62%	1·52%	1·51%

R & D at Rishikesh and Hyderabad

3.44 The main achievements of R&D at Rishikesh and Hyderabad as stated by IDPL are :

R&D Rishikesh

1. The productivity levels of all the industrial cultures have been improved by 10-15%.
2. The improved technology of Ixytetracycline and streptomycin has been scaled up in main plant.
3. The technology for preparation of Erythromycin ethyl succinate and erthromycin stearate has been developed. The erthromycin searate has also been produced in the main plant as per this technology.

4. Imported lard fat specified with Italian technology has successfully been substituted by groundnut oil for tetracycline fermentation and has resulted in a reduction of input by Rs. 1000/- per batch.

5. Substitution of dextrose by cane sugar in Penicillin fermentation has resulted in reduced input worth Rs. 1750/- per fermentor and finally amounting to approx. Rs. 4.50 lakhs per annum.

R&D Hyderabad

The technology of 3 drugs has been transferred to the main plant after successful completion of the pilot plant trials i. e. Ampicillin Trihydrate, Methyl Dopa and Vit. B6.

3.45 The Committee pointed out that in 1982-83, the expenditure on R&D efforts was Rs. 232.42 lakhs and then it declined to Rs. 173.42 lakhs in 1983-84, Rs. 176.48 lakhs in 1984-85 and Rs. 178.14 lakhs in 1985-86. This decline in expenditure coincided with the period when losses of the Company had been mounted up. The Committee enquired whether it was not necessary to augment R&D efforts to improve production and to reduce losses. The Chairman-cum-Managing Director of IDPL then stated in evidence :

"Just a comparison of total expenditure with that of R & D does not provide an index figure. In 1982-83, a large component of capital expenditure was incurred. It was not the recurring expenditure on R&D. The second factor that I would like to say it that the R&D facilities and the amount of effort that we are putting in are inadequate. There are some problem areas to which we would like to find solutions. The advantages of all our R&D efforts with regard to upgradation of existing technology, etc. are enjoyed by others. In our quest for new drugs with a thrust on fundamental research, we have come to a stage where we are fairly advanced in the process of making an anti-arthritic drug : we are fairly advanced in making a muscle relaxing drug, My only point is this, when we go on spending money on this R&D, can we have some protection on some mechanism by which our efforts in the R&D will not become a free for all ? We do all the research and related work and everything gets diffused and the product benefits others and we are just left high and dry. This gives us an enormous amount of demoralisation."

The witness added :

"When we are putting in a lot of effort in our R & D work, there should be a certainty that at the end of the day, the fruits are enjoyed only by our Company and nobody else. But that sort of a thing is totally missing here. In the West, if somebody thinks that his product has a commercial viability, he immediately covers himself with enough product and process patents so that it is not possible for anybody else to make that product legally. It is all the more necessary because in the initial stages enormous amount of research and development, enormous amount of promotional work and an equally enormous amount of background study are involved to make it sure that there will not be any unforseen side reactions, etc. when once the drug

is introduced in the market. All this requires constant monitoring, continuous effort and a large amount of money. But, if there is no certainty that this is not going to be rewarded sufficiently, that realisation itself dampens the enthusiasm to go ahead and do the work."

3.46 When asked whether the Company has apprised the Ministry of these problems and sought their assistance for product patents or for production. To this, the witness stated "in India there is no product patent. . . . we will tell the Ministry i. e. we want some protection because all these R & D which are being enthusiastically pursued should not become a wasted effort at the end of the day". When enquired about the advances effected by IDPL in R & D works during the last 3 years, the witness stated :

"There are plenty. I am forgetting the past at the moment. We have done improvements. We have new grounds, which we have also adopted for the overall benefit. Now, we have improved the process for P. Aminobenzoyl Glutamic acid which is an intermediate of Folic Acid This has resulted in the substantial reduction of the import of raw materials and also reduced the costs. We have done some R & D work to produce rocket propeller for ISRO based on some information which they had. But this has not materialised in any business eventuality. But, we did make an effort to produce Rocket Propellent for ISRO. That is why, we understood this task. We have made the process of Methyldopa by starting from a lower raw material and then to higher raw material. We have made Ampicillin and again the cost will be lower, here. We have completed the laboratory work on couple of drugs which we intended to introduce, say for example Nifedipine, Ibuprofen and we are shortly going to scale this up in the plant. We have developed new slow formulation of Ibuprofen which has lower gastric irritation. We are going to introduce this in the market. This particular drug is slower in dissolving and by the time it will get into the intestine, there will be reduction in stomach irritation."

3.47 The Committee enquired that when IDPL found it difficult to get technology from western countries, from where could the small companies, which were going in even for bulk production of drugs, get the technology, the Chairman-cum-Managing Director of IDPL stated :

"As far as technology from multi-nationals is concerned, they did not want India to become self-sufficient so that it remains a perpetual market for their bulk drugs. Wherever technology has come into private industry from multi-nationals, this had been to their subsidiaries. This has been not neccessarily in areas where they would be classified as essentially high technology but really on the periphery where the private merchants are very much higher. As far as the small scale industry is concerned, quite a lot of technology in the small scale industry today has come from IDPL. It is unfortunate that people who have left the company feel it necessary to part with information which they have gathered when they were working for the company. I should also say that it is also possible that people in the company are passing away the company's secrets outside. The problem that one encounters is that a small scale unit with Rs. 10 lakh capital investment produces a bulk drug which involves 4-5-6 stages of chemical operations. He has no R&D, he has not sizeable

means of getting the technology but he is producing. Now it is very difficult for the IDPL to establish that the techonology has been stolen. I can say that different technologies use different raw materials. The fact is that many of these users are using the same raw materias as the IDPL is using. One would only infer that technology has leaked out from the system either through retired employees or through employees who are still inside the company acting as black sheep."

The witness added :

"We tried to examine whether official Secrets Act can be applied but the onus of proof becomes very difficult to control this kind of flow of information. No one can establish that this has been done. The logic suggests that a person, who has got Rs. 5 lakhs worth of plant, has got one lakh more State financing authorities. He has got no basis; he has not purchased any technology. These people start manufacturing. It hurt us even more because IDPL is one of the seven manufacturers in the world which is capable of making folic acid which is quite a complex chemical. But there is a small scale unit which is producing folic acid. No multi-national would part with the know-how because it is the preserve of a very few in the world Nevertheless, the technology is in the small scale sector. So, this is one of very major problems which we have to face and it is very difficult to tackle it."

3.48 When enquired whether General Manager of R&D of Hyderabad Plant had never worked on R&D side and what innovations or achievements were made since he had been looking after R&D, the witness then stated :

"Hyderabad had three General Managers—

(1) Looking after production (2) Looking after R&D (3) Looking after Design & Development.

G.M., R&D retired in April, 1986. The Company first tried to get hold of an expert from outside to head R&D function. The Company was not successful in finding anybody suitable. As a result of it the General Manager, Production, was asked concurrently to look after R&D function. It was not that he was appointed General Manager, R&D... he is holding additional charge of R&D since April, 1986."

3.49 When asked whether he was still to continue to be the incharge of R&D also, the witness stated :—

"Yes.....he is basically a man of production. He is concurrently looking after R&D but not permanently. It is correct but on the Production side he was involved on the development side of production."

3.50 During evidence of the Department of Chemicals and Petrochemicals, the Committee pointed out that CMD of IDPL during his evidence before the Committee mentioned that IDPL was facing a serious problem of leakage of its R&D efforts as a result of which there was a mushroom growth of drug companies on a small scale utilising the given

technology. These, he stated, were thriving on leaked technology from R&D Divisions of IDPL and HAL.

3.51 The Committee pointed out that if strict quality measures were insisted upon in drugs production, mainly of these companies operating on a small scale would drop out. The quality control at every stage was necessary. If quality control was neglected even to a lesser extent, it may prove fatal for those who were using the drugs. The Committee then enquired as to what specific steps had been taken by Government to ensure quality control in drug industry. The Joint Secretary in the Department of Chemical and Petrochemicals then stated :

> "Quality control is important in all the industries; but it is absolutely vital in the drug industry. It is also a fact that in the case of particularly small scale sector perhaps the quality control was not given as much importance as was required. That is one area which has been addressed to in the new drug policy and we have suggested one or two things which hopefully would ensured this. One major aspect is that we are going to give a statutory basis to the good manufacturing practice and that will be applicable to small scale as well as large scale industries. Good manufacturing practice document has been drawn up by the Health Ministry. All those who do not follow this practice will be punishable under the Drugs and Cosmetics Act. We are giving statutory basis to that. Since even the small scale units have to take permission from the State drug controller for starting their business and the Act is applicable to them also, we hope that by this measure we should be able to enforce better quality amongst these units. Secondly, we are also thinking that at the stage of industrial licence itself we will try to ensure that quality control measures are taken by the industries. We will stipulate a proforma in the licence application itself where the company will have to give details of the equipment that they propose to instal with their capacity, cost etc. This will take care of the organised sector.
>
> But small scale sector does not come under us. What we are doing is that we will send the same set of guidelines to the State Industries and ask them to include them in their proforma for registration because the small scale industries are registered at the state level. With these two measures we hope that better quality consciousness should be ensured...With the GMP goods manufacturing practice) being made statutory, I think most of the loose ends would be taken care of. So far GMP was not statutory. Once a statutory basis is given to this GMP, we hope that these loopholes would be plugged."

3.52 The Committee enquired whether the problem of leakage of technology developed by R&D of IDPL to outside Companies, has been brought to the notice of the Government. If so, what efforts were made at the Ministry level to protect R&D efforts of the company. The Department of Chemicals and Petro-chemicals has informed the Committee in a written reply that only recently that IDPL brought to the notice of Ministry the matter of leakage of technology developed by its R&D at Hyderabad unit but it was for the management to take disciplinary action against its employees to prevent such leakage in future. The Department has also stated that "at present we are covered by the Patent's Act which covers "Process patents" as against "Product patents".

3.53 The Committee find that IDPL has licenced capacity to manufacture only 86 drugs out of 107 essential bulk-drugs listed in Drugs Statistics (1982-83). IDPL is also reported to have not implemented the licenced capacity for tuberculosis drugs like thiacetazone and isoniazid and also for diethylcarbamazine citrate meant for treatment of filarisis. Till August, 1984, IDPL had no idea what to do with 22 million amoupling capacity at its Gurgaon Plant and by November, 1984 the Company concluded that it would be best to do away with all the equipments wherein the capacity utilisation is marginal or where there is no hope of improving it in the near future. Not only the production of IDPL for various drugs was much below the installed capacity but also when the targets were fixed less than the installed capacity, the plants failed to achieve even them. The present production of IDPL is reported to be worth Rs. 120 crores but nearly 50% of installed capacity is lying idle. In spite of having such a high under-utilised capacity. the Company is reported to have parcelled out orders to others in the name of patronising small sector units and large amount of funds were advanced to these units.

3.54 The low capacity utilisation and shortfall in targets of production are stated by the Company mainly due to shortage of raw materials, power fluctuations, shortage of power and water. high inventory of finished goods and low off-take by market, competition from small scale units and paucity of funds. The Committee are surprised that IDPL has been in the field of drug production for such a long time yet it has not been able to assure itself adequate raw materials, supply of power and water. The Committee are sure that had the Ministry taken appropriate steps to help the undertaking in this regard, these problems could have been minimised, if not altogether eliminated. In this connection, the Committee need hardly emphasis that power interruptions could result in the contamination of drug produced which could endanger human life. The Committee, therefore, desire that the Ministry may take up the matter with the concerned State Governments so as to assure uninterrupted supply of power and water to IDPL. The Committee would also like to caution the Company to make every effort to see that pure and uncontaminated drugs reach the consumers. If necessary, the Company may consider the feasibility of having its own captive power plants to ward off the danger of contamination due to power fluctuation. As regard improving the liquidity position and market credibility of the Company to enable it to get adequate and good quality of raw materials, the Committee have given their commen's in the Chapter on 'Financial Matters' of this Report.

3.55 The Committee have also observed that in order to increase capacity utilisation, schemes for the expansion of Rishikesh and Hyderabad Plants were undertaken by the Company with the approval of the Ministry and huge amount to the extent of Rs. 26.96 crore was spent on Rishikesh Plant and Rs. 31 crores on Hyderabad Plant. In spite of the huge investments incurred on the expansion, the performances of these plants continue to be far from satisfactory. The capacity utilisation of both these plants even after expansion remains at 70 per cent and in the coming years it would further decline if one goes by what has happened in the western world, as was admitted by CMD of IDPL during his oral evidence. The expansion scheme has also proved a mismatch between production and marketability. To Committee's dismay, what was produced by the Company was not lifted by the market and what was required by market was not being

produced. This is evident from the fact of accumulation of such a huge inventories of finished products to the extent of Rs. 40 crores in 1984-85. The inventories are reported to have come down to Rs. 37 crores in 1985-86. These huge inventories resulted in the acute shortage of working capital as a result of which the Company had to resort to drastic cut in the production of some of the essential drugs which are now being imported. The country is spending valuable foreign exchange worth about Rs. 25 crores per annum on the import of these drugs. It is really pity that when the capacity remains underutilised. drug which can be produced indigenously should be imported. Therefore. in Committee's view the expansion scheme of both Rishikesh and Hyderabad Plant was ill-timed and ill-conceived. No proper study of the demand of the drugs proposed to be produced was undertaken before the proposal was sanctioned and implemented. For this lapse, the Ministry also cannot escape responsibility as they should have gone deep into the matter before affixing their seal of approval to the expansion proposal. The Committee. therefore, recommend that the whole matter should be looked into with a view to fixing responsibility and accountability of those responsible for this lapse. The Committee also desire that matter should be gone into in all its perspectives and every effort should be made for the optimum utilisation of the capacities since created.

3.56 The Committee also find that for Rishikesh Plant an ambitious scheme was drawn for acquiring the latest technology for antibiotics and agreement was reached with an Italian firm and officers were sent for training to Italy and about Rs. 25 crores were spent in all for this purpose. Unfortunately, all the new sections opened have since been closed and officers trained in Italy for specific jobs are not doing those jobs and some of them have already left the Company. This in Committee's view is a clear case of bad planning and mismanagement of resources. Similarly in Hyderabad, expansion of certain products such as Analgin, Felic Acid Vit B1, B2 was reported to have been successful but the introduction of new products did not take off due to their failure to compete in the market. Further, certain products for which large capacities were created were subsequently banned by Government. While expressing their unhappiness over the whole affair, the Committee recommend that IDPL/Government should take appropriate action to utilise gainfully the spare capacity created at Hyderabad Plant by producing alternate drugs by making changes in production technology, where feasible.

3.57 The Committee find that capacity utilisation position of Madras Unit is still worse. In terms of percentage, the capacity utilisation of Surgical Instrument Plant of Madras has declined from 20.9% in 1980-81 to 17.8% in 1983-84. The position has remained stagnant thereafter. In 1976, a formulation division, scalpel blade unit and fabrication unit were added under the expansion scheme but despite this, the losses continued to mount and the new units continue to function at much below the installed capacity.

3.58 According to IDPL, this unit employs 1100 persons out of which 50 are utilised in general engineering side and 150 in the formulation unit and the remaining 900 are without work, they come, sit and go back. The possibility of utilization of these 900 persons in HMT and BEL was explored but no positive response has been received. The Committee are sorry

to say that a sick concern like IDPL cannot afford to pay to these 900 persons for practically doing no work for all time to come. The Committee desire that the possibility of utilisation of these persons may be explored afresh with HMT and BEL at the level of the Ministry. If these two organisations are still not prepared to take these persons, then the Company/Government should work out the "Golden Hand-Shake scheme" to enthuse the workers to seek voluntary retirement rather than sitting idle which in due course may make them incapable of doing any work.

3.59 The Committee are also distressed to note that whereas huge capacity of IDPL remains under or partially utilised, it has agreed to the setting up its subsidiaries in U.P. resulting in creation of formulation capacity beyond anybody's requirement. This was also admitted by Chairman of IDPL that the Company must have presented a rosy picture to the Planning Commission while seeking their approval for this joint venture otherwise Planning Committee would not have agreed to this proposal. In Committee's view, it is a clear case of investment in a bad venture and should not have been agreed to.

3.60 The Committee has also been informed that some of the State Governments including Andhra Pradesh, Kerala and Karnataka have already set up their own drug units while others are proposing to do so. In Committee's view this will not only bring down further the capacity utilisation of IDPL but will also result in duplication of effort and wastage of public resources.. The Committee, therefore, desire that the Government should take up the matter with the State Governments and request them not to set up their own drug units in fields where IDPL has already the capacity but to purchase their drug requirement from IDPL. Government may also issue fresh instructions to all Central Government Departments, Hospitals and Medical Institutes to purchase formulations etc. from IDPL so as to help the Company to clear its huge accumulated stock of drugs.

3.61 The Committee find that so far 17 bulk drugs including penicillin and polio vaccines were exclusively reserved for production by Public Sector Units. But according to new drug policy, keeping in view the large gap between capacity created and likely demand by 1980-90 of penicillin and polio vaccines production of these two vital drugs has been opened to all sectors. It has also been stated that the demand for these two essential drugs would continue to be met through imports till such time the indigenous production has reached a stage were import becomes unnecessary.

