47

BURN STANDARD COMPANY LIMITED

MINISTRY OF INDUSTRY—
DEPARTMENT OF HEAVY INDUSTRY

COMMITTEE ON PUBLIC UNDERTAKINGS
1995-96

FORTY-SEVENTH REPORT

TENTH LOK SABHA

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

FORTY-SEVENTH REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS
(1995-96)

(TENTH LOK SABHA)

BURN STANDARD COMPANY LIMITED

MINISTRY OF INDUSTRY
(DEPARTMENT OF HEAVY INDUSTRY)

Presented to Lok Sabha on 22.12.1995
Laid in Rajya Sabha on 22.12.1995

LOK SABHA SECRETARIAT
NEW DELHI

December, 1995/Agrahayana, 1917 (Saka)

C.P.U. No. 764

Price: Rs. 25.00

Published under Rule 382 of the Rules of Procedure and Conduct of Business in Lok Sabha (Eighth Edition) and Printed by the Manager, Photo Litho Unit, Govt. of India Press, Minto Road, New Delhi.

CORRIGENDA TO THE 47TH REPORT OF COPU ON
<u>BURN STANDARD COMPANY LIMITED</u>

Page No.	Para No.	Line	For	Read
4	1.13	25	envisgaged	envisaged
4	1.13	29	foreingh	foreign
7	1.21	22	not	but
16	2.26	22	are	ore
41	5.7	31	industries	industry
44	1	8	cost out dated	cost, out-dated
48	11	13	cost,	cost
48	11	16	committee	committing

CONTENTS

COMMITTEE ON PUBLIC UNDERTAKINGS
(1994-95)

CHAIRMAN

Shri Vilas Muttemwar

MEMBERS

Lok Sabha

2. Shri E. Ahamed
3. Shri R. Anbarasu
4. Prof. Susanta Chakraborty
5. Shri Chetan P.S. Chauhan
6. Shri Ramesh Chennithala
7. Shri B. Devarajan
8. Shri Srikanta Jena
9. Prof. M. Kamson
10. Prof. (Smt.) Savithiri Lakshmanan
11. Shri. Guman Mal Lodha
12. Shri B.M. Mujahid
13. Shri Ramdew Ram
14. Shri Pius Tirkey
15. Shri Virendra Singh

Rajya Sabha

16. Shri Jagesh Desai
17. Shri R.K. Dhawan
18. Dr. Murli Manohar Joshi
19. Shri Deepankar Mukherjee
20. Shri Suresh Pachouri
21. Shri Pravat Kumar Samantaray
22. Shri G. Swaminathan

SECRETARIAT

1. Shri Murari Lal — *Joint Secretary*
2. Smt. P.K. Sandhu — *Director*
3. Shri P.K. Grover — *Under Secretary*

COMMITTEE ON PUBLIC UNDERTAKINGS
(1995-96)

Chairman

1. Sqn. Ldr. Kamal Chaudhry

Members

Lok Sabha

2. Shri E. Ahamed
3. Shri Ayub Khan
4. Prof. Susanta Chakraborty
5. Shri Prithviraj D. Chavan
6. Shri B. Devarajan
7. Shri Oscar Fernandes
8. Smt. Sheela Gautam
9. Shri Anna Joshi
10. Prof. (Smt.) Savithiri Lakshmanan
11. Shri Balraj Passi
12. Dr. A.K. Patel
13. Smt. Suryakanta Patil
14. Shri. Syed Shahabuddin
15. Shri Pius Tirkey

Rajya Sabha

16. Shri Sanjay Dalmia
17. Shri Jagesh Desai
18. Shri Deepankar Mukherjee

$19. Shri Suresh Pachouri

20. Shri Vayalar Ravi
21. Shri Krishan Lal Sharma
22. Smt. Kamla Sinha

Secretariat

1. Shri S.N. Misra	—	*Additional Secretary*
2. Shri G.C. Malhotra	—	*Joint Secretary*
3. Smt. P.K. Sandhu	—	*Director,*
4. Shri P.K. Grover	—	*Under Secretary*

---

* Elected w.e.f. 22nd August, 1995 *vice* Shri Vilas Muttemwar resigned from the Committee. Ceased to be a Member of the Committee consequent upon 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 upon 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 47th Report (Tenth Lok Sabha) on Burn Standard Company Limited.

2. The Committee's examination of the subject was based on the Report of the Comptroller & Auditor General of India (No. 5 of 1993).

3. The subject was examined by the Committee on Public Undertakings (1994-95). The Committee (1994-95) took oral evidence of the representatives of Burn Standard Company Limited on 6th and 25th October, 1994. The Committee also took evidence of representatives of (i) Ministry of Industry (Department of Heavy Industry), (ii) Ministry of Railways (Railway Board), and (iii) ONGC on 11th January, 1995. The Committee on Public Undertakings (1995-96) examined the subject and took further evidence of the representatives of BSCL alongwith the representatives of the Holding Company, Bharat Bhari Udyog Nigam Limited (BBUNL) on 22nd August, 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 Industry (Department of Heavy Industry), Ministry of Railways (Railway Board), ONGC, BBUNL and Burn Standard Company 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 Industry (Department of Heavy Industry), Ministry of Railways (Railway Board), ONGC, BBUNL and Burn Standard Company 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, 1995
Agrahayana, 1917 (Saka)

KAMAL CHAUDHARY,
Chairman,
Committee on Public Undertakings.

PART-A

CHAPTER I

BACKGROUND ANALYSIS

A. Historical Background

1.1 Burn Standard Company Limited (BSCL) was incorporated as a public sector undertaking on 1.12.1976 after the acquisition of erstwhile Burn & Company and India Standard Wagon Company. It became a wholly owned subsidiary of Bharat Bhari Udyog Nigam Limited (BBUNL) with effect from 11.06.1987. The paid up capital of the company is Rs. 42.40 crores as on 31.3.1994. The Company has two Engineering Units in Howrah Works & Burnpur and five Refractory Units like Raniganj Works, Gulffarbari Works, Jabalpur Works, Niwar Works and Salem Works. The Company has set-up facilities at Jellingham in West Bengal for Fabrication of off-shore platforms.

1.2 When the Committee desired to know the rationale behind the merger, it was stated by the Managing Director, BSCL during evidence that during those days, the situation in those companies was very bad. There was dearth of orders. Actually, one company was for wagon manufacture and the other for the réfractory manufacture. Both of these were associated with Indian Iron and Steel Company (IISCO). The IISCO became sick. So, the Government, in December, 1973 decided to takeover the Management of these companies and after three years on 1st December, 1976, a new company merging the two companies was formed and this was named as the Burn Standard Comapny Limited.

1.3 In this regard, the company further stated as under:—

> "The objective of this take-over was basically to bring this company to sound financial position and to protect the employment of the company."

1.4 BBUNL has following subsidiaries *viz* (i) Burn Standard Co. Ltd and its subsidiary companies, Bharat Brakes and Valves Ltd. and RBL Ltd., (ii) Jessop & Co. Ltd., (iii) Braithwait & Co. Ltd., (iv) Bharat Wagon & Engineering Co. Ltd., (v) Bharat Process & Mechanical Engineers Ltd., and its subsidiary Company, Weighbird (I) Ltd., (vi) Lagan Jute Machinery Co. Ltd. and (vii) Braithwaits Burn & Jessop Construction Co. Ltd.

Six of the subsidiaries of BBUNL out of the total 10 including Burn Standard Company were stated to have been referred to BIFR. These subsidiary companies of BBUNL, as has been mentioned in the MOU, are having common problems like surplus manpower with high incidence of employment cost, outdated plant and machinery, obsolete technology, highly competitive markets for their products, low profit profile and negative net-worth.

B. Role & Objectives

1.5 Some of the major objectives of the Company as incorporated in the Corporate plan formulated in April, 1984 are: (i) Maximisation of pre-interest profit to 10 per cent of turnover (ii) Growth of production by 20% (in value) annually (revised to 10 to 12 per cent in April, 1986), (iii) Repayment of Government loans and achieving debt-equity ratio of 3:1 (iv) Development of Captive Ancillary Units, and (v) Turn-key projects to the extent of 25 per cent of annual production. But Audit have pointed out that these objectives are yet to be achieved except for debt-equity ratio.

1.6 When enquired as to what extent the objectives were achieved, the company stated during evidence:—

> "Let us look to the background in which these objectives came. The companies were taken as sick companies. The immediate attention of the Management was to revive them. The first objective was to consolidate and bring back to the health so that they can sustain on their own without putting any additional burden on the exchequer. You will find that by and large we have succeeded in that. Since 1983 we stopped taking non-plan support from the Government. The company then chalked out a plan of action. One plan of action was the closure of sick units. We tried this, however, because of the legislative and other pressures this could not be materialised. Then the second plan of action was addition of certain new product lines and modernization."

1.7 Asked about the difficulties experienced by the Company in achieving these objectives, the Company stated in written reply the following:—

> "The Corporate Plan of 1984 was based on the growth profile of various sectors *i.e.* transportation, steel, energy and industry as visualised in the 7th Plan document. In 1985-86 *i.e.* the first year of the 7th Five Year Plan period itself was a bad year as Railway Board decided to curtail orders. Consequently, Company's Plan objective towards the growth in production and increase in product generation could not be sustained as visualised in the said Corporate Plan and the Corporate Plan was revised in April' 86 for the period 1986-87 to 1990-91 with a reduced growth objective of 10-12% annually as against 20% annually. In order to achieve the objectives set up in the Corporate Plan, the Company tried to expand its business activities in the areas like Offshore fabrication, Turnkey projects handling and manufacture supply of Steel Plant Equipment."

1.8 Asked about the Ministry's assessment in regard to the performance of BSCL in fulfilling the objectives, the Deptt. of Heavy Industry stated in a written reply the following:—

"The Management of Burn Company and Indian Standard Wagon Company were taken over by the Government in 1973 in public interest with a view to ensure rational and coordinated development and production of Rolling Stock and other products of Iron and Steel Industry. Over the years, BSCL continued with its production of rolling stock and other products vital to the needs of the Indian Economy by maintaining/utilisation of existing facilities to the extent possible. Value of production has gone up from the level of Rs. 29.77 crores in 1977-78 to Rs. 295.96 crore during 1993-94. From 1977-78 to 1993-94, BSCL manufactured and supplied 74262.75 FWUs. In addition, BSCL has also supplied wagon components as per requirements of the Railway Board."

1.9 In this connection when the Committee enquired whether the Government have any specific plan for revival of BSCL, the Department of Heavy Industry stated as under:—

"BSCL is presently before BIFR. BIFR will examine the viability of BSCL. As far as the Government is concerned, Group of Ministers has been constituted to examine the viability of Companies referred to BIFR."

1.10 However, when the Committee enquired as to what extent the company had achieved its objectives of developing captive ancillary units and obtaining turn-key projects, the company stated in a written reply the following:—

"The objective of development of ancillary units was achieved to the satisfactory level considering the points that the two of our engineering units at Howrah and Burnpur buy their products mostly from the small scale industries located nearby. An Ancillary Development Cell in the units help these small units to produce goods of desired quality. Support in the development of technology was also provided. However, their fate has been fluctuating along with the business opportunities of these two engineering units. The Company's other areas like R&C and Offshore which together constituted about 50 percent of turnover, did not have sufficient opportunities for the growth of ancillary units because of the nature of their business."

1.11 In this connection, the Ministry of Industry stated subsequently in a written reply as under:—

"BSCL diversified into the area of turnkey projects in 1983-84 when there was lean order book position of Railway wagons. Subsequently from 1986-87 onward the wagon orders started improving upto 1992-93. The increase of the volume of turnkey projects was to take care of idle capacity created due to reduction in work load in plants. Therefore, with the rise of wagon orders there was decrease in the turnkey project."

C. Corporate Plan

1.12 After the formation of the Holding Company, Bharat Bhari Udyog Nigam Ltd., the formulation of the corporate plan activities fell in their purview. The process of preparing the corporate plan was started shortly after formation of BBUNL and the investment plan was finalised in August, 1990. During evidence, the Chairman, BBUNL informed the Committee as follows:—

> "The Corporate plan which was prepared by the BBUNL on behalf of the entire group was submitted to the Government and was rejected..... It envisaged about Rs. 187.5 crore of plan investment..... It was rejected on the ground that by that time the Atkins study had been commissioned and that they would look into that."

The Committee were informed by BBUNL in a post evidence reply that this plan envisaged an investment of Rs. 111.00 crore for Burn Standard Co. Ltd.

