

HINDUSTAN ORGANIC CHEMICALS LIMITED

MINISTRY OF CHEMICALS & FERTILIZERS—
DEPARTMENT OF CHEMICALS &
PETROCHEMICALS

COMMITTEE ON PUBLIC UNDERTAKINGS 1995-96

FORTY-SIXTH REPORT

TENTH LOK SABHA



LOK SABHA SECRETARIAT
NEW DELHI

FORTY-SIXTH REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS (1995-96)

(TENTH LOK SABHA)

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DEPARTMENT OF CHEMICALS & PETROCHEMICALS)



*Presented to Lok Sabha and
laid in Rajya Sabha on 22.12.1995*

LOK SABHA SECRETARIAT
NEW DELHI

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(1995-96)

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* Elected w.e.f. 22nd August, 1995 vice Shri Vilas Muttemwar resigned from the Committee. Ceased to be a Member of the Committee consequent on his appointment as Minister in the Council of the Ministers w.e.f. 14th September, 1995.

\$ Ceased to be a Member of the Committee consequent on his appointment as Minister in the Council of Ministers w.e.f. 15th September, 1995.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this 46th Report (Tenth Lok Sabha) on Hindustan Organic Chemicals Limited.

2. The Committee's examination of the subject was based on the Report of the Comptroller & Auditor General of India (No. 4 of 1993).

3. The Committee on Public Undertakings (1994-95) took oral evidence of the representatives of Hindustan Organic Chemicals Limited on 11th November, 1994. The Committee on Public Undertakings (1995-96) took evidence of the representatives of Ministry of Chemicals & Fertilizers (Department of Chemicals & Petrochemicals) on 29th and 30th May, 1995.

4. The Committee on Public Undertakings (1995-96) considered and adopted the Report at their sitting held on 12th December, 1995.

5. The Committee feel obliged to the Members of the Committee on Public Undertakings (1994-95) for the useful work done by them in taking evidence and sifting information. They would also like to place on record their sense of deep appreciation for the invaluable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

6. The Committee wish to express their thanks to the Ministry of Chemicals & Fertilizers (Department of Chemicals & Petrochemicals) and Hindustan Organic Chemicals Limited for placing before them the material and information they wanted in connection with the examination of the Company. They also wish to thank in particular the representatives of the Ministry of Chemicals & Fertilizers (Department of Chemicals & Petrochemicals) and Hindustan Organic Chemicals Limited who gave evidence and placed their considered views before the Committee.

7. The Committee would also like to place on record their appreciation for the valuable assistance rendered to them by the Comptroller & Auditor General of India.

NEW DELHI;
December 19, 1995

Agrahayana 28, 1917 (S)

KAMAL CHAUDHRY,
Chairman,
Committee on Public Undertakings.

PART A

BACKGROUND ANALYSIS

I. Role and Objectives

A. General Background

1.1 Hindustan Organic Chemicals Limited (HOC) was incorporated in December 1960 by the Government of India. The Company is under the administrative control of Ministry of Chemicals & Fertilizers. It is located at Rasayani in Raigad District of Maharashtra and engaged in manufacture of organic chemicals and intermediates required for the dye-stuffs, drugs and other chemical industries. It entered into a number of collaboration agreements with Companies in Japan, Sweden, Germany, United States of America, France, Holland, etc. for manufacture of various products and intermediates. Between 1970 and 1974, twelve plants were commissioned in Phase I at a capital cost of Rs. 22 crores.

1.2 The Company undertook Phase II of capital investment as expansion programme which was completed in 1981-82 at a cost of Rs. 17.5 crores leading to manufacture of many Nitro compounds like Nitrobenzene, Nitrochlorobenzene, Nitrotoluene, Aniline, Formaldehyde, Sulphuric Acid, Oleum, Acetic Acid, Nitric Acid, Meta Amino Phenol and Acetanilide.

1.3 The Company commissioned a unit in March 1988 at Cochin for manufacture of Phenol and Acetone. The Company also runs a subsidiary at Hyderabad viz. Hindustan Fluorocarbons Limited (HFL) originally set up in the joint sector by Andhra Pradesh Industrial Development Corporation for the manufacture of Poly-tetra Fluoro Ethylene (PTFE).

B. Role and Objectives

1.4 The main objectives of the Company cover manufacturing, buying, selling and dealing in several organic and inorganic chemicals for the pharmaceutical, fertilizer, rubber processing chemicals and all allied industries.

1.5 When asked to state as to what extent the company has been able to fulfil its objectives, the CMD, HOCL stated during evidence:

"Sir, this company was incorporated in December, 1960. The main objective of the company was to set up the capacities for chemical intermediaries. These chemical intermediates are based on the petroleum raw materials like benzene, toluene and the nitric acid. The intermediates which we were to manufacture were supposed to give a big impetus to the dye industries, drugs and pharmaceuticals,

laminates, plywood and such industries. The Unit was initially set up at a place called Rasayani, a backward area which is in the Raigad district of Maharashtra on Bombay-Pune Highway, 70 kms. from Bombay. One of the Objectives was also to develop this backward area. I can claim that both the objectives were fully achieved."

Elaborating further, the witness stated as under:

"The second Unit that was set up by the Company was in the year 1985-86 at Cochin in Kerala State. The Company also had set up a subsidiary company in Andhra Pradesh at a place called Rudraram which is on the Bombay-Hyderabad Road, about 40 Kms. from Hyderabad. The products of the company are chemical intermediates which go in the manufacture of drugs pharmaceuticals, dyes, laminates, plastics, plywood and many other things. In fact, the range of the products is very wide and in a very big way the Industry in dyes and drugs sector has come up only because HOC started manufacturing these chemical intermediates for the first time in the country. Before that these chemical intermediates were imported in very small quantities because nobody would like to set-up an industry base on a source which is uncertain. That is how the Government of India decided that it was desirable to set up a unit for chemical intermediates in the country. It was indeed a difficult task to set up a chemical complex in a place like Rasayani where there was no development of any town, no post office and no communication facility. We can say with a sense of pride that we brought these developments there and really helped the area to grow to such an extent that now it has become one of the most important locations in the Maharashtra which is also known as Patalganga Industrial Area. Now, many major industries have come into that area. I can claim with all humility that had Rasayani not been selected by HOCL as a centre, this area would not have attracted any private investors. We also recruited more than 500 people from local area in HOC. We also helped the people of that locality to understand the importance of taking advantage of the development taking place there. We gave encouragement to set-up schools. We have also got a very good hospital there.

So, this is the social impact which we did and with the result, HOC was very well accepted from the beginning by all the people there."

1.6 In this connection the Ministry of Chemicals and Fertilizers (Deptt. of Chemicals and Petrochemicals) stated in a written reply as under:—

"HOC was incorporated on the 12th Dec., 1960 for manufacturing, processing, converting and formulating, selling and distributing various chemicals to various down stream industries with a major role to support the intermediate chemical needs in the Dyestuff Industry as well as drug industry. Further, to improve the socio-economic

objectives of the Government by giving employment directly as well as generating additional employment indirectly at the downstream industries, the company has been running and manufacturing various chemicals during the last 25 years and fulfilling the obligations like growth of many SSI units, helping industrialization, development of the backward areas where the unit is established. The company has generated adequate resources and profits are being declared annually. The market share of the products manufactured by the company has largely increased. The successful operation of the company has resulted in setting up many new organic chemical units."

1.7 The Committee desired to know whether the company has prepared the micro objectives as per the guidelines issued by Bureau of Public Enterprises in 1979 and 1983. In a written reply, the Company stated that it has prepared the micro-objectives and these are also reflected in the Memorandum of Understanding entered into with the Ministry.

1.8 The company has been signing MOU with the Government from the year 1991-92. The MOU for the year 1994-95 was approved and signed on 19th July 1994. The MOU for the year 1995-96 was not even finalised till 29th May, 1995. When asked to state the reasons for the delay in signing the MOUs, the Secretary, Ministry of Chemicals & Fertilizers (Department of Chemicals & Petrochemicals) stated during evidence as follows:—

"Sir, I think that the scheme of things is that all the MOUs of the different companies go to the High-level Committee at one time and after they are all cleared, the respective Ministries and the respective companies sign them."

The witness further stated:

"The High-level Committee is Chaired by the Cabinet Secretary. And I understand that Secretary, Planning and Programme Implementation, Secretary, Department of Public Enterprises; Finance Secretary and Secretaries of Core Departments are its members."

1.9 The Committee pointed out that unless the MOU is signed well in time, the company would not know the targets that they would have to achieve. In this regard the Secretary informed the Committee that the broad targets get finalised more or less in the meeting of the Adhoc Task Force and generally whatever is discussed in the ATF is approved by the High-level Committee. The witness also stated that since the MOU is known to the company and the Ministry, the companies are already working on that. If there are some unusual changes, they would be made

and the MOU would be signed. When the Committee expressed their concern over the delay in signing the MOUs, the Secretary stated as under:

"I will convey the concern to the Department of Public Enterprises. We will convey this concern and request them to have a system by which the MOU is expedited."

1.10 In reply to a question regarding the experience of the company about the concept of MOU, the company stated in a written reply that since under the MOU system, the targets are committed for one year and the MOU is also signed for one year, there should be a provision for a mid-term review in order to consider the effect of external forces to redefine the targets.

1.11 When the committee desired to know the Ministry's views on the above suggestion of the company, they were informed in a written reply as under:—

"A Mid-term review of the MOU would enable the company to take corrective action as well as to assess the future performance in a more realistic way since the domestic and international market is of dynamic nature."

1.12 At present, the Board of Directors of the company can approve new schemes/projects costing upto Rs. 50.00 crores. In a written reply, the company had stated that since the limit was fixed by the Government in 1988-89 and since then there has been a considerable change in the business environment which dictates viable size operations to be competitive in the global market involving higher levels of investment. It was also stated that unless this limit is raised to the level of Rs. 150-200 crores, the company will not really be able to take advantage of this important autonomy measure envisaged in the MOU system. When the Ministry was asked about their reaction in this regard, they stated in a written reply as under:

"Powers to approve project costing upto Rs. 50 crores are fully delegated to the Board of the company. The rise in costs has necessitated that the Board is empowered to approve projects costing upto Rs. 100 crores. This would also take care of escalation in project costs."

1.13 In this regard the Secretary, Deptt. of Chemicals and Petrochemicals stated during evidence as under:—

"In all these matters, every public enterprise, every Ministry cannot have a separate delegation for its own company. We have to follow the general delegated power which the Department of Public Enterprises in consultation with the Ministry of Finance allows. I

would also check this point. But I have been told that the Department of Public Enterprises are examining the question of delegating more powers."

1.14 When the Committee desired to know whether the present ceiling on the financial powers of the Board of Directors come in the way of normal functioning of the HOCL, the witness stated as under:—

"Sir, I am quite sure that as far as the delegation of powers is concerned, I cannot say that there has been a lack of powers till now and raising the present ceiling to more than Rs. 50 crores has come in the way of the functioning of the Hindustan Organic. May be, in future for the new projects, this may be a point at issue. Whatever projects are there, the lack of power has not come in the way of their functioning."

(C) *Corporate Plan*

1.15 The Corporate Long Range Plan of the Company was first prepared and submitted to HOC Board for its approval in April, 1977. The Plan identified the company's strengths, weaknesses, opportunities and threats and identified the directions in which the company could expand and diversify keeping in view the aim of achieving the continuous growth. The plan focussed on 45 different products and analysed their end uses, demand forecasts, raw material requirements etc. The information was compiled for appreciation of the general scenario of the chemical industry in India and the direction in which the company should move in future. In view of this, no specific approval of the Government was contemplated to the Corporate Long Range Plan. The Plan, however, contained certain proposals to be covered in the Fifth Five Year Plan and Sixth Five Year Plan. This information was used after further updating of the same as per the changed circumstances while submitting the Fifth and Sixth Five Year Plans to the Government which were approved by the Government on due dates.

1.16 The salient features of the Corporate Long Range Plan for the period 1976 to 1989 were:

- To aim at such capital growth that the company doubles itself every five years.
- To maintain and improve upon the level of 12% post tax return on equity, increasing it to 20% during the III phase.
- To achieve a continuous growth rate of not less than 10% per year after 1985-86 with Phase II of the projects expected to be on stream by 1979-80 and Phase III being ultimately to be completed by 1985-86.
- To be a leader in the manufacture of organic chemical intermediates.

1.17 However, the Ministry of Chemicals & Fertilizers Department of Chemicals and Petrochemicals in a written reply that the corporate plan of HOC can not be said to be corporate plans as such, but an approach

paper. When asked to state whether the Ministry have analysed how far the company was able to achieve the goals set in this plan, the Ministry stated that the "Corporate Plan for the period ending 1989 did not identify specific targets. The Ministry further stated that the Company did not submit its corporate long range plan to the Government for its review."