3.62 During evidence, the CMD of IDPL informed the Committee that historically, the Rishikesh Plant possess huge amount of capacity for manufacturing penicillin with the technology originally received from Russia. The Company was producing 8000 units of penicillin per Milli Litre but in seventies, with the introduction of Italian technology, production capacity of penicillin increased to 20000 units. Subsequently, by mutual exchange of technology with HAL and incorporating HAL process, the output of penicillin went up to 40000 units per Milli litre thereby increasing the yield of penicillin five-folds. Furthermore, the Rishikesh Plant has 44 fermentors out of which only 8 are being used at present for penicillin production. It all the 44 fermentors are mobilised by bringing in certain technology available in Europe, the Company will be able to produce enough penicillin to meet the country's total demand by 2000 AD. The CMD of IDPL also stated that many of the machine's are lying unused for decades and by

spending a couple of crores of rupees on these machines these would produce the entire penicillin requirement of the country. For this purpose the Government are also reported to have given their approval for modernisation of the plant on the lines of technology available in Europe.

3.63 The Committee feel that under the new drug policy many of the multinationals who are not prepared to share technology with IDPL would enter the field in the garb of collaboration with small scale units and would jeopardise the interest of IDPL. About 15 firms with foreign tie-up are reported to have approached the Ministry so far for the licence to manufacture penicillin. The Ministry have also admitted to have received so far Industrial Licence Applications from 9 Companies.

3.64 In this connection, Department of Chemicals and Petrochemicals have also informed the Committee that IDPL has only recently made a claim to meet the domestic need of penicillin whereas the policy of dereservation was decided on the past performance of the Company. The Committee are really shocked over the grave ignorance of the Ministry about the capability and capacity of their own unit especially when they have themselves agreed to the proposal of IDPL to modernise Rishikesh Plant for increasing the penicillin production. The Committee see no reason for deserving the production of penicillin which will not only permit all sectors to manufacture penicillin but will also enable the multinationals who are not prepared to share technology with IDPL to enter the field from the back door by collaboration with small units.

3.65 According to the Ministry, the penicillin has got a protected technology and as such too many companies would not come forward to manufacture penicillin. When asked whether Government had consulted IDPL and HAL before deciding the question of dereservation of penicillin the representative of the Ministry stated in oral evidence "I can say that there was no formal consultation." When again asked whether the Government specifically put to IDPL that the Government proposed to dereserve hte penicillin, the witness then stated "No, that has not been put".

3.66 The Committee are informed that at present penicillin is being imported in the country to the tune of Rs. 25 crores per annum. During evidence, the representative of the Department of Chemicals and Petrochemicals tried to justify the import of penicillin on the ground that whereas price of imported penicillin is Rs. 324 per BU, the cost of production of indigenous penicillin is Rs. 650 per BU. The Committee are not convinced of this reasoning and feel that if price is the only justification for the import of an item, then everything that is being manufactured in the country can

as well be imported at cheaper cost and there is no need to have an industrial policy at all.

3.67 The Committee deprecate the casual manner in which the question of derceservation of penicillin has been decided by Government even without consultation with their own public undertakings. In Committee's view this is not a step in the right direction as it will in the ultimate analysis give concessions to the multinationals and undermine the capacity of penicillin production available with IDPL and HAL. The Committee recommend that in the light of claim made by IDPL to meet the entire penicillin demand of the country, the Government should appoint a Committee to assess thoroughly the capacity and capability of Public Units and if that Committee feels satisfied with the claim of IDPL, the Government should then reconsider the policy of dereservation. In the meantime Government should proceed with caution on the question of issuing licences for the manufacture of or for the import of penicillin. Since major part of indigenous production of penicillin is claimed by IDPL, the Government may consider the feasibility of regulating the import of penicillin, if considered absolutely necessary, through IDPL who may also have control over sales and distribution of this item.

3.68 The Committee have been informed that many of the small scale units are at present thriving on the technology stolen from IDPL either through the retired persons or through those who are inside the company and are acting as black sheep. This, according to IDPL, is evident from the fact that many of the small scale units are at present using the same raw materials as is being used by IDPL. No multinational company would part the know-how as it is hte preserve of very few in the world. The Committee, therefore, desire that in order to protect the interest of IDPL and HAL and to provide protection against the theft of R&D efforts of the undertaking, the Government may consider the feasibility of bringing in a comprehensive legislation to eliminate the chances of leakage of technology and to protect the enterprising companies vigorously persuing R&D efforts by getting product and process patents similar to those as are available to companies in the western countries so that the fruit of R&D efforts do not get lost or diffused and enjoyed by unscrupulous companies. The Committee also feel that if the strictest quality control measures are insisted upon, the mushroom growth of small scale units thriving at present on stolen technology would drop out. In this connection, the representative of Department of Chemicals and Petrochemicals admitted during evidence that quality control was absolutely vital in drug industry but it was a fact that in the case of small scale sector the quality control was not being given as much inportance as was required. The Committee desire that special measures should be taken by Government to ensure quality control in drug industry especially in the small scale sector.

3.69 The Committee are glade to note that the Government are going to give a statutory basis to the good manufacturing practice. This will be applicable to small as well as large scale industries and all those who will not follow this practice will be punished under the Drugs and Cosmetics Act. Since the small scale units have to take permission from the State Drug Controller for starting their business, the Act is being applicable to them also. Furthermore, in the licence application form, a proforma is being stipulated whereby the Company has to give details of equipment proposed to be installed with capacity, cost etc. which will take care of the organised sector. The same set of guidelines are also proposed to be sent to the State Authorities to include them in their proforma for registration of industries because small scale industries are registered at the State level. The Committee hope that with these steps together with strict quality control measures would plug the loose ends and go a long way in arresting the growth of unscrupulous companies. The Committee would watch with interest the effect of implementation of these measures.

3.70 The Committee also note that ever since the retirement of General Manager of R&D Division in Hyderabad Unit, in April, 1986, R&D is being looked after by a person who has never worked on the R&D side. The General Manager (Production) is concurrently looking after R&D. It is surprising that even in a period of more than one year the Company could not find a suitable person to head R&D Division at Hyderabad. The Committee desire that Company should take immediate action to bring R&D under the charge of an expert in the field of R&D so that this vital field is looked after in the best possible manner.

CHAPTER IV

MARKETING AND SALES

A. *Sales Performance*

4.1 The following table gives the break-up of sales performance of the Company in respect of various products manufactured by IDPL during the years 1982-83 to 1985-86 :

(Rs. in lakhs)

Items	1982-83	1983-84	1984-85	1985-86
1	2	3	4	5
1. Bulk Drugs	2872·08	2775·19	3309·42	3256·70
2. Formulation	7234·90	7369·80	7357·35	7733·59
3. Fine Chemicals	176·52	188·82	157·18	165·66
4. Surgical Instruments including job orders	97·29	110·80	126·84	111·73
5. Products of IDPL Muzaffarpur Unit	97·09	87.31	195·56	186·91
6. Others	67·43	213·30	447·43	292·17
TOTAL	10545·31	10745·22	11593·78	11746·16

4.2 The Committee enquired as to whether there was any system of fixing sales targets of its products each year and comparing it with the actual sales performance of the Company. In a written reply, the IDPL stated :

> "Yes. The Company is following a system of fixing sales targets for each bulk drugs and formulations every year. These targets are revised in the second half of the year on a review of the actual performance till then and also taking into account the foreseeable, constraints for the remaining part of the year."

4.3 Revised targets for 1982-83 to 1985-86 and the actual sales performance as furnished by IDPL are as follows :

(Rs. in crores)

	1982-83		1983-84		1984-85		1985-86	
	Target (RBE)	Actual	Target (RBE)	Actual	Target (RBE)	Actual	Target (RBE)	Actual
1	2	3	4	5	6	7	8	9
Bulk	32·98	28·72	30·07	27·75	37·27	33·09	41·30	32·57
Formulations	87.86	72.35	87.40	73.70	89.03	73.57	82.10	77.33
Fine Chemicals		1·77	2·20	1·89	2·60	1·57	2·70	1·65
Surgical & J.O.	4·26	0·97	1·64	1·11	2·01	1·27	1·80	1·12
Muzaffarpur	1·45	0·97	1·52	0·87	3·29	1·96	1·31	1·87
Others	0·95	0·67	2·45	2·13	4·80	4·47	6·05	2·92
TOTAL	127·50	105·45	125·28	107·45	139·00	115·93	135·26	117·46

B. *Marketing*

4.4 It is reported that the bane of IDPL has been its poor marketing set-up. Its sales, for the past three years, have been more or less stagnant. They stood at Rs. 105.45 crores in 1982-83, Rs. 107.45 crores in 1983-84 and Rs. 115.93 crores in 1984-85 (sales during 1985-86 were Rs. 117.46 crores). The Company has failed to take cognizance of the changes in demand patterns. There has also been carelessness in placing orders for raw materials. It has not been done on a scientific basis with the result that IDPL has not been able to get the benefit of bulk purchase. There is no quality control as is evident from the way the Defence Ministry is reported to have rejected supplies.

4.5 In the written note furnished to the Committee, the IDPL have stated that the main reasons for the unsatisfactory growth in sales and the loss of sales to other institutions was due to emergence of joint sectors, and increased competition from other Public Sectors/State Undertakings/small scale units. The field operations were also disturbed during 1982-83 and 1983-84 due to agitation/go-slow. Limited availability of drugs due to production constraints also affected the sales.

4.6 When asked whether the Defence Ministry rejected the drugs supplied to them by the IDPL as reported. In reply, the CMD, IDPL during evidence stated :

> "Yes. Sir, I would qualify that. We make drugs. We test formulations for compatibility, stability and how the formulations should be and what will happen to formulations after 12 months, 20 months etc. When we stamp the expiry date, we ensure what is the status of the drug on that date. But somebody comes to us and says, forget about the pharmacopia, forget about the Drug Controller, I tell you, you give me a mixture of 'a', 'b', 'c', 'd' in this proportion, you are not to question why. I wanted that proportion. We are told to produce a mixture of certain ingredients. We produce and give it to them. For 5 years, they accepted it. There is a change in their laboratory and a new chap comes who uses a different method of tests and says, your product is not Okay. We are not being allowed to put a question, why they want a particular combination. When two drugs are mixed, the inter-action, behaviour of the ingredients has to be tested. Drugs are not mixed at will. It should be tested, whether it is stable, whether it inter-acts with each other. They have taken the responsibility for that composition. But at the moment, we have a dispute on the consignment, on the method of test. It still passes the test if it is tested in accordance with the method by which it has been tested for the last 5 years. Now, they have changed the method of test. The point is Okay, if you want to test with a different method, we should also know it earlier so that we adopt the same test so that it will not fail. This is the factual position. The dispute is stil on. We are the sufferer. It is an ecoonmic dispute. We are landed with stocks which nobody will take. I can't sell it in the market. It has not been approved by the Drugs Controller."

4.7 Asked, was there any agreement entered into with the Defence Ministry for such supplies, the witness stated that 'It is only on the basis of agreement we are supplying'.

4.8 On a further query whether such transactions were permissible under the Drug Control Order. The witness added :

> "It is permissible under the Drug Control rules provided it is not sold to the public. . . we expect that the Defence Ministry requires this only for their Armed Forces Medical services. Secondly, if they sell it in the market, they will be breaking the rules."

4.9 Subsequently, in a written note furnished after evidence, the IDPL have informed the Committee that the Cold Tablets have been supplied to Defence consignees against orders placed by the DGS&D. Details of the orders placed, quantity supplied and quantity rejected are given below :

A.T. No.	Order Quantity	Quantity supplied and accepted	Quantity rejected
1	2	3	4
1. 1276 dt. 6-8-1981	27 million	27 million	Nil
2. 1520 dt. 18-5-1983	12 million	12 million	Nil
3. 1610 dt. 12-12-1983	5·93 million	2·68 million	3·25 million
4. 1737 dt. 13-8-1984	15·15 million	6·72 million	2·58 million*

*In view of the rejection of stocks, the remaining quantity has not been manufactured.

The grounds for rejection of the Cold Tablets are :

(i) Presence of free salicylic acid more than permissible limits.

(ii) Contents of acetyl salicylic acid found less than the claim.

(iii) Presence of crystals on the surface of the tablets.

4.10 The composition of the Cold Tablets required by the Defence authorities was given in the Tender enquiry/order of the DGS&D. This composition is not given in the pharmacopea. The material supplied is, therefore, required to conform to the drug content claimed by the manufacturer. The question of rejection of the Cold tablets was taken up with CIM, Kanpur as well as IGS, New Delhi. A meeting was also held with the DDG, A.F.H.S. (Army) on 10-11-1986. During these meetings, IDPL has stressed that there has not been any change either in the manufacturing process or the testing procedure adopted by IDPL and as such there appears to be no valid reason for rejecting the Cold Tablets tendered for inspection According to IDPL the rejection of the Cold Tablets is primarily because of the CIM, Kanpur adopting the new testing procedure for ascertaining the Aspirin content in the formulation. The rejected stocks were manufactured between February 1984 to February 1985. The formulations containing Aspirin develop free salicylic acid on storage. The rejected stocks have, because of long storage developed free salicylic acid content which is higher than the permissible limits. There is, therefore, no possibility of the material being accepted by the Defence Authorities at this stage. The manufacturing cost of the rejected stocks is Rs. 4.51 lakhs.

4.11 In this connection, during evidence of the Department of Chemicals & Petrochemicals, the Committee enquired as to what were the reasons advanced by the Defence Ministry for rejecting IDPL drugs. The Joint Secretary of the Department stated :

> "The Ministry of Defence has ordered a specific drug according to their own specifications, which was not marketed by the IDPL. It was a specific agreement between the IDPL and the Ministry of Defence. The Defence Ministry stated that the drug supplied by the IDPL was not consistent with the requirements laid down by them."

4.12 When asked as to what assistance was rendered by the Department in resolving this problem, the witness stated :

> "The administrative Ministry has been rendering all assistance to the IDPL, and in fact in sorting out the problems with the other Department or the State Governments. But this is done when something is brought to the notice of the Ministry. This case was never brought to the notice of the Department."

4.13 When asked whether any difficulty has been experienced by IDPL with regard to meeting drug requirement of State Governments, the IDPL in a written note furnished to the Committee has stated :

> "State Governments such as Tamil Nadu & U.P. insist on the state logo being embossed on the tablets, capsules, printed on the labels, tins, bottles, cartons etc. Some State Governments such as West Bengal want the CMS Catalogue No. (Central Medical Store Catalogue No.) and the year of supply to be marked on the bottles, labels, tins etc. In the case of Kerala, the word 'Kerala Health Service, Not for sale' are to be printed on the labels cartons/tins.
>
> The above requirements hamper the smooth commercial activities of the Company in the following manner :
>
> (i) Stocks have to be specially manufactured for these State Governments with requisite logo. This often results in (a) delay in supplies which some times leads to cancellation of the orders by the State Government and (b) accumulation of stocks in case we produce in anticipation of placement of orders.
>
> (ii) Logo stocks cannot be transferred from one regional sales office to another in case of demand coming up from some other State Government for the same product. This results in unnecessary blocking of inventory in the Regional Sales Office located in one State and simultaneous loss of sales in the other State.
>
> (iii) Since many of our formulations are sold in hospitals as well as in trade, the flexibility of diverting stocks for sale in the market is lost when logo is printed on the labels/cartons/vials/tins etc.
>
> (iv) The plant has to specially procure punches and dies for the tablets to be supplied to a particular State Government which results in cost of the product going up, for printing logos on the capsules, embossing of tins etc. at extra expenditure.

Sometimes, the price of a formulation is increased in the middle of the year due to increase in the price of bulk material or packing material etc. It takes considerable time for the State Government to approve the revised price and till such time sales cannot be effected to the State Government and since most of our formulations are dated products, life of the product gets reduced which ultimately results in rejection of stores or even expiry of stocks in the depot itself.

For short dated stocks, we have to give take back guarantee; if the hospital is not able to consume the stores within the expiry date, we are liable to take back the stocks unconsumed and replace the same with fresh one."

C. *Market Share*

4.14 It has been brought to the notice of the Committee that the share of public units including the IDPL in the drug trade sales has not been commensurate with the size of their investment. IDPL's share of trade sales is only 1.7 per cent and in absolute terms, it is Rs. 24.48 crore out of the total retail sales of Rs. 1,660 crores. This is considered highly incommensurate with its share in the investments in the pharmaceutical sector. A considerable technology lag is reported in the production of several bulk drugs like penicillin, streptomycin and gentamycin. The IDPL is finding it difficult to face the challenge from small scale units in certain respects. It is facing the problem of cost-efficiency as opposed to the small units. The later's production is usually from intermediates and hence cheaper. This has been noticed in the case of drugs like analgin ampicillin, amoxicillin, phthalyl, sulphathiazole and niacinamide. IDPL's insignificant share in trade sales results in lower realisation as most of its sales are ordered by Government and institutions.

4.15 IDPL has also stated that there are nearly 3,000 pharmaceuticals Companies in the country which sell Formulations (medicines) in the Trade. In the organised sector, there are about 160 Companies. According to the Retail Store Audit Report of the Original Research Group for 1984-85, IDPL with 1.7% share is ranking at 13 in the Organised Sector. The names of the Companies which ranked higher than IDPL and their share of the Trade market are as follows :—

Company	Ranking	Value in Rupees lakhs	
		Value	% MS
1	2	3	4
Glaxo	1	5598	5·0
Sarabhai	2	5388	4·8
Pfizer	3	3905	3·5
Hoechest	4	3451	3·1
Cadila	5	3135	2·8
Alembic	6	3034	2·7
Burroughs Wellcome	7	2801	2·5
Boots	8	2680	2·4
Ranbaxy	9	2498	2·2
May & Baker	10	2000	1·8
Eskayef	11	1964	1·8
German Remedies	12	1943	1·7
IDPL	13	1918	1·7
Others	153 Companies	71698	64·0
TOTAL	166 Companies	112013	100·0

4.16 When asked whether the Company was satisfied with its market share in trade sales, the CMD, IDPL during evidence stated :

> ".....We need to increase our share in the trade market. I will not dispute that at all. I think, it is a need and it is a must. But I also think that this cannot become a very big figure. IDPL happens to be the 13th from the top of the list."