1.13 Subsequently, BBUNL, as a long term strategy, decided to go in for financial as well as organisational restructuring of the Group on the basis of study undertaken by M/s. W.S. Atkins in association with National Industrial Development Corporation (NIDC) in 1990. This study was made at the instance of Government of India. After a study, which spread over two years, W.S. Atkins submitted its report in 1992 to the Holding Company and the Government, which was still under consideration. The report envisgaged total investment of Rs. 357 crores to modernise the plants, boost up working capital, rationalise manpower and to implement industrial conversion. for reported unviable units. A total of Rs. 6.73 crores was stated to have been paid to M/s Atkins and NIDC including an amount of Rs. 4.17 crores in foreingh currency and a tax of Rs. 1.37 crores.

1.14 When the Committee enquired about the main recommendations of the consultant and the role envisaged for BSCL, the Ministry of Industry stated in a written reply that the main recommendations were:—

(a) The Consultants inter-alia recommended that present holding company be converted into a Unitary company merging all the existing subsidiary companies including BSCL and convert them into five divisions.

(i) Railway Engineering
(ii) Industrial Equipment
(iii) Projects
(iv) Off-shore
(v) Refractories

(b) Separation ot all unviable units of BBUNL including all loss making R&C Units of BSCL.

(c) Restructured BBUNL will have a CMD and three functional Directors *viz*. Finance, Human Resource and Corporate Planning besides, three Government Directors. In addition to this, there should be five Managing Directors for each of the five divisions of the proposed Unitary Company. In the proposed Unitary Company, Howrah Works of BSCL will form Railway Engineering Division.

(d) Financial Restructuring of BBUNL.

(e) Investment of Rs. 357 crores out of which Rs. 160 crores would be for balancing, modernisation and refurbishment of plant and equipments.

1.15 When enquired about the reasons for not taking any decision in this regard, the Ministry of Industry, in a written reply, stated as below:—

"The recommendations of Consultants were examined and with the approval of Prime Minister it has been decided not to implement the recommendations of Consultants due to:

(a) Six subsidiaries have been referred to BIFR and one more is likely to be referred to BIFR. The future of BIFR referred Companies will depend on BIFR final recommendations. Further, Government has also constituted a Group of Ministers to review individual sick Companies.

(b) 60% production of BBUNL group depends on Railway Wagon orders. Out of 26000 employees of BBUNL group, 19,000 employees are engaged in wagon manufacture. BBUNL Group has an installed capacity of manufacturing 18,940 FWUs per annum. Unfortunately, trend in production and profitability got a serious jolt when Railways started drastically reducing the wagon off-take from the middle of 1993-94. From 12380 FWUs in 1992-93, the wagon off-take was reduced to 9250 FWUs in 1993-94. The problems got further compounded in 1994-95 due to further reduction of wagon off-take by Railways. Against the budgetary sanction for procurement of 18,000 FWUs, the Railways have slashed down the wagon orders to only 7600 FWUs. Out of this, BBUNL's share come to only 4560 FWUs.

(c) The basic foundations of restructuring do not remain valid at this stage. A single Unitary Company will extinguish the age-old historical Companies. Historically all these famous companies had generated their own loyalties from the employees, organizational fidelities and had different terms of employment and incentives. A Unitary Company would not create homogeneity or uniformity in these matters."

D. **Role of the Holding Company**

1.16 Bharat Bhari Udyog Nigam Limited (BBUNL) was incorporated in September, 1986 as a holding company. The primary mission of BBUNL is stated to be to make the group a cohesive and economically viable one within VIII Plan period and also to establish the group as a supplier of quality equipment, systems and services for the domestic and export markets in the fields of Railway Engineering Products, material handling, underground mining, paper machinery, jute machinery, road construction equipment, refractories for steel plants, offshore platform for oil production, steel bridge construction and other oil production activities in the area of heavy engineering.

1.17 When asked whether the Holding Company have achieved its objectives, the Chairman, BBUNL stated during evidence that the objective has not been achieved yet.

1.18 In this connection, when committee enquired in what way BSCL has benefited from being a part of BBUNL the Chairman, BBUNL replied during evidence as follows:

> "Today, wagon manufacturing companies in the private sector represents 50 percent of the building capability in the country and the public sector, consisting of these four wagon manufacturing companies represent another fifty percent, may be 52-53 percent. If a holding company had not been formed, then these public sector companies independently would have been manufacturing wagons of different varieties. After M/s. BBUNL came into existence, rationalisation of wagon building in different companies has taken place. That has been one of the major reasons for the increase in productivity. Wagons are of different types. Now, before the holding company came into existence, each company M/s. Burn Standard, M/s. Braithwaite, M/s. Bharat Wagons — was manufacturing all sorts of wagons. Today the holding company has introduced specialisation by way of rationally assigning different types of wagon manufacture to each company."

1.19 Asked whether the holding company has issued any corporate guidelines to BSCL, the Chairman, BBUNL stated the following during evidence:—

> "We had issued instructions from time to time on different works and projects. But a set of corporate guidelines as such have not been issued."

1.20 When enquired about the areas in which the Holding company gives directions to BSCL, the Chairman, BBUNL stated during evidence as below:—

> " ......We generally give directions on major works and order position. Sometimes we give direction about the industrial and wage

settlement matters also. But major thrust is on the areas which pertains to the orders and their execution...............we have given guidance for centralised marketing for important products like structures, steel plant equipments etc., for fixing selling price for improving market share for development of human resources."

1.21 In this connection when the committee desired to know what measures have been taken by the Chairman, BBUNL to improve upon the situation in BSCL. the Chairman, BBUNL placed before the Committee during evidence as under:—

"We have taken a number aof measures. First we have initiated diversification plans. Messers Braithwaite and BSCL have a diversification plan which has progressed very concretely. We have been very successful in getting orders. Secondly, we are initiating export activities also. BSCL and Braithwaite have gone abroad to find export opportunities. In fact, that is our desperate remedy. We have got the orders also. Thirdly, in the non-wagon sector the achievement has been of very appreciable nature. Fourthly, in the internal management, in the reduction of redundant labour also we have achieved a great deal. Other diversification plans which may not need very large investment are still under consideration. I think of the whole the guidelines given to the Burn Standard have been on the right lines not they will take time to show tangible results.".

1.22 Asked as to how the Holding company rates the performance of BSCL, the Chairman BBUNL stated in evidence as follows:—

"..... my personal view would be that BSCL was doing well upto 1993-94..... But after 1993-94, because of external factors our performance has fallen down. But, BSCL is itself not responsible for that ..... It is because of the business scenario on which we have no control."

1.23 When the Committee desired to know the financial results of BBUNL and BSCL since formation of the holding company, the following information was furnished in a post-evidence reply by BBUNL.

(Rs. crores)

Year	Net Profit/Loss BBUNL	Net Profit/Loss BSCL
1986-87	18.44	0.34
1987-88	29.74	11.92
1988-89	21.99	4.30
1989-90	21.39	5.98
1990-91	21.30	3.44
1991-92	20.33	9.02

Year	Net Profit/Loss BBUNL	Net Profit/Loss BSCL
1992-93	23.14	3.20
1993-94	353.62	101.07
1994-95	233.60	115.93

CHAPTER II

MODERNISATION

A. Renewals and Replacement

2.1 For essential repairs provision of critical machines for removing bottlenecks and reconditioning equipment, the government released Rs. 362.30 lakhs to the company during 1976-77 and 1977-78. Down time of machines was expected to go down considerably. However, the planned increase of production by 1000 tonnes at Howrah Foundry did not materialise, nor did the rejections of steel castings come down. The performance of spring plant also deteriorated despite the investments.

2.2 When enquired as to what extent the Company has achieved its modernisation goal in Engineering units, BSCL stated in a written reply the following:

> "During 1976-77, the Company (BSCL) was just incorporated by merging Burn & Co. Limited and the Indian Standard Wagon Co. Ltd. Its sanctioned expenditure of Rs. 362.30 lakhs was made towards Emergency Plant Rehabilitation Programme (EPRP). These investments were essentially required to maintain the continuity of production by way of essential repairs, removal of bottlenecks and provision of critical components and materials. It may be noted that without these minimum investments at that time, it could have not been possible to keep commercial production going. The Company has started functioning since then and to that extent the objective was achieved. However, it would not be proper to call it modernisation."

2.3 The Committee were informed by the Department of Heavy Industries in a note that in 1984, Burn Standard Company Limited (BSCL) prepared a corporate plan envisaging an investment of Rs. 30 crore for renewals, replacement and modernisation. The corporate plan was subsequently revised by the Company indicating total investment of Rs. 62.63 crores. The corporate plan was not submitted to the Government for approval. The funds indicated in the corporate plan were not meant for Government sanction. The Government sanctioned projects from time to time based on the proposals received from the Company within the resources available in the plan allocation.

2.4 When asked about the reasons for upward revision, the Director (Finance) of BSCL stated during evidence the following:—

> "Originally, Rs. 30 crore was estimated. As and when indications for money is made available, there will be change in the corporate plan also. Ours is a multi-unit company having 9 units. The fund required over a period of 5 years is Rs. 30 crores, which was a very meagre amount."

The Committee were also informed that the revised proposal was not approved by the Government.

2.5 Subsequently, the Committee were informed by BSCL in a written reply that the upward revision of outlay on Modernisation was due to the inclusion of additional items/schemes.

2.6 The Renewals and Replacement Scheme (1984-85) included Machine Shop Rebuilding Project at Howrah Works. This scheme provided for installation of one Horizontal Boring-cum-Milling machine alongwith other facilities for manufacture of on-shore oil rig, high valued sophisticated and high technology jobs. The machine was commissioned on 10th May, 1986 and the total expenditure incurred on the project was Rs. 201.42 lakhs. But no high valued sophisticated and high technology orders (*viz.* on-shore oil rig structures) as contemplated in the project report had been secured till March 1992. The Management informed Audit in September 1990 that the machine was used for other works i.e. for Steel Plant equipments of rolling type since the beginning of 1988-89.

2.7 Enquired whether the Machine is still being used for other works or is being used for purposes for which it was installed, the Company stated in a written reply as under:

> "The Horizontal Boring-cum-Milling Machine is now fully utilised for Machining of heavy parts for Steel plant equipment, Slag Dump cars, slag pot cars etc."

2.8 The Renewals and Replacement Scheme for 1985-86 also included one Plate Bending Machine which was intended for execution of orders for steel plant, mining equipment etc. Although the machine was commissioned in February 1987, it could not take full load. Defects noticed were rectified at a cost of Rs. 0.74 lakh and the machine was recommissioned in August, 1988. It is, however, lying idle since then. Total expenditure on the machine including civil works amounted to Rs. 75.63 lakhs. The Company had been incurring heavy interest charges on the amount of Rs. 50.00 lakhs taken under IDBI Bill Rediscounting Scheme for procurement of the machine. The Management stated (September, 1990) that efforts are on to procure orders and utilise the machine and expected that Howrah Works will be in a position to procure such orders in the near future.

2.9 When asked about the present position of the plate bending machine, the Managing Director, BSCL stated during evidence:—

> "It remain as it is because this was meant for plates of 230 mm. size. Subsequently, order did not come for work of heavy type. Machine is still lying idle."

2.10 In this connection, when enquired whether the Company has explored any possibilities for the use of the machine, the witness stated as under:—

> "It was thought that there would be orders where heavy plate fabrication would be involved and this plate-bending machine would be used for rolling of the heavy plates. Subsequently, this could not be used. This type of plates were not required. Now, we are having high tensile plates which are higher in weight."

B. Refractory Units at Gulfarbari, Niwar and Salem

(i) *Gulfarbari and Niwar*

2.11 A proposal for modernisation and expansion of refractory units at Gulfarbari and Niwar was sanctioned by Government in October, 1976 and cost was revised to Rs. 127.45 lakhs in September, 1978. Expenditure amounting to Rs. 129.10 lakhs (Rs. 70.87 lakhs for Gulfarbari and Rs. 58.23 lakhs for Niwar) was incurred. The project was scheduled to be commissioned by November, 1978 but some of the machines like Gas Producer Plant at Gulfarbari and Dust Catcher equipment at Niwar were commissioned only in 1984-85.

2.12 In a note submitted by the Company, the main causes for the delay in completion of the project were stated to be as follows:—

> "While the major items of the project were completed without much delay only items like Gas Production Plant at Gulfarbari and Dust Catching Equipment at Niwar were delayed. This was caused due to delay in supply of plant and equipment, occasional labour trouble and failure on the part of the contractor to execute the work in time."