1.18 When the Committee desired to know whether the Ministry ever asked the company to fix goals and targets, the Secretary, DOCP stated during evidence:—

"Our record does not show that we specifically asked for any targets. But since the Ministry is represented on the Board of the HOC, it is quite possible that this matter might have been discussed in the Board. I would not be able to give a definite reply."

1.19 When asked how in the absence of targets the Ministry judges the performance of the company, the witness stated that they have certain targets and we work on that basis. The witness further stated:—

"Sir, that is what I am trying to say. A good commercial company which has to be competitive must take a longer term perspective and must prepare a Corporate Plan. I understand, preparation of one such Plan had been attempted by HOCL since 1993 onwards. But it has not been finally approved. We have a draft copy of that. We have had a look at it, which we obtained for this particular meeting. But if has so far not been approved by the Board of Directors of the Company. The earlier Plan which they had prepared in 1979 was not really a Corporate Plan.

As you know, there are certain guidelines laid down by the Department of the Public Enterprises as to what should be a Corporate Plan. The representatives of the Government on the Board of Directors of the Company have told that the Plan that has been prepared was not satisfactory. They are revising it. After sometime, it would be reviewed. The Corporate Plan would certainly be finalised within the next five years."

1.20 The major areas of thrust in the Corporate Plan for the period 1993-2013 are to be the continuous growth in turnover, management of human resources, safety and environment matters, energy conservation and technical audit. When asked by the Committee whether this new corporate plan had been approved by the Government, the Ministry stated in a written reply as under:

"The Corporate Plan for the period 1993-2013 was prepared by the Management and put up for consideration of the Board of Directors of HOC in January, 1995. This was examined by the Board and the Board directed the Management to amend/modify and incorporate certain inputs like company's long term dividend policy, various financial ratios, earning per share and P/E Ratio etc."

1.21 When the Committee desired to know the reasons for the delay in preparing the corporate plan, the Secretary, DOC&P stated during evidence:

"It is a plan which the company itself has to prepare. The Government cannot prepare a plan for them. Certainly, I must say that their management should have done this exercise in advance but they have delayed. They have prepared something which was not fully approved by the Board in that meeting and there were some further discussion. The Board is seized of this matter and the Government Directors who are on the Board are also seized of this matter. They have also emphasised the need of quick finalisation of the Corporate Plan. Once the Board level approval of the corporate plan is done, it will come to the Government, Sir."

1.22 The Committee were of the view that there might have been changes in the figures between 1993 and 1995 and the same will require to be updated. The witness stated in this regard as under:—

"Both the Directors viz. our Director from my Department and the Government Director from another organisation, are emphasising this point. Now, they have also said that the plan should be updated to reflect the current situation. But only point that I would like to mention is that while I had expected and realised the fact that they have not prepared the Corporate plan in time, in a way, it does not reflect on our very well prepared Perspective Planning. That does not mean that the day to day working or the immediate future working would be held up. It is because, Sir, we have done an exercise for the next five years in any case because of the Five Year Plan. We know what they want to do in the next year or the year after that or three or four years after that."

II. Production Performance

A. Upgrading of Capacities

2.1 Normally the chemical, fertilizer and petroleum plants adopt 330 stream days in computing rated capacity. But HOCL adopted only 300 days at Rasayani; though it adopted 330 days in its Cochin Plant. But, for concentrated Nitric Acid and utility plants like steam, chilled water compressed air, cooling water and demineralised water, HOCL adopted 330 days even in Rasayani. The Management had informed Audit in July, 1991 that in Nitrobenzene plant, capacity was proposed to be uprated. But in Acetanilide plant, the increase in production was the result of change in process. In Formaldehyde plant, though the rated capacity of the plant was 15000 TPA, it was revised down to 7500 TPA when it was decided to use 50% of the plant time for manufacture of Acetaldehyde. But manufacture of Acetaldehyde was not started due to increase in market demand for formaldehyde and capacity (15000 TPA) was utilised for production of Formaldehyde only, but the capacity was not rerated to 15000 TPA. The Company also tried to argue that technologies of plants in Rasayani are of 1960 to 1970 vintage requiring more time for maintenance and so the availability of stream days had been reduced. On being pointed out by Audit that, in fact the number of stream days worked out to more than 330 per year; Management agreed in September, 1992 to consider revision of the rated stream days upwards. The work for rerating of three plants namely Concentrated Nitric Acid, Aniline Phase-II and Nitrotoluene was awarded to Fact Engineering and Design Organisation (FEDO) a Public Sector Company.

2.2 In September, 1979 the Company had realised the need to uprate the capacities in some plants as the production was consistently high in the previous two years. But, the company did not take action to uprate capacities. Audit was informed in 1988 that a team of technical experts will examine the matter and refix capacities of various plants.

2.3 When the Committee desired to know the reasons for adopting 300 days in computing rated capacity at Rasayani Unit instead of normal rating of 330 days, the company stated in a written reply that 300 days were adopted in computing rated capacity as per original plant supplier guarantees. In this regard the CMD, HOCL stated during evidence as under:

"The technical experts have re-fixed the capacity. The capacity of 330 days has been adopted for the new plants. The old technology is 15 years old. At that time, the capacity rate was 300. This was given by the plant supplier at that time. We had given this work to the Engineering Division of FACT which has assessed the capacity. Now the capacity of Aniline should be rerated to 6200. The capacity of Nitrotoluene rated at 6400 should be derated to 6200."

2.4 When the Committee emphasised the need of rerating of capacities, the witness stated:

"We will do that. We will get the capacity of all the plants rerated.

We have given this work to FACT. We are in the process.

2.5 When the Ministry was asked whether they were aware that the company had realised the need of rerating of capacities in September, 1979, the Ministry stated in a written reply as under:

"Yes. On receipt of the CAG's Comprehensive Appraisal Report on HOC, the Government wrote to the company on the 6th August, 1993. The subject matter was followed up in the Quarterly Review Meetings of the Department."

The Secretary, Department of Chemicals & Petrochemicals stated during evidence as under:

"Sir, actually this matter was no doubt mentioned in the C&AG's Report and it was taken up with that Company. But the Company was not absolutely certain that there is a need to increase the capacity because the matter was not so clear. Then, they themselves set up a study about it. After they set up a study for that, they did find that the change of the capacity was to be done in a marginal way for example, for Aniline, it had to be increased from 6,000 to 6,200 only".

The witness further stated:—

"What I am saying is that once the C&AG pointed out, a review was taken. The HOC was asked to do that. But the HOC themselves wanted to be very sure about it and we cannot force them."

B. Sulphuric Acid Plant

2.6 The increase in capacity of the Sulphuric Acid plant from 30000 TPA to 45000 TPA was approved by the Government in August, 1978 at a cost of Rs. 55.20 lakhs and work was completed in September, 1979. A Double Contact Double Absorption System (DCDA) for reduction of pollution caused by sulphuric dioxide emission was also installed. The company went on incurring capital expenditure even thereafter. In April, 1988 the Company decided to instal a scrubbing system at a cost of Rs. 31.10 lakhs to bring down sulphur gases (SO₂ and SO₃) emission to 200 PPM and 50 PPM respectively.

2.7 The Company needs to produce only 22800 MT's of Sulphuric Acid for its captive consumption and sold its excess production at loss as detailed below.

2.8 The Company informed Audit that Sulphuric Acid was purchased when its own plant was shut down and higher price on purchase over its own high cost of production was due to changing market prices.

2.9 The Committee desired to know the reasons for increasing the capacity of the Sulphuric Acid Plant from 30000 TPA to 45000 TPA though the actual requirement of the Company for the Captive

consumption was 22800 TPA only. The Company informed the Committee in a written reply as under:

"Prior to 1979-80, 100 TPD Sulphuric Acid was being run with single Absorption System as supplied by M/s. Larsen & Toubro. As the stack gases were containing more SO₂ and acid mist as permissible under the Pollution Control Rules which were to come in force, it was necessary to have Double Contact Double Absorption (DCDA) system to reduce SO₂ in stack gases.

-The installation of DCDA system in the Sulphuric Acid Plant was considered at the 6th Technical Sub-Committee Meeting held on 15th April, 1978 and subsequently this was approved by the Board at its 102nd Meeting held on 15th July, 1978 at an estimated cost of Rs. 60.38 lacs."

2.10 In this regard, the CMD, HOCL stated during evidence as under:

"We cannot set up a plant below a particular size. The original design of the plant was that it would produce 100 tonnes per day. At that time the ecological considerations were not taken into consideration. Sulphurdioxide was going into the air. When it gets re-cycled, you can get more production. So to maintain a marginal increase in the capacity and as a pollution control measure, we introduced a DCDA System. After that, we introduced a scrubbing system in that plant to bring down sulphur gases and keep the environment in excellent condition. It was not that the whole money is spent for the production but for the pollution control also. So whatever additional capacity which we got, we have to market it. In the Western region, Sulphuric Acid capacity is concentrated. So there is a competition. The major advantage which we have got is now that Nitrobenzene capacity is being expanded by us, Sulphuric Acid required for captive consumption is readily available from our own plant."

2.11 When the Ministry was asked on what basis Government had approved the increase in capacity from 30000 TPA to 45000 TPA, Ministry stated in a written reply as under:—

"The increase in the capacity of Sulphuric Acid was inevitable after the company was directed to reduce their emissions into the atmosphere. The excess production is, therefore, sold in the market. It is now expected that with the expansion of Nitrotoluene and Nitrobenzene capacity, the additional sulphuric acid will be absorbed for captive use."

2.12 On being asked whether the reduction of emission could have been done without increase in capacity, the Secretary, Department of Chemicals & Petrochemicals stated during evidence:

"They had to put certain pollution control equipment, and when they were putting that new kind of technology, they found that a certain unit size was required for putting that equipment. So, they felt that they could take advantage of the whole situation to have a higher capacity because otherwise also the investment would have to be made. So, in that process of putting the equipment, they got the benefit of an additional capacity. Earlier the additional capacity was being used for sale of surplus sulphuric acid but now, with the expansion, the sulphuric acid is required by them."

2.13 On being asked how the losses on the sales of Sulphuric Acid could be justified the Secretary, DOC&P stated during evidence:

"Because if they have to change the technology for pollution control, the unit size itself required to be increased, which would result in increased production. The question that arises is whether they should manufacture upto the full capacity of the new unit size or a lesser capacity.

Sir, if there is higher capacity equipment, it would be worthwhile for them to produce it even if there are losses. The loss would be distributed over a larger quantity."

2.14 In a post evidence reply, the Ministry informed the Committee as under:

"Since HOCL produces Sulphuric Acid mainly for captive purposes, the production had to be continued. In the last two years, due to cheaper sourcing of raw material like sulphur etc., the input costs of the product have been brought down considerably.

The Sulphuric Acid plant set up by HOCL was for meeting the desired levels of pollution standards and captive consumption. The capacity was not designed for a merchant selling plant. It would, therefore, not be appropriate to draw a direct comparison between the market price and the cost of production. The market prices are also a function of the availability of material in the market. It has been the experience of HOCL that whenever annual shutdown were taken, the market price increased. On the contrary, during the normal running period, market prices were relatively lower.

Having a captive Sulphuric Acid Plant is, therefore, of considerable significance for the continuous operation of the unit."

2.15 On being asked about the steps being taken by the company for selling the excess sulphuric acid at a competitive price, the company informed the Committee in a written reply as under:

"Better coordination was effected between Production and Marketing groups to ensure that adequate Sulphuric Acid is available for captive consumption during 1992-93, 1993-94 and the current year. Thus there was no occasion to purchase Sulphuric Acid in these years. The surplus Sulphuric Acid was sold in the market at a price which was prevalent in the market. The market prices during the period April 92 to October 94 ranged between Rs. 650 to Rs. 1800 PMT.

To improve the viability of the plant, minor modifications were done for production of Molten Sulphur with the available capacity. Molten Sulphur fetches higher price. During 1994-95, 62 MT of Molten Sulphur has been sold so far and we have a plan to sell about 100 MT per month.

The following corrective actions have been taken:—

- (a) Sulphuric Acid sales are being made directly to consumers in preference to dealers.
- (b) Long Term contractual arrangement has been worked out with customers."

2.16 According to Audit, the management had stated that they had overlooked the cheaper alternative of installing a heater to reduce pollution when starting the plant. In this regard the company informed the Committee in a written in a written reply as under:—

"It was not stated that the cheaper alternative of a heater was overlooked. Since this point was raised during the discussion, management stated that the technical personnel will examine it further. In further technical examination it was found that installation of a heater could not have been useful in abatement of sulphurdioxide pollution during the start up of the plant. It was also checked that in none of the six Sulphuric Acid Plants in the nearby area, start up heaters have been installed. Therefore, the cheaper alternative of start up heater would not have worked."