4.17 To a further query as to what were the inherent reasons for Private Companies like Glaxo, Sarabhai and Pfizer etc. being the market leaders in the field of trade sales, the witness stated :

> "They have been selling pharmaceutical formulations for decades, even before IDPL came into existence. They have started with an advantage. I am not saying that they are doing their job of promotion in a far better manner than what we do. But we want to bring in some professionalism in the organisation. I am told that in two products we are the market leaders. They are Emdopa and Suckcee."

4.18 When asked about the comments of the Ministry in regard to IDPL's share of 1.7% in trade market, the Department of Chemicals and Petrochemicals in a written reply admitted, "it is true that IDPL's share on trade sales is only 1.7% and this is too low."

4.19 The Committee have also been informed by IDPL that in order to rationalise the products and to improve the marketing functions of the company, the following steps have been taken :—

1 *Hyderabad Plant*

(a) The Hydrazine hydrate Plant which had been closed down has been restarted.

(b) The plants for production of Diethylamine, Triethylamine and Vit. 86 which had been closed down are being prepared for restart of production.

(c) Methyl Dopa was being manufactured from Veratraldehyde. Action is being taken to manufacture Methyl Dopa from an earlier stage i.e. from Vanillin in order to reduce the cost of production of Methyl Dopa.

(d) Action is being taken to produce Analgin by a cheaper process.

(e) The possibility of exporting sulpha drugs and Folic Acid is being explored.

(f) The possibility of selling the surplus, stores and spares will be explored to generate cash for working capital.

2 *Rishikesh Plant*

(a) Action is being taken to increase the production of Penicillin by maximum utilisation of the installed capacity. This is expected to generate a substantial annual contribution which would change the Company's position to a profitable one.

It is also proposed to increase the production capacity for Penicillin by utilising additional fermentors and by providing necessary down stream production facilities.

(b) The manufacture of 6APA by the enzymatic route and manufacture of 7 ADCA and other modern and newer antibiotics derived from 6AP and 7ADCA will also have to be considered by IDPL.

3 *Muzaffarpur Plant*

The marketing strategies prepared aim at ensuring high capacity utilisation of this Plant. The feasibility of manufacturing isonicotinic acid is also being examined.

4 *Gurgaon Plant*

(a) It is planned to introduce new products which would be manufactured in the Plant.

(b) Improvement in marketing and volume of sales would help in increasing the capacity utilisation of this Plant.

5 *Marketing Division*

(a) The Marketing Division, Head Office, has been shifted from New Delhi to the IDPL office blocks at Dundahera, Gurgaon. This would result in better co-ordination and control and integration of the Marketing Division with the other activities of the Company for working towards common objectives.

(b) It is proposed to take suitable steps to ensure that adequate attention is given to market research, short terms and long term trend forecasting, introduction and promotion of new products and countering competition on existing products.

(c) It is proposed to revitalise the export activities.

6 *Reduction in cost of purchases*

The cost of raw materials and packing materials constitutes almost 60% of the cost of production. In view of the bad history of payment performance, prices quoted by suppliers to IDPL are inflated to cover the delays in receiving payments from IDPL. If the liquidity position of the Company is improved by injecting funds for working capital, IDPL would be enabled to settle the suppliers payment on time and this would bring in competitive quotations from suppliers and reduction in cost of purchase.

D. *Marketing Organisation*

4.20 According to the Company the Technical details regarding the products are disseminated to the medical profession through the Medical Representatives through visual aids, literatue and physician's samples, highlighting the advantages of the products with a view to generate prescriptions from doctors. The field force has a pyramidal structure with Medical Representatives who are supervised by Sales Executives/District

Managers who are controlled by Regional Sales Managers who in turn are controlled by Divisional Managers. There are six Divisions headed by Divisional Managers and each division consist of two or more regions which are headed by Regional Sales Managers. There are in all 17 regions under the six Divisional Offices. The Sales Executive and the Medical Representatives in each region are controlled by respective Regional Sales Managers. Sales targets are fixed for institutional and trade sales for each territory covered by the Medical Representative. The performance is monitored by the Supervisory Cadre and also at the Head Office.

4.21 When the Committee enquired about the performance of the field staff in regard to boosting of sales of the company, the CMD, IDPL during evidence stated :

> "Unfortunately we have major problems in this area because of unionisation and because of certain very negative attitude taken by the field staff. We cannot antagonise our field force. At the same time we have to tackle certain serious problems in connection with the running of field staff which is scattered right through the country. I expect my field staff to do their job well. This is not happening. And then, these medical representatives resent their superiors going and talking to the doctors because they consider it a sort of spying on their work.... They are not working properly. They are not visiting the doctors and the chemists shops.... There is a Federation of Medical Representatives of all the drug companies and unfortunately, they want to make IDPL as an example. We have been at the receiving end of all the problems. We are getting the problems under control now. We are trying to make it clear that they cannot survive in the company by trying to destroy the very same company. These medical representatives sell the free samples that are to be given for the doctors."

4.22 Asked whether this problem was a general phenomenon in all the Drugs and Pharmaceutical manufacturing companies, the witness stated :

> "This is a chronic problem in IDPL because the Federation is showing its fist. They go even to such an extent of threatening the Chemists not to have the stocks of IDPL. Even our own staff was beaten up by these people."

4.23 When the Committee desired to know the steps taken by the company to tackle this serious problem, the CMD, IDPL, stated during evidence :

> "I have talked to the President of the Association that they cannot blackmail an organisation in this way. I have warned them that we will be forced to take very drastic action against most of the representatives. We have about 325 representatives in the field.. .... The majority of them are involved with the Association. Some of them are good workers."

The witness added :

> "In the private sector, they just sack them with impunity. But when it comes to our case, I cannot even issue a charge sheet without

it becoming a court matter which will drag on for five or six years. Since we are part of the state enterprise, our hands seem to be more tied up than the private industry. Private Companies do not tolerate such nonsense. This Association, in order to establish is supremacy, is showing its teeth only to IDPL."

4.24 As regards incentives to Medical Representatives, the Committee enquired whether there was any difference in the incentives offered by the Government and the private companies. In reply, the CMD, IDPL stated :

"I think our Medical Representatives are probably earning a lot more in the sense that their TA and other claims comes to more than the Chairman's salary. I would say, it may come to more than the President of India."

4.25 When asked if their incentive scheme was based on targets, the witness stated :

"We have incentive schemes fixed with the targets..... The fact that the targets are fixed so low they are really not helping the production. The point which I find very hard is I have to give the Medical representatives pay, larger than the President of India."

4.26 To an another query as to whether the Medical representatives of IDPL were working in colusion with the Medical representatives of private companies, the witness stated :

"That is what had been reported to us earlier. Now we are unable to prove it. It is very difficult to prove it. They say, we require people. Your medical representatives are getting commission from the private industries and they are selling their products there. But it is very difficult to prove. I cannot even go to the field to check my products. According to them, if.. I go to the field for checking, it means breach of understanding, i.e. we are spying because we have no trust on them. So until it is accepted, that delegation of work must be concomitant with supervision of the work and that his superior has got a right to supervise the work, that is being carried on in the plant, it is not possible."

4.27 Continuing the discussion on the problems of Marketing Division of the Company, the Committee enquired whether besides the attitude of field representatives, were there any other problems in the Marketing set up of the Company. In reply, the CMD, IDPL stated :

"There are fundamental problems in the marketing set up. One of them is the attitude of the field representatives. There is also the problem so far as the people who manage them....There is also a certain degree of problem, as I told, in the attitude of the Marketing Division as a whole. The basic problem tends from the Marketing Division thinking that it is one limb of organisation. It is autonomous and it is not feeling completely integrated with the overall performance and achievement of objectives. By isolating themselves in this manner the Production Division and Marketing Division completely get dis-associated."

The witness also added :

"The corporate office of the Company was in Delhi. The Marketing Division of the Company was in Delhi. When the Gurgaon Plant was created, the Company decided to shift the Headquarters to Gurgaon because the Central Government did not like proliferation of undertakings in Delhi. They wanted people to move out. So Company decided to shift Marketing Division to Gurgaon rather than to keep them in rented premises.

Marketing Division maintained that it was necessary for them to stay in Delhi for communication/telephone purposes so as to be in touch with the customers in the Marketing place..... Subsequently, the situation was that they were stationed in Gopala Towers in Delhi which caught fire. They were then moved to Gurgaon. They operated from Gurgaon for a certain period but moved to Delhi again."

4.28 Asked as to whether there was no control of the CMD, IDPL over the marketing division of the Company, the witness stated :

"I cannot explain. All I can tell this Committee is in order to put a stop to this, Marketing Division is responding to me personally, so that this thing does not happen."

4.29 The Committee pointed out that CMD being the head of the Company, he should bring about the correlation between the Production Division and the Marketing Division. Thereupon the witness stated :

"I have brought them under control. I am trying to re-organise so that we may not be in a rut. I am moving them to Gurgaon."

4.30 When enquired as to who was the appointing authority of the Director (Marketing) of the Company, the witness informed the Committee that :

"He is appointed by the Public Enterprises Selection Board and appointed by the Ministry in the name of the President. Chairman is also appointed in the same way."

4.31 Asked about the relationship between the CMD, IDPL and the Director (Marketing), the witness stated :

"Director (Marketing) is supposed to discharge the responsibility of the Marketing Division under the Chairman-cum-Managing Director. He should report to the Chairman-cum-Managing Director."

4.32 When enquired in the event of indiscipline by Director (Marketing) who would take action against him, the witness stated :

"Since the appointing authority is the President, Appointments Committee of the Cabinet, they can take action. I can only recommend to the Ministry for disciplinary action. Disciplinary action has got to be initiated by the Minister in-charge through Public Enterprises Selection Board."

4.33 The Committee were informed by the CMD, IDPL during evidence that similar procedure prevails in all the public undertakings for appointment of Chairman as well as the Directors on the Board. When enquired whether there were any rules laid down in your organisation in regard to duties and responsibilities of the Directors on the Board in relation to the CMD, the witness then stated :

> "They are supposed to report to the Chairman and Managing Director. Rules provide that they are accountable to the Chairman. But if they do not account, the Chairman can only go to the Ministry for appropriate action to be initiated."

4.34 When asked whether the Director (Marketing) has ever defied the directives of the CMD, the witness stated :

> "Yes. Even he would question the authority of the Chairman to give him the directive. The Government has initiated action to take disciplinary action against him."

4.35 When asked whether the defiance of Director (Marketing) has ever been placed before the Board of Directors. The CMD, IDPL replied in the negative.

4.36 As regards initiation of disciplinary action against the Director (Marketing) the Committee wanted to know as to whether this has been brought to the notice of the Ministry and if so, what was the reaction of the Ministry in this regard. To this, the witness stated "as far as I know, the Ministry have acted promptly when I have brought this to their attention."

4.37 When enquired whether this problem was in existence earlier and as to why this was not brought to the notice of the Ministry earlier, the witness stated :

> "I do not know whether the problem was recognised or felt to have been existing at all then."

4.38 To a further query whether acts of indiscipline by Director (Marketing) were prompted by the present CMD joining the organisation, the witness replied in the negative.

4.39 The Committee enquired whether the stand taken by the Director (Marketing) not to follow the directives given by the CMD, IDPL on the plea that both were appointed by the same appointing authority i.e. the President was correct. The Joint Secretary, Department of Chemicals & Petrochemicals stated during evidence :

> "Just because he is also appointed by the President and somebody else is appointed by the President and therefore, he will not work under someone else, is actually fallacious, because all of us are appointed by the President and we work under some hierarchical system....Sir, that position is not acceptable."

4.40 When asked whether any final decision has been taken in regard to disciplinary action to be initiated against the Director (Marketing), the witness added :

"He (CMD, IDPL) has been advised that if that is the situation, he is there to deal with it. The Government recognises the fact that the Chairman has got the disciplinary powers or he has got the supervisory power over all the other functional Directors."

4.41 According to a press report dated 11-4-1987, the Director (Marketing) of IDPL is reported to have been sacked by the Government.

4.42 In order to improve their marketing organisation, IDPL has suggested the following :

"(i) At present, the hospital sales as well as trade sales are jointly looked after by the Divisional Manager and the field staff down below which blurs the objective of improving the trade sales of the company. Since institutional sales involves operations which are totally different from trade sales, the two should be bifurcated and institutional sales should be directly controlled by the Head Office of the Marketing Division by placing a Chief Marketing Manager in charge of institutional sales with support of a few Regional Sales Manager exclusively to look after the institutional sales in the periphery.

(ii) So far as trade sales are concerned there should be two Chief Marketing Managers in the Head Office of the Marketing Division—one in carge of sale of generic products which are at present contributing almost 30% of the total trade sales and the other Chief Marketing Manager to look after the sales of branded products. Each of these Chief Marketing Managers should be supported by product Managers.

(iii) There should be separate Training Department and Planning Department in addition to Sales Promotion Department, Marketing Services Department and Medical Services Department.

(iv) At the periphery the Divisional Managers, Regional Sales Managers should be relieved of the day-to-day administrative functions, coordination with Accounts and depot etc. by posting Branch Managers in each region who will look after the region's administrative matters, depot matters and accounts matters and also personnel and statistics and legal functions under the guidance of the Divisional Managers.

(v) The Marketing Division is at present under-staffed at all levels. Staffing position needs to be strengthened immediately."

4.43 In this connection, when the Committee enquired whether any study has been conducted to ascertain the adequacy of the manpower in the marketing division, the Joint Secretary, Department of Chemicals and Petrochemicals stated during evidence :

"Marketing is one area of weakness which requires some rehabilitation. We have got the advice of some consultants. They have also said that the Company should have more emphasis on marketing and in foreseeing its future and testing its products according to the demand. So certain steps are being taken by the Company in order to reorganise its marketing strategy and also the organisation. But it will be too early to say what type of action would

result out of this. This exercise has started only recently. We are very concerned about the results."

4.44 Asked whether any marketing strategy has been worked out by Ministry in consultation with the Company, the witness stated :

"The strategy is worked out in consultation with the consultants. Both from sales promotion angle as also to ensure the production of the company and also to identify the areas which are strong areas, this has been done."

4.45 During half an hour discussion on Rehabilitation Plan for IDPL held on 18-3-1987 in Lok Sabha, the Minister of State for Chemicals and Fertilizers emphasized the need for revamping of marketing of the Company. The Minister also informed the house that :

"Number of steps are being contemplated to invigorate the Marketing Division. One such step is to shift this division from Delhi to Gurgaon because the entire formulation plant and the entire corporate office are in Gurgaon and the Company felt that having a marketing division in Delhi while having the corporate/main office in Gurgaon is not workable. Therefore, as one of the preliminary steps to invigorate the marketing organisation, the Company thought it fit that it would be better to bring all these branches under one roof and one umbrella so that there would be more cohesive network as far as marketing organisation is concerned. But there are also a number of other steps being taken on marketing in addition to shifting this particular office, such as having better interaction with the sales-men in the field whose number is around 300. There are a lot of areas in marketing which need a lot of improvement because we feel that production has never been commensurate over the last five or six years with marketing, i.e. the marketing saleability of a particular commodity or a drug produced by the IDPL has not been commensurate with its production. Therefore, to match production with marketing, the Company felt that they would have to be a better organisation and steps have already been taken in this regard."

E. Brand Names

4.46 It has been brought to the notice of the Committee by the Chairman-cum-Managing Director, IDPL, during his evidence before the Committee that due to the policy of Government to support the generic names instead of brand names of drugs and formulations, the Company is facing bottleneck in its marketing strategy. The Company has not given brand names to many categories of drugs and formulations produced by it. Thus, in selling its products with generic names, the Company has to face competition from small scale industries in terms of price but in case of products with brand names, it is easier to sell them if the doctor prescribes them. The Company has now decided to go ahead with the brand names much to the dislike of the Government. The CMD, IDPL in his connection added that ". . . . If we have to protect our interest, we cannot be fed with conflicting directives that on the one hand we have to become efficient, economically viable and profitable and keep our head over water and on the other say that we must do things which will undermine that position. Whatever new product that we

will introduce, whatever new formulations we will introduce, we are going to do it only under brand name. We will make it a policy decision. In the new drug policy, new complications have been brought in that even if you put the brand name, the generic name should be displayed twice the size. This is applicable for everybody."

4.47 The Committee enquired about the difficulties faced by the Company in marketing its products. The CMD, IDPL during evidence stated as follows :

"We have a problem. Being part of the Government and being the public sector company, we have to do the business according to the Government policy. One of the policies which the Government have laid down is that it is not supporting the brand names. But it is supporting the generic names only. Now, this is all right in their case (Private industry), because it makes easier by substituting the generic name. But in Government system we have to follow their policy. But the reality, as far as trade is concerned, is that if my product has got a brand name and if the trade prescribes my product. I do not have to fight with anybody in the market. If the product is sold with gentric name then I have to fight with the small scale industries that at whatever price they sell them, we have to match with those prices. We do not have brand name for many categories. In the case of tetracycline, stroptomycin, etc. I have to compete with the small scale idustries prices in the market. In my case if I sell the products at drug control order prices it will bring down my sales. When the trade prescribes terramycin capsules, the chemists will be benefited. But if the trade substitutes brand name, then it becomes difficult for the chemists to substitute. Therefore, you are in a different marketing situation."