2.13 When enquired as to what action has been taken by Government in this regard, the Ministry of Industry revealed the following through a written reply:—

> "The Company has reported that major items of the project were completed without much delay. Only two items *viz.* Gas Production Plant at Gulfarbari and Dust Catcher Equipment at Niwar were delayed. This constituted a small percentage as compared to the total cost. The Government is monitoring only major projects. Since it was a minor project it did not come to the notice of the Government."

2.14 According to Audit the tunnel kiln at Niwar was not commissioned for want of sufficient remunerative orders and the inability of the unit to compete with small scale industries. Capacity in the country was stated to be in excess of requirement.

2.15 When enquired as to why proper assessment of market was not made before taking up the project, the Director (Finance) of BSCL stated during evidence as below:—

> "The tunnel kiln was already in existence. It was actually procured by the erstwhile management even before the incorporation of the company. The earlier management had procured it, but it could not ultimately be installed because of the imbalances in the tunnel kiln itself."

2.16 In this connection, BSCL revealed some more facts through a written reply, which are as below:—

> "The Tunnel Kiln at Niwar Works was installed in January 1973 by the erstwhile private management, much before the taking over of the company. On take-over, it was found not commissioned. It was felt that additional facilities would be required to make this Tunnel Kiln operational. Hence, the Tunnel Kiln was not procured by the Company rather, it was inherited. The Company could not commission subsequently due to steep rise in prices of furnace oil in 1980 which has made its operation economically unviable."

(ii) *Salem Unit*

2.17 For modernisation of refractory plants and expansion of magnesite mines at Salem. Metallurgical and Engineering Consultants (India) Limited (MECON), Ranchi prepared a feasibility report. Investment of Rs. 9.16 crores was envisaged. The project was sanctioned in July, 1981. The estimates were revised by MECON to Rs. 16 crores in October, 1983 and to Rs. 18.58 crores in July, 1987. The cost of project was further revised to Rs. 19.25 crores and sanctioned by Government in March, 1989. Government released Rs. 16.76 crores during the years 1981-1990. The project, which was to be completed by July, 1990, was completed only in December, 1991.

2.18 However, it has been brought out by Audit that the Tunnel Kiln was commissioned by the Company in August, 1989. 6 years after placement of orders due to delay in Import Licence and delay in erection. The Rotary Kiln, which was to be commissioned by January, 1985, was completed in June, 1991. It has been stated that due to various developments subsequent to 1981-82, the execution had to be kept in abeyance for a few years.

2.19 When enquired about the reasons for cost escalation and delay in the completion of the project, the company stated in a written reply the following points:

1. Salem works set up in 1963 a small refractory plant for production of basic refractories from the raw magnesite available from their own

mines. Since its commissioning the plant progressively picked up the production to the maximum of about 8000 T of basic bricks and 3000 T of bulk in 1973, even though the plant was experiencing technical deficiencies.

2. Hence BSCL commissioned MECON, Ranchi for preparing project report for overcoming the Technical deficiencies.

3. A feasibility report on this project was prepared by MECON and the same was submitted to Government for an investment of Rs. 916.00 lakhs. This capital cost and economic appraisal were based on prices prevailing during Ist Qtr. of 1980. The project was sanctioned by the Government on 15.7.81.

4. The project cost of Rs. 916.00 lakhs was estimated by MECON based on the cost incurred by M/s. Bhilai Refractory Plant, which was commissioned during mid-seventies.

5. BSCL completed placement of orders on Mining equipment and commissioned in time (1982). Orders for the major equipment required for Refractory plant *viz.* Rotary Kiln and other ancillaries were also placed. On completion of these activities, it was found that the project cost had exceeded the sanctioned amount. Hence it was decided to proceed with commissioning of Hydraulic Press and Tunnel Kiln. Both were being imported items, and also to restrict the cost within the sanctioned amount.

6(a) Company received the import licence of Rotary Kiln only by Jun. '86 though the import application was filed in June, '83 based on the Tenders received and finalised against the advertisement in Indian Trade Journal during February '82. The first import licence was issued by DGTD in December '84 excluding certain items from the list of imported items. Further revised application was submitted to DGTD for the balance items in April '85. The licence against this application was issued in September '85. The import clearance process took unduly long time due to claim of supply by certain domestic parties. It took considerable time and effort to get over this problem since the quality and reliability of this most critical item of the project could not be compromised.

6(b) Though the import licence specified financing under the West German Capital Goods Credit Fund, the Government informed in November '85 that this import could not be covered under this fund and subsequently the Government allowed Free Foreign Exchange *vide* letter dated 2.1.86. The import of materials were completed in September, 86 and the Tunnel Kiln was commissioned by April '88.

7. Even though the total project cost exceeded the sanctioned cost, BSCL did not take action for revising the project cost as, during

84-85, the Government was considering merger of the Refractory units of BSCL with M/s. Bharat Refractory Limited, another Government of India Undertakaing. As this did not materialise, BSCL made a revised estimate of the cost of the project at Rs. 1600.00 lakhs in January '87. As per advice of Government, BSCL commissioned MECON for updating the project cost. MECON made a revised estimate of Rs. 1858.00 lakhs and the same was forwarded to Ministry in April '88. Government in a discussion held during September 88, requested BSCL to update the cost estimate of Rs. 18.58 crores submitted during July '87. The updated estimate of Rs. 19.25 crores was submitted in November '88 and the same was approved by the Government in March '89 with a completion schedule of July '90.

8. On receipt of the approval, the work of supply, erection and commissioning of Rotary Kiln was taken up. M/s. Mc Nally Bharat submitted their escalation claim amounting to Rs. 157.58 lakhs *vide* their letter No. 50 82175/SKS dated 11.3.89, with a delivery period of 16 months from the date of BSCL's confirmation. As their claim was very much on the higher side, number of meetings were held to see that the escalation claimed was justified and was reduced to match the provision made in the Project cost of Rs. 19.25 crores. BSCL issued a letter confirming acceptance of Rs. 88.00 lakhs in August. Efforts were also made to reduce the period of 16 months to 12 months to see that the completion time lies within the scheduled time prescribed by the Government. It was found that the reduction of time is not possible. The project was finally completed in December '91 within the total sanctioned cost."

2.20 To a similar query regarding delay in issuing import licence, the Ministry of Industry informed in a written reply as under:

"'Hydraulic Press' and Tunnel Kiln were the two items for which Import Licence was required. There was no delay in getting the Import Licence for Hydraulic Press. But there was a substantial delay in getting the import licence for the 'Tunnel Kiln' due to the following reasons:

The company applied for import licence in June, 1983 for the import of 40% of the total components required for Tunnel Kiln. But the Government of India issued import licence for an amount of only DM 13,69,840/- against the total applied amount of DM 25,70,000/-. Thus, in import licence. quite a substantial percentage of components were excluded and company was asked to procure these from indigenous sources. However, indigenous suppliers failed in supplying the required components. So again an import licence for further amount of DM 698045 was issued on 12th September, 1985 under the West German Capital Goods loan. But since the fund was not available under the above heading, the Government of India had to change import licence for getting import on full foreign exchange on 10th January, 1986.

Finally the order was placed on West German supplier to get the material in September, 1986."

C. Lalkoti Silica Works

2.21 The project was sanctioned by the Government in October, 1982 at a cost of Rs. 138 lakhs to improve the quality of coke oven bricks manufactured at Lalkoti due to changes in technology. The actual investment was Rs. 187 lakhs. The plant and equipment actually ordered were different from those indicated in the Project Report. The main plant chamber kiln was commissioned in January, 1986 against the scheduled completion in September, 1983.

2.22 To a query whether sanction of the Government was obtained for the additional expenditure for the project, the company in a written reply stated as follows:

> "Raniganj group of Works comprising units at Raniganj, Lalkoti, Durgapur and Ondal are one business entity from administrative point of view of the Company and is headed by one Divisional Head. There was a total sanctioned amount of Rs. 199 lakhs for this group as per Government sanction in 1982. Further sub-division of above outlay was Rs. 138.00 lakhs for Lalkoti Works to improve the quality of Coke Oven Bricks and Rs. 61.00 lakhs for Durgapur for improvement of quality of refractory bricks necessitated by change in technology. An expenditure of Rs. 8.85 lakhs was incurred at Durgapur on reconstruction of chamber kiln (Rs.3.54 lakhs), acquisition of Jack Press (Rs. 3.93 lakhs) and part payment to consultants (Rs. 1.38 lakhs). Subsequently it was decided to close Durgapur and Raniganj Units. Due to the nature of products produced at Ondal, no investment was proposed there. After the closure decision, the Project for modernisation at Durgapur was kept in abeyance and thus, the entire balance fund available was to be utilised only at Lalkoti. Thus, the additional expenditure of Rs. 49 lakhs at Lalkoti was within the overall sanctioned cost of Rs. 199 lakhs for the Raniganj Group. As there was additional availability of fund arising due to closure notice of Durgapur and Raniganj-II, some additional facilities were also added at Lalkoti which were not in the original Project Report."

2.23 In this connection, the Ministry of Industry stated in a written reply that the total expenditure within the Raniganj Group was as per sanctioned amount. However, the utilisation of funds from one unit to another unit within the group was not brought to the notice of the Government.

2.24 Moreover, Bad soil condition involving more civil work, heavy rainfall during 1983 & 1984, unprecedented power cut, delay in supply of

materials, contractors labour trouble etc. were stated by the company to be the reasons which delayed the commissioning of the Project.

2.25 After modernisation the unit is incurring loss over Rs. 1.5 crores annually against profit of about Rs. 44 lakhs anticipated in the project report. The Management further informed Audit in November, 1990 that loss was due to the reduction in market demand for silica bricks due to technological changes and competition from small scale manufacturers. The facilities added under the modernisation programme were not able to produce silica bricks of required quality or quantity suitable for coke oven and glass tank furnaces.

2.26 When enquired as to why the plant could not produce silica bricks either of required quantity or quality even after the facilities were added, the company stated in a written reply as under:

> "The major investment was made on installation of a chamber kiln with a new gas producer. Earlier, at Lalkoti, bricks were fired in coal fired chamber kiln. Had this conversion from coal fired to the gas fired not been done, the cost of production at Lalkoti would have been much higher and the quality worse. The installation of gas fired chamber kiln has resulted in improving the quality of silica bricks which are even today, being used for coke oven maintenance requirements of Steel Plants. The Project also envisaged production of silica roof sets for electric are furnace. However, due to change in technology, the use of silica roof sets are no more a common practice. The plant is capable of producing the quality of bricks which was intended earlier. However, the requirement has today shifted to other qualities and this in turn, is also affecting the quantitative demand of the type of silica bricks being produced by this unit."

CHAPTER III

DIVERSIFICATION

A. Engineering Units

3.1 Engineering units depended heavily on orders from Railways (which constituted 75.81 per cent and 86.21 per cent of its sales as on 31st March, 1975 and 31st March, 1992 respectively). To reduce this dependence, turn-key orders for Coal Handling Plant and Ash Handling Plants were booked, but were executed through outside agencies. However, this did not help the company in better utilisation of its existing facilities. Burnpur unit received only two major orders upto September, 1984 and no further orders were received. Execution of both the orders were badly delayed. Turnover from such contracts which was 9.37% of the turnover of the unit in 1983-84 varied between 0.41% and 4.45% during 1985-86 to 1991-92. Similarly, the turnover from such contracts at Howrah which varied between 7% & 25% of its total turnover during 1985-86 to 1991-92, came down to 2.57% during 1992-93.

3.2 Asked about the reasons for delay in execution of orders at Burnpur, the Company stated in a written reply, as under:

> "The main reason for the delay in the execution of one of these orders at Burnpur was delay in finalisation of drawings from the customer, i.e. IISCO as well as delay in supply of free issue materials. As regards to other project, Dhemo Main, the delay was mainly because of the improper site selection resulting in constant oozing of water from the nearby pond. This resulted in a commercial dispute wherein, BSCL demanded heavy de-watering charges and salvaging cost. As this was not compensated, the matter remained under dispute resulting into delay."

3.3 When enquired about the Company's proposed plan for undertaking turn-key contracts with a view to reducing the dependence of Engineering Units on Railway orders the Company stated as below:

> "Consequent to a decision taken by the Holding Company, BBNUL for rationalisation of turnkey project activities within the subsidiary Companies, no major projects was attempted during the last five years. However, with the changed scenario and industrial activities taking up particularly in the power Sector, the company is rearranging to take up the turnkey contracts in the areas of Ash Handling for Power Plants and Petroleum Sector. The Company has also entered into a strategic alliance with Messrs. Johannes Moller,

Germany for a joint participation in the Ash Handling Projects and attempts for similar tie-ups in other areas are continuing. This has been further necessitated by drastic reduction in offtake of wagons by Railways. As this type of turnkey activities do not require much funding, the company feels confident that with the support of its foreign collaborator and with its 'in house' competence, it stands well placed to face the competition in the current market."