2.17 When asked to state whether the company ever thought of any proposal to create additional storage capacities of Sulphuric Acid, which could be used by it when there was shut down the company stated in a written reply as under:

"Close monitoring of production and sales of the product is now done to ensure that the desired level of the product is available for captive use to avoid purchase from outside. For the annual shutdown in the current year, as well as last year, no purchase of Sulphuric Acid was resorted due to better planning."

2.18 However, CMD, HOCL informed the Committee during evidence as under:

"That is not actually going to help. The Audit has pointed it out when we wanted to set up our own plants. But if you invest more and more in storage capacity, your cost unnecessarily goes up."

C. Acetyl Group Plants

2.19 With foreign knowhow, the Acetic Acid/Anhydride plant was set up in 1982-83 under a guarantee for performance given by the consultants. The performance of plant could not be proved, and damages of Rs. 4.5 lakhs were recovered from consultants who failed to carry out gurantee guns and/or to modify the plant at their cost. The Company incurred avoidable expenditure of Rs. 19 lakhs for the modifications of the plant. The plant is stated to be lying idle since February, 1992 due to non-availability of Acetaldehyde.

2.20 When asked to state as to what was the present position of the revival of the plant, the Company stated in a written reply as under:

"The Board of Directors has decided that it is profitable to go for a new plant for Acetaldehyde than reviye the plant for which guarantees

could not be proved. However, the supply position of industrial alcohol which is the raw material is uncertain and hence the proposal has been deferred."

2.21 On being asked whether any feasibility study was conducted before approving the Acetic Acid/Anhydride Plant, the Ministry informed the Committee in a written reply as under:

"The feasibility study was conducted. The approval of the Government of India was conveyed on 16.3.1979. In the feasibility study, it was envisaged that Acetaldehyde would be available from the existing Formaldehyde plant of HOC. This, however, did not happen."

2.22 When asked whether it should be profitable to go for a new plant for acetaldehyde than to revive the plant, the Ministry stated in a written reply as under:—

"In the current scenario, the question of reviving the existing plant does not arise. The reasons for this are two fold. Firstly, the consumption norms in the technology adopted by HOC are too high and not conducive to efficient production. Secondly, with the cost of industrial alcohol going up, it may not be possible for HOC to maintain commercial operation for the manufacture of Acetic Anhydride and Acetic Acid. The administrative Ministry agrees with this assessment of the company."

The Secretary, Department of Chemicals & Petrochemicals stated during evidence:—

"The technology was certainly defective. There is no doubt that they incurred losses in this because the technology did not prove to be correct. They had to close the plant. That is why the existing plant could not be used. I can only say it was a commercially bad judgement."

2.23 When asked to state the loss incurred on account of non-availability of acetaldehyde from the existing formaldehyde plant of HOCL by this plant the Ministry informed the Committee in a post evidence reply as under:—

"HOCL has reported that no loss has been incurred on account of the non availability of Acetaldehyde, as this plant was used for manufacture of Formaldehyde which has good demand in the market during the period in question. Acetaldehyde was being procured from the market for manufacture of Acetic Acid/Acetic Anhydride upto the year 1991-92, but due to erratic supply of Acetaldehyde as well as high consumption norms for manufacture of Acetic Acid/Acetic Anhydride, resulting in high production cost, the plant was shutdown. The plant could not be run as per the guarantee norms for which the Consultant has been penalised as per the contract."

A team has been formed to study the details for manufacturing Acetaldehyde using the existing facilities and viability of restarting the Acetyl Plant."

2.24 On being asked by the Committee whether any responsibility has been fixed for this, the Secretary, Department of Chemicals & Petrochemicals stated during evidence:—

"Sir on the commercial working we do not interfere and it is for the company or Board of Directors to take a decision. I can ask the Management as to why they have done."

D. Phenol Project at Cochin

2.25 Government approved in August, 1980 the Phenol project at Cochin for manufacture of 40000 TPA of Phenol and 24640 TPA of Acetone (By-product) at a cost of Rs. 49.33 crores including foreign exchange component of Rs. 5.05 crores. Phenol finds application in moulding powder, industrial and decorative laminates, foundry chemicals, timber chemicals, pesticides and pharmaceuticals. Acetone is used as solvent for surface coating, paints, pharmaceuticals and rubber chemicals.

2.26 The original cost estimates, revised estimates and actual investment on the project are given below:—

(Rupees in crores)

	Original estimates approved (Aug., 1980)	Revised estimates approved (May, 1985)	Actuals (March, 1994)
Project cost	Rs. 49.33	Rs. 78.10	Rs. 95.78
Foreign Exchange content	Rs. 5.05	Rs. 10.81	Rs. 14.32

2.27 The project started in February 1982 was completed (mechanically) in January, 1987 and commercial production started in March, 1988 against original schedule of June, 1985.

2.28 An agreement was entered into with a collaborator in U.S.A. in April, 1981 for supply of know-how and basic engineering and commissioning at a cost of US \$ 4.8 million. Consultancy agreements were also entered into with Engineer India Limited (EIL) for Rs. 61 lakhs for Propylene recovery plant and with FACT Engineering and Design Organisation (FEDO), Cochin for Rs. 175.94 lakhs for Phenol Plant and offsite facilities.

2.29 The Committee desired to know the reasons for delay in completion of the projects. The company in a written reply informed the Committee as under:—

“The main reasons for delay in completion of the project are:

- (a) Delay caused by vendors/suppliers in delivery of the equipments and piping material.
- (b) The erection work could not proceed as per schedule due to non-receipt of equipments in scheduled time. This delay had its impact on the erection of field instruments. All these resulted in the non-completion of pre-commissioning activities as per schedule.
- (c) Last moment changes insisted by the technology suppliers in the piping which were made as per Indian Engineering Standards, whereas, UOP Technicians insisted that they should be in conformity with their standards.
- (d) Severe dose of power cut, ranging from 40% to 100% imposed by SEB during the pre-monsoon period of successive years 1986 & 1987, affected the progress of construction and commissioning activities considerably.
- (e) Considerable delay was experienced in obtaining LPG from CRL due to Central Excise problems and propane for start up due to transportation problems.

As would be seen, causes for the delays were beyond the control of HOCL.”

2.30 In this regard the Director (Technical), HOCL informed the Committee as under:—

“Initially, there were many problems in respect of land acquisition itself. This was grassroot level plant. The area is a forest area. Secondly, most of the suppliers did delay the supply of equipment. Thirdly, when the plant was ready to start, we were not given power from the Kerala State Electricity Board for the project. I had to go up to the Minister's level including that of our Central Minister to ask the Kerala State Electricity Board to give more power. My plant was not running for four months even after the plant was completed. The cost of power was also increased.”

2.31 On being enquired by the Committee as to what steps have been taken by the Company to avoid recurrence of such cost over-run and time over-run in future, the company informed the Committee in a written reply that the company has taken adequate steps for selection of right vendors and give them a more realistic delivery schedule.

2.32 The cost over-run from Rs. 49.33 crores in November, 1979 to Rs. 95.78 crores in March, 1994 was attributed to escalation in prices, foreign exchange rate fluctuation, inadequate provisions in original

estimates, extra compensation payable to land owners (cost of land went up from estimates of Rs. 38 lakhs to Rs. 168.05 lakhs) and cost of extended stay of foreign technicians due to extended trial runs. The cost of extended trial runs amounted to Rs. 8.61 crores. FEDO claimed Rs. 46.81 lakhs for extended stay of their experts. As reasons for some delays and defects could not be pinpointed the claim was settled for Rs. 15.70 lakhs. A Committee which went into the delays also found delay in approving drawings by consultants. Government sanctioned engagement of technicians of collaborator for 1324 mandays at a cost of US \$ 7,83,420. The services of the technicians were utilised for additional 1996 mandays at a cost of US \$ 13,85,200.

2.33 When asked whether the reasons for extended trials and consequent extended stay of foreign technicians have been analysed which resulted in additional expenditure, the company informed the Committee that the same have been analysed and steps have been taken to avoid recurrence of similar situation in future.

2.34 In this regard the Ministry informed the Committee as under in a written reply:—

“The main reasons for the extended stay of foreign technicians was the fact that there were numerous power cuts and there was a delay in obtaining LPG from Cochin Refineries. An analysis of factors that led to time over-run has been undertaken. The appropriate course of action appears to lie in detailed project preparation and closer monitoring.”

E. Performance of Cochin Unit

2.35 Major raw materials required for production of Phenol and Acetone are Propylene and Benzene. Cumene is an intermediate product. Propylene is recovered from the LPG supplied by Cochin Refineries Limited (CRL) through pipeline and after recovery of Propylene, balance LPG is returned to CRL again through pipeline. Benzene was supplied by Bharat Petroleum Corporation Ltd. (BPCL), upto April, 1989 and thereafter by CRL. Production commenced on 8/3/1988. The unit was to achieve 60% capacity in the first year, 80% capacity in the second year and 100% capacity in the third year onwards. However, the unit achieved around 60% capacity utilisation in 1988-89, 70% in 1989-90, 80% in 1990-91, 81% in 1991-92, 82% in 1992-93 and 74% in 1993-94 based on 330 stream days in a year.

2.36 Stating the reasons for not achieving the targetted capacity from third year onwards the company stated in a written reply as follows:—

“Target capacity utilisation was determined with the assumption that 30% of production would be exported. The quantum of export was planned to be reduced progressively matching with the increase in domestic demand. Contrary to the expectations, the international

market registered a declining trend in the price front, making exports unremunerative. In fact, the average export price realised was only Rs. 9000/- PMT which was not even sufficient to cover variable cost. Added to this, we have to face the problem of making an entry to capture the international market to the extent of 30% of our production, as we were relatively new in the international market. This was the main reason for not achieving the target capacity. Full benefit of the increase in the domestic market was also not available to HOCL in the later years, as this was offset by the free import of Phenol."

2.37 On being enquired as to what remedial measures have been taken by the Company to achieve full capacity, the Company stated in a written reply as under:—

"In order to achieve full capacity of the plant, company is planning to put up plants for manufacturing value added products like Bis-Phenol-A & Vanilline which has good market potentials. The results of the trial made in converting Phenol and Acetone into Bis-Phenol-A by another company and exporting the same, are encouraging."

2.38 When asked whether the Government have received any proposal from HOCL for manufacturing value added products and whether any study has been conducted regarding the export potential of such products the Ministry stated in a written reply as under:—

"The company is competent to take all decisions involving the investments upto Rs. 50 crores. Proposals on value addition do not come to the Government. Export potential of various products is assessed based on market intelligence."

2.39 In this connection, the Secretary, Department of Chemicals & Petrochemicals stated during evidence as under:—

"We have not received any proposal as such in the Ministry about value added products. But when we do quarterly review we try to see the perspective planning of the company. There they do indicate their plan of action and we actively consider it. I would like to just indicate some of the products viz. polyurethane, phenol, dye intermediaries etc."

2.40 Stating about the export potential of these products the witness further stated:—

"As far as we are concerned, no such study is done. The important factor is that HOCL has been set up basically to make basic chemicals which can be utilised by downstream industries, adding the value and then exporting. We would like to export those things which have a high value addition. As far as the HOCL is concerned, that is not a factor."

2.41 When asked about the reasons for not achieving the targets by the Cochin Unit, the Secretary, Department of Chemicals & Petrochemicals stated as under:—

“They have made some suggestions. It is up to the HOCL to tell all this. We have nothing to do in this regard. Our practice is that we do not interfere in their functioning. If they need any support, certainly we give it to them. Now, they were at the III-Phase of expansion which they completed in March, 1995. They want to instal phenol plant. Now, the phenol work has come up. Their capacity utilisation is very good. They will get tied up for more LPG. They can put up a new phenol plant also. They are trying to get some technology for their polyurethane plant. They are not able to tie-up the technology.”

F. Trimer/Tetramer production at Cochin

2.42 The Company holds an Industrial Licence for manufacture of 29000 TPA of Propylene (TPA=tonnes per annum), 22000 TPA Propylene is meant for captive consumption and the balance 7000 TPA of Chemical Grade Propylene was meant for manufacture of Trimer/Tetramer. But Government has not, so far, sanctioned the project for Trimer/Tetramer though investment of Rs. 1.61 crores has already been made. The column, storage bullets and pumps (created for extracting additional chemical grade propylene) are lying idle from January 1987. The Company informed Audit in August, 1992 that the problem was non-allocation of Propylene as envisaged.

2.43 On being enquired whether the matter of non-supply/non-availability of Propylene has been taken up with the Petroleum Ministry, the company stated in a written reply as under:—

“At present there is no serious problem of availability of LPG from CRL. Propylene can also now be imported from international sources. However, the basic infrastructure facilities at the ports need to be created/strengthened to take advantage of sourcing propylene from international market.”