4.48 When asked whether there was no statutory obligation on the part of Private Pharmaceutical Companies to display the generic names on the labels of medicines manufactured by them, he witness stated :

"There is no obligation. Sometimes they put generic names and sometimes they put brand names. To the extent the brand names are popular, it is a profitable venture and the private sector by and large is selling their products through the trade. It is only the small-scale units that they resort to generic names on operational basis. Here, one has to distinguish the fundamental difference which we feel as a manufacturer of bulk products, as formulator, that we have put in a huge amount of capital for manufacture of bulk drugs, I have no flexibility, I have the plant for production of Vitamin-B6 and I am not making anything else. I can make only Vitamin-B6. If I have for nation technology and I have machine for production of sulpherdhiazole, tomorrow if I want to produce paracetamol tablets with the machine we have, as a bulk manufacturer, I cannot deviate my interests are different from those and in the case of formulator, today if there is some distress sale he can take generic name for formulation. So, this is the difficulty we are facing."

4.49 When asked to what extent the trade is manipulated by the formulators, the witness stated :

"The large companies whether Indian or multinational are substantially oriented only through trade sales. They are getting the money

an generic names. We cannot operate on D.C.O. prices".
money from the trade. They are getting their money by and large
an generic names. We cannot operate on D.C.O. prices".

4.50 The Committee enquired from the Ministry whether modification of the policy of Government in regard to brand names was not called for so as to protect, the interest of the Company. The Department of Chemicals & Petrochemicals in a written note furnished to the Commttiee have stated :

> "Following Hathi Committee report and the Drug Policy, 1978, the Govt. in the Ministry of Health and Family Welfare, banned the use of brand names for 5 drugs through an amendment of the Drugs & Cosmetics Act, in 1981. This Act covers all drug companies including IDPL. Hence no specific directive was issued by the Govt. to IDPL alone. Subsequently, certain private companies took the matter to Court. Following the Supreme Court directive, it has been decided in the 1986 Policy that brand names shall be displayed at half the size of generic name for marketing all single ingredient formulations of new drugs. Generic name will be progressively adopted in the case of all drugs included in the list of essential drugs. This Policy will be equally applicable to IDPL."

4.51 Asked whether the new stipulation of displaying generic names double the size of brand name would reduce competition from Private Companies, the CMD, IDPL then stated :

> "I don't think so. If a doctor feels that Pfizer Terramycin is to be given, he will continue to prescribe Pfizer terramycin, tetracyclin hydrocloride etc. The customer will still get Pfizer terramycin. He wishes to go by what the doctor has prescribed. He does not want any change. We feel that we have lost by not adopting brand names. Our Analgin is sold at a lower price than what you would buy for Novelgin. The production of the tablet might have been made from the raw materials of IDPL. But he sells Novelgin at higher price and he is able to get that money. I have to compete with all and sundry to sell my analgin tablet.
>
> But Novelgin does not compete because it is a brand name. A healthy person who thinks that no risk to his life is involved may argue what is cheaper and may opt for that but a sick person is not going to argue. This is a reality we have to face."

The witness added :

> "I cannot tell consumer that Analgin and Novelgin are the name and there is no difference at all. If my product is substandard, he cannot make a tablet of a higher standard. I supply to him the raw material. He cannot clean it. He is only making a tablet out of the specification which may not be better than the raw material. All that he does is tablet. But I cannot bring this in front of the public. I can talk to the doctor."

4.52 When the Committee pointed out that the Company was handicapped due to lack of vigorous marketing campaign, thereupon the CMD, IDPL admitted 'That is also true. We are trying to rectify that."

4.53 When the Committee enquired about the steps taken by IDPL to alter the consumer psychology in favour of generic names instead of brands names, the witness stated :

> "This is a very difficult area. But there is no easy solution to this. The law prohibits us from any advertisement aimed at the common man regarding drugs which a person is not supposed to take except on the prescription of a medical practitioner .....The only avenue available to us is to urge the doctors through our medical field force. It is only to educate the doctors. If we remove the brand names altogether then we find, we have to bring our price down to compete with the opportunists, formulators which would give us instability in terms of operating a capital intensive bulk drug plant. If we are a formulator, we could take that approach, generic names. We have no affinity to any particular bulk drug. Whereas in the formulation plant, the capital to turnover ratio may be 10 : 1, but in bulk drug plant, it is not even 1 : 1."

4.54 In this connection, when the Committee suggested that the Company should take up the matter of consumer education for educating the people against the fallacy of brand names through the medium of advertisement etc., the CMD, IDPL stated :

> "99.9 per cent of the products made by us fall into the ethical category. Probably, in one or two products we have no stakes. We do it just to meet the requirements of the Government. I can cite the example of Paracetamol tablets in this regard. We are making the tablets from purchased Paracetamol. Almost all the products we make fall into the life-saving category and they cannot be advertised. It is a very difficult thing. We wish that the product range has products outside this category."

4.55 When pointed out that it was all the more important to impart proper education to the people in so far as products manufacture by the Company are concerned. The witness then stated 'we will consider that aspect.'

The witness added :

> "We do our bit in this respect. We are intensifying this matter through the field marketing forces which contact the doctors. But we are not very clear on the very question of spreading education. We are not clear whether it is the objective of the IDPL or whether it should be the objective of the Government to educate the mass of doctors. We try to contact the doctors but obviously our attempts would be small; our attempts would be mercenary. I feel that our attempt should be linked to our interest in seeing that a particular product of ours is not damaged of this particular thing. I am not disputing what you are saying. It is very important. But I am not clear whether IDPL, as a Company, has got the resources and am not clear whether we should really consider this aspect."

4.56 The Committee pointed out that IDPL has to improve its working as far as marketing is concerned. On the one hand IDPL has to compete

with multinationals who have got established their brand names and on the other hand has to face small scale industries whose costs are obviously lower than that of IDPL. Therefore, the Company should formulate a good sales promotion policy. To this, the CMD, IDPL stated :

> "I think it is a good suggestion and we will try and see to what extent we are able to follow it; see what results we are going to get. What we have been doing is like talking to the doctors. We can think of holding a conference at Rishikesh and ask them to visit the factory there to look at the facilities and quality control measures available there. We can make them understand. By this mechanism, there may be some progress."

4.57 In view of the present day advertisement mania, the Committee pointed out that there was a need for a concerted advertisement drive on the part of IDPL to educate the people about its cheaper drugs and also to educate the mass of doctors about the quality control measures available with them. To this, the Department of Chemicals and Petrochemicals in a written reply furnished to the Committee that "as per the Drugs and Medical Remedies (Objectionable Advertisements) Act 1954, prescription drugs cannot be advertised. IDPL has only a few OTC (Over-The-Counter) products, some of which are already brand leaders such as Suckcee."

4.58 It has also been stated that the Company has been facing a problem in regard to trade marking also.

4.59 When the Committee enquired about the nature of the problem faced by Company with regard to trade markings, the CMD, IDPL stated during evidence :

> "Sir, we produce Vitamin B-1 in tonne quantum. It is also manufactured by Glaxo, Dumux and other companies. For that they are rewarded. We are being rewarded on a completely different basis. They are purchasing it from us. All that they are doing is, they put it in a capsule with beautiful packs and selling it to the customers and thus earning profits. They also give a new brand name for their products."

4.60 When asked whether this matter has been brought to the notice of the Government, then the witness stated :

> "Sir, we have not taken that up with the Government. The basic issue is, can we sell it ? I think, I must first remove the element of incompetence from this side. There is an element that a Doctor prescribes 'Becosule' and he will not prescribe it if it is a medicine."

4.61 To a further query as to what would be the price difference of the Company themselves put these medicines in capsule forms and pack them, the witness stated :

> "Roughly, at least 5 per cent cost can come down. They have to pay 4 per cent Sales Tax and they have also to pay freight charges, i.e. for movement of their trucks from my factory to their factories. Now, I would not pay that. But at least that amount of money is not going to be incurred to that extent. So, some sort of saving will definitely come."

F. *Pricing Policy*

4.62 According to I.D.P.L., they are engaged in the production of bulk drugs, intermediates and formulations. In fixing the prices of bulk drugs/ intermediates a return of 14% post-tax on net worth/12% post-tax on net worth is allowed. Bulk drugs required for the production of Category I and II formulations are allowed higher rate of return of 14% post-tax on net worth whereas other price controlled bulk drugs are allowed a post-tax return of 12% on net worth. These prices are fixed based on the recommendations made by the BICP after Cost-cum-Technical Study. In those cases where there is more than one producer, the average cost of production of major or efficient producers forms the basis for fixation of price. IDPL is the only producer of several of the bulk drugs in their production range.

4.63 Formulations are classified into three categories under DPCO 1979. Category I formulations are allowed a mark-up of 40% on the ex-factory cost, Category II formulations are allowed mark-up of 55% on the ex-factory cost and Category-III formulations are allowed a mark-up of upto 100% on the ex-factory cost. There is no price control under DPCO 1979 on the other formulations. Mark-up is allowed over the ex-factory cost towards distribution cost, outward freight, promotional expenses, trade commission and margin of the manufacturer. It has been stated that IDPL's utilisation of capacity for the production of formulations and bulk drugs is quite low. Overheads are, therefore, high. Lower utilisation of capacity and higher absorption of overheads, therefore, accounts for the product being non-competitive and IDPL incurring losses. In this connection, the Committee desired to know as to whether the Company was satisfied with the Pricing Policy of the Government. The CMD, IDPL stated during evidence "I have to say to this both 'yes' and 'no'.

The witness added :

> "If you look at the prices of our basic life savings drugs in the context of the overall wholesale price indices and in the context of the increase that has taken place in the prices of various chemical raw materials which go into the manufacture of our products, I can say that our prices of drugs have not risen even a fraction of our raw material inputs or the general prices.
>
> I can give you a few examples. Between 1970 and 1986, i.e. over a period of 16 years, the price of tetracycline has risen by 14 per cent; not only that, the price of oxytetracycline has dropped by 11 per cent between 1976 and 1982. The price of analgin over a period of eight years has gone up by 28 per cent. But the chemical raw material and various inputs which go into their manufacture have registered a price increase of 110 per cent, 133 per cent, 123 per cent and so on. So, if you look at the increase in the cost of raw materials and then compare the pricing of our basic life saving drugs. I am quite sure that you will appreciate the fact that the objective of supplying drugs of quality at reasonable prices has been more than met."

4.64 Asked about the percentage contribution of these inputs into the final products, the witness stated :—

> "Raw material comprises 73 per cent of the finished products. These are the major cost determining factors. We have paid these higher prices for our raw inputs but we have not charged the consumer the prices which we have paid."

4.65 When the Committee enquired about the impact of the new Drug Policy (December, 1986) on the profitability and working of the Company, the CMD, IDPL stated :

> ".....all the companies which have been making the bulk drug which fall in Category-I and Category-II are financially sick, whether it is IDPL whether it is HAL or Sarabhai or Alembic. The fact that the operation of the drug price control policy in respect of Category-I and Category-II has been harsh is, I think, clear irrespective of the sector in which it is in operation, and to that extent the liberalisation of the pricing policy in respect of both bulk drug and formulations in Category-I and Category-II must be looked upon as a fillip to domestic production and to make sure that the country does not become dependent on imports in future. This is an absolute necessity and I think that step is in the right direction."

4.66 In this connection, the Department of Chemicals and Petrochemicals have stated in a written note furnished to the Committee that due to the increase in MAPE (maximum allowable post manufacturing expense incurred from the stage of manufacturing to retailing and manufacture's margin) to 75% for category I drugs and 100% for category II drugs, profitability of IDPL should substantially improve. This is because the Company mainly produces essential drugs presently classified as Category I, II and III. The new list of category II drugs is to be finalised shortly by the Committee appointed by Government for this purpose.

Indicative List of Bulk Drugs, being produced by M/s. Indian Drugs and Pharmaceuticals Limited

Sl. No.	*Name of the Bulk Drug*
	Category I
1.	PAS Sodium
2.	Penicillin G
3.	Streptomycin
4.	Thiacetazone
	Category II
5.	Analgin
6.	Oxytetracycline
7.	Phenobarbitone
8.	Phtyalyal Sulphathiazole
9.	Sulphadimidine
10.	Tetracycline Hydrochloride

Category III

11.	Vitamin B 1
12.	Vitamin B2
13.	Folic Acid
14.	Vitamin B6
15.	Nicotinamide
16.	Ampicillin Trihydrate
17.	Amoxycillin
18.	Sulphanilamide
19.	Sulphacetamide Sodium
20.	Sulphaguanidine
21.	Acetazolamide

4.67 The sales of various products manufactured by IDPL during the last 4 years from 1982-83 to 1985-86 have been of the order of Rs. 105.45 crores, Rs. 107.45 crores, Rs. 115.93 crores and Rs. 117.47 crores respectively. The Committee regret to say that the sales have remained more or less stagnant due to poor and in-efficient sales set up. As a result the IDPL trade share declared to only 1.7 per cent of the total retail sales of Rs. 1660 crores (in 1983-84). This in Committee's view is highly incommensurate with the size of the investment made by the Company. The trade share of some of the Private Companies like Glaxo, Sarabhai and Pfizer who are the market leaders at present is 5.0%, 4.8% and 3.5% respectively. The IDPL's insignificant share in trade sales has resulted in lower realisation as most of its sales are orders from Government agencies and institutions.

4.68 The main reasons for the unsatisfactory growth of sales are stated to be due to the loss of even the institutional sales because of emergence of Joint Sector and increased competition from other Public Sector Units, State Sector and Small Sector Units. Production constraint due to paucity of fund, shortage of raw material, power and water have also badly effected the sales.

4.69 The Company also appears to have failed to take cognizance of the changes in the demand pattern resulting in huge loss due to the accumulation of inventory of finished products not being lifted by the market. The Committee feel that in order to improve the financial health of the Company its sales must increase substantially. Keeping in view the fact that payments from Government departments/and Government organisations are very much delaved, greater emphasis should be on increasing market share of the trade. The Committee recommend that IDPL should evolve better strategy to improve its sales which will go a long way not only in wiping out the staggering losses but will also help in the optimum utilisation of created production capacity. The Committee desire that IDPL should become market leader and fulfil its objectives of providing cheap drugs to the millions. The Committee also desire that the Central Government should extend purchase preference to those products which are manufactured by IDPL and other Public Sector Units. Such purchase preferences would definitely help in boosting the sales of public undertakings. Instructions in this regard may, therefore, be issued to all Government agencies.

4.70 The Committee have also noticed that the Company is following a system of fixing sales targets for each bulk drug and formulation every year but the target fixed were never achieved even when these were revised downward. While expressing their unhappiness, the Committee desire that the sales targets should not only be fixed on a realistic basis but once these are fixed, every efforts must be made to achieve those targets without any exception or excuse.

4.71 The Committee note that the Company was manufacturing and supplying Cold Tablets to the Ministry of Defence as per their special requirements for use in Armed Forces Medical Services. The supplies were being made by IDPL under an agreement entered into between the Ministry of Defence and IDPL and on the basis of orders placed by DGS&D. The Company supplied the Cold Tablets against 4 orders placed by the Ministry of Defence between 6-8-1981 to 13-8-1984. The Ministry of Defence accepted the supplies in full made by the Company against the first two orders placed on 6-8-1981 and 18-5-1983. Later, the Ministry of Defence rejected supplies of 3.25 million Tablets and 2.58 million Tablets as against orders of 5.93 million and 15.15 million Tablets placed respectively on 12-12-1983 and 13-8-1984. According to the IDPL, the main reason for the rejection was the new method of testing adopted by the Ministry of Defence, whereby they had detected some divergence in the content of ingredients as against their prescribed requirements. The Company is reported to have contested this new method of testing by the Ministry of Defence on the plea that drug supplied by IDPL would have fulfilled the special requirements of the Defence Ministry, if the testing would have been done with the same method as was being followed during the last five years. Inspite of several meetings between the officials of IDPL and the Ministry of Defence, the dispute still remains unresolved. As the rejected stocks were manufactured by the Company between February 1984 to February, 1985 these have developed free salicylic acid content higher than the permissible limit. Thus, there is no possibility of the material now being accepted by the Defence Authorities nor can it be sold in the open market. The manufacturing cost of the rejected stock is stated to be around Rs. 4.51 lakhs. The Committee recommend that the Company should make concerted efforts to resolve this dispute amicably. The Department of Chemicals and Petrochemicals should also use their good offices to bring about a settlement in this regard to the satisfaction of both the parties in terms of agreements between them. At the same time it should be ensured in respect of any future supplies there is a clear understanding between IDPL and the Ministry of Defence on the norms for testing the drugs so that the present type of situation does not recur.