3.4 In this connection, when asked whether the Ministry has advised the Company about any alternative plans for diversifying into other lines of production in order to reduce dependence of Engineering Units on Railway orders, the Ministry of Industry stated the following through a written reply:

"As regards diversification of the products of Burn Standard Company Ltd. (BSCL) the holding company has been requested to identify areas for diversification so that dependence on Railway Wagon could be minimised. In pursuance, Bharat Bhari Udyog Nigam Ltd. (BBUNL) has set up a committee to identify the areas for diversification. The recommendations of the committee are still awaited."

3.5 During the evidence of the representatives of BBUNL, it was stated by the Chairman, BBUNL that such a Committee was set up in 14.6.94 and has submitted its report in July, 1994. The areas identified are:

Short Term

Fabricated Steel Structure including Technological and Bridge Structure.
Water and Effluent Treatment Plant
Oil and Gas Separation Equipment and Associated Systems
Bulk Material Handling Plants
Fuel Oil Handling Systems
Ash Handling and Disposal Systems
Certain Range of Capital Equipment like Side Discharge Loader, Load Haul Dumpers etc. for Coal Mining Industry.
Steel Plant Equipment

Long Term

(i) Petrochemical Sector, Material Handling, Pipeline Work, Transportation facilities

(ii) Wind Power Generation: Structural/Towers/Light Weight Turbine

(iii) Ship Breaking Activity

3.6 When enquired whether BBUNL has finalised on any of these areas, the Chairman, BBUNL stated in evidence as follows:-

"No, Sir....... In fact on each activity we wanted to prepare the feasibility study report and we approached the Planning Commission for getting some funds but the funds were not made available to us. We are awaiting for a more opportune time in financial terms."

B. Fabrication of Well Head Off-shore Platforms at Jellingham

3.7 In 1984 the company set up facilities for manufacture of offshore platform for ONGC at Jellingham which was originally planned at Hoogly Dock. The Government sanctioned Rs. 8.44 crores in 1989 for the same. The scope of the project was revised ten times during the period between August 1985 and November, 1989. The actual expenditure incurred on the Project upto 31st March, 1992 was Rs. 23.40 crores. This according to the company was due to their ignorance of difficult subsoil condition, high water table and lack of proper Bridges for carrying heavy equipment. The excess expenditure was incurred without the approval of Board of Ditectors and Government. The revised project cost for Rs. 45.06 crores was approved by the Government only in January 1991. The estimate for Rs. 45.06 crores included Rs. 25.70 crores for which there was no provision in the original estimates and Rs. 10.92 crores due to inadequate provision in the original estimates.

3.8 When enquired as to what were the considerations for allowing the additional expenditure, the Ministry of Industry stated in a written reply that during the implementation stage, BSCL incurred and committed an expenditure of Rs. 23.75 crores upto June, 1987 which was far in excess of the approved cost of Rs. 8.44 crores. At that point of time capacity created was unbalanced and barely adequate to fabricate one Deck and Helideck per annum. Subsequently BSCL was allowed to incur additional expenditure of Rs. 90.62 lakhs (over and above the expenditure of Rs. 23.75 crores) already incurred for load out of Decks and helidecks. The company was asked to submit a revised cost estimate for this project. The revised cost estimates was examined in consultation with the Ministry of Petroleum & Natural Gas, Ministry of Surface Transport and Ministry of Defence Production. It was found that demand was no longer a constraint to provide adequate load to all the three domestic platform manufacturers including BSCL. The revised cost estimates of BSCL for manufacture of three complete well head platforms at the cost of Rs. 45.06 crore was approved on 28th January, 1991.

3.9 When asked about the reason for the shift of the project to Jellingham and the reason for not making proper assessment of the site conditions, BSCL stated through a written reply as follows:-

> "It is a fact that the original fabrication facility was to be set up at Hooghly Dock. On a close examination and considering the prospect of further expansion of the yard, it was felt that the space available at Hooghly Dock was not sufficient. Hence, on the advice of the technical collaborator, Messrs. McDermott International Inc., USA (MII), the site was changed to Jellingham. While selecting the yard at Jellingham, the technical collaborator had given priority to the

> availability of shipping channel over the site conditions. There being no other place more suitable for such activity, they recommended Jellingham for setting up of a fabrication yard."

3.10 The Director Finance of BSCL informed the Committee during evidence that an amount of Rs. 23 crores has been invested so far and it has been decided not to spend further on this division in view of the fact that the division is not getting orders from ONGC.

3.11 When asked to furnish detailed background of setting up of this division, BSCL provided the following information in its post-evidence reply:-

> "The Deptt. of Heavy Industry had with the approval of CCEA (Cabinet Committee for Economic Affairs) sanctioned in April, 1985, a project of BSCL for fabrication of Offshore well Head Platforms at Jellingham with an investment of Rs. 844 lakhs and capacity of 7,500 MTPA. During implementation stage, the expenditure committed and incurred upto March 1986 was Rs. 2375.47 lakhs which led to capital works suspension. A futher sanction of Rs. 90.62 lakhs was granted to the Company in 1987 for carrying out work on the bulk head, primarily for load out of ED & EE Decks and Helidecks, leading to a total expenditure/commitment of Rs. 2466.09 lakhs. At that point of time the capacity created was unbalanced and barely adequate to fabricate one deck and helideck per annum. This point was also noted by the Planning Commission and PIB and keeping this in view they recommended a revised cost estimate (RCE) of Rs. 45.06 crores including the already spent/committed amount of Rs. 24.66 crores *vis-a-vis* original sanction cost of Rs. 8.44 crores. The project expansion was curtailed and the additional Government sanction was not implemented. The project was not set up with concurrence of ONGC but based on ONGC's projected demand. There was no written agreement with ONGC for placement of orders on BSCL."

3.12 When enquired about the reasons for not placing orders on BSCL the Chairman & Managing Director, ONGC informed the Committee during evidence as follows:-

> "When this company was formed, we gave them first of all orders for two platforms. We also, subsequently, gave them orders for four platforms. For the first two platforms, the BSCL had subcontracted with a foreign company, M/s Mc Dermott as there are no facilities in the BSCL yards for the jackets etc. And this work was completed. As regards the orders of four platforms they subcontracted with another company, namely M/s Mc Dermott for Jackets but here they (BSCL) chose to build the halipad themselves. This work was completed almost one year late."

3.13 In this connection, ONGC, through a written reply, pointed out the following facts:-

(1) In 1984 itself, ONGC placed two orders for well platforms on BSCL on nomination basis as under:—

i. Two well platforms ED & EE on turnkey basis in May '84.

ii. Four well platforms WI-8, 9, 10 & N3 on turnkey basis in August '84.

(2) The first order for two well platforms, ED & EE was placed on 18.5.1984 and the contractual completion date was Feb. 1986. BSCL subcontracted the fabrication of jackets and temporary decks and also transportation and installation to M/s. MII and same was completed by 25.2.1986 which is within the schedule completion date. The fabrication of permanent decks was undertaken by BSCL in their own fabrication yard. The fabrication of decks was inordinately delayed by BSCL and the decks were delivered only on 1.2.1989 & 3.2.1989 respectively. Thus there was a delay of 35 months in the delivery of permanent decks. Regarding the execution of second order for four well platforms i.e. WI-8, 9, 10 & N3 which were ordered on 10.8.1984, the contractual completion date was May '85 for all the four jackets with temporary decks and December '85 for main Decks and helidecks."

(3) ONGC placed order (conditional LOI) for two permanent decks *viz.* B-57 & E-131 on 25th of January, 1988 on nomination basis subject to Government approval. The contractual completion date *vis-a-vis* actual completion date for these two decks was as under (which shows a time over-run of 38 and 46 months for B-131 and B-57 decks respectively):-

Platform	Structure	Contractual Completion	Actual Completion	Time Over Run
B-57	DECKS	15.03.1990	12.01.1994	46 Months
B-131	DECKS	15.03.1990	30.05.1993	38 Months

3.14 When enquired as to what were the constraints for proper execution of orders, BSCL, in a written reply, stated in the following manner:-

"The main constaints in the execution of orders received from ONGC was ill-equipped Offshore Yard at Jellingham which was not in a position to do Jackets. Hence, all the Jackets had to be sub-contracted. Initially, during the period when Jellingham Yard was not geared up to take up the manufacturing facility for Decks, some of them had to be off-loaded to the sub-contractors and the same was done through Messers. McDermott International Inc., USA (MII) outside the country. Sometimes, lack of infrastructural facilities at Jellingham Yard and bad industrial relations had also contributed to the delay in execution of these orders. In another instance, there was failure on the part of the transportation contractor when the barge hired by them for transporting the Decks, developed leakage during loading of the Decks. Even the Engineering Consultant, EIL and ONGC, the customers changed their specifications frequently leading to delay in procurement as well as fabrication of various items."

3.15 When asked whether the Company has taken up the matter regarding lack of orders with the Ministry, Managing Director of BSCL replied in the affirmative during evidence.

3.16 However, the main reason for decline in performance of the Unit has been attributed to non-availability of orders since 1989 and cancellation of orders for Neelam 10 & 11 Decks & helidecks in 1991.

3.17 When asked about the reasons for cancellation of orders for Neelam 10 & 11 Decks and helidecks, ONGC provided the following facts in a written reply to the Committee:-

> "The matter regarding award of work to Indian yards was further discussed on 21.11.1990 by Secretary, Ministry of Petroleum & Chemicals with ONGC, keeping the decision taken in the meeting with Secretary (Petroleum) in view, a meeting was held with BSCL on 28.11.1990 to convey ceiling price for NLM-10 & 11 decks based on ICB price available at that time plus admissible price preference. This ceiling price was not accepted by BSCL, the conditional LOI for NLM-10, 11 was, therefore, cancelled."

3.18 It came out during evidence that ONGC is floating global tenders. Asked whether BSCL is compating for that, the representatives of BSCL stated during evidence:

> "If it has to be said in one word, the answer is no. The total package consists of laying pipeline also for which we have to take people from outside."

3.19 In regard to participation of Indian Public Sector Undertakings in international bidding, a representative of ONGC stated during evidence as follows:—

> "We have decided that we will consider the Indian Public Sector Undertakings, Indian companies, by giving a price preference of 15 per cent over the ICB price. That decision was taken in 1990 that it should be done at a cost and not at cost plus. If there is a delay, cost increases. After that decision was taken that all the Indian Public Sector Undertakings were told that they should quote against the ICB tender. In the case of Neelam, we had given them the orders on nomination basis looking into their capacity. But we have asked them to accept 15 per cent price over the ICB price. Subsequently, we have been talking to BSCL that they should quote against our ICB tender. They have to get technically qualified. The proposal should

be such that it should meet all the requirements.........As far as the jacket part is concerned, they do not have in-house facilities. They have to go outside, for fabrication and installation contractors. While they are quoting for platforms now, they have to quote for jacket as well as deck and helideck. For jacket they can go out to meet our bid requirement. The rest of the things like decks and equipments are being produced by the BSCL. Similarly, here also they have to first of all, get themselves qualified to the bid requirements."

3.20 In reply to a query, the Managing Director BSCL informed the Committee during evidence that the company has taken up the matter with the Petroleum Ministry and ONGC for bifurcating the orders to enable BSCL to obtain orders for platforms.

3.21 When asked as to why there has been a sudden shift in the policy of ONGC regarding placement of orders, the representatives of ONGC stated in a written reply the following:—

"There was no shift in policy of ONGC with respect to placement of orders on turnkey basis. To ensure utilisation of BSCL's capacity who could fabricate only decks & helidecks in their yard, it was considered to award the work of two decks of B-57 & B-131 well platforms to BSCL. Later on the conditional LOI for two decks of NLM 10 & 11 well platforms was also placed on BSCL which was subsequently cancelled."

C. Construction of Long Bulk Head and Load out Jetty

3.22 The Company also entered into a technical collaboration agreement for construction 609 meter long bulk head and load out jetty for the fabrication yard to diversify its activities in offshore platform. The Company imported 8004 tonnes of sheet piles between May, 1985 and October, 1985 out of which 5054 tonnes were transported to Jellingham. Of these the actual utilisation was 928 tonnes only. Due to delay in receipt of crawler crane required for sheet piling, dredging could not be completed and the Company incurred cumulative storage charges amounting to Rs. 78.65 lakhs upto 31.3.1994 on the pilings. It was stated by the Company in a written reply that the storage charges were not completely avoidable.