2.44 When asked whether the company has assessed the feasibility of importing Propylene to produce Trimer/Tetramer, the company stated in a written reply as under:—

“The market for chemical grade propylene did not develop as anticipated. Also the cost of exhausted chemical grade Propylene will work out approximately Rs. 19000 to Rs. 20000 which is much higher than the landed cost of imported Propylene. While designing the Propylene recovery plant, the L.P.G. feed composition was assumed to be approximately 32% Propylene (The value EIL assumed while designing since CRL's FCC Unit was also under design stage at that time). However, the actual LPG feed stock propylene composition varies from 23 to 27% which will make it difficult to extract

additional quantity in the fifth column for making chemical grade propylene. At present this additional set up is sparingly used for making propylene which is used in Cumene Plant as diluent/heat sink."

2.45 In this regard, the CMD, HOCL informed the Committee during evidence as under:—

"Firstly the CRL thought that they will do Trimer-Tetramer Project based on additional propylene in collaboration with Balmer Lawrie. But subsequently they realised that the quality of crude which they are getting does not contain that much propylene. Secondly additional propylene was not forthcoming. Now we are thinking whether we can use the third column for some other purpose.

About the Trimer/Tetramer, there may not be real feasibility in setting up this facility now due to liberalised import policy. We will also see whether the same column can be used for getting chemical grade propylene. Now the propylene market is growing. In the alternative we can see whether we can use the column in some other form."

2.46 When asked whether it would have not been appropriate to ascertain the actual feed-stock propylene composition before setting up the propylene recovery plant, the Ministry stated in a written reply as under:—

"The written assurance regarding the propylene composition was obtained from the refinery. This was considered sufficient for the purposes of taking a decision to set up a plant."

2.47 However the Committee find that *vide* their letter dated 10th March, 1981 the Cochin Refineries Ltd. had informed HOCL that the approximately content of propylene in the LPG supplied by CRL will be 28.17% (By weight) only. The Secretary, Department of Chemicals & Petrochemicals informed the Committee during evidence that in the feasibility report they had mentioned it as 32 percent but later on the Cochin Refineries Ltd., set it at 28 percent.

2.48 When asked how the plant is now proposed to be operated and whether the Ministry has assessed the option of importing propylene to produce Trimer/Tetramer, the Ministry stated in a written reply as under:

"The plant is currently being operated for the purpose of producing propylene which is required to start the Cumene plant after a period of shut down. The company has assessed the option of importing propylene to produce Trimer/Tetramer. Given the current market situation for these intermediates, the company has found the production to be economically unviable. The Ministry has not gone into the matter of assessing the option of import of propylene to produce Trimer/Tetramer, as it is a commercial decision to be taken by the company. If

any assistance is required, it will be provided to the company by Government."

G. Material Management

2.49 "The norms for inventory holding in HOCL were stated to be as follows:—

Raw Material	15 days production
Stores and Spares	180 days production

"The actuals for the four last years were as follows:

	Raw Material	Stores & Spares
1990-91	23	571
1991-92	22	488
1992-93	8	718
1993-94	33	670"

2.50 When asked whether the company has reviewed the increasing trend of inventory of stock in process and measures taken to reduce them, the company informed the Committee in a written reply as under:—

"In most of the plants the stock in process is minimum. However, in the Nitrochlorobenzene plant after the crystallisation of Para Nitrochlorobenzene, then eutectic oil is recycled and finally stored in storage tanks. This inventory has build up gradually over the years and the approximate stock is 4000 MT. With the implementation of NCB revamping where more efficient columns are being installed this inventory of EO oil will be utilised. The NCB revamp project is expected to be completed in the second quarter of 1995."

2.51 During evidence, the Secretary, Department of Chemicals & Petrochemicals informed the Committee that the Ministry review the inventories in quarterly monitoring meeting, if their sales are not good and whatever suggestions come up from time to time from them, discuss in the meeting and accordingly we give them requisite directions.

2.52 The witness further stated that if the inventory is higher, it definitely affects the working of the company but the inventory build up depends on the market conditions and there, of course, it is mainly the company which has to play the role. Asked about the role of Government Directors in this regard, the witness informed the Committee as under:—

"By all means, I would say that we want them to have the right norms. We want them to have the norms for the inventory but again this will product-wise vary. What I am trying to say is that all these norms for the inventory holdings, etc. have to be decided by the company. Our Directors certainly attend the meetings regularly and if they find any problem which requires our attention, they do bring it to our notice.

When we do the quarterly review which is a very detailed one, for which proper minutes are drawn up, we do take the follow-up action."

2.53 In a post evidence reply, the Ministry informed the Committee as under:—

"As regards the trend of inventory, the company has achieved reduction in the inventory of stores and spares and finished products in the year 1993-94. The company has got a Procurement Cell which scrutinises each purchase proposal with a view to keeping the inventory to the minimum. Inventory Control Cells were set up at Rasayani and Cochin unit with representatives from Finance, Purchase, User Departments and Management Services to continuously monitor and control inventory levels. The rising trend of inventory witnessed upto 1991-92 was reversed in 1992-93 and further brought down in 1993-94. In most of the plants of the company, the inventory of stock in process is minimum. However, in the Nitrochlorobenzene plant, after the crystallisation of Paranitrochlorobenzene, the Eutectic oil is recycled and finally stored in storage tanks. This inventory which had been built up gradually will be liquidated with the implementation of revamping of the plant where more efficient columns are being installed. The revamp project is expected to be completed in the second quarter of 1995."

H. Research and Development

2.54 The Company set up an R&D Division in 1974 with 23 officers under a General Manager. The major achievements of the R&D Division over the years are given below:—

- Recovery of Resorcinol from effluent of Meta Amino Phenol Plant.
- Manufacture of Di-amino Di-phenyl Sulfone from Dinitrodiphenyl Sulfone (a by-product in the Meta Amino Phenol Plant) for export.
- Detoxification of effluents by solvent extraction.
- In-situ regeneration of Aniline Catalyst.

The amount spent by the Company on R&D during last three years is as follows:—

Year	Expenditure (Rs. in lakhs)	Net Sales (Rs. in crores)	% R&D Expenditure to net sale
1991-92	53.02	290.84	0.18
1992-93	43.58	295.37	0.15
1993-94	186.96	269.98	0.69

2.55 The Company has stated that the amount given for 1991-92 and 1992-93 is for exploratory research and in 1993-94 for pilot plants related to process developed by in-house R&D team. It also has developmental

work on pollution control, corrosion control, energy conservation, water quality management, vendor development, improvement in process control systems which are not budgeted under R&D even though in effect they form a part of such efforts. In addition, in many of the R&D projects, manpower from various Engineering Divisions and Production Division are utilised, which are not shown as a part of Revenue expenditure of R&D.

2.56 In this regard the Director (Technical), HOCL informed the Committee as under during evidence:—

“Under the Research and Development scheme for the last ten years we have made three different pilot plants.

Under the first pilot plant, we have put up a hatch cholorination plant for producing metanitrochlorobenzene.

Under the second pilot plant, we have set up a Buten Diol plant. We are already doing a lot of work on polyurethane. We are also trying to see how to utilize some of our equipment to achieve more production. This is what the Research and Development is doing. What I wanted to bring out is that there are three plants for which we have spent money on Research and Development though that expenditure does not get booked under Research and Development.”

2.57 On being asked whether the Ministry was satisfied with the amount spent by the Company on R&D, the Ministry informed the Committee in a written reply that R&D is mostly devoted to innovation/improvement and absorption of technology. Since resources are limited, large outlays required for R&D cannot be afforded by the company. when the Committee desired to know the Ministry's assessment about the achievements of the company in the field of R&D, the Ministry stated as follows:—

“The company has been using the R&D facilities that have been established in the company for regenerating of Catalysts, improving the energy consumption norms, raw material consumption norms and absorption of technology.”

2.58 When the Committee enquired whether in view of the profits of the company more funds should not be given to R&D, the Secretary, DOC&P stated during evidence as follows:—

“Sir, I had also raised this point in our review meeting and what I have been able to assess from the situation is that when we are talking about R&D, it is for working out a new product, may be to introduce a new chemical, and that requires a really very heavy investment which a company like this could not afford. You have to incur almost Rs. 150 to 200 crore and that would be a gamble, that certainly they cannot afford. Now, the whole R&D is targetted towards getting a technology from a known technology to later improving upon it to get better process parameters. For that they

have got a unit each set up both at Rasayani and Cochin and according to them they have been able to make certain improvements and they think that for this kind of R&D, this expenditure, for the present moment, is all right.

Sir, if the company really becomes a chemical giant then perhaps they can afford to spend on basic research for the new products."

2.59 When asked about the Ministry's suggestion for improving the R&D set up in HOCL, the Ministry stated in a written reply as follows:—

"Since the objectives of the R&D in HOC is to improve the technology consumption and consumption norms, effluent treatments and disposal technology, the present R&D set up headed by the Chief General Manager, alongwith the sufficient number of scientists is deemed to be adequate."

2.60 However, the Secretary, Department of Chemicals & Petrochemicals suggested during evidence that better tax incentives should be given for R&D.

2.61 Based on the technology developed by the R&D Division, the company set-up plants for commercial production of Resorcinol, Mctanitrochlobenzene, Cyclohexylamine, Butene Diol and Para-Nitro-Phenol.

2.62 The Paranitrophenol plant was decommissioned in 1989-90, and capital expenditure of Rs. 22.09 lakhs on this plant became infructuous.

2.63 The Resorcinol plant was set up to treat the effluent of Meta Amino Phenol Plant. The capacity utilisation of this was only 30% and the objective of treating the effluent of Meta Amino Phenol Plant did not materialise fully. This plant has also been closed down due to stoppage of production of Meta Amino Phenol.

2.64 When asked as to what were the reasons for decommissioning of Paranitrophenol plant and Resorcinol plant, the Company informed the Committee in a written reply that Paranitrophenol plant was decommissioned as the same was reserved for SSI units. Resorcinol plant had been set up to recover resorcinol as by product from Meta-amino phenol. As met amino phenol plant has been closed down, Resorcinol plant had to be decommissioned.

2.65 The Committee pointed out that since the reservation of SSI units came subsequent to the creation of the capacity in HOCL, these plants should have been continued. The Secretary, DOC&P stated in this regard as under:—

"Our view was that they should have continued this plant. They took a commercial decision that they should close it and that is purely their own decision. We do not want to interfere in it."

III. Financial Performance

A. Working Results

3.1 The working results of the Hindustan Organic Chemicals and its subsidiary Hindustan Fluorocarbons in recent years are as given below:—

Hindustan Organic Chemicals Ltd.

(Rs. in lakhs)

	85-86	86-87	87-88	88-89	89-90	90-91	91-92	92-93*	93-94*	94-95*
Sales	7047	8481	12745	17658	20505	22955	29084	34840	31447	35920
Profit after tax	563	719	794	1731	2954	3197	3311	2804	2167	2874
Dividend	126	153	173	247	296	321	740	740	740	853
Dividend as % age of Net worth	1.42	1.63	1.73	2.14	2.09	1.88	3.78	3.42	3.21	—
Profit after tax as a %age of Net worth	6.36	7.65	7.93	15.02	20.82	18.74	16.90	12.94	9.39	8.18
<i>Hindustan Fluorocarbons Limited</i>										
Sales	—	—	54	398	673	1100	2002	2076	1673	2138
Profit	—	—	—35	—1039	905	—461	—182	213	—188	10

*Inclusive of excise duty

3.2 The Committee desired to know the reasons for decrease in the profit in the years 1992-93 and 1993-94 over the year 1991-92 even though the sales during 1992-93 were higher than in 1991-92. The Company informed the Committee in a written reply that this was mainly due to increase to prices of some petroleum feed stock and fuel oil and overall reduction in margins, interest charges, electricity charges etc. Recessionary conditions in the industry and the severe competition from imports due to reduction in imports duties have made accelerated growth difficult which in turn resulted in a squeeze on the margins.

3.3 In this regard, the CMD, HOCL stated during evidence as under:

“Before liberalisation our profit reached a peak in the year 1990-91. It was a very good performance. Profit of the company was even more than the equity capital. In the year 1992-93 profit came down from Rs. 56 crore to Rs. 40 crore because the custom duty was reduced from 110% to 85%. In the year 1993-94 the custom duty was further reduced to 65% and we had to make adjustments for prices otherwise we could not have been able to run our business. At the same time on the raw material side we did not get the advantage of liberalisation because refineries did not adjust their prices. Now we are importing Benzene and Toluene. We cannot however import LPG because there is no port handling facility and quantity required is also very less. We want cracked LPG which is different than LPG

imported for domestic fuel. LPG price was increased by the refineries by 85 per cent for the industrial use whereas for domestic use the price was increased by a very small margin. They have increased the price of LPG to a considerable extent and that affected our profitability by about Rs. 1 crore per month. Next year i.e. 1993-94 also we made a profit of Rs. 22 crore. I am very happy to tell the Committee that so far as this year is concerned. We have made profit of Rs. 15 crores in the first six months. There was recession in the whole world in chemicals in the last two years which also is one of the reasons for lower profitability.