4.72 The special requirement of certain State Governments is reported to be another constraint in the production of drugs by IDPL. According to IDPL, State Governments such as Tamil Nadu and U.P. insist on the State logo being embossed on the tablets and capsules and printed on the labels, tins, bottles, cartons etc. West Bengal Government want the CMS Catalogue No. (Central Medical Store No.) and the year of supply to be marked on the bottles, labels, tins etc. In the case of Kerala, the words 'Kerala Health Service—Not for Sale' are to be printed on the labels/cartons/tins. It has been represented to the Committee that these requirements of State Governments hamper the normal commercial activities of the Company. They often result in delay in supplies, sometimes leading

to cancellation of orders by State Governments. Accumulation of stocks of drugs and formulations also take place in anticipation of placement of orders. Such stocks cannot also be transferred from one State to another and the flexibility of diverting stocks for sale in the market is lost when logo is printed on the labels/cartons/vials/tins etc. The printing of logos on the capsules, embossing of tins etc. also involves extra expenditure resulting in increase in the cost of production. The Committee desire that the Ministry to take up the matter with the concerned State Governments and prevail upon them not to insist on embossing of State logo on drugs ordered by them. The Committee also suggest that IDPL should enter into firm agreements with the State Governments stipulating that the State Governments must lift the full supplies manufactured specially for them even where the delay occurs on account of meeting their special requirements. In the event of stocks not being within the stipulated time the State Government must compensate the Company for unnecessary blocking of their funds.

4.73 The Committee regret to note that the marketing organisation of the Company is plagued by very serious problems. Its top Management has been in a state of disarray and has not been able to function as a team being infected by groupism, each trying to pull in different direction. It appears to the Committee that the interest of the organisation was the last thing in the minds of managers of the marketing wing of the undertaking.

4.74 One of serious problems faced by the Company is stated to be the unionisation and a very negative attitude taken by their field force. The Medical Representatives of the Company are required to disseminate the technical details regarding the products manufactured by IDPL to the medical profession through visual aids, literature and physician's samples, highlighting the advantages of the products with a view to generate prescriptions from doctors. In this connection, the Committee have been informed by IDPL that their Medical Representatives were not performing their functions well. They were also not visiting the doctors and chemists which was a part of the normal duties assigned to them. They were selling the samples given to them for free distribution to doctors. The Federation of Medical Representatives of all drug companies was stated to be main force behind such an attitude of field force toward their job. Majority of the Medical Representatives were members of this association. The Association was reported to be resorting to intimidatory tactics by threatening the Chemists not to keep the products of IDPL and also beating up the staff of IDPL. To tackle this problem, the CMD, IDPL had a talk with the President of the Federation of Medical Representatives and asked them to stop blackmailing IDPL in such a manner. He is also reported to have warned them that drastic action would be taken against those IDPL representatives who were found indulging in such activities. As regards aking no action against erring Medical Representatives, the CMD, IDPL expressed helplessness because IDPL being a Government Company, they were unable to issue even a charge sheet without it becoming a court matter which would unnecessarily drag on for year, whereas the private companies in such cases would just sack such persons with impunity. The Committee are dismayed over the lack of motivation in the marketing organisation and state of helplessness on the part of the management of the Company in taking any action against the erring Medical Representatives of the Company. They feel that this state of affairs should not be

allowed to continue any further and indiscipline in any form should be put down with a heavy hand by taking hard decisions, if necessary. At the same time, the Committee recommend that immediate remedial measures should be taken to remove the genuine grievances, if any, of Medical Representatives in consultation with their representatives and all efforts should be made to channelise their activities in the right direction. The motivation of the field force is a must and deserves special attention of top Management to pull the Company out of the red.

4.75 The Committee note that due to a very adamant posture taken by the Director (Marketing) and also rigid attitude of the Marketing Division, there were some problems in the smooth functioning of the Marketing Division. The Committee are, however, glad that for better co-ordination between the Production Division and the Marketing Division, the CMD, IDPL is reported to have sorted out the issue by finally moving the Marketing Division to Gurgaon, the main headquarter of IDPL. As regards disciplinary action against the Director (Marketing) who was defying the CMD, it has since been reported that he has been sacked by the Government. The Committee trust that the Government in appointing a new incumbent to the post of Director (Marketing) will keep in mind the thorough professionalism required in tackling the complex problems facing the Company in the field of marketing. They therefore, suggest that in selecting the new Director (Marketing) Government should exercise utmost care to avoid recurrence of the problems faced by the Company in the past.

4.76 The Committee are informed that Marketing is one area of weakness of IDPL which requires rehabilitation. In this connection, the Company has been advised by the Consultants that the Company should lay more emphasis on marketing by way of forecasting and testing its products according to the demand. This strategy according to the Government is being worked out by the Company inconsultation with the consultants. The need for revamping of marketing operations of the Company was also emphasised by the Minister of State in the Department of Chemicals & Petrochemicals during the course of half an hour discussion in Lok Sabha on 18-3-87 on the working of IDPL. The Committee, therefore, recommend that immediate action should be taken by the Company to remove the areas of weakness identified by the consultants. The process of revamping of marketing function of the Company should be given top priority so that the Marketing Division could effectively play the role of improving the financial health of the whole organisation.

4.77 The Committee are distressed to note that the Company is finding it difficult to sell its products in the market due to the policy of Government to support the generic names of the products. In this connections, the CMD, IDPL has stated during evidence that the products having brand names, if prescribed by the doctor, do not face any competition from small scale industries in terms of price, which are lower in their case. The Company is reported to have not been permitted by the Government to have brand names in case of most of its products as a result of which their marketing is proving to be a difficult proposition for the Company. The Company is stated to have now decided to use brand names for new products and formulations, much to the dislike of the Government.

4.78 In this connection, the Department of Chemicals and Petrochemicals have informed the Committee during oral evidence that following Hathi Committee report and Drug Policy, 1978, the Ministry of Health and Family Welfare banned the use of brand names for 5 drugs through an amendment of the Drugs & Cosmetics Act in 1981 which covered all the drug companies including IDPL. Hence no specific directive was issued by the Government to IDPL in this regard.

4.79 According to the New Drug Policy (1986) the generic names would now have to be displayed in twice the size of the Brand names. In this connection, the CMD. IDPL expressed his fears that this requirement will not prove to be a boon for the Company because of the fact that if any Brand Name is popular in the market the doctor would continue to prescribe it. Therefore, the Committee feel that the Company with the assistance of the administrative Ministry and the Ministry of Health should work out a strategy to start a nation wide compaign to educate the mass of consumers as well as the doctors about the fallacy of Brand names. For this purpose the Company may explore the possibility of holding a conference at Rishikesh or at any other plant to explain the highest standards maintained by the Company in the manufacture of drugs, formulations and other products. The Committee also recommend that the Company should mobilise its field force to educate the people about the quality of IDPL drugs through publicity in newspapers, All India Radio and Doordarshan, printing pamphlets, hand outs and also through posters etc.

CHAPTER V

FINANCIAL MATTERS

A. *Working Results*

5.1 The Company was in moderate profits from 1974-75 to 1978-79 but since 1979-80 it started suffering losses. The accumulated loss as on 31st March, 1986 amounted to Rs. 176 crores as against the paid up capital of Rs. 95.91 crores. The cumulative loss represented 183.11 percent of the paid up capital of the company.

5.2 The working results of the Company from the year 1979-80 to 1985-86 were as follows :

(Rs. in lkahs)

Year	Loss before interest subsidy from Government	Interest subsidy	loss after Interest Subsidy
(1)	(2)	(3)	(4)
1979-80 . . .	(—) 1323	603	(—) 720
1980-81 . . .	(—) 2239	557	(—) 1682
1981-82 . . .	(—) 3254	510	(—) 2744
1982-83 . . .	(—) 2401	Nil	(—) 2401
1983-84 . . .	(—) 1943	—	(—) 1943
1984-85 . . .	(—) 2625	—	(—) 2625
1985-86 . . .	(—) 3221	—	(—) 3221

5.3 Enumerating the reasons for continuous losses incurred by the Company after 1978-79, the IDPL stated that the slide-down essentially was because of the huge capacities which had been created with heavy investments by way of substantial expansions in its plants at Hyderabad and Rishikesh, seting up of two new plants at Muzaffarpur and Gurgaon and Joint-venture plants in Punjab, Rajasthan, Orissa and Uttar Pradesh which did not bring about the desired profitable results. These increased the company's total installed capacities but the Company could not increase its market commensurate with the increase in capacity with the result that there was fall in utilisation of capacity, increase in overheads and increased interest burden. Further there was a freeze on the prices from 1976 to 1980 while the costs of inputs went up steeply, eroding the profitability of the Company, with the result the Company has become sick. The accumulated losses have fully eroded the Equity Capital. There is acute cash shortage. The Committee have also been informed by IDPL that the slide down has continued since 1979-80 without let-up and has further been worsened by other factors like non-availability of water, power and Alcohol during some years. The emergence of the IDPL's own subsidiary companies to compete

with IDPL in the institutional market, the coming up of other subsidiary companies of Hindustan Antibiotics Limited, the nationalisation of Smith Stanistreet and Co. Limited, Bengal Chemicals and Pharmaceuticals, and Bengal Immunity Limited which also became Govt. companies contending for the same segment of the Govt. institutional business, technological problems and poor efficiencies in some of the new drugs, the banning of Phenacetin Amidopyrine etc, the non-utilisation or partial utilisation of capacities of Dexycycline, Piperazines, Phthalyl Sulphathiazole, Trimethoprim, Vitamin B6, Erythromycin, Ampicillin, Amoxicycillin, Streptemycin, Niacinamide, Oxytatracyline, Analgin, Sulphadimidine, Metrodazole, Nitrofurantoin, Sulphamethoxazole, Nitrofurazone are stated to have also contributed to the increasing losses. The Committee have been informed that the market for injectables (for which considerable capacity is created) never developed for IDPL to any substantial quantity. All the while, the committed costs like salaries and wages went on increasing relentlessly and side by side the tariffs on electricity, fuel etc. also increased from time to time. It has further been mentioned that there has been an all round inflation (some times as much as 100 per cent over the past six years) in some of the major raw-materials. Of late, the erosion of working capital and the lack of creditibility in the market for prompt payment, have led to severe shortages of raw materials and packing materials which have had an adverse impact on production and sale. As a consequence there is a slide down even in the prescription market where IDPL has slipped from the 13th position in 1984-85 to the 20th position in November, 1986.

5.4 The Committee enquired about the nature of the accumulated loss incurred by the Company from 1979-80 onwards. The CMD, IDPL stated during evidence that :—

> "This loss comprises essentially interest payments to Government on loans which are not being paid and depreciation on new investment—which it has not been possible to provide. We should get a comparative figure of what has been the actual cash loss. These are paper losses, because payment of interest to Government has not been paid, and it has been shown in the books as loss; but money has not gone out of the system. Between 1981-82 and 1985-86 the total amount which has gone out of the company is Rs. 37 crores i.e. cash loss, not taking into consideration depreciation, and interest payable to Government. This is the real figure, because this amount has gone from the company's assets to outsiders. The rest is company's loss, because the company has not met its obligations."

5.5 The Committee observed that the total loans from Government as on 31-3-1985 including interest accrued and due on loans was Rs. 159.85 crores. When enquired about the reasons for such a huge accrual of loan and interest from Government, the witness stated :—

> "Basically, the capital investments which took place in 1978-82 period, have remained unproductive.....Approximately one can say half and half in Hyderabad and Rishikesh, if one ignores the small amount of money in Gurgaon, and Muzaffarpur. By and large, these have not yielded any profitable output."

5.6 Asked whether any investment was made during the above said period in Madras Plant, the witness added :

"In Madras there was no significant investment. The only investment in Madras was that a small formulation unit was attached to the surgical instrument plant to bring some occupancy to that plant which was very very badly underutilised."

5.7 When enquired about the details of investment made in the Hyderabad Plant, the witness stated :—

"Investment in Hyderabad can be split into two or three categories, to increase capacity of some of the existing products. Analgin is being sold. We are now preparing ourselves as this may not survive..... Baralgan has ingredient of Analgin. If Analgin goes Baralgin will also go. Analgin will disappear. We have to substitute it with an alternative. We are taking preemptive actions.....The second category of investment in Hyderabad was to manufacture certain new drugs—Paracetamol, piperazine Salts, Sodium PAS, Acetazolamide, Phenobarbitons, Phenobarbitone Sodium, Choloroquine Diphosphate, etc.....Vit B6 was designed. We found difficulty. IDPL wanted design to be changed. It dragged on for some time. This company fell short of alcohol supply. There is no enough money available to increase production."

5.8 On being asked whether these difficulties were not taken into consideration then the witness stated :

"It was taken into consideration. You put in so much capacity and the capacity is idle and you are getting liability of interest mounting on your head. It is not being serviced. This is causing problem. Some of these drugs have no use in the country. Some of them are being sold. We seem to have run into problem. Doxycyline—unfortunately, it was not possible to maintain its production because the Private Sector Company started manufacturing from imported intermediate which was coming with concessional rate of import duty. Oxyteltracyclin was converted into Chlorinated derivative. RANBAXY is manufacturing it. They have collaboration agreement and there is no financial investment of the foreign company.

In addition to that, lot of capital was put in on solvent recovery, new formulation block, new R & D block, liquid material storage, effluent treatment plant, addition to township workshop, addition to water supply. Huge amount of additions are done in anticipation of future growth which was not really tied up with production facilities created at that time saying that unless these service units are created, future expansion is becoming difficult. So, service for this was created."

5.9 When the committee enquired as to how the capacity lying idle at present could be utilised, the witness stated :

"To utilise the capacity we would need not only the capacity money for new plant but we would need a market and be able to take

that share of the market. The situation now is that we are trying to re-start Vit. B6 plant. There is no question of its marketability. The country is importing it because of our not producing it. We cannot be excused for keeping that plant idle."

5.10 Asked whether there would be any savings of foreign exchange on restarting Vit. B6 plant, the witness added :—

"Yes technology was not considered very efficient. But, nevertheless, we have invested money. We have men. We have ability to produce them. We have to run the plant and improve it. Even though the technology we received from the Russians was primitive, to-day we are working with high efficiency. So, we have to start this plant. We have taken this decision to start it from 1st April. Unfortunately, at this point of time the Company is having very serious liquidity problem. We are not able to ensure that the raw materials can be fed at the right time. So, we are at the moment trying to resolve the question of improving the liquidity position. Once that is done, we will re-start the plant. Market is there for more than we can produce."

5.11 Explaining the poor liquidity position of the company the witness stated :—

"..The company by continuing to incur losses has eroded its working capital totally. The company is not running on its working capital, but it is running on creditors. This position cannot go on, on this basis because no creditor will keep on supplying goods to the company and we have to defray the working capital on rational norms. We have to pay the Bills, we have to recover money from our debtors sometimes. So, for this, we need money and money is required to back the losses which have been incurred in the past. We need working funds.... We are finding ourselves in a difficult situation more and more, because suppliers are not interested in supplying materials to us because we are bad paymasters. If I do not get production because of this, I do not get sales. I must achieve a production of at least Rs. 12 crores a month, sell it and recover the money. If I do that. I will break even. I have got this much. So, I feel myself in a confortable position. If we cannot get the raw materials, all the efforts put in are going to be nullified."

5.12 When enquired as to what efforts were made to improve the liquidity position of the Company, the witness stated :

"The original approach was made to the bankers, but the bankers were very-very lukewarm because basically what we were asking was for making up for losses, which is not the role of a banker. Subsequent to that, in 1985, the company put forward a proposal for restructuring the capital in view of the losses incurred and for correcting the problem of liquidity. The Government did not accept these proposals, and they suggested that the whole matter be looked in together with Consultants so that, there is an external input also in looking at the problem which is being faced by the company. As a result of the

study by the Consultants, a report was prepared in September, 1986 which suggested cash injections and certain restructuring of the past debts and the loans from various institutions which the company had got, which were causing a very massive interest burden on the company. Subsequently, the company wanted the new CMD to review the entire proposals and suggest what should be done in respect of cash injections and restructuring. We have submitted firm proposals to the Government the amount of losses which have eroded the company's working capital. How this should be made up ? How the huge amount of loans and the interest accrued thereon which the company has not been able to service for the past several years should be re-arranged to enable the problems to be managed in a rational way and that the debt equity of the company should be brought down to a level which is manageable by the company."

The witness added :

"Now, the Government has reacted in two ways. The Government has asked us again to go back to the banking system to get bridging finance as a matter of urgency and where they have agreed to put pressure on the banks through the Department of Banking that the short-term requirement of funds should come from the banking circles. The whole proposal of writing off of past losses and re-structuring and rehabilitation of the company is to be discussed and agreed upon, with the Industrial Reconstruction Bank of India. In this direction, we have already started the action, as far as State Bank is concerned. We are now in the process of preparing the documentation for IRDI, so that the longer term correction of financial discrepancies can be done.

But regarding short term loans, as far as State Bank is concerned, action has already been initiated."

5.13 It has also been reported that no new CMD, however, dynamic he might be, will be able to convert this loss-making unit into a thriving one unless such a move is accompanied by a structural reorganisation of the plant level and, more importantly, by a review of the drug policy. The position is also aggravated by old and high cost production technology, lack of cost reduction methods and inadequate research and development efforts. The extent of capacity utilisation has been either invariably poor or fluctuting widely from year to year. Despite loan from the Government and special concessions like interest subsidy in some years, IDPL has been in the red for several years and by now has eaten away its all capital.

5.14 In this connection, the Committee enquired about the concrete measures taken by IDPL to improve the performance of the Company.