3.23 The reason for delay in the receipt of the Crawler crane was stated by the company as under:

"The procurement of Crawler Crane was planned in time but there was delay in receiving the crane at Jellingham due to reasons beyond the control of the Company. The Letter of Intent for the crane was placed on 16.1.85. Due to various formalities involved, the Import Licence was received on 16.4.85 and the Letter of Credit was opened on 28.5.85. It may be mentioned that the crane was lying ready at the time of opening of L/C. The party transported the crane through Indian Flag Vessel due to BSCL's insistence, as required by the

Ministry of Shipping. The nominated Indian Vessel took 5 months more than the normal transit time and that too after taking up the matter with various authorities."

3.24 When asked about the latest position in regard to disposal of surplus sheet piles, the Company stated in a written reply as below:

"The Government approval for the disposal of the Sheet Piles has been obtained. The Company has approached the Customs Department for the waiver of customs duty and interest there which have not been acceded to. Now the Company proposes to appeal before the Committee of Secretaries for a special consideration for the waiver of customs duty and interest."

3.25 Enquired about the Company's request to the Ministry of Industry regarding waiver of customs duty and interest thereon, the Ministry stated in a written reply as under:

"BSCL had directly approached Ministry of Finance for waiver of Custom duty and interest thereon. The Company has reported that Ministry of Finance did not agree to this request. In order to sort out commercial disputes regarding income-tax and custom duty between Central PSUs and Govt. Deptt., Government has appointed a Committee called Committee on Disputes to examine such cases. As per the instructions, PSUs are allowed to refer such issues directly to the Committee on Disputes. Accordingly the Company has directly approached the Committee on 23.11.94 which is yet to consider the request of BSCL."

3.26 When asked about the latest position on the disposal of sheet piles, the Mg. Director, BSCL stated in evidence as follows:

"We decided to go in for reexport and invited tenders through MSTC."

3.27 In this connection, the Chairman, BBUNL substantiated the above view in the following manner:

"Actually these materials were procured on the ground that this off-shore project is an export-oriented project unit and bacause of this specification envisaged at that time, they had procured 'X' amount of materials. But with the change of specification, the materials were not used and there was a surplus stock of sheet pipes. Since they had an export unit, they could use only as an export and could not be sold in the domestic market. If it was sold in the domestic market, then the cost benefits, which they are charging, would now be charged by the Customs. This is the unfortunate paragraph in this matter. A decision has been taken with the approval of the Government that they should be sold out through MSTC. They had asked MSTC which is a public sector company to dispose it of through global tender. So a global tender was called for. Only one response was received and that party was from Nepal. The price they have offered was not very, very attractive. So it was decided that MSTC should go in for a second global tender. It was also decided to take up this matter with the Government of india for granting us exemption in view of the peculiar circumstances."

3.28 However, it has also been stated that the recommendation of the collaborator was for bulkhead of 609 meters length. According to the estimate of EIL the length of bulkhead needed was only 200 meters requiring sheet piles at 3121 tonnes.

3.29 Asked about their comments in this regard, the Company stated as follows:

"For assessment of requirement of sheet piles, the Company had to depend on Technical Collaborator as the Company had no knowledge of fabrication yard development. EIL's recommendation for 200 MT bulkhead was received in August'86 by which time, procurement of sheet piles was already over."

CHAPTER IV

PERFORMANCE

(A) Financial Results

4.1 The Company incurred losses since inception which came down after getting reliefs from 1st April, 1981 and profits were earned in some years. But losses were incurred again from 1987-88. The accumulated loss of the Company as on 31.3.1995 stood at Rs. 292.13 crores. The losses incurred by the Company since 1987-88 have been as given below:

Losses (Rs. Lakhs)

1987-88	88-89	89-90	90-91	91-92	92-93	93-94	94-95
−1.192	−430	−598	−344	−902	−320	−10106	−11593

4.2 Enquired whether the Company stands any chance of going into profit in future, the Director (Finance) of the Company stated during evidence as below:—

> "The viability of this Company, as a whole is largely dependent on the disposal of the unviable and chronically sick refractory units at Jabalpur, Gulfarbari, Niwar and Raniganj. These four units employ about 3,000 workers. Today, these units together are incurring a loss of about Rs. 11 crores per annum. Practically nothing is going on in these units. These are the units which are creating all the problems. But the fact remains that we also cannot do anything with them."

4.3 Asked whether the matter has been taken up with the Ministry, the representatives of the Company stated during evidence, in the following manner:—

> "Sir, there was a proposal for closure of two of these units. But because of the local and other administrative problems, it could not be implemented......The Ministry was a party to this."

The units for which there was a proposal for closure were stated to be Raniganj (No. 2) and Durgapur works.

4.4 In this connection, when asked about the reasons for incurring losses continuously over the years, the Company in a written reply stated as follows:

"The Company was formed by taking over and subsequently nationalising two sick companies engaged in low production technology and products. It was saddled with huge manpower of about 17,000 spread over ten units located in West Bengal, UP, MP, Bihar and Tamil Nadu. The Company was nationalized by the Government with a view to protect the employment of its workers. The fund invested was just sufficient to carry on production activities but not adequate enough to give a major push to its products line for more profitable areas, except for Salem works where a major investment of Rs. 19.25 crores took place which has more than yielded after the successful completion of modernisation projects. Seven of its units producing refractory and Ceramic materials in low technology areas were continuously losing and their annual loss is about Rs. 10.00 crores. Over these years, since takeover, these units have lost above Rs. 100.00 crores till 31.3.94. Thus, most of the financial relief obtained from the Government has gone to finance the cash losses sustained by these units. Over and above, there has been downward revision in the sanctioned fabrication man hour for the wagons produced and thereby reduction in the sale price, while the cost has been always going up. Further, inadequate orders for the Offshore Division also has contributed to incurring of losses by the Company. The abrupt increase in loss during 1987-88 is attributed to 48 days strike in the engineering units and in 1993-94 to drastic reduction of wagons coupled with high incidence of interest on government loans charged in the Accounts with retrospective effect."

4.5 In this connection, BBUNL stated in a reply furnished to the Committee after evidence that if the old pricing norms based on 493 man hours per tonne of free issue steel involved in the manufacture of wagons had not been reduced by Railways to 331 man hours per tonne of steel w.e.f. 1.4.1988, BSCL could have improved the profitability.

4.6 It came out in evidence that the accumulated interest on Government loans were reflected in the accounts in a single year i.e. 1993-94 on the directive of Government which resulted in the Company's net worth becoming negative necessitating its reference to BIFR.

4.7 When enquired as to how far depiction of the accumulated interest in one year is justified, the Ministry of Industry stated in a written reply in the following manner:—

"After the formation of BBUNL, the holding Company submitted financial restructuring proposals in respect of its subsidiaries including

BSCL. The same was examined at various levels. It was decided only in 1992 not approve the restructuring proposals. BSCL, however, did not include Government interest in its accounts in view of its financial restructuring proposals. In 1992, Government advised BSCL to reflect government interest in its annual accounts. Accordingly, BSCL reflected Government interest in its accounts for the year 1993-94 and its net worth became negative and the Company has been referred to BIFR."

4.8 To a query regarding corrective steps taken by the Company to improve upon the position, the Company furnished the following information through a written reply:

"In order to improve the financial health of the Company, a financial restructuring was proposed and a scheme submitted in January'89. However, this has not so far been approved by the government. The Company has initiated Voluntary Retirement Scheme (VRS) since 1990 to reduce the manpower and have successfully separated 1684 people till July, 1994, successfully separated 1684 people till July, 1994. In order to improve the business prospects, the Company has entered into strategic alliance with M/s. Johannes Moller of Germany and M/s. Powell Duffryn of U.K. and is also participating in a number of export enquiries."

(B) Financial Restructuring

4.9 Moreover, the Committee have been informed by BSCL that in order to improve the financial health of the Company, a financial restructing was proposed and a scheme submitted in January, 1989 which has not so far been approved by Government.

4.10 The salient features of the restructuring proposal are follows:

(i) Write-off of Rs. 35.57 crore non-plan loan.
(ii) Interest holiday upto 1990-91 on the balance non-plan loan.
(iii) Moratorium on the non-plan loan upto 1991-92.
(iv) Conversion of balance plan loan of Rs. 28.18 crore as on 31.3.1987 to be converted into equity.
(v) Repayment of all loans as on 31.3.1992 to be spread over a period of ten years etc.

4.11 To a query as to why the scheme has not so far been approved by Government, the Ministry of Industry stated in a written reply as below:

"Since there was a sizable amount involved, the Government did not approve the same."

4.12 In the light of the above facts, when asked as to what strategies the company is following for the survival and speedy growth of units of BSCL, the Managing Director, BSCL mentioned during evidence as under:

"We have taken certain steps for the revival of the units wherever it is possible. As a matter of fact, we have made an appeal to the Railways to give us two years' time before they drastically reduce the wagon orders. At least that will give me some time. The point is, this Company has now started participating in the activities outside the country also. Our samples have been accepted by Refractories in Germany and Iran.

(C) Production Incentive

4.13 The production incentive payments made in Howrah works and Burnpur Works to workers during the last three years is given below:

(Rs. in Lakhs)

	1991-92	1992-93	1993-94
Howrah Works	198	302	483
Burnpur Works	266	249	182

4.14 Moreover, the Production norms for incentive were only estimated and there was no workstudy. The savings effected were also estimated. The incentive at Wagon Assembly shop was allowed on ad-hoc basis. In Burnpur works, norms fixed were adhoc or estimated. Norms in the Ceramic Units (except Salem Works) were adhoc based on negotiations with workers.

4.15 When enquired about the justification of such payments of incentive amidst company's colossal losses, BSCL, in a written reply, stated as under:—

"The production incentives are in vogue in this Company since the days of Private management. However. there has been from time to time some minor modifications to take care of the new product lines being added. The incentive is payable after a certain level of physical production is achieved (performance level). It is not related to the Company's loss and profit. It is possible that the commitment of delivery might require a high level of production activity in one month necessitating the payment of incentive while in the other months, due to lack of orders, the production level would come down to a non-incentive level. During the years, the Company has incurred losses because of various other reasons like sustenance of heavy losses by sick R&C Units or strike, sharp reduction in wagon orders and retrospective price revision for wagons by Railways for which, the workers have no control. Based upon the normal rate of production achieved, the incentive scheme was fixed and settled through negotiation with workers representatives."

D. Performance of Engineering Units

4.16 According to Audit, the Planned production in Engineering units was generally low and the actual production exceeded the plan. In many cases the plan for the next year was lower than the actual of the previous year. However, as a result of investment of Rs. 362.30 lakhs at Howrah and Burnpur Engineering Works for mdoernisation of plant and machinery production went up from 6382 lakhs in 1981-82 to Rs. 27376 lakhs in 1991-92. During the years 1982-83 to 1991-92 these two units incurred losses on many of the orders executed both in respect of Railway wagons and non-Railway wagons. The losses mainly due to excess consumption of steel and extra expenditure on procurement and excess man-hours over the norms fixed by the Railways. Howrah Works completed one order during 1992-93 at a loss of Rs. 371.85 lakhs. The planned production was below the available capacity or orders on hand. The under utilisation of capacity at Howrah Works was due to shortage of orders while at Burnpur under utilisation was due to low production. The production of wagons for customers other than Railways fluctuated from year to year. The capacity utilisation in wagon units ranged between 21% and 65% upto 1990-91 and during 1992-94 it was as follows:—

Year	Howrah	Burnpur
1992-93	31.79%	36.30%
1993-94	44.84%	67.92%

4.17 The reasons for excess consumption of steel were stated by the Company as follows:—

> "Instances of consumption of steel in excess of the quantity allowed by the Railways is very rare. Only on one occasion *i.e.* for BOBs Wagons Railway Board themselves did not have any norm. In fact, they had asked BSCL to indicate actual requirement of steel before formalizing the order of Burnpur Works of BSCL. Though being the first order of this type of Wagon, BSCL also estimated slightly on the lower side. The subsequent orders for the same type of wagon were placed by Railway Board on BSCL with higher quantity of steel."

4.18 When enquired about the feasibility of preparing annual production plan in advance for procurement of steel material, BSCL stated in a written reply as under:—

> "In engineering Units, steel required for Railway wagon production comes as a 'free-supply' item from Railways. In other cases, after receipt of orders from customers procurement action is taken keeping in view the estimates for steel for such jobs. Long-term planning *vis-a-vis* the quantity required to be ordered for an steel plants to suit their minimum supply requirements and/or rolling programme, do

not match very often. Thus, in some cases piecemeal procurement is unavoidable. However, this is not a regular feature."