B. Performance of Subsidiary Company

3.4 HOCL has a subsidiary at Hyderabad viz. Hindustan Fluorocarbons Ltd. (HFL), which commissioned in March, 1988, for the manufacture of Poly-Tetra-Fluoro Ethylene (PTFE). The Company holds 51.10 percent of the paid up share capital of Rs. 11.86 crores of the subsidiary. The balance is held by Andhra Pradesh Industrial Development Corporation and the Public. HOCL has given loans to subsidiary amounting to Rs. 23.91 crores. Accumulated loss of the subsidiary as on 31.3.1994 was Rs. 27.90 crores.

3.5 The Subsidiary Company of HOCL viz., Hindustan Fluorocarbons Ltd. commenced commercial operations in March, 1988. The long gestation period has resulted in heavy interest burden coupled with the escalation in the loan component and consequential additional interest burden on the French loan availed in the year 1985, due to adverse exchange fluctuations year after year. The financial institutions, led by IDBI though sanctioned loan to the tune of Rs. 1512 lakhs, delayed in releasing the loan to HFL, which also resulted in cost overrun of the Project. There were certain inherent manufacturing defects in the Methanol refrigeration system supplied by a private company, which also contributed to the increased gestation period and the consequential and attendant cost and time overruns.

3.6 According to the company, HFL's Poly Tetra Fluoroethylene faced severe competition in the domestic market because of unscrupulous imports and dumping resulting from misutilisation of concessional duty, which is available only to users in the electronic industry. The cost of production being much higher than the landed cost of the imported PTFE because of the heavy fixed cost comprising high interest and depreciation components, HFL's product faced severe marketing constraints. This affected capacity utilisation and the consequent increased input costs.

3.7 All the above factors severely affected HFL's performance and the subsidiary company has not been able to make profit and has been incurring losses since commencement of commercial production. Since HFL has not been able to generate funds for repayment of French loan and also for its working capital requirements, HOCL, being the holding

company had to advance funds from time to time and the advances so far made on this account is worth over Rs. 30 crores.

3.8 When asked about the reasons for poor performance of HFL, the CMD, HOCL stated during evidence:

"Initially there were two problems. While setting up the plant we had to get one equipment from India instead of importing the same as per the advice given by the technology supplier. Because of the insistence of the DGTD that we should encourage indigenisation we could not import this equipment. Ultimately that equipment proved to be ineffective. We wanted the refrigeration system to operate at —32 degree temperature which we could not achieve by the compressor given by Kirloskar.....

Secondly, when we took loan from France the France-Rupee ratio was 1.60 and today it has gone to 6 with the result when we repaid the loan it becomes a very big liability. It was not possible to prepay the loan because of foreign exchange constraints and hence we had to repay in terms of Indian Rupee to much more than the amount we had actually got.

Then we could not develop market to hundred per cent capacity. This is a very high technology product and many people do not know the technology for using this product. So, we propose that we will merge this subsidiary with HOC so that we will be able to get good technology for making downstream application. Today we have developed a market for 300 metric tonne but with 60 per cent capacity utilisation profit is not coming. We are making cash profit but net worth of the company has become negative and hence this has become a sick unit. To revive this sick unit one proposal which we had submitted to the Government is that we will merge it with HOC. We have already talked to some technology suppliers in the United States, who have said that they can give technology for downstream application. The product is very good. It is high-tech product which needs further investment for utilising its full potential in India. No other country in Asia except a few, like Japan and China are making this product. We had some discussion with DuPont also to know whether they can help us and the outcome is also encouraging. Even they are thinking of doing something in India. We are quite confident that the company will revive. May be after merger with HOC it will take one or two years to revive. For the last six months the loss is of the order of Rs. 50 lakh."

3.9 When asked about the rationale for setting up of HFL when the available downstream facilities were not adequate and whether any market

survey was conducted before setting up the subsidiary, the Ministry stated in a written reply as under:

"It was expected that facilities for processing of PTFE for various and uses will develop after the material is available indigenously. They, however, did not develop the extent anticipated, as the technology back up would not generate adequate surpluses for investing in this area.

The market survey was conducted before setting up the subsidiary not only by HOC but also by IDBI which financed the PTFE project".

3.10 When asked at what stage the proposal to merge HFL with HOCL stands at present, the company informed the Committee that HFL became a sick Industrial company in terms of the provisions of the Sick Industrial Companies (Special Provisions) Act, 1985, and made a reference to BIFR. IDBI has been appointed as operating agency for preparing a scheme for rehabilitation of HFL by BIFR. A proposal for merger of HFL with HOCL with effect from 1-4-93 is envisaged which has been approved in principle by Boards of both Companies. Their merger would provide the necessary funds by way of savings in Corporate Taxes under Section 72-A of the Income Tax Act for Undertaking Capital expenditure/repayment of terms liabilities for revival of HFL. The approval from Government of India/BIFR is awaited.

3.11 When asked about the reaction of the Ministry to the merger proposal, the Secretary, Department of Chemicals and Petrochemicals stated during evidence:—

"For two reasons, we have supported the merger. One reason is that the Hindustan Fluorocarbons Limited is a loss making unit and would not be able to sustain itself. And the second one is that the merger perhaps would give HOCL some tax advantage. The HOCL will use its larger marketing network and will try to push up its target. From the futuristic point of view, the Hindustan Fluoro Carbons Limited have very good possibilities of development. It is a very good material that way. But, so far as its applications, they have not been able to develop it. The Hindustan Fluorocarbons Limited is not able to do the market development work. There is no doubt, basically the merger is a profitable one with new technology and new resources."

3.12 On being asked when both the Ministry as well as the Company were agreed for merger proposal then what was the need for referring the Company to BIFR, the witness stated as follows:—

"The merger proposal came after 1992. By that time the amendment had taken place and we had to go to the BIFR. The merger was being thought of separately. It has been referred to BIFR in 1992

itself. The last meeting was in April 1995. They have not yet given a decision."

3.13 The CMD, HOCL had informed the Committee during evidence that due to the existence of DGTD they had to get one refrigeration equipment from India instead of importing the same as per the advice given by the technology supplier. Ultimately that equipment proved to be ineffective. However, the Ministry informed the Committee in a post evidence reply that all modifications have been carried out at the cost of the supplier. The company has levied penalty of 10% of the order value towards performance and delay. All the defects have now been fully rectified and the units have been working satisfactorily since then.

C. Marketing

3.14 The Company has stated that the Marketing Department in HOC is in continuous communication and interaction with the customers through the various marketing/customer meets which are periodically organised focusing on specific theme like Safety, Environmental Aspects, Quality Control, etc. The year 1994-95 was identified as a year to focus on total quality management. Customer meets have been organised during this period in Calcutta, Ahmedabad, Baroda, Delhi, Bombay and it is also proposed to organise in Hyderabad, Vapi, Madras, Cochin in the current financial year.

3.15 When asked whether the present marketing arrangements are working satisfactorily, the Company replied in affirmative. The company stated that the market share of HOCL in respect of various products is 50 to 80% and it is proposed to be increased through development of new applications for the products, new markets, expansion of the business with existing customers, exports, value added products, opening stock points for better servicing.

3.16 According to Audit, the Company was giving significant discount on its sales as given below:—

Year	Rasayani Unit Gross Sales	Discounts	Percentage
	(Rs. in crores)	(Rs. in crores)	
1987-88	111.04	4.08	3.67
1988-89	123.93	1.69	1.36
1989-90	136.09	1.98	1.45
1990-91	128.48	5.11	3.98
1991-92	175.02	5.86	3.25
1992-93	168.18	15.52	9.23
1993-94	165.21	18.30	11.08

3.17 When asked about the reasons for such heavy discounts, the Company stated in written reply that discounts are given keeping in view the need for capturing and retaining the market share and the competition. But these are related to quantity and logistic need.

3.18 Audit has stated that the planned sales at Cochin unit were not achieved in most years. Discounts were given by the Company during the years 1987-88 to 1993-94 as detailed below:—

	Sales (Rs. in lakhs)	Discounts (Rs. in lakhs)	Percentage of discount to sales (average)
1987-88	3392	220	6.49
1988-89	8012	508	6.34
1989-90	10500	822	7.83
1990-91	14557	1113	7.65
1991-92	17424	1052	6.04
1992-93	18022	1088	6.03
1993-94	14927	1427	9.56

3.19 The reasons given by the company for giving discounts were (i) to attract more dealers; (ii) to retain business; (iii) to meet competition; (iv) shortage of storage capacity; (v) inferior quality of product and (vi) Surplus Cumene stock.

3.20 On being asked as to what steps have been taken in the Company to produce quality products, the Company stated in a written reply that HOC is producing quality products. Discounts are offered not on account of quality but to match the competitors price at various destinations and to avoid competition from the imported material traded in the country.

3.21 Regarding the steps being taken to increase the storage capacity, the Company informed as under:—

- “(i) The Company has put up new tanks in Cochin for Acetone and Cumene.
- “(ii) The drumming capacity has been increased.
- “(iii) Stock points are being identified for stock transfer and storing.”

3.22 On a query whether heavy discounts were given due to wrong market survey, Secretary, Department of Chemicals and Petrochemicals stated during evidence as follows:

“The market surveys do not always become true. Sometimes it changes. To cite an example, suppose the duty rate goes down it also changes. But whenever we clear a project it is only after ensuring that the market survey is done for the need of the particular product.

The discount is entirely a different thing. It is done by all the companies. If there is more inventory, discounts are given to boost the sales."

3.23 Supporting the concept of giving discounts the witness further added:—

"This discount will continue in the future also. It is the normal practice which all the chemical companies follow. We cannot make the HOCL an exception."

3.24 When the Committee asked whether there was any problem with regard to sales as a result of the liberalisation policy, the Company stated as under:

"Even though the process of economic liberalisation was introduced in mid, 1991, the real impact was experienced only from mid 1992. Most of the HOC's products attracted customs tariff of 110% in 1992-93 which was brought down to 85% in 1993-94 and 65% in 1994-95. The import-export policy 1992-97 introduced the value based advance licencing scheme as an incentive to the Export Oriented Units for promoting exports. This resulted in inflow of duty free material e.g. Aniline, Paranitrotoluene, Paranitrochlorobenzene, Phenol far in excess of actual consumption by the exporters creating tremendous imbalance in the domestic market. Deregulation of the licencing policy enabled additional capacities to be set up within the country for the range of HOC's products. The import-export policy was partially amended in March 93 thereby restricting the supplies of duty free inputs to the Export Oriented Units at International prices. World wide recessionary trend in the chemical industry coupled with the excessive indigenous capacity and relatively small size of operations dictated adjustment of prices to the market forces. The sale price had to be brought down by 25-30% across the board for the range of products. This shortfall, however, could not be compensated by way of reduction in raw material input costs particularly for those products which were non-controllable as these were governed by the administered prices e.g. LPG, Naphtha, LSHS Furnace Oil. However, the process of liberalisation also provided opportunity for sourcing cheaper raw materials from the international market such as Benzene, Toluene, Cumene etc. which has resulted in the overall savings in the cost of raw material inputs to the extent of Rs. 1000/MT in 93-94 as compared to the previous year. However, with the recovery of economy world wide particularly in US, Europe and Far East, there is an upsurge in the demand growth and firming up of prices in the international market. As a result the prices of the range of HOC products rose by 35-40% in the first half of 94-95 resulting in improved profitability. HOC has forwarded a number of suggestions to the administrative ministry and the concerned departments pertaining to the import-export policy, tariff

rationalisation and making available petroleum and other feed stocks at international prices to have level playing ground. These are under government's consideration."

3.25 When the Ministry was asked to react to the suggestions made by HOCL, the Ministry stated in a written reply as under:

"As part of the review of the export-import policy which is undertaken by the Ministry of Commerce all administrative Ministries/Departments of the Government of India send their views/suggestions to the Ministry of Commerce. This Department also takes into consideration the views of the Industries Associations and various individual units in private/public sector before formulating its views."

D. *Irregular Sales*

3.26 As a general rule HOC supplied its products to buyers against advance payment or against bank guarantee. A party was purchasing the materials from HOC under its own name and in other firms names also. Ten out of 12 bank guarantees furnished by the party and its associates during December 1988 to February 1990 were fake and the bank did not honour the guarantees of Rs. 71.64 lakhs. A criminal case was registered by HOC. Earlier, the party's cheques amounting to Rs. 38.66 lakhs had bounced. But the payment was received from the party after 10 days to one month. Civil suit has been filed in January, 1993 and provision for loss of Rs. 59.40 lakhs has been made in the account. Criminal case filed by the police is pending in the Bombay Court.