The CMD, IDPL then stated :

"First of all, we have completely reoriented our priorities in trying to make the productivity of money. We have re-arranged priorities of all products on the basis of the money generating

fastest and turned it around fastest not only taking into account the generation of money but the speed of generation of money. It just happens that one product which gives me maximum and fastest generation of money is penicillin. The company had neglected it in the past. The fact that the country is importing Rs. 20 crores worth of penicillin, we have got so much of idle capacity, if we examine our product mix what should be our priority, it happens to be penicillin. It also happens that penicillin is the product which this country is importing and it needs it badly; it also happens that we have plants, hardwares with which to make it; it also happens that we have been unlucky to find out what is more profitable is not needed. We have taken into account both this thing as well as the ability to generate money. If penicillin today we are selling at the price of Rs. 650 per billion units, my variable cost of production is approximately Rs. 300 or Rs. 350. I will make Rs. 3 lakhs. It is my contribution. Until last year, we were producing 100 million units. It gave us a contribution of Rs. 3 crores. If I produce 1000, which I have no doubt that I will produce, then we till make more contribution without increasing prices. But that is not just what we have been banking on. There are penalities being paid in terms of efficiency.....If in our cost we make a notional adjustment, then you will see that we are not inefficient at all. Because our wage bills are lower, that balances off the difference in cost. What I feel is that by producing 1000 MMUs we will be out of the red. We will sell 1000 MMUs. It is not that the demand does not exist. Therefore, it is only the question of trying to plug of the imports and try to see that imports do not take place."

B. *Rehabilitation Plan*

5.15 It has been brought to the notice of Committee that a rehabilitation plan for restructuring IDPL on a business unity basis have been presented to the Minister of State for Chemicals and Petrochemicals. The plan envisages that IDPL must obtain the growth rate of 20 per cent per annum through expansion of capacity and technological improvement. It also envisages reduction in manpower and interest burden. It seeks a working capital loan of Rs. 7 crores latest by the end of the year. The IDPL is also reported to have been suffering continuous and heavy losses since 1979-80. The rehabilitation plan has been drawn with the objectives that there should be no cash losses from 1987-88 and a positive cash flow generated. The plan has identified major weaknesses and points out that unless these weaknesses are corrected, financial restructuring would not help.

5.16 The Committee were also informed by the Company that on the basis of details and clarifications sought by Government a revised proposal was stated to be under preparation of the Company. When the Committee desired to know the latest position in this regard, the IDPL in their written reply furnished after evidence, stated :

"The proposals for capital restructuring were submitted by IDPL to the Government on 5-5-1984, 31-7-1984 and 11-7-1985,

an Action Plan in October 1985 and a Rehabilitation Plan on 26-11-1985. In February, 1986 the Ministry desired that the Rehabilitation Plan of November 1985 should be withdrawn from the Government in line with the discussions held in the Board of Directors meeting on 12-2-1986. On 7-3-1986, the Ministry suggested that IDPL should redraft its rehabilitation plan on lines similar to Bengal Chemical and Pharmaceuticals Ltd. Guidelines were given by the Ministry to IDPL in the meeting held by the Hon'ble Minister of State on 8-4-1986 and the Hon'ble Minister of Industries on 14-5-1986. Accordingly, services of external consultants were availed of to assist an in-house team of draft a Rehabilitation Programme. This was submitted to the Hon'ble Minister of State on 16-9-1986 who desired that this should be vetted by the Board and brought up to the Ministry. The Ministry's reaction to the earlier Capital Restructuring Proposals was that these were only cosmetic changes and would not by themselves help the Company get out of cash losses unless structural changes and operational improvements went side by side. Regarding the Rehabilitation Plan submitted by IDPL in November 1985, the Ministry's objection was that the whole exercise was only an expression of intent and no reliance could be placed for the materialisation of intents. The Ministry wanted the Rehabilitation Proposals to specifically spell out the strategies and tactics to achieve high level of sales and to arrest cash losses, to realise debts and encash inventories and to give specific proposals for the loss-making units at Madras and Muzaffarpur.

The Rehabilitation Plan prepared by the task force (assisted by external management consultants) was submitted to the Hon'ble Minister of State on 16-9-1986. The Minister desired that the Rehabilitation Plan should be vetted by the Management, placed before the Board and brought up formally to the Ministry. Our comments on the Rehabilitation Plan have been sent to the Ministry on 15-12-1986."

5.17 The Committee desired to know the main features of the revised Rehabilitation Plan drawn up by the Company. In reply, IDPL, in a written note furnished after their evidence, have stated that the rehabilitation plan was drown with the objectives of no cash losses from 1987-88, positive cash flow and financial restructuring to reduce interest burden and losses. The main features of the rehabilitation plan are :

(1) The excess employment is resulting in excess cost of Rs. 12 crores and no rehabilitation plan would succeed unless the excess manpower is shed.

(2) High interest burden of Rs. 17 crores to be relieved by capital restructuring.

(3) Major losers in bulk drugs due to technological deficiencies, and underutilisation of high fixed costs have been identified.

(4) Additional funds blocked in inventories and debtors to be released.

(5) High utility costs to be reduced particularly in Rishikesh.

(6) Unsatisfactory marketing performance, slow and inadequate growth, stagnating sales in many formulations, too low share in prescription trade major loss of volume in institution sales due to price competition.

(7) Weakness in organisation structure.

(8) Weakness in management systems.

5.18 According to IDPL the following steps are proposed to be taken to tackle these problems :

(1) *Manpower*

(a) Complete ban on recruitment

(b) No overtime

(c) No temporary/casual employment

(d) Voluntary separation

(2) Reduce interest Burden by getting interest on Government Loan written off, plan loan to be converted to equity, interest holiday for 5 years on non-plan loan, conversion of loan from LIC, etc. to Government non-Plan Loans interest free for 5 years.

(3) Cash injection by payment of Rs. 5.75 crores from DPEF, fresh working capital loan of Rs. 7 crores, conversion of or cash assistance for LIC loans and other PSU loans.

(4) Internal cash generation from Debtors Rs. 18.9 crores and from inventory Rs. 4.4 crores in 1986-87 and 1987-88.

(5) Potential savings in losing bulk drugs mainly in Tetracycline, 6 APA, Streptomycin in Sulphate, Potassium Pencillin, Analgin and other bulk drugs.

(6) Reducing utility cost.

(7) Expansion of capacities in Potassium Penicillin, Vitamin B1, 6 APA, Sulphacyl etc.

(8) Technological improvements.

(9) Increasing trade sales.

(10) Regain institutional sales.

(11) Closing down Madras Plant.

(12) Watching the performance of Muzaffarpur Plant for 2 years and if still making losses to close down or sell.

(13) Improve management systems etc. etc.

5.19 When asked what assistance has been rendered by the Government to pull the Company out of the red. The Joint Secretary, Department of Chemical and Petrochemicals stated during evidence :—

"The Ministry has realised that there have been problems with the functioning of the Company. That is the reason why in May

1986 the Ministry had commissioned some consultants to prepare a Rehabilitation Plan and the Plan was prepared. It was discussed with the Company and we are in the process of implementing it. This Rehabilitation Plan had pointed out some weak points which are to be rectified. So while it is true that there was some weakness in the working of the Company, we are taking corrective action. The remedial measures have been suggested. Some of them have been acted upon also. As a result, production during the last few months has gone up. For example, in the case of penicillin, the production has gone up from 7 MMU to 22 MMU in the last four months. For every one mmu of penicillin, the company get Rs. 2.7 lakhs. This is one area where the company has shown some profit."

5.20 Subsequently, in a written note, the Department of Chemicals and Petrochemicals stated that it was true that accumulated loss of IDPL have crossed Rs. 200 crores and that structural re-organisation of the Company was required. The New Drug Policy has announced increased mark up from the present levels of 45 to 55% to 75 to 100% for essential drugs. This would greatly improve the financial position of the Company.

5.21 When enquired about the action taken by Government on the Rehabilitation Plan (submitted by IDPL) to improve its performance of the Company, the Department of Chemicals and Petrochemicals in a written note furnished after their evidence have given the following details of the action taken against each item of the Rehabilitation Plan :

(i) Reduction in manpower—this will be done following the guidelines to be issued by the Government for voluntary separation. A ban on recruitment is already in force.

(ii) Re-orientation of marketing—Action is being taken by the management.

(iii) Reduction of cost through control over the consumption of raw material and through technology improvement—Cost control is already being monitored by the CMD, IDPL and the technology improvement is being sought for certain drugs.

(iv) Increased production of drugs with higher contribution—It has been identified that Penicillin gives the highest contribution to the company and hence production has been increased from 7 MMU per month to 22 MMU.

(v) Increase internal cash generation by reducing outstandings and inventories—This is already being set up within the company to identify specifically areas of cost reduction.

(vi) Improve Management System—Improved management systems are already being introduced by the CMD, IDPL.

(vii) Re-structuring of capital—This is under examination of Government.

(viii) Reduce utility cost—A task force is being set up within the company to identify specifically areas of cost reduction.

(ix) Cash injection to increase working capital—The Government has already granted a non-plan loan of Rs. 3.5 crores to IDPL to increase its working capital in 1986-87 and attempts are being made to raise further loan from other public sector undertakings and financial institutions.

C. *Sundry Debtors*

5.22 The following table indicates the value of book debts and sales for the last three years :—

(Rs. in lakhs)

As on	Total Debts		Total	Sales	Percentage of Debtors to Sales
	Considered good	Considered doubtful			
(1)	(2)	(3)	(4)	(5)	(6)
31-3-1984 . .	3,002·22	149·05	3,151·27	11,230·25	28·06
31-3-1985 . .	3,482·10	177·87	3,659·97	12,068·35	30·33
31-3-1986 . .	2,902·89	158·57	3,061·46	12,144·31	25·21

5.23 The Sundry debtors represented about 3.03 month's sales in 1985-86 as compared to 3.64 month's sales in 1984-85 and 3.37 month's sales in 1983-84.

5.24 The following table indicates the details of debts outstanding for more than one year as on 31st March, 1986 :—

(Rs. in lakhs)

	Government	Others
(1) (2)	(3)	(4)
1. Debts outstanding for more than one year but less than 2 years	164·64	9·88
2. Debts outstanding for 2 years and more but less than 3 years	148·14	14·41
3. Debts outstanding for 3 years and more	271·60	34·23

5.25 The Committee desired to know the efforts made to realise the huge outstanding dues to the Company. In reply, the CMD, IDPL during evidence, stated :

> ".....The huge sum that you are referring to has been brought down. As on 31st December, the total outstandings that we had, have come down to Rs. 16 crores. Out of this 16 crores, the current year's outstanding is only Rs. 10 crores. The balance Rs. 6 crores pertains to bills pending from 1975-76 for which we are having difficulty in liquidating."

5.26 When asked about the break up of major defaulters, the witness mentioned the following figures :

State Governments—Rs. 8.36 crores.
Central Government Agencies—Rs. 5.02 crores.
Public Sector Undertakings—Rs. 86 lakhs.

The witness added :

"These categories come to Rs. 14.25 crores. Private one is Rs. 1.97 crores. Current is Rs. 1.58 crores. My every month sale is Rs. 2.5 crores. It is 20 days sale which is outstanding against the private trade. Balance relates to 12 months—some disputed Bills of the past."

5.27 The Committee wanted to know about the difficulties faced by the Company in recovering the outstanding debts from State Governments. The witness stated that the orders are placed by C.M.O. and rates are agreed to with the centre. Elaborating the difficulties faced by them, the witness added :

"Order is done by the peripheral organisations. Bills are settled by peripheral organisations. Centre does not come into picture. District Medical Officer buys medicines but does not pay, it becomes difficult to resolve the issue. We also feel that the State Headquarters find it very difficult."

5.28 When asked to state the efforts made by the Company to recover these outstanding debts the witness stated :

"To get this matter resolved is proving to be a problem. Our Ministers write letters to the State Chief Ministers to resolve it. We have ourselves gone and talked to them. We have in this way brought the problem down."

5.29 In this connection, the Joint Secretary, Department of Chemicals & Petrochemicals also stated during evidence :

"The State Governments have not been making payments. .... They buy from IDPL and they pay after six months or one year. As a result of our efforts the outstandings from the States have come down....."

5.30 As regards the procedure for recovery of sale proceeds, the Committee enquired within how many days after the sale, the payment was required to be made by the buyer. The CMD, IDPL stated during evidence :

"This varies from party to party. Normally if it is State Governments, they are supposed to pay us within sixty days. If it is DGS&D they are supposed to pay us on the presentation of goods delivery report. Some procedural delay may be there but otherwise they are supposed to pay us immediately."

5.31 When asked as to whether the Company was charging any interest on the amount due not paid even after the expiry of stipulated sixty days, the witness stated :

"In certain cases whenever we have told them that if they do not pay within sixty days, we will charge interest, they have said that we should not charge interest for delays in payment. Being at the receiving end, in some cases we have to acquiesce. Now all the public sector companies are telling jointly to the

State Governments that if they do not make the payment within sixty days, supplies to them will be withheld.....We are contemplating legal implications.....The actual position is that I cannot get even the principal."

5.32 As regards sale of bulk drugs, the witness informed the Committee that "We are making our entire sales-bulk drug-cash in advance. In fact, we are being criticised. Sometimes we have taken money but not despatched the goods for fifteen days. We are in a buyers' market."

5.33 When the Committee suggested that in future an interest clause may be added in future sale agreement with State Government/Private Parties and other organisations etc., the witness stated :

"If we say that we will charge interest and discontinue the issue of drugs, my order will go to anybody else. I do not want to lose business."

5.34 The Committee find that IDPL was making moderate profits from 1974-75 to 1978-79 but thereafter it started suffering losses which continued to mount relentlessly and progressively year after year. The losses increased from Rs. 13.23 crores in 1979-80 to Rs. 32.13 crores in 1985-86. The cumulative loss as on 31-3-1986 stood at Rs. 200 crores as against the paid up capital of Rs. 95.91 crores. The net result is that the Company has apart from wiping out its entire capital, have incurred a further loss of over Rs. 100 crores.

5.35 The major factor for these losses is product mix of IDPL. The Company's products predominantly comprised of life saving essential drugs and formulations made under Category I & II for which there was a freeze in prices from 1976 to 1980 but the cost inputs continued to go up steeply eroding the profitability of the Company due to low mark-up. Another reason was the ambitious expansion of Rishikesh and Hyderabad Plants during 1977 to 1982 at a cost of Rs. 36.90 crores and Rs. 31.38 crores, respectively. The share of the IDPL in drug trade, however, was not commensurate with the marketability and the size of investment.

5.36 The under and partial utilisation of capacity, increase in overhead costs, high interest liability, excess man power and emergence of Company's own subsidiaries are stated to be the other reasons for the Company's financial sickness.

5.37 The Company is also reported to have found it difficult to face the challenge from the mushroom growth of small scale units producing cheap drugs from intermediates causing cost efficiency problem for IDPL. All this has resulted in acute cash shortages which virtually reduced Company's credibility for prompt payment. As a result, the Company could not get the essential raw material in time which adversely affected its production and sale.

5.38 The Committee takes a serious view of the erosion of the Company's working capital and lack of its credibility in the market. The Committee recommend that the Government should take urgent measures to pull the Company out of the red. Adequate availability of shortterm working capital and critical raw material should be ensured to the Company to enable it to continue the manufacture of life saving drugs.

5.39 Besides this, the Government may also decide to strengthen and restructure the Company's capital base and grant a moratorium on the repayment of loan and interest which will go a long way to improve the financial performance of the Company. The Committee would, however, like to caution the Company that all these concessions and financial reliefs will be of no avail unless it is able to gear up its production and cost control and improve its profitability.

5.40 The Committee also desire that the Government may favourably consider the feasibility of subsidising IDPL on the analogy of fertilizer units which help increasing agricultural output for feeding the country's millions. In Committee's view there is a strong case for providing subsidy to IDPL as it supplies life saving drugs at a price lower than cost of production to country men and help them maintaining their good health.

5.41 The Committee find that proposals for capital re-structuring were submitted by IDPL to Government on 5-5-1984, 31-7-1984 and 11-7-1985. An Action Plan and Rehabilitation Plan were also submitted in October, 1985 and November, 1985 respectively. However, in March, 1986 the Government desired IDPL to redraft the rehabilitation plan on the lines of the plan of Bengal Chemical & Pharmaceuticals Ltd. The IDPL after seeking the assistance of external management consultant redrafted the rehabilitation plan and after getting it vetted by their Board submitted the same to the Ministry on 15-12-1986.

5.42 The Committee have been informed by the Government that the action is being taken on the various suggestions made in the rehabilitation plan. A non-plan loan of Rs. 3.5 crores has been granted to IDPL to increase its working capital in 1986-87. The Committee hope that the loan granted to IDPL would be released immediately to the Company. The Committee also desire that the Government should also arrange to raise further loans for the Company from Banks and other financial institutions. The Committee hope that the question of restructuring of the capital which is reported to be under consideration of Government, would also be decided at the earliest.

5.43 The Committee are surprised that in spite of the Company facing financial crisis, it allowed the sundry debt to increase year after year. On 31-8-1985 the amount of the outstandings was of the order of Rs. 36.60

crores which came down to Rs. 30.61 crores on 31-3-86. The outstandings are reported to have further come down to Rs. 16 crores by 31st December, 1986.

5.44 According to IDPL, the major defaulters are State Governments (Rs. 8.36 crores), Central Government (Rs. 5.02 crores) and Public Undertakings (Rs. 86 lakhs) and other private parties (Rs. 1.97 crores). The Committee hope that the vigorous efforts will be made to recover the dues and in future such a huge amount will not be allowed to be blocked as debts. As the Company is not at present charging any interest on the amount not paid on the expiry of the stipulated period the Committee desire that the Government/IDPL should consider the feasibility of adding an interest clause in the future sales agreements with State Governments and other organisations after leaving a reasonable grace period.