4.19 When enquired as to what action has been taken by the Company to improve upon the capacity utilisation in wagon units, the company, through a written reply, informed as follows:—

"The company has taken a number of steps to improve the capacity utilisation in wagon units which included mechanised/automatic welding including submerged arc welding machines, provision of welding manipulations, improved handling facilities etc. All these have resulted into increased capacity utilisation. Consequently wagon manufacture went up from 3350 FWUS (34.89%) in 77-78 to a peak of 6252 FWUs (72%) in 90-91."

4.20 The structural unit at Howrah incurred lossed during all the years except during 1982-83 and 1990-91. The loss during the years 1991-92 to 1993-94 was as follows:—

Year	Loss (Rs. in lakhs)
1991-92	83.21
1992-93	42.88
1993-94	58.00

4.21 Asked about the reasons for the dismal performance at Howrah, the Company stated in a written reply, as below:—

"The main reasons for losses are lack of adequate remunerative orders to cover the full overhead."

E. Orders from Railways

4.22 When enquired whether the Engineering Units have the potential to improve, the Managing Director, BSCL stated during evidence:—

"Engineering units have the potential to function as the profit making units subject to one or two conditions. There are two engineering units at Howrah and Burnpur and both of them are manufacturing wagons and wagons related components. Their main customers is the Railways. So long as there is demand from the Railways, these units can perform well and survive on their own."

4.23 In their post evidence replies, the Burn Standard Co. Ltd. furnished the following information in respect of the installed/licensed capacity actual production of these two units and the quantum of order placed by Railways:

(i) Installed/Licensed capacity of these two units are as follows:—

Hawrah Unit	: 4750 FWU
Burnpur Unit	: 3911 FWU
	8661 FWU

(ii) ....Actual production (FWU)

	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95
Howrah	3015	3080	1257.5	1510	2130.0	985
Burnpur	3218	3172	3845.5	3375	2656.5	1285.5
Total	6233	6252	5103	4885	4786.5	2270.5

(iii) Quantum of orders placed by Railways

	6045	6074	5150	5120	4425	2490

4.24 In this connection the company also stated that curtailment in offtake of Railway Wagons has had a direct impact on the performance of these units. Provided these Units have adequate orders for wagons from Railways/other sources, they are capable, notwithstanding the fact that these units have very old and worn out basic equipments like cranes, shearing machines, bending & drilling machine. The wagon manufacturing being a labour intensive unit, the plants need to have a certain level of uniform load *i.e.* 80% of its capacity to sustain its Operations at profitable level.

4.25 The Managing Director, BSCL also revealed during evidence the following:—

> "There was a meeting even at the Planning Commission level wherein it was decided that 80% of the orders will be placed on a firm basis for three years. Two years ago, we were asked to gear up and we have geared ourselves up for this purpose. But we were placed orders only to the tune of 10,000 four wheeler units (FWUs). This is a drastic cut down, making it very difficult for the Industry to survive."

4.26 The Secretary, Department of Heavy Industry informed the Committee in evidence that the Deputy Chairman, Planning Commission would be taking a meeting shortly where Chairman, Railway Board was also expected to be present.

4.27 Subsequently, the Chairman, BBUNL informed the Committee that such a meeting was held on 22nd July, 1995. The Deputy Chairman of the Planning Commission presided over the meeting.........But there is no record of this meeting.

4.28 Asked about the requirement of wagons indicated by Planning Commission, the Company stated, in its post-evidence reply, the following:—

> "The Eighth Plan Document (1992-97) had envisaged a target for wagon procurement of 1,50,000 FWU and the industry (wagon building) had been asked to gear up to meet the requirement. It thus follows that requirement of wagons as per projection is 30,000 per annum upto 31.3.1997."

4.29 As against the above figures, Railway Board's offtake of wagons according to the Company was as follows:—

	From Industry	From Rly. Workshop
1989-90	22855.5	721
1990-91	22987.0	798
1991-92	25083.0	1065
1992-93	25261.0	868
1993-94	18500.0	1000
	500.0*	

* From new entrants like Binny and Southern Structurals.

4.30 When the Committee questioned reason for variation in the figures of the planning commission and actual offtake of wagons by the Railways, the Chairman, Railway Board answered the following during evidence:—

> "Procurement is an integral part of the exercise, because it leads to generation of total traffic capacity of the system. For 1992-93, we planned for our investment to develop capacity of transport output of 267 billion tonne Kms. We achieved 258 b.t. Kms. While we planned for and made investment to the extent of developing this 267 b.t. Kms. and having achieved 258 b.t. Kms., it does indicate that the system has that particular capacity. In 1993-94 we provided for investment to generate a capacity of 277 b.t. Kms., but we achieved finally average distance to which the traffic could get carried fell very shortly. This indicates to us that for certain traffic which had the traditional market, there had been change in the marketing policies. There has also been production capacity which got generated. The traffic went on increasing but consumption and production centres came nearer and the lead became less. We felt that the system had a surplus capacity and there was a need to reduce our investment towards generation of additional capacity. That is one of the major factors which lead to reduction in our wagon procurement programme."

4.31 In this connection when asked what BBUNL has done for securing wagon order from Railways, the holding company stated in its Post evidence reply the following:—

"Efforts made by BBUNL for securing more wagon orders are summarized below:

(a) Constant interaction was made by BBUNL with the highest authorities in Railways for increasing allocation of wagon orders on BBUNL units. BBUNL also approached Ministry of Industry, Department of Heavy Industry, to take up with the Railways for increase in Wagnerians. Several letters were written to Railway Board, DHI etc. on the matter (Reference: bungles letters No. BBUNL/Wagon/off-take/93-94 dated 23.9.92 to Executive Director, Railway Board, No. BBUNL/Wagon/93-94 dated 18.9.92 to Joint Secretary, DHI, Fax Message dated 1.1.93 to Advisor (Stores), Railway Board, No. SRC/Wagon:Prod: Rly Bd/93 dated 18.3.93). At the request of BBUNL Secretary, DHI also took up the matter with Chairman, Railway Board (Reference D.O. Letter No. 14(1)/92-PE-III(PE) dated 12.10.92).

(b) BBUNL initiated discussion with the Chief Minister's Secretariat and Director, Ministry of Industry, Government of West Bengal to take up the matter regarding shortage of wagon orders from Railways. BBUNL also represented in the meeting taken by Hon'ble Chief Minister, Government of West Bengal.

(c) BBUNL Chairman being also Joint Secretary, DHI was constantly in touch with Railways for release of wagon orders on BBUNL units. Several letters were written by him (Reference: Letter No. BBUNL:CMD:MIN/95/87 dated 21.4.95)

(d) Constant efforts were also made to secure orders for export.

4.32 To a query regarding the suppliers of wagons in the public and private sector, BSCL stated, in the post-evidence reply that there are four other public sectior units besides BSCL *viz.* (i) BWEL/MFP, (ii) BWEL/MKA, (iii) BWT/Calcutta and (iv) Jessop/Calcutta. In the private sector, there are 5 regular units making wagons such as (i) HGI/Delhi, (ii) Modern Insdustries/Sahibabad, (iii) Hindustan Development Corporation/Calcutta (iv) Cimmco Biral/Bharatpur, and (v) Texmaco/Calcutta.

4.33 When asked, for the basis on which procurement of wagons from Private/Public Sectors is being decided, the representatives of Railway Board stated in evidence as below:—

"Once we decide on the number of wagons to be procured for a particular year, then the Wagon India Limited decides about the apportionment. Wagon India Ltd. is a unit of the Ministry of Industry. It apportions the number among the public sector, private sector and even the various units of the private sector and the public sector. It advises us.... and then we place orders on that basis."

4.34 In this connection, a representative of the Ministry of Industry stated during evidence as under:—

"The Wagon India Limited is a Joint Sector Company of the public sector and the private sector wagon manufacturers. It has been taking up the cause of the wagon manufacturers before the Ministry of Railways. Currently, the position is that the division of orders between the public sector and the private sector has been in the ratio of 50:50."

4.35 Asked whether the public sector was being given any preference or not, the witness informed the Committee during evidence:—

"It was given a price preference earlier. Last year, the Railways have stopped giving price preference to the PSUs. When they took up this case, the Govt. itself had decided not to give any price preference to the public sector units. Because of this, the public sector has been given 60% orders and the private sector has been given 40% orders."

4.36 In this connection, when asked as to what kind of preference is given to the PSUs by the Railways, Ministry of Railways, stated through its post-evidence reply the following:—

"Question of giving any preference by the Railways to public sector units in the matter of procurement of wagons does not arise as the wagons orders are released on the basis of recommendations of Wagon India Limited within the over-all production programme finalised by Railways."

4.37 The Committee desired to know whether the Railway Board have invited open tenders for 1800 wagons. The Chairman, Railway Board replied in evidence as follows:—

"By going for a tender system, we can opt for the most competitive price in the market. After all, I am a producer and I should have an option. I should be able to buy at the cheapest price and the high quality and everything else remaining the same. In the tender system we exercise that option."

4.38 When asked to furnish a note indicating the total budgetary support received by the Railways, the Ministry of Railways supplied through post evidence reply the following information:—

"(Rs. in crores)

Sl. No.	Year	Plan Size as apprv.	Budgetary Support as apprv.
1	2	3	4
1.	1990-91	5000	1694
2.	1991-92	5325	1694
3.	1992-93	5710	1925
4.	1993-94	6500	960
5.	1994-95	6515	1150

However, the total allocation set apart for wagons procurement during the above years was stated to have been (Rs. in crores) 770.49, 1056.92, 952.91, 781.00 and 655.64 respectively."

4.39 When enquired whether any study has been made on the feasibility of the wagon manufacturing units of BSCL diversifying into some other areas of production in the absence of adequate orders from the Railways, the company stated in its post evidence reply the following:—

"No formal study has been made as yet."

4.40 In this connection, the Ministry of Industry informed in its post-evidence reply as under:—

> "BSCL has been referred to BIFR and BIFR has appointed IRBI as the Operating Agency of BSCL. BIFR has directed the OA to examine and prepare a viability report of BSCL. At that time, the scope and feasibility for diversification will also be examined."

F. Refractory & Ceramic Units

4.41 All the Refractory & Ceramic (R&C) units except Salem unit have been incurring losses year after year. The losses of the R&C unit (except Salem) during the years 1990-91 to 1993-94 were Rs. 885.57 lakhs, Rs. 960.79 lakhs, Rs. 1022.23 lakhs and Rs. 915.17 lakhs respectively. The employees cost was always more than the net value added at Jabalpur, Raniganj and Gulfarbari and sometime it was more than the value of production of these units. The excess of employees cost over net value added during 1994-95 was Rs. 49.15 lakhs at Jabalpur, Rs. 335.02 lakhs at Raniganj groups and Rs. 229.11 lakhs at Gulfarbari works.

4.42 When enquired about the reason for continuous loss in all the R&C units except Salem, the company stated before the Committee through a written reply the following:—

> "The main reason for the continuous loss in sick R&C units are obsolescence in their products and processes leading to 'no demand' situation."

4.43 Asked whether the Ministry agree with the reasons given by the Company, the Ministry of Industry stated, in a written reply, the following:—

"The Refractory Units of erstwhile Burn & Company Limited served as a captive plant for the Indian Iron & Steel Company (IISCO) Burnpur for their entire requirement of refractories. Therefore, there was no problems of either marketing as they were assured of buyer, as also pricing as they received transfer price. But this scenario changed following taking over of the management and subsequently nationalisation of Burn & Company in 1973 and 1976 respectively as IISCO Burnpur ceased to be the captive buyer of refractory items. The obsolescence of their products further added to their problems. These products are no longer in demand in the present market. After the formation of the holding company, MECON was commissioned to undertake the viability of these loss making refractory units. MECON were of the view that the present product mix has become obsolete and suggested for new items with substantial investment which was not agreed to since BSCL has been referred to BIFR, viability of BSCL including R & C works will be examined on the decision of BIFR. Further, GOM will also consider the individual sick Company."

4.44 In response to a query by the Committee, the Chairman, BBUNL informed during evidence that MECON was asked on 13th March, 1989 to undertake this study and its report was submitted in July, 1989. An amount of Rs. 15.87 lakhs was given towards fee. They proposed an investment of Rs. 93 crore towards modernisation and introduction of new products. The new products were synthetic blast furnace, mass magnesia, carbon bricks for different refractory units, sanitary ware and silica bricks.