3.27 On being asked whether the company has conducted any enquiry to ascertain the reasons for the acceptance of fake bank guarantees, the company stated in a written reply as under:—

"Yes, Departmental enquiry was ordered during May 91 to identify any shortcomings in the existing procedure and to fix responsibility including the reasons for acceptance of fake bank guarantee. The findings of the enquiry are as follows:—

- (1) Before entering into business with a new party credentials and creditworthiness of the party be carefully ascertained.
- (2) Names of bankers and credit limits given to the party be checked with the bankers.
- (3) Before extending credit approval of D(C) and D(F) or CMD should be obtained.
- (4) Quarterly review of sundry debtors should be undertaken.
- (5) Parties from Bombay should be asked to give cheques drawn on Bombay banks for easy verification in doubtful cases.
- (6) Internal Audit must be strengthened to ensure adherence

to procedures already laid down and suggest improvements in the light of past experience.

- (7) Better communication and coordination, not only within Marketing Division but also between marketing and finance divisions.
- (8) All bank guarantees will be referred to the bankers and got confirmed from them before acceptance of the same as security."

3.28 When asked as to how the company is ensuring that there is no repetition of such irregularities in bank accounts, the company stated in a written reply that the company has introduced a procedure of re-verifying Bank Guarantees with the issuing Banks directly before supplies are resumed.

3.29 When asked about the final outcome of the case the company, stated in a written reply as under:—

"The last hearing on the case was on 5-8-94 where the accused was to be charge-sheeted by the Crime Branch in the Court. The Counsel of accused has requested the Court to adjourn the same to the next hearing as the main accused Mr. Sanjay Shah could not attend the Court due to ill-health. The next hearing which was fixed on 26-8-94 did not take place due to Bombay Bundh on that day. We are in touch with the police prosecutor to know the further date of hearing. Meanwhile, we have received Rs. 85,000 from M/s. Amit Enterprises, one of the sister concerns of Sanjay Chemicals, leaving the balance to be recovered as under:—

Sanjay Chemicals	Rs. 34,14,451.03
Metchem	Rs. 16,21,066.90
Amit Enterprises	Rs. 1,66,307.60
BSN Chemicals	(-) Rs. 12,342.20*
Total	Rs. 51,89,483.33

*Excess amount received from BSN Chemicals"

3.30 In March 1989, 291 MTs of Phenol was sold to one party without any security. The dues amounted to Rs. 41.87 lakhs as on 31.3.1994 including delayed payment charges. Clean credit was given to party because the production was in full swing though the party was not able to offer any security.

3.31 Even though the party was a bulk purchaser, he was supplied phenol in drums. The party was apparently selling the phenol as a retailer. Supply to the party was continued even after bouncing of cheques of Rs. 1.90 crores.

3.32 During September and October 1989, 147.22 tonnes of Phenol in drums was also sold to the party at special concessional rate of Rs. 11,375 per tonne which was lower than the cost of production which was Rs. 19.819 per tonne and selling price of Rs. 25,000 per tonne to others. During the same period company exported the Phenol at Rs. 17,168 to

Rs. 20,355 per tonne. On this sale company incurred a loss of Rs. 20.06 lakhs.

3.33 The Ministry informed Audit that its Chief Vigilance Officer has been asked to look into the matter.

3.34 When the Committee enquired from the Ministry about the present stage of the enquiry, the Ministry stated in a written reply that the report of the Chief Vigilance Officer has been referred to the Chief Vigilance Commission. Further action would be taken in accordance with its directions.

3.35 The Secretary, Department of Chemicals & Petrochemicals informed the Committee during evidence that they are in correspondence with the CVC for a final decision as to what is to be done. When the Committee desired to know whether the Director on the Board brought this matter to the notice of the Ministry, the witness stated that the Board itself was not aware about it. The witness further stated:—

“Sir, the Ministry did not know about this matter because this matter did not come in the Board. But it is the CVC who has received complaints.”

3.36 Regarding the action taken in the case, the Ministry informed the Committee in a post evidence reply as under:—

“HOCL has reported that the following course of action was adopted in dealing with the concerned parties:

Shrishma Fine Chemicals:

No further sale has been made to the party. When the cheques were getting bounced, demand drafts were obtained from the party to the extent of value of such cheques. The entire principal amount has been recovered. DPC amounting to Rs. 41 lakhs which has been disputed by the party is still to be recovered, for which a winding up petition has been filed in Bangalore High Court which is pending.

Sanjay Chemicals:

As regards Fake Bank Guarantees, a petition was filed and criminal proceedings were immediately taken against the person involved.

Simultaneously, a Civil suit has also been filed for recovery of the amounts involved from the parties as per the advice of the Company's Solicitors. In the meantime, the parties have paid Rs. 5.70 lakhs and the matter is being pursued with the Police Commissioner to speed up the criminal proceedings.

As per the communication received from the Central Vigilance Commission, *suo-motu* reference was initiated on the basis of the anonymous complaint received in that Commission. The report of Chief Vigilance Officer of the Department was submitted to the Central Vigilance Commission. Certain clarifications/documents have

been asked for by the Commission and the same are being furnished by the Department."

3.37 The Secretary Department of Chemicals and Petrochemicals also stated during evidence:

"Sir, I admit that it is a bad case and we will certainly look into the matter."

E. Export Performance

3.38 The export performance of the company in last five years is given below:—

(Rs. in Crores)

Year	Sales	Exports	Percent- age
1987-88	127.45	6.48	5
1988-89	176.58	12.66	7
1989-90	205.05	6.67	3
1990-91	229.55	6.13	3
1991-92	290.84	5.76	2
1992-93	295.37	5.58	2
1993-94	269.98	3.38	1.25

3.39 When asked whether the company has prepared any long range plan to improve its decreasing exports, the company stated that one of the corporate objectives in the long range conceptual corporate plan is to promote export and to be an international player. During the first six months of 1994-95, Rs. 545 lakhs worth of products have been exported.

3.40 On being asked about the impact of liberalisation policy of the Government on the export performance of the Company, the Company stated in a written reply as under:—

"The focus is more and more on exports now. During the first six months of 94-95, Rs. 5.45 crores export has been achieved as compared to Rs. 1.53 crores during the same period last year. The target for 94-95 has been fixed at Rs. 15 crores as against the achievement of Rs. 3.38 crores during 93-94."

3.41 When asked whether the Ministry have received any suggestions from HOCL relating to export import policy, the Secretary, Department of Chemicals and Petrochemicals stated during evidence:—

"What happens is that before the finalisation of the Budget, these suggestions come from the industry including the public sector undertakings. Generally, the thrust and the burden of the proposals are that they want the duty rates of certain products which they are manufacturing should not be brought down so that they can get

adequate protection. On the other hand, they may ask that the raw material rates, should be reduced so that they can get the raw materials cheaper. Then, very often the proposals relate to reduction in the excise duty so that the product should be cheaper and they could market it more easily. These are the proposals and many of the HOCL proposals have fallen in this category. We, as a Government, have to look at them as a total industry across the table and not make a distinction between public sector and private sector because we have to deal with industry as such. There, we do a kind of balancing, trying to have a system of a structure with the raw materials, then the lower rate of duty in the intermediaries and then in the case of highest rates of duties, we have to follow whatever is the patterns the Finance Minister imposes. We do have a lot of interaction with the Ministry of Finance in these matters in such a way that we protect the industry. These are budgetary matters and it will be difficult for me to share them."

3.42 On being enquired about the decrease in the exports of the company, the witness stated as follows:—

"There seems to be a contradiction. During this period, chemicals exports have gone up to Rs. 6,000 crores. The performance of pharmaceutical industry, some plastic processing items etc. have gone up. But, in this case, this is a basic chemical. No other Indian Company is exporting this basic chemicals. Within the country only, they are exporting. Only these people are trying to export, otherwise they are not focussed on exports, marketing etc. Last year, they have exported to the tune of Rs. 15 crores."

3.43 When the Committee pointed out that the company had stated in a reply that the focus was more and more on the exports, the witness added as under:—

"They have exported to the tune of Rs. 15 crores. What is happening is that they are now trying to keep not only the domestic market, but also the whole international market in view. If they are not able to sell something or if they get better price, in that case, they will export. As the moment, they are not focussed to export. As I mentioned, they are trying to set up new plant for phenol. There they can utilise such additional capacity for the domestic plant. As such, we are not monitoring the exports because we want them to sell whatever they can in the domestic market because it helps the downstream industry."

3.44 When asked whether the company has ever approached for any assistance in order to boost its exports the Ministry stated in a written reply as under:—

"The company has not approached the Ministry for assistance to boost its exports. In the large interests of the company, commercial decisions like exports of its products are taken by the company."

F. Sundry Debtors

3.45 The volume of dues to be collected by the Company on its sales is given below:—

(Rupees in Lakhs)

As on 31st	Debtors		Total Sales	Percentage of debtors to sales	Debtors in terms of months sales
	Good	Doubtful			
March 1986	1124.66	42.05	7046.99	16.55	2.0
1987	959.82	43.23	8481.25	11.79	1.4
1988	1556.83	50.45	12744.81	12.61	1.5
1989	1326.45	44.85	17657.67	7.77	1.0
1990	1191.01	116.21	20505.31	6.38	0.8
1991	1722.41	113.67	22955.30	7.50	0.8
1992	2322.52	107.96	29083.72	7.99	0.95
1993	5040.94	101.44	29537.13	17.41	2.08
1994	5293.25	100.27	26998.06	19.98	2.35
1995	7019.58	112.71	29957.65	23.81	—

3.46 The company has stated that a Steering Committee has been set up with the Deputy General Manager (Marketing) as the Convener to review the position on weekly basis with all concerned. The interventions of the Directors and the Chairman are also sought as and when required.

3.47 When asked whether the matter regarding old dues and loans from PSUs was ever brought to the notice of the Government, the Ministry stated in a written reply as under:—

"Government as a rule does not intervene in respect of trade dues. It is expected that the company will be able to recover these in the normal manner. So far as loans advances to Smith Stanistreet and Hindustan Insecticides Limited are concerned, the principal and interest portion is expected to be liquidated over the period of time on the basis of an agreed schedule."

3.48 In this regard the Secretary, Department of Chemicals and Petrochemicals stated during evidence:—

“Sir, the other units are in a very difficult position. As you know, Sir, the IDPL is a sick unit. It has been referred to the BIFR and it is in the process of revival. It has been agreed that they would return the dues in instalment. So, the money which the IDPL owes to the Company will not come immediately.

Sir, the other company is the Hindustan Insecticides Limited. It has returned the principal amount of Rs. 2 crores and only the interest and some trade dues are still remaining. The matter is being taken up with the company.”

3.49 Later in a post evidence reply, the Ministry informed the Committee as under:—

Old dues from PSUs as on 31.3.1995 are:—

- (i) Hindustan Insecticides Limited—Rs. 29,82,225. Out of this amount, Rs. 15,38,549 is due for more than six months. An amount of Rs. 4.99 lakhs has been received on 31.3.1995.
- (ii) Indian Drugs & Pharmaceuticals Limited—Rs. 3,02,45,558/- Out of this amount, Rs. 2,95,75,383 is overdue for more than six months. Reserves for doubtful debts of Rs. 3 crores had been created in HOC's accounts.

The Department is keeping the matter under review. It may be mentioned that HIL is a marginally sick company and is slowly turning round. It has already repaid some of its dues and would repay the remaining as and when it has some surplus funds to meet his liability. IDPL is a BIFR company and its revival package recognize the dues of HOC which would be repaid as the Company turn round in the future. However, in view of the present health of HIL and IDPL, the Department cannot direct the two companies to immediately liquidate the dues of HOC.”

IV. General

Irregular Award of Contract

4.1 For the annual maintenance work of Sulphuric Acid Plant during the plant shut-down period in October and November, 1986, Hindustan Organic Chemicals Limited floated enquiries and five parties quoted as under:

- A Rs. 10.64 lakhs
- B Rs. 11.68 lakhs
- C Rs. 14.80 lakhs
- D Rs. 14.86 lakhs
- E Rs. 25.13 lakhs

4.2 The first and second parties were considered to be lacking in experience and had quoted 40 and 35 days for completion of the job against the Company's estimate of 20-22 days. The work was assigned to 'C' for Rs. 14.22 lakhs after negotiations. Maintenance work for 1987 and 1988 were also entrusted to 'C' described as "Rasayani Employees Engineering Company Private Limited" at Rs. 19.17 lakhs and Rs. 17.12 lakhs respectively. A contract for disposal of scrap was also awarded to 'C' for Rs. 18.35 lakhs in 1986-87. 'C' was incorporated as a Private Limited Company by two employees of the Company. In the tender for above contract 'C', had stated that it was a Government Limited Company floated by the Company's Employees Union, of over one thousand employees but having no workshop or establishment.