K. RAMAMURTHY,
Chairman
Committee on Public Undertakings

NEW DELHI,
April 28, 1987
Vaisakha 8, 1909 (*S*)

APPENDIX

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

Sl. No.	Reference to Para No. in the Report	Conclusions/Recommendations
1	2	3
1	2.26 to 2.28	Inspite of BPE's instructions issued in November, 1970 asking all the Government Companies to initiate action to formulate statement of their objectives and obligations and have them approved by the Ministry, practically no action was taken by IDPL for more than three year. When the Committee took up examination of IDPL in 1973-74 and recommended immediate finalisation of its objectives, only then the action to formulate objectives and obligations was initiated by the undertakings. This was also admitted by CMD during his evidence before the Committee. In October, 1974 while forwarding action taken notes, the then Department of Chemicals and Fertilizers informed the Committee that statement of objectives of IDPL was prepared and sent to BPE for their comments and approval. Again in their 76th Report (1975-76) on action taken by Government on the recommendations contained in 56th Report, the Committee re-emphasised the need for expeditious finalisation of the statement of objectives and obligations of IDPL. The Department of Chemicals and Fertilizers have now stated that IDPL did send the objectives approved by their Board to the Ministry and the Ministry approved them and sent them to BPE for their concurrence. What is most surprising is that neither the undertaking sent any reminder to the Ministry nor the Ministry pursue the matter with the BPE once they had sent the statement of objectives and obligations for their concurrence in 1974. The undertaking reminded the Ministry only after 10 years i.e. 1984 and that to after an audit question in that regard was received by them. The Company have also stated that they did not feel it necessary to remind the Ministry as the Company after preparing the objectives, had been trying to attain them but did not give the same importance to the approval of objectives by the Ministry of BPE. However, it was admitted in evidence by CMD that if approval of Ministry was mandatory, the Company had then failed. The Ministry also cannot be absolved of their responsibility in this regard as even on this date their approval in writing to the objectives, reported to have been framed and approved by the Board of IDPL in 1974, has not been communicated to the undertaking. The Committee cannot but strongly deprecate the lackadaisical manner in which both the undertaking and the Ministry have discharged their responsibilities in this regard. In Committee's

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		view the approval of the objectives by the Ministry is mandatory and they cannot escape their responsibility in this matter.
2.	2.29	The IDPL has also informed the Committee that the attempt was made only in February, 1987 to locate the file in Department of Chemicals and Petrochemicals as also in BPE, but the same could not be traced. The representative of the Ministry also admitted during evidence that inspite of the best efforts they have not been able to trace the file number or the docket number by which the file containing objecties of IDPL was sent to BPE. Subsequently, in March, 1987 during the oral evidence of the reprseentatives of BPE, the Additional Secretary, BPE denied the receipt of any file from the Department of Chemicals and Fertilizers regarding objectives of IDPL. The witness also stated that the approval of BPE was not at all necessary in accordance with the guidelines laid down in 1973. According to them, it was for the administrative Ministry to accord approval to the objectives and obligations of the undertaking. Again, BPE after having checked up their record nave categorically stated in their letter dt. 24-3-1987. that they have not received any letter or file from the Department of Petroleum and Chemicals on the subject. The Committee are, therefore, baffled as to who should be believed in this regard. The Committee also fail to understand as to why the objectives were sent by the Ministry to BPE when these were not required to be approved by them. Even if the file was sent to BPE as stated by the Ministry, it could have been returned by BPE with the remarks that their approval was not necessary. The Committee recommend that since the loss of file is a serious matter and cannot be overlooked, the question of locating the missing file should be probed into with a view to fixing responsibility. The Committee find it interesting to note that a similar file of statement of objectives and obligations of IPCL has also been lost by this very Ministry.
3.	2.30	The Committee are pained to say that both the undertaking and the Ministry have shown scant respect to the recommendations of this Committee as is evident by the fact that in response to recommendation made by the Committee in 1973-74, the Committee had been informed by the Ministry that statement of objectives and obligations of IDPL framed by the undertaking had been sent to BPE for approval but thereafter the matter was forgotten altogether for ten years and revived only when an audit question was received. The Committee deprecate this in the strongest terms and desire that responsibility for this indefensible lapse should be fixed and action taken intimated to the Committee within next three months.
4.	2.31	The Committee also desire that the statement of objectives and obligations of IDPL should immediately be approved by the Ministry and communicated in writing to the undertaking so that the Company should have a clear idea of its aims

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		and objectives which will also enable others to make a critical evaluation of its performance. The Committee also desire that a white paper with regard to the actual performance of the Company fulfilling its objectives should be brought out and placed before Parliament to enable members to assess the growth and achievement of the Company on a realistic basis.
5.	2.32 & 2.33	The Committee also find that as per directives of BPE issued in 1970 and reiterated in 1979 and 1983, Public Undertakings in addition to macro objectives should also have micro objectives consistent with broad objectives in contra-distinction to annual plans so that the performance of the undertaking could be judged with reference to macro and micro objectives and annual plans. According to IDPL a set of micro objectives was prepared and placed before their Board in February, 1984. But their Board wanted the micro objectives to be re-drafted. The micro objectives were being re-drafted and were to be placed before the Board for approval shortly. In this connection, the CMD of IDPL admitted during evidence that re-drafting of micro objectives had taken some time as the Company had been more occupied with the question of its survival. The Committee strongly deprecate this inordinate delay in finalising the micro objectives also. The Committee urge that the micro objectives should be finalised by the Company and got approved by the Ministry without further loss of time.
6.	2.34	Besides the micro objectives, the Company also do not have any Corporate Plan approved by the Government. A draft corporate plan is reported to have been prepared by the Company but is still in the process of finalisation. In this connection, the representative of Department of Chemicals & Petrochemicals also admitted during his oral evidence that "the Company has not formulated any corporate plan as yet but now it is being done. He also clarified that it is not mandatory on the part of the public under takings to obtain approval of the Ministry to the Corporate Plan. The Committee therefore, urge that the Corporate plan should immediately be finalised and got approved by the Board so as to provide the Company a more definite basis to plan its future activities.
7.	2.35	The Committee are of the firm opinion that dismal performance of IDPL, which will be clear from following Chapters of this report, is the result of several factors, one important factor being its clear failure to frame macro and micro objectives and Corporate Plan even after 27 years of its being set up. The Ministry are equal partners in this failure.
8.	3.53 & 3.54	The Committee find that IDPL has licenced capacity to manufacture only 36 drugs out of 107 essential bulk drugs listed in Drugs Statistics (1982-83). IDPL is also reported to have not implemented the licenced capacity for

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		tuberculosis drugs like thiacetazone and isoniazid and also for diethylcarbamazine citrate meant for treatment of filarisis. Till August, 1984, IDPL had no idea what to do with 22 million amoupling capacity at its Gurgaon Plant and by November, 1984 the Company concluded that it would be best to do away with all the equipments wherein the capacity utilisation is marginal or where there is no hope of improving it in the near future. Not only the production of IDPL for various drugs was much below the installed capacity but also when the targets were fixed less than the installed capacity, the plants failed to achieve even them. The present production of IDPL is reported to be worth, Rs. 120 crores, but nearly 50% of installed capacity is lying idle. Inspite of having such a high under-utilised capacity, the Company is reported to have parcelled out orders to others in the name of patronising small sector units and large amount of funds were advanced to these units.
		The low capacity utilisation and shortfall in targets of production are stated by the Company mainly due to shortage of raw materials, power fluctuations, shortage of power and water, high inventory of finished goods and low-off-take by market, competition from small scale units and paucity of funds. The Committee are surprised that IDPL has been in the field of drug production for such a long time yet it has not been able to assure itself of adequate raw materials, supply of power and water. The Committee are sure that had the Ministry taken appropriate steps to help the undertaking in this regard, these problems could have been minimised, if not altogether eliminated. In this connection, the Committee need hardly emphasise that power interruptions could result in the contamination of drug produced which could endanger human life. The Committee, therefore, desire that the Ministry may take up the matter with the concerned State Governments so as to assure uninterrupted supply of power and water to IDPL. The Committee would also like to caution the Company to make every effort to see that pure and uncontaminated drugs reach the consumers. If necessary, the Company may consider the feasibility of having its own captive power plants to ward off the danger of contamination due to power fluctuation. As regard improving the liquidity position and market credibility of the Company to enable it to get adequate and good quality of raw materials, the Committee have given their comments in the Chapter' on 'Financial Matters/ of this Report.
3·55		The Committee have also observed that in order to increase capacity utilisation, schemes for the expansion of Rishikesh and Hyderabad Plants were undertaken by the Company with the approval of the Ministry and huge amount to the extent of Rs. 26·96 was spent on Rishikesh Plant and Rs. 31 crores on Hyderabad Plant. Inspite of the huge investments

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		incurred on the expansion, the performances of these plants continue to be far from satisfactory. The capacity utilisation of both these plants even after expansion remains at 70 per cent in the coming years it would further decline if one goes by what has happened in the western world, as was admitted by CMD of IDPL during his oral evidence. The expansion scheme has also proved a mismatch between production and marketability. To Committee's dismay, what was produced by the Company was not lifted by the market and what was required by market was not being produced. This is evident from the fact of accumulation of such a huge inventories of finished products to the extent of Rs. 49 crores in 1984-85. The inventories are reported to have come down to Rs. 37 crores in 1985-86. These huge inventories resulted in the acute shortage of working capital as a result of which the Company had to resort to drastic cut in the production of some of the essential drugs which are now being imported. The country is spending valuable foreign exchange worth about Rs. 25 crores per annum on the import of these drugs. It is really pity that when the capacity remains underutilised, drug which can be praduced indigenously should be imported. Therefore, in Committee's view the expansion scheme of both Rishikesh and Hyderabad Plant was ill-timed and ill-conceived. No proper study of the demand of the drugs proposed to be produced was undertaken before the proposal was sanctioned and implemented. For this lapse, the Ministry also cannot escape responsibility as they should have gone deep into the matter before affixing their seal of approval to the expansion proposal. The Committee, therefore, recommend that the whole matter should be looked into with a view to fixing responsibility and accountability of those responsible for this lapse. The Committee also desire that matter should be gone into in all its perspectives and every effort should be made for the optimum utilisation of the capacities since created.
10	3·56	The Committee also find that for Rishikesh Plant an ambitious scheme was drawn for acquiring the latest technology for antibiotics and agreement was reached with an Italian firm and officers were sent for training to Italy and about Rs. 25 crores were spent in all for this purpose. Unfortunately, all the new sections opened have since been closed and officers trained in Italy for specific jobs are not doing those jobs and some of them have already left the Company. This in Committee's view is a clear case of bad planning and mismanagement of resources. Similarly in Hyderabad, expansion of certain products such as Analgin, Folic Acid, Vit. B1, B2 was reported to have been successful but the introduction of new products did not take off due to their failure to compete in the market. Further, certain products for which large capacities

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		were created were subsequently banned by Government. While expressing their unhappiness over the whole affair, the Committee recommend that IDPL/Government should take appropriate action to utilise gainfully the spare capacity created at Hyderabad Plan by producing alternate drugs by making changes in production technology, where feasible.
11	3·57 & 3·68	The Committee find that capacity utilisation position of Madras Unit is still worse. In terms of percentage, the capacity utilisation of Surgical Instrument Plant of Madras has declined from 20·9% in 1980-81 to 17·8% in 1983-84. The position has remained stagnant thereafter. In 1976, a formulation division, scalpel blade unit and fabrication unit were added under the expansion scheme but despite this, the losses continued to mount and the new units continue to function at much below the installed capacity. According to IDPL, this unit employs 1100 persons out of which 50 are utilised in general engineering side and 150 in the formulation unit and the remaining 900 are without work, they come, sit and go back. The possibility of utilization of these 900 persons in HMT and BEL was explored but no positive response has been received. The Committee are sorry to say that a sick concern like IDPL cannot afford to pay to these 900 persons for practically doing no work for all time to come. The Committee desire that the possibility of utilisation of these persons may be explored afresh with HMT and BEL at the level of the Ministry. If these two organisations are still not prepared to take these persons, then the Company/Government should work out the "Golden Hand-Shake scheme" to enthuse the workers to seek voluntary retirement rather than sitting idle which in due course may make them incapable of doing any work.
12.	3·59 & 3·60	The Committee are also distressed to note that whereas huge capacity of IDPL remains under or partially utilised, it has agreed to the setting up its subsidiaries in U.P. resulting in creation of formulation capacity beyond anybody's requirement. This was also admitted by Chairman of IDPL that the Company must have presented a rosy picture to the Planning Commission while seeking their approval for this joint venture otherwise Planning Committee would not have agreed to this proposal. In Committee's view, it is a clear case of investment in a bad venture and should not have been agreed to. The Committee has also been informed that some of the State Governments including Andhra Pradesh, Kerala and Karnatak have already set up their own drug units while others are proposing to do so. In Committee's view this will not only bring down further the capacity utilisation of IDPL but will also result in duplication of effort and wastage of public

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		resources. The Committee, therefore, desire that the Government should take up the matter with the State Governments and request them not to set up their own drug units in fields where IDPL has already the capacity but to purchase their drug requirement from IDPL. Government may also issue fresh instructions to all Central Government Departments, Hospitals and Medical Institute to purchase formulations etc. from IDPL so as to help the Company to clear its huge accumulated stock of drugs.
13.	3.61 to 3.67	The Committee find that so far 17 bulk drugs including penicillin and polio vaccines were exclusively reserved for production by Public Sector Units. But according to new drug policy, keeping in view the large gap between capacity created and likely demand by 1989-90 of penicillin and polio vaccines production of these two vital drugs has been opened to all sectors. It has also been stated that the demand for these two essential drugs would continue to be met through imports till such time the indigenous production has reached a stage where import becomes unnecessary. During evidence, the CMD of IDPL informed the Committee that historically, the Rishikesh Plant possess huge amount of capacity for manufacturing penicillin with the technology originally received from Russia. The Company was producing 8000 units of penicillin per milli litre but in seventies, with the introduction of Italian technology, production capacity of penicillin increased to 20000 units. Subsequently, by mutual exchange of technology with HAL and incorporating HAL process, the output of penicillin went up to 40000 units per milli litre thereby increasing the yield of pencillin fivefolds. Furthermore, the Rishikesh Plant has 44 fermentors out of which only 8 are being used at present for penicillin production. If all the 44 fermentors are mobilised by bringing in certain technology available in Europe, the Company will be able to produce enough penicillin to meet the country's total demand by 2000 AD. The CMD of IDPL also stated that many of the machines are lying unused for decades and by spending a couple of crores of rupees on these machines these would produce the entire penicillin requirement of the country. For this purpose the Government are also reported to have given their approval for modernisation of the plant on the lines of technology available in Europe. The Committee feel that under the new drug policy, many of the multinationals who are not prepared to share technology with IDPL would enter the field in the garb of collaboration with small scale units and would jeopardise the interest of IDPL. About 15 firms with foreign tie-up are reported to have approached the Ministry so far for the licence to manufacture penicillin. The Ministry have also admitted to have received so far Industrial Licence Applications from 9 Companies.

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In this Connection, Department of chemicals and Petrochemicals have also informed the Committee that IDPL has only recently made a claim to meet the domestic need of penicillin whereas the policy of dereservation was decided on the past performance of the Company. The Committee are really shocked over the grave ignorance of the Ministry about the capability and capacity of their own unit especially when they have themselves agreed to the proposal of IDPL to modernise Rishikesh Plant for increasing the penicillin production. The Committee see no reason for dereserving the production of penicillin which will not only permit all sectors to manufacture penicillin but will also enable the multinationals, who are not prepared to share technology with IDPL to enter the field from the backdoor by collaboration with small units.

According to the Ministry, the penicillin has got a protected technology and as such too many companies would not come forward to manufacture penicillin. When asked whether Government had consulted IDPL and HAL before deciding the question of dereservation of penicillin, the representative of the Ministry stated in oral evidence "I can say that there was no formal consultation." When again asked whether the Government specifically put to IDPL that the Government proposed to dereserve the penicillin, the witness then stated "No, that has not been put."

The Committee are informed that at present penicillin is being imported in the country to the tune of Rs. 25 crores per annum. During evidence, the representative of the Department of Chemicals and Petrochemicals tried to justify the import of penicillin on the ground that whereas price of imported penicillin is Rs. 324 per BU, the cost of production of indigenous penicillin is Rs. 650 per BU. The Committee are not convinced of this reasoning and feel that if price is the only justification for the import of an item, then everything that is being manufactured in the country can as well be imported at cheaper cost and there is no need to have an industrial policy at all.