4.45 Prior to this study undertaken by MECON various studies were stated to have been undertaken by different consultants engaged by BSCL in respect of R&C units, the company, in its post-evidence reply, informed the Committee of the following studies:

a. Emergency Plant Rehabilitation Project for Ceramic and Refractory Units at Gulfarbari and Niwar:

   M/s. Belpahar Refractories Ltd. were appointed by the Company in February, 75 for preparation of a feasibility report for modernisation and expansion of Refractory Units at Gulfarbari, Niwar and Salem at a total fee of Rs. 1.5 lakhs. The capital expenditure was estimated at Rs. 16.71 crores which was subsequently reduced to Rs. 1.27 crores by Government of India.

b. Crash Programme for Rehabilitation and Limited Modernisation of Salem Unit:

   M/s Belpahar Refractories conducted the study Rs. 98 lakhs were sanctioned by the Government in May '79.

c. Modernisation and Expansion of Refractory Plants and Magnesia Mines at Salem:

M/s MECON conducted the study and prepared a feasibility report in April '79 envisaging an investment of Rs. 9.16 crores. The project was sanctioned by the Government in July '81. The project was finally revised to Rs. 19.25 crores in March '89. Total fee paid for consultancy, detailed engineering and up-dating was Rs. 25 lakhs (approx.)

d. Modernisation of Lalkoti Silica Works and Durgapur Refractory Plant of Raniganj Group of Works:

M/s Sunder Consultants were appointed as a Consultant on 17.12.81 to prepare a feasibility report for modernisation of these works in order to make them viable. The report was submitted on 3.3.82 proposing an investment of Rs. 199 lakhs (Durgapur Rs. 61 lakhs and Lalkoti Works Rs. 138 lakhs). The Project was sanctioned by the Government in October '82.

4.46 During their on the spot visit in June 1995 to the company, it was brought to the notice of the Committee in a representation that at present the technology of the Steel making has drastically changed resulting in less consumption of general type of refractories as manufactured by these Units other than Basic & Silica Coke-oven refractories. So in this condition modernisation is a must for the survival of these units taking in view the present requirement of various refractories for the Steel Plant with minimum required manpower.

4.47 When asked as to how the company proposes to undertake the task of modernisation of these units in future, the company stated in a post-evidence reply the following:

"For modernisation, an amount of Rs. 93.50 crores is required (Estimate based on 1989-90 prices). Fund of this magnitude is not available from Govt. Possibilities of getting fund from Bank and Financial Institutions are also remote."

4.48 In this connection when the Committee enquired to whether modernisation activities undertaken in the company have helped in alleviating its obsolescence, the Chairman, BBUNL stated in evidence the following:

"We have given plan funds to the companies. I cannot even say whether these dozes are enough because for want of sizable funds, they have not undertaken any massive modernisation and diversification programme."

4.49 The reasons for the employees cost remaining more than the net value added were stated by the company to be obsolete products and processes, low capacity utilisation, rising employment cost etc.

4.50 It was stated by the Managing Director, BSCL during evidence that another option available for the sick R & C Units was to merge these units with the Bharat Refractory Limited, another public sector unit functioning under the Ministry of Steel. However, this could not fructify.

4.51 When asked as to why the merger proposal did not materialise, the company provided the following answer in its post-evidence reply:

"An expert committee on Public Enterprises (ECOPE), popularly known as Fazal Committee, set up in August 1980 by erstwhile Bureau of Public Enterprises, Ministry of Finance, had recommended that Refractory & Ceramic Units of BSCL may be merged with Bharat Refractory Limited, a public sector undertaking under the purview of Department of Steel. A special team was also set up under the Chairmanship of Shri N.C. Mukherjee, the then CMD of BRL. Since the BRL had been incurring losses and since most of the refractory units of BSCL were also characterised by huge losses and high labour cost, the Special Team concluded that their merger with Bharat Refractory Limited will not lead to any solution to the problem. Rather these problems were going to be compounded and not simplified. In these circumstances, Department of Steel were not agreeable to the merger of refractory units of BSCL with Bharat Refractory Limited."

4.52 When enquired as to what efforts have been made by the Ministry in this regard, the Ministry of Industry, in a written reply, furnished the following information:—

"To consider Fazal Committee recommendations, Department of Steel constituted a special team. The team concluded that their merger with BRL will not lead to any solution to the problems. The matter was again taken up with Department of Steel in July, 1992 to consider merger of unviable R & C units with BRL which was not agreed to by the Department of Steel. This issue was not taken up in Committee of Secretaries."

4.53 In Salem too, there has been a sharp decline in profitability from Rs. 1240.98 lakhs in 1992-93 to Rs. 571.23 lakhs in 1993-94. The profit further declined during 1994-95 to Rs. 150 lakhs (before interest on GOI loans).

4.54 Asked about the reasons for the sudden fall in the profitability at Salem the Ministry of Industry, in a written reply, stated as below:

"Salem is the only profit earning R & C Unit of BSCL. Its performance has taken a sharp beating due to fall in domestic demand particularly in Steel Sector. As a result the profitability of this Unit has come down from Rs. 12 crore during 1992-93 to Rs. 5.71 crores in 1993-94. To make up for sudden sharp fall in domestic demand, the company has decided to embark on an Export drive."

CHAPTER V

GENERAL

A. Staff Strength

5.1 Category-wise employee-strength of the company in the last 3 years have been as follows:

Category-wise Manpower

	As on 31.3.1992	As on 31.3.1993	As on 31.3.1994	As on 31.3.1995
Officers				
Technical	528	541	537	510
Non-Technical	285	272	257	237
Supervising Staff				
Technical	779	716	676	545
Non-Technical	23	23	19	26
Clerical	852	833	785	761
Sub-Staff & Security	838	800	741	703
Workers	10,439	9,898	8,896	6317
	13,744	13,083	11,911	9099

5.2 However, the company inherited approx. 18,000 employees at the time of take-over in 1973. Gradually, retirements/V.R. have reduced the manpower which is now, 9099 as on 31.3.1995.

5.3 When enquired as to what extent over employment has led to deterioration in financial position, BSCL stated in its post-evidence reply the following:

> "At the time of take-over, alongwith the two privately managed undertakings, approx. 18,000 employees were also taken-over. This strength has gradually reduced to 11,911 over the years due to natural depletion by way of retirement/superannuation, resignation and also voluntary retirement. No formal study has yet been done to identify shop-wise/department-wise over-employment. However, considering the fact that four refractory units are chronically sick without any chance for its revival, approx. 2500 employees attached to these units are burden on the Company at present."

5.4 To a query as to when the company envisages to reduce the staff strength to the required level, the company mentioned in its post-evidence reply as under:

> "Reduction of manpower will be possible gradually by voluntary retirement or closure of sick units. Since the Company is under reference to BIFR, the subject regarding reduction of staff/workers' strength would depend on the future revival package/reconstruction proposed by BIFR.

B. Accounting Policy and Internal Audit

5.5 The Company followed since 1989-90 the accounting policy formulated by its holding company. There was no full time officer in charge of internal audit. The Managing Director of the Company has started monitoring of internal audit function from November, 1993.

5.6 Asked about the system of internal audit, the Managing Director, BSCL stated during evidence as below:

> "This situation was true earlier when the Audit man and the Accounts Man happened to be the same person. But today the Audit Department is separate. I also accept that the Audit Department is not as elaborate as it should have been in a company having 11 units located all over India. Today the situation is such that every month I am finding people at the official level deserting me. They have deserted because of the threat of the reference to the BIFR, the closure, the talk of privatisation, etc. The vacancy for the post of Director (F), BBUNL has been advertised three or four times. Two of the Director(F): Director(F), BBUNL and Director (F), Jessops sought premature retirement. The financial management has become difficult. Today, we have a Manager (Internal Audit), who looks after this. I also admit that in some of the units, we are not having any audit person."

C. Board of Directors

5.7 There has been no regular full-time Chairman and Managing Director, BBUNL with effect from 21.06.1993. Till a regular CMD is appointed, Joint Secretary in the Deptt. of Heavy Industries is acting as Chairman, BBUNL and Director (Personnel), BBUNL is acting as Managing Director.

5.8 When asked about the reasons for the post of the CMD remaining vacant for such a long time, the Chairman, BBUNL stated during evidence the following:

> "..... in 1993 we got the panel from the PESB. That panel was not accepted by the Govt. for certain contradictions in the panel itself. Then the second panel, on our request, was submitted by PESB. That second panel is still under consideration because vigilance clearance in certain cases is yet to be obtained from the CVC."

5.9 In this connection, when the Committee wanted to know whether the Chairman of the Holding Company attends the Board meeting, the Chairman, BBUNL stated during evidence as below:

> "Sir, I am supposed to preside over the Board meetings. I think, last year I have attended four Board meetings of BSCL in 1994-95. I am the Joint Secretary here and have to look after a lot of urgencies related to Parliamentary works and other matter. Sometimes, it becomes difficult to accommodate a date and even if a date is given, I am unable to be there due to pressing unforeseen urgencies here."

D. Survival Strategies

5.10 The Committee during their on the spot visit to the BSCL in June, 1995 were given a representation by 'Burn Bachao Committee' which contained in it the synopsis of Revival Strategy for BSCL, which are as follows:

I. Full capacity utilisation of installed facilities to increase market shares in all work areas and to venture into new allied market segments.

II. Diversifying to remunerative product lines to offset dependence on Railways.

III. Replacement of obsolete plant and machinery with the same of updated technology.

IV. Suitably training of personnel involved in low technology jobs and redeploying them to remunerative product lines.

V. Strengthening Project Wing with upgraded technology and Foreign Collaborations.

VI. Laying special emphasis on Railway Machine Shop and Foundry Division.

VII. Required modernisation and ISO 9000 certification for the entire works to derive competitive advantage.

VIII. Provision of functional Autonomy to the unit heads with higher delegation of power specifically in financial, purchase and marketing affairs.

IX. Replenishment of workforce, lost due to natural decay or else.

X. Formation of strategic planning cell to deal with corporate planning, project, marketing, diversification strategies, portfolio management with business and technological planning.

XI. Dismantling of BBUNL.

XII. Thorough restructring of organisational structure and induction of professionals at key position.

5.11 When asked as to what extend BBUNL agrees with the strategy as outlined by Burn Bachao Committee, the holding company stated in its post-evidence reply the following:

> "Burn Banchao Committee has given some valuable suggestions. The suggestions will be examined while submitting revival plan to BIFR through operating agency."

5.12 However, subsequently in a post evidence reply submitted to the Committee, the BBUL expressed disagreement in respect of some of the points like provision of functional antonomy to the unit heads with higher delegation of power; replenishment of workforce lost due to natural decay, dismantling of BBUNL and thorough restructuring of organisational structure.

5.13 When asked what steps were being taken in this regard, the holding company stated the following in a post evidence reply:—

> "The company being a 'sick industrial undertaking' under SICA is now referred to BIFR. BIFR has appointed Industrial Reconstruction of Bank of India (IRBI) as the Operating Agency with a task to examine the viability and prepare a revival scheme for BSCL. The Operating Agency with the assistance of consultants in the relevant field is expected to submit the revival scheme for BSCL for consideration of BIFR."

PART-B

RECOMMENDATIONS/CONCLUSIONS OF THE COMMITTEE

1. Burn Standard Company Limited (BSCL) was incorporated as a public sector undertaking on 1.12.1976 after the acquisition of erstwhile Burn and Company and India Standard Wagon Company. It became a wholly owned subsidiary of Bharat Bhari Udyog Nigam Limited (BBUNL) with effect from 11.6.1987. The Committee are constrained to find that even after about 20 years of its existence, the company has failed to attain a sound financial position. On the contrary it is facing problems like surplus manpower, high incidence of employment cost out dated plant and machinery, obsolete technology, and accumulated losses exceeding the net worth as a result of which it had to be referred to BIFR. On the basis of their examination the Committee have made a number of suggestions which are contained in succedding paragraphs.