4.3 As per the Rule of the Company, applicable to all employees, an employee may not without the previous sanction of the competent authority, take part in the registration, promotion or management of any bank or company or cooperative society, for commercial purposes. Further the Industrial Employment Standing Orders Act 1946, prohibits an employee from engaging in any trade or business or other employment while in service of the Company. The contracts were therefore irregularly awarded by the Company to 'C'.

4.4 The Ministry informed Audit in October, 1992 that legal advice is being taken on the view of the Management that no action can be taken against the employees concerned. The reply is silent on the transactions by the Management.

4.5 When asked as to what were the reasons which weighed with the management for awarding this contract to Rasayani Employees

Engineering Company the Company stated in a written reply as under:—

“The REEC was not formed by two employees of the company. It was floated by HOC Employees Union and permitted by its object clauses and registered under the Companies Act, 1956. As per the Articles of Association of REEC the promoter and directors were the President and Secretary of the Union i.e. HOC Employees Union in their official capacity and not in their personal capacity. Since the REEC was having the skilled and semi skilled manpower which was required for shutdown maintenance of SA Plant, REEC was considered on merit basis.”

4.6 On being asked about the final outcome of the legal advice obtained, the company stated as under:—

“The legal advice was taken by the Company from Company's legal consultant M/s. Crawford Bayley & Company. They were of the opinion that HOC has awarded the contract to a public limited company registered under the companies act, 1956 which is legally a separate identity from the persons who involved in the formation of the company and hence HOC has not awarded the contract to its employees. However, the Law Ministry Government of India instructed HOC not to award any future contract to REEC and also advised HOC to direct the concerned employees to dissolve the REEC.”

4.7 The company also informed the Committee that: “immediately after the receipt of advice of Law Ministry HOCL had directed the President of HOC Employees Union who is also the Director of REEC by his official capacity to take immediate action to dissolve the REEC. No further work has been awarded by HOC to REEC and as per our knowledge REEC has not taken up any other work also.”

4.8 The Secretary, Department of Chemicals and Petrochemicals stated during evidence as follows:—

“There are two things. One is whether any wrong was done by those set of officers who awarded the contract to this company. The second is whether the Employees who participated in the company were in the wrong. Now, as far as the first part is concerned, it is quite clear that there was no wrong done when the contract was awarded based on the lowest tender. They are following the normal procedure.

In this regard, we have forwarded the Law Ministry's advice to the Company and they have now henceforth stopped purchasing from this particular contractor. There was some difference of opinion between what the company had itself obtained and what we obtained from the Law Ministry. But finally on the basis of our legal advice, they have stopped transacting with them.”

4.9 According to the witness the contract was given to the lowest bidder. But when the Committee pointed out that it was not the lowest bidder, the Secretary, stated as under:—

“Only two days back, I have been told by the Management that they were the lowest bidders. Now, it shows the information was wrong.”

The witnesses further added:—

“Sir, when I asked specifically about the awarding of contract, I was informed that this contract was awarded based on the normal tender procedures.”

4.10 Later in a post evidence reply, the Ministry informed the Committee as under:—

“HOCL has reported that at the initial tendering stage, M/s. REEC was the L3 party. The L1 and L2 parties were M/s. Aspec Construction, Bombay and M/s. Petrochem, Bombay respectively. L1 and L2 parties were not considered on the following grounds:—

1. Lack of experience in the specialised job of Sulphuric Acid plant shutdown maintenance.
2. Time quoted to complete this job by the above two parties was 40 and 35 days respectively, as against HOCL's requirement of 20-22 days.
3. After conducting techno-commercial evaluation, M/s. REEC was found to be the technically acceptable L1 party for award of this contract.

M/s. REEC was directed by HOCL *vide* its letter dated 28.11.1992 and subsequent letters dated 6.8.1993 and 17.4.1995, sent to the President of HOCL Employees' Union by registered Post to close down the company.”

PART B

RECOMMENDATIONS/CONCLUSIONS OF THE COMMITTEE

1. Hindustan Organic Chemicals Limited (HOCL) was incorporated in December, 1960 by the Government of India. The Company is located at Rasayani in Raigad District of Maharashtra and is engaged in manufacture of organic chemicals and intermediates required for the dyestuffs, drugs and other chemical industries. Between 1970 and 1974, twelve plants were commissioned in Phase I at Capital cost of Rs. 22 crores. The Company undertook Phase II of Capital Investment as expansion programme which was completed in 1981-82 at a cost of Rs. 17.5 crores. The Company commissioned a unit in March, 1988 at Cochin for manufacture of Phenol and Acetone. The Company also runs a subsidiary at Hyderabad viz. Hindustan Fluro Carbons Ltd.(HFL) for the manufacture of Poly Tetra Fluro Ethylene(PTEE). The main objectives of the Company cover manufacturing, buying, selling and dealing in several organic and inorganic chemicals for the pharmaceutical, fertilizer, rubber processing chemicals and all allied industries. Though both the Company as well as the administrative Ministry have claimed that the Company has been able to achieve the objectives which were envisaged at the time of its incorporation, the Committee during the course of examination of the subject have noticed a number of deficiencies in the functioning of Hindustan Organic Chemicals Limited which have been brought out in succeeding paragraphs.

2. The Committee note that the Company has been signing Memorandum of Understanding (MOU) with the Government from the year 1991-92. While the (MOU for the year 1994-95 was signed on 19th July, 1994, the MOU for the year 1995-96 was signed only on 10th October, 1995 (6-1/2 months after beginning of the financial year). The Committee have emphasised the need for timely signing of MOU in their earlier Reports also. One of the reasons advanced by the Secretary, Department of Chemicals and Petrochemicals for the delay is that all the MOUs of different companies go to the High-level Committee at one time and after they are all cleared, the respective Ministries and the respective companies sign them. The Committee are not convinced with this argument and feel that the delay in signing of MOU can be avoided if the process of preparing the MOU is started well in time. They are also not satisfied with the reply that since the MOU is known to the Company and the Ministry, the Companies start working on them. The Committee are of the firm opinion that delay in signing of MOU definitely hampers the spirit of the MOU and defeats its very purpose. They, therefore, desire that as promised by the Secretary during the evidence, necessary steps be taken to evolve a system

by which MOU is expedited and signed well before the beginning of the financial year. The Committee would like to be apprised of the action taken in the matter.

(Recommendation Sl. No. 1)

3. A suggestion has been made by the Company that since under the MOU system, the targets are committed for one year and the MOU is also signed for one year, there should be a provision for a mid term review in order to consider the effect of external forces and to rectify the targets. The Ministry was also of the view that a mid term review of the MOU would enable the Company to take corrective action as well as to make an assessment of the future performance in a more realistic way. The Committee, therefore, desire that the issue should be examined indepth by Government and if found advantageous, the present system of MOU should be modified to the extent that it contains a provision for mid term review of the MOU. They also desire that the results of the examination should be intimated to them.

(Recommendation Sl. No. 2)

4. At present the Board of Directors of the Company can approve new schemes/projects costing upto Rs. 50.00 crores, HOCL has suggested that since the limit was fixed by the Government in 1988-89 and since then there has been a considerable change in business environment, this limit should be raised to the level of Rs. 150-200 crores. The Committee are surprised to find that though the Ministry also realises the need for raising the limit, no concrete action has been initiated in this direction. The Committee recommend that the matter should be taken up with the Department of Public Enterprises at the earliest with a view to get the ceiling for approval of investment by the Board of Directors raised expeditiously.

(Recommendation Sl. No. 3)

5. The Committee have been informed by HOCL that it had prepared a Corporate Long Range Plan for the period 1976 to 1989. However, according to the Ministry the Corporate Plan of HOCL cannot be said to be a corporate plan as such, but an approach paper since it did not identify specific targets. The Committee deprecate the inaction on the part of the company in not preparing a proper corporate plan even though the Department of Public Enterprises had issued guidelines in this regard as early as in 1974. Even the so called Corporate Plan was not submitted to the Government for its review. The Committee are very much concerned to find that the Ministry also did not ask the Company at any stage to prepare the full fledged Corporate Plan and fix specific goals and targets. They are unable to understand how in the absence of targets, the Ministry was able to judge the performance of the Company during these years. The Committee strongly deprecate this apathetical attitude of the Company/

Ministry and desire that the preparation of corporate plan in future should be given the attention it deserves.

(Recommendation Sl. No. 4)

6. The Company is stated to have prepared a new corporate long range plan concerning the period 1993—2013. Though two years have already passed, the same has still not been approved at the Board level itself. The Committee do not agree with the argument advanced by the Secretary, Department of Chemicals and Petrochemicals that delay in preparing the Corporate Plan, does not effect the day to day working as they have done an exercise for the next five years in any case because of Five-Year Plan. The basic purpose of the preparation of Corporate Plan is defeated if its implementation is not taken up in time. The Committee, therefore, recommend that the Corporate Plan of HOCL should be finalised without any further delay under intimation to them.

(Recommendation Sl. No. 5)

7. Normally, the chemical, fertilizer and petroleum plants adopt 330 stream days in computing rated capacity. But according to Audit, HOCL adopted only 300 days in most of its plants at Rasayani, though it adopted 330 days in its Cochin Plant. Though the Company had realised the need for uprating of the capacities in some plants in 1979, the Committee are constrained to observe that it did not take any action to uprate the capacities. Despite repeated insistence, the Committee were unable to get a satisfactory reply from the Company to justify the delay of more than 15 years in uprating the capacities of these plants. It is all the more disquieting that the Ministry came to know about this matter only on receipt of the Audit Report in August, 1993. It is only now that a study for rerating the capacities of plants has been awarded to Fact Engineering and Design Organisation but this study has so far been completed only in respect of three plants. The Committee desire that the study by Fact Engineering and Design Organisation should be got completed early and necessary action taken to uprate the capacities for the remaining plants at the earliest.

(Recommendation Sl. No. 6)

8. Though the Company needs to produce only 22,800 MTs of Sulphuric Acid for its captive consumption, the capacity of the Sulphuric Acid Plant was increased from 30000 TPA to 45000 TPA in September, 1979 at a cost of Rs. 55.20 lakhs. The reason for increase in capacity was stated to be the installation of Double Contact Double Absorption System in order to reduce SO₂ and SO₃ emissions in the air. The Committee are at a loss to understand why in the original design of the plant, ecological considerations were not taken into account. They, therefore, recommend that in all the plants to be set up in future every aspect including environmental angle as well as commercial viability of the plant should be taken into consideration. The Company suffered heavy losses on the sale of the excess quantity of Sulphuric Acid almost every year from 1985-86 to 1993-94. Such losses

during 1993-94 were to the tune of Rs. 1 crore. The Committee are not inclined to concur with the opinion of the Secretary, Department of Chemicals and Petrochemicals that it would be worthwhile for them to produce higher quantity even if there are losses. According to the company, as a corrective action Sulphuric Acid sales are now being made directly to consumers in preference to dealers and long term Contractual arrangements have been worked out with customers. Needless to say, had these actions been taken earlier, the losses on sales of excess Sulphuric Acid during these years could have been minimised. The Committee would also suggest that the viability of setting up some storage capacity for the excess sulphuric acid should also be examined so as to avoid its sale at a loss.

(Recommendation Sl. No. 7)

9. The Acetic Acid/Anhydride Plant was set up in 1982-83 under a guarantee for performance given by the consultants. The Committee are dismayed to learn that the performance of the plant could not be proved and the company had to incur avoidable expenditure of Rs. 19 lakhs for its modification. Admittedly, the technology was defective and it was a commercially bad judgment. The Committee, therefore, desire that responsibility should be fixed for this faulty decision. The Committee also do not agree with the contention that the non-availability of Acetaldehyde from the existing Formaldehyde plant of HOC (as envisaged in the feasibility study for the Acetic acid/Anhydride plant) did not result in any loss to the company since the Acetic acid/Anhydride plant has been lying idle since 1992 due to non-availability of Acetaldehyde. The Committee would like that the loss due to this plant remaining idle should be assessed and intimated to them early. They also desire that the study regarding the viability of restarting the Acetyl plant should be completed expeditiously under intimation to the Committee.