The Committee deprecate the casual manner in which the qusetion of dereservation of penicillin has been decided by Goverment even without consultation with their own public undertakings. In Committee's view this is not a step in the right direction as it will in the ultimate analysis give concessions to the multinationals and undermine the capacity of penicillin production available with IDPL and HAL. The Committee recommend that in the light of claim made by IDPL to meet the entire pencillin demand of the country, the Government should appoint a Committee to assess thoroughly the capacity and capability of Public Units and if that Committee feels satisfied with the claim of IDPL,

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		the Government should then reconsider the policy of dereservation. In the meantime Government should proceed with caution on the question of issuing licences for the manufacture of or for the import of pencillin. Since major part of indigenous production of pencillin is claimed by IDPL, the Government may consider the feasibility of regulating the import of pencicillin, if considered absolutely necessary, through IDPL who may also have control over sales and distribution of this item.
14.	3·68	The Committee have been informed that many of the small scale units are at present thriving on the technology stolen from IDPL either through the retired persons or through those who are inside the company and are acting as black sheep. This, according to IDPL, is evident from the fact that many of the small scale units are at present using the same raw materials as is being used by IDPL. No multinational company would part the know-how as it is the preserve of very few in the word. The Committee, therefore, desire that in order to protect the interest of IDPL and HAL and to provide protection against the theft of R&D efforts of the undertaking, the Government may consider the feasibility of bringing in a comprehensive legislation to eliminate the chances of leakage of technology and to protect the enterprising companies vigorously pusuing R&D efforts by getting product and process patents similar to those as are available to companies in the western countries so that the fruit of R&D efforts do not get lost or diffused and enjoyed by unscrupulous companies. The Committee also feel that if the strictest quality control measures are insisted upon, the mushroom growth of smallscale units thriving at present on stolen technology would drop out. In this connection, the representative of Department of Chemicals and Petrochemicals admitted during evidence that quality control was absolutely vital in drug industry but it was a fact that in the case of small scale sector the quality control was not being given as much importance as was required. The Committee desire that special measures should be taken by Government to ensure quality control in drug industry esepcially in the small scale sector.
15.	3·69	The Committee are glad to note that the Government are going to give a statutory basis to the good manufacturing practice. This will be appicable to small as well as large scale industries and all those who will not follow this practice will be punished under the Drugs and Cosmetics Act. Since the small scale units have to take permission from the State Drug Controller for starting their business, the Act is being applicable to them also. Furthermore, in the licence application form, a pro forma is being stipulated whereby the Company has to give details of equipment proposed to be installed with capacity, cost etc. which will take care of the organised

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		sector. The same set of guidelines are also proposed to be sent to the State Authorities to include them in their pro forma for registration of industries because small scale industries are registered at the State level. The Committee hope that with these steps together with strict quality control measures would plug the loose ends and go a long way in resting the growth unscrupulous companies. The Committee would watch with interest the effect of implementation of these measures.
16.	3·70	The Committee also note that ever since the retirement of General Manager of R&D Division in Hyderabad Unit, in April 1986, R&D is being looked after by a person who has never worked on the R&D side. The General Manager (Pro duction) is concurrently looking after R&D. It is suspising that even in a period of more than one year the Company could not find a suitable person to head R&D Division at Hyderabad. The Committee desire that Company should take immediate action to bring R&D under the charge of an expert in the field of R&D so that this vital field is looked after in the best possible manner.
17.	4·67 to 4.69	The sales of various products manufactured by IDPL during the last 4 years from 1982-83 to 1985-86 have been of the order of Rs. 105-45 crores, Rs. 107.45 crores, Rs. 115·93 crores and Rs. 117·47 crores respectively. The Committee regret to say that the sales have remained more or less stagnant due to poor and in efficient sales set-up. As a result the IDPL trade share declined to only 1·7 percent of the total retail sales of Rs. 1660 crores (in 1983-84). This in Committee's view is highly in commensurate with the size of the investment made by the Company. The trade share of some of the Private Companies like Glaxo, Sarabhai and Pfizer who are the market leaders at present is 5·0%, 4·8% and 3·5% respectively. The IDPL's insignificant share in trade sales has resulted in lower realisation as most of its sales are orders from Government agencies and institutions.
		The main reasons for the unsatisfactory growth of sales are stated to be due to the loss of even the institutional sales because of emergence of Joint Sector and increased competition from other Public Sector Units, State Sector and Small Sector Units. Production constraint due to paucity of fund, shortage of raw material, power and water have also badly effected the sales.
		The Company also appears to have failed to take cognizance of the changes in the demand pattrn resulting in huge loss due to the accumulation of inventory of finished products not being lifted by the market. The Committee feel that in order to improve the financial health of the Company its sales must increase substantially. Keeping in view the fact that

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		payments from Government departments/and Government organisations are very much delayed, greater emphasis should be on increasing market share of the trade. The Committee recommend that IDPL should evolve better strategy to improve its sales which will go a long way not only in wiping out the staggering losses but will also help in the optimum utilisation of created production capacity. The Committee desire that IDPL should become market leader and fulfil its objectives of providing cheap drugs to the millions. The Committee also desire that the Central Government should extend purchase preference to those products which are manufactured by IDPL and other Public Sector Units. Such purchase preferences would definitely help in boosing the sales of public undertakings. Instructions in this regard may, therefore, be issued to all Government agencies.
18	4·70	The Committee have also noticed that the Company is following a system of fixing sales targets for each bulk drug and formulation every year but the target fixed were never achieved even when these were revised downward. While expressing their unhappiness, the Committee desire that the sales targets should not only be fixed on a realistic basis but once these are fixed, every efforts must be made to achieve those targets without any exception or excuse.
19	4·71	The Committee note that the Company was manufacturing and supplying Cold Tablets to the Ministry of Defence as per their special requirements for use in Armed Forces Medical Services. The supplies were being made by IDPL under an agreement entered into between the Ministry of Defence and IDPL and on the basis of orders placed by DGS&D. The company supplied the Cold Tablets against 4 orders placed by the Ministry of Defence between 6-8-1981 to 13-8-1984. The Ministry of Defence accepted the supplies in full made by the Company against the first two orders placed on 6-8-1981 and 18-5-1983. Later, the Ministry of Defence rejected supplies of 3·25 million Tablets and 2.58 million Tablets as against orders of 5·93 million and 15·15 million Tablets placed respectively on 12-12-1983 and 13-8-1984. According to the IDPL the main reason for the rejection was the new method of testing adopted by the Ministry of Defence, whereby they had detected some divergence in the content of ingredients as againt their prescribed requirements. The company is reported to have contested this new method of testing by the Ministry of Defence on the plea that drug supplied by IDPL would have fulfilled the special requirements of the Defence Ministry, if the testing would have been done with the same method as was being followed during the last five years. Inspite of several meetings between the officials if IDPL and the Ministry of Defence, the dispute still remains unresolved. As the rejected

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		stocks were manufactured by the Company between February 1984 to February, 1985 these have developed free salicylic acid content higher than the permissible limit. Thus there is no possibility of the material now being accepted by the Defence Authorities nor can it be sold in the open market. The manufacturing cost of the rejected stock is stated to be around Rs. 4·51 lakhs. The Committee recommend that the Company should make concerted efforts to resolve this dispute amicably. The Department of Chemicals and petrochemicals should also use their good offices to bring about a settlement in this regard to the satisfaction of both the parties in terms of agreements between them. At the same time it should be ensured in respect of any future supplies there is a clear understanding between IDPL and the Ministry of Defence on the norms for testing the drugs so that the present type of situation does not recur.
20	4.72	The special requirement of certain State Governments is reported to be another constraint in the production of drug by IDPL. According to IDPL, State Governments such as Tamil Nadu and U. P. insist on the State logo being embossed on the tablets and capsules and printed on the labels, tins bottles cartons etc. West Bengal Government want the CMS Catalogue No. (Central Medical Store No.) and the year of supply to be marked on the bottles labels, tins etc. In the case of Kerala, the words 'Kerala Health Service-Not for sale' are to be printed on the labels/cartons/tins. It has been represented to the Committee that these requirements of State Governments hamper the normal commercial activities of the Company. They often result in delay in supplies, sometimes leading to cancellation of orders by State Governments. Accumulation of stocks of drugs and formulations also take place in anticipation of placement of orders. Such stocks cannot also be transferred from one State to another and the flexibility of diverting stocks for sale in the market is lost when logo is printed on the labels/cartons/vials/tins etc. The printing of logos on the capsules, embossing of tins etc. also involves extra expenditure resulting in increase in the cost of production. The Committee desire that the Ministry to take up the matter with the concerned State Governments and prevail upon them not to insist on embossing of state logo on drugs ordered by them. The Committee also suggest that IDPL should enter into firm agreements with the State Governments stipulating that the State Governments must lift the full supplies manufactured specially for them even where the delay occurs on account of meeting their special requirements. In the event of stocks not being lifted within the stipulated time the State Government must compensate the Company for unnecessary blocking of their funds.
21	4·73	The Committee regret to note that the marketing organisation of the Company is plagued by very serious problems.

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		Its top Management has been in a state of disarray and has not been able to function as a team being infected by groupism, each trying to pull in different direction. It appears to the Committee that the interest of the organisation was the last thing in the minds of managers of the marketing wing of the undertaking.
22	4·74	One of serious problems faced by the Company is stated to be the unionisation and a very negative attitude taken by their field force. The Medical Representatives of the Company are required to disseminate the technical details regarding the products manufactured by IDPL to the medical profession through visual aids, literature and physician's samples, highlighting the advantages of the products with a view to generate prescriptions from doctors. In this connection, the Committee have been informed by IDPL that their Medical Representatives were not performing their functions well. They were also not visiting the doctors and chemists which was a part of the normal duties assigned to them. They were selling the samples given to them for free distribution to doctors. The Federation of Medical Representatives of all drug companies was states to be main force behind such an attitude of field force toward their job. Majority of the Medical Representatives were members of this association. The Association was reported to be re sorting to intimidatory tactics by threatening the Chemists not to keep the products of IDPL and also beating up the staff of IDPL. To tackle this problem, the CMD, IDPL had a talk with the president of the Federation of Medical Representatives and asked them to stop blackmailing IDPL in such a manner. He is also reported to have warned them that drastic action would be taken against those IDPL representatives who were found indulging in such activities. As regards taking no action against erring Medical Representatives, the CMD, IDPL expressed helplessness because IDPL being a Government Company, they were unable to issue even a charge sheet without becoming a court matter which would unnecessarily drag on for year, where as the private companies in such cases would just sack such persons with impunity. The Committee are dismayed over the lack of motivation in the marketing organisation and state of helplessness on the part of the management of the Company in taking any action against the erring Medical Representatives of the Company. They feel that this state of affairs should not be allowed to continue any further and indiscipline in any form should be put down with a heavy hand by taking hard decisions, if necessary. At the same time, the Committee recommend that immediate remedial measuses should be taken to remove the genuine grievances, if any, of Medical Representatives in consultation with their representatives and all efforts should be made to channelise their activities in the right direction. The motivation of the field force is a must

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		and deserves special attention of top Management to pull the company out of the red.
23	4.75	The Committee note that due to a very adamant posture taken by the Director (Marketing) and also rigid attitude of the Marketing Division, there were some problems in the smooth functioning of the Marketing Division. The Committee are, however, glad that for better co-ordination between the production Division and the Marketing Division, the CMD, IDPL is reported to have sorted out the issue by finally moving the Marketing Division to Gurgaon, the main headquarter of IDPL. As regards disciplinary action against the Director(Marketing) who was defying the CMD, it has since been reported that he has been sacked by the Government. The Committee trust that the Government in appointing a new incumbent to the post of Director (Marketing) will keep in mind the thorough Professionalism required in tackling the complex problems facing the Company in the field of marketing. They, therefore, suggest that in selecting the new Director (Marketing) Government should exercise utmost care to avoid recurrence of the problems faced by the Company in the past.
24.	4·76	The Committee are informed that Marketing is one area of weakness of IDPL which requires rehabilitation. In this connection, the Company has been advised by the Consultants that the Company should lay more emphasis on marketing by way of fore casting and testing its products according to the demand. This strategy according to the Government is being worked out by the Company in consultation with the consultants. The need for revamping of marketing operations of the Company was also emphasised by the Minister of State in the Department of Chemicals & Petrochemicals during the course of half an hour discussion in Lok Sabha on 18-3-87 on the working of IDPL. The Committee, therefore, recommended that immediate action should be taken by the Company to remove the areas of weakness identified by the consultants ✓ The process of revamping of marketing function of the Company should be given top priority so that the Marketing Division could effectively play the role of improving the financial health of the whole organisation.
25.	4·77 to 4·79	The Committee are distressed to note that the Company is finding it difficult to sell its products in the market due to the policy of Government to support the generic names of the products. In this connection, the CMD, IDPL has stated during evidence that the products having brand names, if prescribed by the doctor, do not face any competition from small scale idustries in terms of price, which are lower in their case. The Company is reported to have not been per-

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		mitted by the Government to have brand names in case or most of the its product's as a result of which their marketing is proving to be a difficult proposition for the Company. The Company is stated to have now decided to use brand names for new products and formulations, much to the dislike of the Government. In this connection, the Department of Chemicals and Petrochemicals have informed the Committee during oral evidence that following Hathi Committee report and Drug Policy, 1978, the Ministry of Health and Family Welfare banned the use of brand names for 5 drugs through an amendment of the Drugs and Cosmetics Act in 1981 which covered all the drug companies including IDPL. Hence no specific directive was issued by the Government to IDPL in this regard. According to the New Drug Policy (1986) the generic names would now have to be displayed in twice the size of the Brand names. In this connection, the CMD, IDPL expressed his fears that this requirement will not prove to be a boon for the Company because of the fact that if any Brand Name is popular in the market the doctor would continue to prescribed it. Therefore, the Committee feel that the Company with the assistance of the administrative Ministry and the Ministry of Health should work out a strategy to start a nation wide campaign to educate the mass of consumers as well as the doctors about the fallacy of Brand names. For this purpose the Company may explore the possibility of holding a conference at Rishikesh or at any other plant to explain the highest standards maintained by the Company in the manufacture of drugs, formulations and other products. The Committee also recommend that the Company should mobilise its field force to educate the people about the quality of IDPL drugs through publicity in newspapers, All India Radio and Doordarshan, printing/pamphlets, hand outs and also through posters etc.
26.	5·34 to 5·39	The Committee find that IDPL was making moderate profits from 1974-75 to 1978-79 but thereafter it started suffering losses which continued to mount relentlessly and progressively year after year. The losses increased from Rs. 13·23 crores in 1979-80 to Rs. 32·21 crores in 1985-86. The cumulative loss as on 31-3-1986 stood at Rs. 200 crores as against the paid-up capital of Rs. 95·91 crores, The net result is that the Company has apart from wiping out its entire capital, have incurred a further loss of over Rs. 100 crores. The major factor for these losses is product mix of IDPL. The Company's products predominantly comprised of life saving essential drugs and formulations made under Category I & II for which there was a freeze in prices from 1976 to 1980 but the cost inputs continued to go up steeply eroding the

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		profitability of the Company due to low mark-up. Another reason was the ambitious expansion of Rishikesh and Hyderabad Plants during 1977 to 1982 at a cost of Rs. 36·90 crores and Rs. 31·38 crores, respectively. The share of the IDPL in drug trade, however, was not commensurate with the marketability and the size of investment. The under and partial utilization of capacity, increase in over-head costs, high interest liability, excess man power and emergence of Company's own subsidiaries are stated to be the other reasons for the Company's financial sickness. The Company is also reported to have found it difficult to face the challenge from the mushroom growth of small scale units producing cheap drugs from intermediates causing cost efficiency problem for IDPL. All this has resulted in acute cash shortages which virtually reduced Company's credibility for prompt payment. As a result, the Company could not get the essential raw material in time which adversely affected its production and sale. The Committee takes a serious view of the erosion of the Company's working capital and lack of its credibility in the market. The Committee recommend that the Government should take urgent measures to pull the Company out of the red. Adequate availability of short-term working capital and critical raw material should be ensured to the Company to enable it to continue the manufacture of life saving drugs. Besides this, the Government may also decide to strengthen and restructure the Company's capital base and grant a moratorium on the repayment of loan and interest which will go a long way to improve the financial performance of the Company.' The Committee would, however, like to caution the Company that all these concessions and financial reliefs will be of no avail unless it is able to gear up its production and cost control and improve its profitability.
27.	5·40	The Committee also desire that the Government may favourably consider the feasibility of subsidising IDPL on the analogy of fertilizer units which help increasing agricultural output for feeding the country's millions. In Committee's view there is a strong case for providing subsidy to IDPL as it supplies life saving drugs at a price lower than cost of production to country men and help them maintaining their good health.
28.	5·41 to 5·42	The Committee find that proposals for capital re-structuring were submitted by IDPL to Government on 5-5-1984 31-7-1984 and 11-7-1985. An Action Plan and Rehabilitation Plan were also submitted in October, 1985 and November, 1985

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		respectively. However, in March, 1986 the Government desired IDPL to redraft the rehabilitation plan on the lines of the plan of Bengal Chemical & Pharmaceuticals Ltd. The IDPL after seeking the assistance of external management consultant redrafted the rehabilitation plan and after getting it vetted by their Board submitted the same to the Ministry on 15-12-1986. The Committee have been informed by the Government that the action is being taken on the various suggestions made in the rehabilitation plan. A non-plan loan of Rs. 3·5 crores has been granted to IDPL to increase its working capital in 1986-87. The Committee hope that the loan granted to IDPL would be released immediately to the Company. The Committee also desire that the Government should also arrange to raise further loans for the Company from Banks and other financial institutions. The Committee hope that the question of restructuring of the capital which is reported to be under consideration of Government, would also be decided at the earliest.
27.	5·43 to 5·44	The Committee are surprised that in spite of the Company facing financial crisis, it allowed the sundry debts to increase year after year. On 31-3-1985 the amount of the outstandings was of the order of Rs. 36·60 crores which came down to Rs. 30·61 crores on 31-3-1986. The outstandings are reported to have further come down to Rs. 16 crores by 31st December, 1986. According to IDPL, the major defaulters are State Governments (Rs. 8·36 crores, Central Government) (Rs. 5·02 crores) and Public Undertakings (Rs. 86·00 lakhs) and other private parties (Rs. 1·97 crores). The Committee hope that the vigorous efforts will be made to recover the dues and in future such a huge amount will not be allowed to be blocked as debts. As the Company is not at present charging any interest on the amount not paid on the expiry of the stipulated period, the Committee desire that the Government/IDPL should consider the feasibility of adding an interest clause in the future sales agreements with State Governments and other organisations after leaving a reasonable grace period.

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