(Recommendation Sl. No. 8)

10. The Committee are dismayed to note that the actual cost incurred on the Phenol project at Cochin was Rs. 95.78 crores against the original estimated cost of Rs. 49.33 crores. Not only that the project was completed (mechanically) in January, 1987 and commercial production started only in March, 1988 against original schedule of June, 1985. The cost over-run has been attributed to escalation in prices, foreign exchange rate fluctuation, inadequate provisions in original estimates, extra compensation payable to land owners and extended stay of foreign technicians due to extended trial runs. The extra cost on account of extended stay of foreign technicians alone amounted to US \$ 13.85 lakhs. According to the Company, it has taken adequate steps for selection of right vendors and give them a more realistic schedule in order to avoid recurrence of such cost over-run and time over-run. However, the Committee are of the firm opinion that there have been lapses in project preparation and project monitoring which has also been admitted by the Ministry. They, therefore, recommend that the detailed

analysis of the factors responsible for the time and cost over-run should be made expeditiously to avoid such lapses in future.

(Recommendation Sl. No. 9)

11. The Committee regret to note that though the Phenol unit at Cochin which commenced production in March, 1988 was to achieve 60% capacity in the first year, 80% capacity in the second year and 100% capacity in the third year onwards, the unit achieved around 60% capacity utilisation in 1988-89, 70% in 1989-90, 80% in 1990-91, 81% in 1991-92, 82% in 1992-93 and 74% in 1993-94. The reason for lower capacity utilisation has been stated to be that the target capacity utilisation was determined with the assumption that 30% of production would be exported but the international market registered a declining trend in the price front. Full benefit of the increase in domestic market was also not available to HOC in the later years because of free import of phenol. The Committee desire that in order to achieve full capacity of the plant the Company should take up the manufacture of value added products like Bis phenol-A and Vanilline which are stated to have good market potential. However, it will be advisable to make a proper market study before entering into the new venture.

(Recommendation Sl. No. 10)

12. The Committee note with concern that though an investment of Rs. 1.61 crores has already been made on the project for Trimer/Tetramer, the project has not taken off due to non-availability of propylene as envisaged. The Committee are unable to understand how the HOCL went ahead with the project assuming the propylene content at 32% in the LPG to be supplied by Cochin Refineries Ltd. when the latter had indicated as far back as in 1981 itself that the propylene content was likely to be 28.17%. As a result the column, storage bullets and pumps created for extracting additional chemical grade propylene are lying idle since January, 1987. What is worse, the production of Trimer/Tetramer is now stated to be economically unviable in the current market situation. The Committee cannot but conclude that this is just another example of bad planning. They desire that the matter should be enquired into with a view to fixing responsibility for designing the project on the basis of wrong assumptions. They would also like to be informed how the additional column is now proposed to utilised.

(Recommendation Sl. No. 11)

13. The Committee are very much concerned to note that the inventory holding of the raw material as well as Stores & Spares has been much in excess of the norms. Against the norms of 15 days production for raw material and 180 days production for Stores & Spares, the actual holdings during the years 1990-91 to 1993-94 were 23, 22, 8 and 33 days production for raw material and 571, 488, 718 and 670 days production for Stores and Spares. Obviously such high inventory results in unnecessary locking up of funds and adversely affects the functioning of the company. The Committee,

therefore, desire that the inventory management in HOCL should be reviewed and strengthened suitably.

(Recommendation Sl. No. 12)

14. The expenditure on R&D as compared to net sales was 0.18, 0.15 and 0.69 during the years 1991-92, 1992-93 and 1993-94. The Committee are not happy with the current level of expenditure on R&D activities of HOCL although the company is not engaged in basic research for new products. The Committee desire that the outlay on Research & Development in the company should be enhanced. Since Research & Development is very vital in a competitive market they strongly recommend the Government to examine the possibility of giving tax benefits on R&D expenditure so that the Public Undertakings may be able to withstand the competition posed by multinational companies.

(Recommendation Sl. No. 13)

15. The Committee have been informed that based on the technology developed by the R&D Division, the company set up plants for commercial production of Resorcinol, Metachlorobenzene, Cyclohexylamine, Buten Diol and Para-Nitrophenol. The Resorcinol plant was decommissioned due to stoppage of production of Meta Amino Phenol. The Paranitrophenol Plant was decommissioned as the same was reserved for SSI units. However, the Committee are of the strong opinion that since the Paranitrophenol was reserved for the SSI units subsequent to the setting up of the plant by HOCL there was no need to discontinue the plant. Though the Secretary, Department of Chemicals and Petrochemicals was also of the view that HOCL should have continued the plant, at no stage the Ministry appears to have asked the company to continue the operations of the plant. While the Committee do not disagree with the need for giving protection to the SSI sector, they desire the Government to enquire into the matter to find out the compelling reasons for the discontinuation of the plant which was set up before the reservation for SSI sector and fix the responsibility.

(Recommendation Sl. No. 14)

16. The Committee express concern over the declining trend in profits of the company after 1991-92. Against the profit after tax of Rs. 33.11 crores during 1991-92, the profit earned during 1992-93 and 1993-94 was Rs. 28.04 crores, and Rs. 21.67 crores. Although it increased to Rs. 28.74 crores in 1994-95, the percentage of profit after tax to net worth has been consistently declining from 20.82 in 1989-90 to 8.18 in 1994-95. One of the main reasons for decline in profitability was stated to be that consequent to the liberalisation while the company had to adjust its prices as a result of reduction in customs duty on products manufactured by HOCL, the prices of raw materials procured from the refineries were not reduced since they were covered under administered pricing. The Committee suggest that the issues regarding the effect of the export import policy of Chemicals on

HOCL and tariff rationalisation should be taken up with the Ministry of Finance.

(Recommendation Sl. No. 15)

17. The Committee are perturbed over the poor performance of Hindusthan Fluoro Carbons Limited, the subsidiary of HOCL. The Company which commenced commercial operations in March, 1988 has been incurring losses since its inception except during 1992-93 when it earned a profit of Rs. 213 lakhs. The loss incurred by the company during 1993-94 was Rs. 188 lakhs while it earned a profit of Rs. 10 lakhs during 1994-95. The accumulated loss of HFL as on 31.3.1995 was Rs. 27.80 crores. The Committee have been informed by the company that the long gestation period had resulted in heavy interest burden coupled with the escalation in the loan component and consequently additional interest burden on the French loan availed in the year 1985. There was also delay involved in releasing of loan by financial institutions. Apart from the inherent manufacturing defects in the Methanol refrigeration system purchased indigenously on the insistence of DCTD the market for Poly Tetra Fluoro-ethylene could not be developed to hundred percent capacity. Besides PTFE had to face severe competition in the domestic market. The Committee are of the opinion that the development of downstream industries based on PTFE could also not be assessed correctly. They desire that sincere efforts should be made to explore new markets for PTFE in order to run the plant at 100% capacity. The Committee also feel that the merger of HFL with HOCL will immensely help in improving the performance of the Company. Now that the merger proposal has been approved by Boards of Directors of both the companies the final decision in the matter should be taken without any further delay so that the HFL could be revived at the earliest.

(Recommendation Sl. No. 16)

18. The Committee are astonished to find that the company has been giving heavy discounts on the sales of its products at its Rasayani and Cochin units. The discount on the sales during the years 1991-92 to 1993-94 ranged between 3.35 percent to 11.08 percent at Rasayani and between 6.04 to 9.56 at Cochin. Although the company has contended that the discounts were given to avoid competitions from the imported material traded in the country, the Committee have received an impression that shortage of storage capacity and inferior quality of products were also the reasons for such discounts. The company is now stated to have put up new tanks in Cochin and the drumming capacity has been increased. Though giving discounts might be a normal practice in the chemicals industry, the Committee are of the opinion that such discounts should be limited to the barest minimum in order to increase the profitability of the company. The Committee would therefore emphasise the need for more stringent quality

management and vigorous marketing efforts to meet the challenges from the competitive market.

(Recommendation Sl. No. 17)

19. The Committee are shocked to note that 10 out of 12 bank guarantees furnished during December, 1988 to February, 1990 by a party which was purchasing the materials from HOC were fake and the bank did not honour the guarantees of Rs. 71.64 lakhs. All the more surprising is the fact that earlier also, the party's cheques amounting to Rs. 38.66 lakhs had bounced though payment was received from the party subsequently. A departmental inquiry was ordered during May, 1991 to identify the shortcomings in the existing procedure and to fix responsibility. Surprisingly, no responsibility in the matter has been fixed although to avoid repetition of such irregularities in future, the Company is stated to have introduced a procedure for re-verifying Bank Guarantees with the issuing Banks directly before supplies are resumed. A criminal case for bouncing of cheques and a civil suit has been filed which are pending in Bombay High Court. The Committee strongly recommend the Government to pursue the case vigorously and outcome of the case be informed to the Committee. They also desire that an independent high level enquiry should be conducted into the matter and responsibility be fixed in the matter of acceptance of fake guarantees.

(Recommendation Sl. No. 18)

20. Another glaring instance brought to the notice of the Committee is regarding the sale of 291 MTs of Phenol in March, 1989 to a party without any security. The supply to the party was reportedly continued even after bouncing of cheques of Rs. 1.90 crores. Not only that during September and October, 1989, 147.22 tonnes of Phenol was sold to the party at a concessional rate of Rs. 11,375 per tonne though the cost of production of Phenol was Rs. 19,819 per tonne. The Committee have been informed that the report of the Chief Vigilance Officer has been referred to the Chief Vigilance Commission and Ministry are in correspondence with the CVC for a final decision on the action to be taken in the matter. The most surprising thing in the whole episode is that neither the company nor the Ministry were aware of the happenings till suo moto action was initiated by the CVC after they received complaints. The Committee are, therefore, led to the inescapable conclusion that there is definitely something wrong with the marketing division of the Company which needs to be streamlined. They, therefore, recommend that the matter pending with CVC should be pursued vigorously and responsibility be fixed on the defaulting officials under intimation to the Committee within a period of three months of presentation of this Report.

(Recommendation Sl. No. 19)

21. The Committee note with concern that the exports of the company have been showing a declining trend although one of the objectives in the

long range conceptual corporate plan is stated to be to promote exports. The percentage of exports to the total sale which was 7 during 1988-89 has been reduced to 1.25 during 1993-94. They expect the Company to maintain an uptrend in exports (Rs. 15 crores achieved during 1994-95). However, the Committee are at a loss to understand that though according to the company they are focussing on more and more exports, the Ministry feel otherwise. The Committee are also not happy with the apathetic attitude of the Ministry towards the company. From the detailed examination of the subject, the Committee have received the impression that in every matter the Ministry have tried to wash off their hands in the name of commercial interests of the company. Though the Committee fully appreciate the spirit of giving more and more autonomy to the Public Sector Companies, at the same time the Ministry's monitoring role cannot be over emphasised and particularly in this era of liberalisation, the company can withstand the competition only with the support of the administrative Ministry. They, therefore, recommend that the role of the company in the matter of export of Chemicals should be clearly specified so that it can concentrate its efforts accordingly.

(Recommendation Sl. No. 20)

22. The Committee are concerned to note that the Sundry debts of the Company are increasing year after year. Not only the amount of such debts has increased from Rs. 70.47 crores as on 31.3.1986 to Rs. 299.58 crores as on 31.3.1995 but the percentage of debts to sales which was 6.38 as on 31st March, 1990 has also increased to 23.81 as on 31st March, 1995. A substantial portion of the outstanding dues are from the public undertakings falling under the same administrative Ministry, (Rs. 3.02 crores as on 31.3.1995 from IDPL alone). But it is disquieting to note that the Ministry have taken the stand that as a rule they do not intervene in respect of trade dues. The Committee seriously deprecate this apathetical attitude of the Ministry. They recommend that HOCL should streamline its machinery for recovery of outstanding dues with a view to liquidate the dues at the earliest. The Ministry on its part should render all help in the matter wherever feasible.

(Recommendation Sl. No. 21)

23. The contract for maintenance work of Sulphuric Acid plant during the plant shut down period in October and November, 1986, was awarded to a party floated by the Employees Union of the Company viz. Rasayani Employees' Engineering Company (REEC) though the bids of two other parties were lower than REEC. The reason advanced by the company for this act was that the two parties lacked experience in the specialised job of Sulphuric Acid Plant shutdown maintenance and the time quoted to complete this job by the other two parties was 40 and 35 days as against HOCL's requirement of 20-22 days. The Committee do not agree with this contention of the Company because the REEC had no workshop or

establishment. Moreover, the formation of the REEC itself was against the Rules of the company as well as the Industrial Employment Standing Orders Act, 1946. The Committee further note that the maintenance work during 1987 and 1988 and a contract for disposal of scrap was also awarded to REEC. Though no further work has been awarded to REEC, the Committee would like to be informed whether it has since been dissolved as repeatedly directed by HOCL after the advice of the Law Ministry. The Committee also desire that an enquiry be conductd into the whole matter and responsibility fixed on the officials responsible for awarding the contract to a company whose formation itself was improper as well as against those employees who had formed the company against the prevalent rules.

(Recommendation Sl. No. 22)

NEW DELHI;
December 19, 1995

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