2. The Committee note that BSCL was established with the avowed objectives of maximising pre-interest profit to 10% of turnover, achieving production growth by 20% (in value) annually (subsequently revised to 10 to 12% in April, 1986), repayment of Government loans and achieving debt-equity ratio of 3:1 and development of captive ancillary units. They are however, constrained to observe that the Company has failed to achieve most of these objectives except debt equity ratio to some extent. What is worse, even the holding company Bharat Bhari Udyog Nigam Ltd. failed in achieving its primary mission of making the group a cohesive and economically viable one. The losses of the group which were Rs.18.44 crores during 1986-87 increased to Rs.233.60 crores during 1994-95 while Burn Standard Co. Ltd. alone which had earned a profit of Rs.0.34 crores during 1986-87 continuously incurred losses during the subsequent years. Its loss during 1994-95 alone was Rs.115.94 crores and cumulative losses as on 31.3.95 stood at Rs.292.03 crores. The Committee have received an impression that the holding company has also failed in giving proper direction to all its subsidiaries including BSCL particularly in regard to marketing.

3. After the formation of the holding company in 1986, it started preparing a corporate plan for the group and a plan envisaging an investment of Rs.111 crores for Burn Standard Co. Ltd. was submitted to Government in August, 1990. After two years i.e. in 1992, it was rejected by Government on the ground that by that time a study by M/s W.S. Atkins had been commissioned. It is pertinent to mention here that before this

MECON was asked on 13 March, 1989 to undertake the study with regard to R&C units and the Report was submitted in July, 1989. As elsewhere commented upon by the Committee in this Report, the recommendations of MECON for an investment of Rs.93 crores towards modernisation and introduction of new products in R&C units of BSCL in order to make them viable were also not implemented for lack of funds. Similar was the fate of the study undertaken by M/s W.S. Atkins in association with National Industrial Development Corporation who submitted a report in 1992 to the holding company and the Government regarding financial and organisational restructuring of the group. The report envisaged total investment of Rs.357 crores and recommended inter-alia conversion of the holding company into a unitary company merging all the existing subsidiary companies including BSCL, separation of all unviable units of BBUNL including all loss making R&C units of BSCL and financial restructuring of BBUNL. The Committee are pained to observe that the Government could not take decisions on these recommendations and a number of subsidiaries including BSCL were gradually referred to BIFR. The net result is that the expenditure of Rs.6.73 crores incurred on this study inclduing Rs.4.17 crores in foreign exchange proved futile. The argument now put forward by Government for not implementing the recommendations of the consultants that a single unitary company would have extinguished the age-old historical companies is indicative of lack of pragmatic approach basically. The Committee highly deprecate the failure of Govt. to take positive decision for revival of this group even after spending crores of ruppes on various studies. They, therefore, recommend that even at this late stage Government should give due and serious consideration to the restructuring of BBUNL companies and provide sufficient funds with a view to make them viable and to protect the interests of labour.

Recommendation (Sl. No. 1 Para Nos. 1—3)

4. Another plan envisaging an expenditure of Rs. 30 crore was prepared by the company in 1984 for renewals, replacement and modernisation. The investment was subsequently revised to Rs. 62.63 crores. The Committee are surprised to learn that neither the original nor the revised corporate proposal for such renewal, replacement and modernisation was submitted to Government for approval; on the contrary, the Government continued to sanction projects from time to time based on the piecemeal proposals received from the company subject to availability of plan funds. The Committee are of the opinion that had a comprehensive view been taken and required funds made available in time, the end result could have been different.

5. The Renewals and Replacement scheme (1984-85) included Machine Shop Rebuilding Project at Howrah works. The machine was commissioned in May, 1986 after incurring a total expenditure of Rs. 201.42 lakhs. But no high valued sophisticated and high technology orders (viz on shore oil rig

structures) could be secured and the machine was used for other works i.e. for steel plant equipments of rolling type since 1988-89. Though the machine is reportedly now being fully utilised for machining of heavy parts for steel plant equipment, slag Dump cars, slag pot cars etc. the committee understand that the company has still not been able to secure high value sophisticated orders for which the machine was commissoned. Similarly a plate Bending Machine, commissioned in February, 1987, which was intended for execution of orders for steel plant, mining equipment etc, is lying idle after incurring expenditure of Rs. 75.63 lakhs including civil works. The Company had been incurring heavy interest charges on an amount of Rs. 50 lakhs taken under IDBI Bill Rediscounting scheme for procurement of the machine. The type of heavy plates which the machine is capable of producing are not now required. The Committee deprecate the commissioning of the machine for which proper orders could not be secured. This only goes to show lack of farsightedness and proper planning on the part of management. The Committee would suggest that the feasibility of disposing of at least the Plate Bending Machine which is lying idle since long should be explored soon.

Recommendation (Sl. No. 2, Para Nos. 4-5)

6. The Committee are distressed to note that the modernisation and expansion of Refractory units at Gulfarbari and Niwar were scheduled to be completed by November, 1978 but some of the machines like Gas Producer Plant at Gulfabari and Dust catcher equipment at Niwar were commissioned only in 1984-85. The reasons advanced by the company for the delay in supply of plant and equipment such as occasional labour trouble and failure on the part of the contractor to execute the work in time appear to the Committee to be too general and not the ones which could not be overcome by proper planning and management. The Committee are further given to understand that the tunnel kiln at Niwar was already installed by the erstwhile management but it was not commissioned. Subsequently it was felt that additional facilities would be required to make this tunnel kiln operational. It was not commissioned by the Company due to steep rise in prices of furnace oil in 1980 which has made its operation economically unviable. The Committee at this stage can only recommend that the Company should make a time-bound plan to operationalise its commisioning under intimation, to the Committee.

7. The Committee are surprised to learn that although various studies were undertaken by different consultants in respect of R&C units, no substantial modernisation activities could result from such studies. For modernisation an amount of Rs. 93.50 crores is required. Fund of this magnitude could not be made available by Government. The Committee deprecate the lackadaisical attitude of the Government in not making the

funds available to the company. They recommend that in order that the R&C units of BSCL can survive and become economically viable, Government should make the required funds available for their modernisation.

8. The Committee are pained to observe that the modernisation of Refractory plants at Salem also involved a time over-run of 17 months and was completed finally in December, 1991. The cost of the project also increased to Rs. 19.25 crores as against the original estimates of Rs. 9.16 crores. One of the reasons for the delay was a substantial delay in getting the import licence for the Tunnel Kiln. The Committee deprecate this inordinate delay and are of the view that there is an urgent need to achieve high cost-effectiveness in order to maintain profitability in the intensely competitive market today and all earnest efforts should be made in this direction at least in the future.

Recommendation (Sl. No. 3, para Nos 6—8)

9. The Committee find that against a sanctioned cost of Rs. 138 lakhs for modernisation of Lalkoti Silica Works, the actual investment was Rs. 187 Lakhs. The main plant chamber kiln was commissioned in January, 1986 against scheduled completion in September, 1983. The Committee have been informed that the additional expenditure of Rs. 49 lakhs of Lalkoti was within the overall sanctioned cost of Rs. 199 lakhs for the Raniganj Group consisting of units at Raniganj, Lalkoti, Durgapur and Ondal. Due to closure notice of Durgapur and Raniganj-II, and nature of products produced at Ondal, no investment was proposed for Ondal and the available funds were diverted to Lalkoti. However, the Committee are of the view that the utilisation of funds from one unit to another should have been brought to the notice of Government. This assumes importance particularly when it is noticed that even after incurring excess expenditure on modernisation the unit continues to incur huge losses amounting to a sum of over Rs.1.5 crores annually when it was anticipated to earn profit of about Rs. 44 lakhs annually. This is on account of the fact that even after modernisation the unit is not able to produce silica bricks of the required quality or quantity because the requirement has now shifted to other qualities which in turn has also affected the demand. In the circumstances the Committee suggest that the feasibility of carrying out further modifications in the unit should be examined to make the unit viable.

Recommendation (Sl. No. 4, Para 9)

10. In order to reduce its dependence on orders from Railways, the Company obtained turn-key orders for Coal Handling Plant and Ash Handling Plants which were executed through outside agencies. However, this did not help the company in better utilisation of its existing facilities. Turnover from such contracts at Burnpur which was 9.37% of the turnover of the unit in 1983-84 varied between 0.41% and 4.45% during 1985-86 to 1991-92. Similarly, the turnover from such contracts at Howrah which varied between 7% and 25% of its total turnover during 1985-86 to

1991-92, came down to 2.57% during 1992-93. The Committee are surprised to learn that inspite of the keenness on the part of the Company to reduce dependence on orders from Railways, no major turnkey project was attempted during the last five years on the plea that the holding company BBNUL had decided to rationalise the turnkey project activities within the subsidiary companies. Although a Committee was set up to identify areas of diversification which subsequently did identify such areas, the holding company has not been able to finalise on any of these areas. The Committee would like the finalisation of such areas to be expedited under intimation to them.

Recommendation (Sl. No. 5, Para 10)

11. In 1984, Burn Standard Company Limited set up facilities for manufacture of offshore platforms for ONGC at Jellingham. The revised cost, estimate for manufacture of three complete well head platforms at a cost of Rs. 45.06 crore, was approved by Government in January, 1991. However, the Committee have been informed that after incurring/ Committee an expenditure of Rs. 24.66 crores, by 1987 against original sanction of Rs. 8.44 crores it was decided not to spend further in view of the fact that the division was not getting orders from ONGC. The facilities created at that point of time were unbalanced and barely adequate to fabricate one Deck and Helideck per annum. However, the Committee's examination has revealed that the BSCL had created the offshore facilities based on the ONGC's projected demand although there was no written agreement with ONGC for placement of orders. The Committee are, therefore, of the opinion that certain preference could have been given by ONGC in placing the orders on BSCL provided the latter could complete the job as per requirements of ONGC and within the time schedule. From the information placed before the Committee, it appears that BSCL has not been successful on these counts at least with its present facilities for it is observed that the first order for two platforms was subcontracted by BSCL except for fabrication of permanent decks. The sub-contractors completed their part of the job within the scheduled time but the fabrication of decks by BSCL was delayed by 35 months. The second order for four well platforms was delayed by one year. Another order placed for two permanent decks was also delayed, one by 38 months and the other by 46 months. According to ONGC, the order for Neelam 10 & 11 Decks and Helidecks placed on BSCL was cancelled since the latter did not agree to ICB price available at the time plus admissible price preference.

12. The Committee have been informed by BSCL that the main constraint in the execution of order received from ONGC was ill-equipped offshore yard at Jellingham which was not in a position to do jackets. Hence, all the jackets had to be sub-contracted. The BSCL is also unable to participate in global tenders floated by ONGC since total package consists of jackets and laying pipeline etc. for which BSCL has to take people from outside. The Committee would, therefore, suggest that to meet the

requirements of ONGC, BSCL should consider augmentation of its off-shore facilities for which Government had already sanctioned a substantial amount. But before BSCL actually undertakes such expansion of facilities, it has to be ensured that such facility will be fully utilised. The Committee, therefore, recommend that a High level Committee should be constituted with Secretaries of the Ministries of Industry, Petroleum and Natural Gas as members to find out ways for utilising the off-shore facilities of BSCL if necessary by augmenting them or by collaborating with other public sector undertakings like Mazagon Dock Ltd. The Committee would like to be informed of the findings of such Committee. They also desire that in order to utilise the existing facilities, possibilities should be explore immediately for undertaking the work other than that of ONGC like fabrication job relating to Refinery and Petrochemicals and repair/modification job relating to existing offshore platforms.

13. The Committee observe that BSCL entered into a technical collaboration agreement for construction of 609 meter long bulk head and load out jetty for the fabrication yard at Jellingham. Out of the 8004 tonnes of sheet piles imported between May and October, 1985, 5054 tonnes were transported to Jellingham. Of these, the actual utilisation was 928 tonnes only and the company had to incur cumulative storage charges amounting to Rs.78.65 lakhs upto 31.3.1994 on the pilings. The Committee are at a loss to understand how the length of the bulk head required had been estimated by the collaborator to be 609 meters when the same was subsequently estimated at 200 meters by EIL with the requirement of sheet piles being only 3121 tonnes. Even after receipt of EIL's recommendation, the BSCL does not appear to have taken up the matter with the collaborator. The Committee desire that the import of excess sheet piles should be investigated and responsibility fixed in the matter. It is also disquieting to note that approval for disposal of surplus sheet piles has been given very late. Not only that no decision has so far been taken in the matter of waiver of customs duty and interest thereon although the same was taken up on 23rd November, 1994 with the Committee on Disputes, appointed by Government to sort out such disputes. Now that a decision has been taken to re-export the surplus sheet piles, the Committee desire that the same should be effected expeditiously.

Recommendation (Sl. No. 6, Para Nos. 11—13)

14. The Committee regret to note that except for one year, the company has been continuously making losses since inception. The accumulated losses of the company as on 31.3.1995 stood at Rs.292.63 crores. The main reasons for the heavy losses have been stated to be that seven of the units producing refractory and ceramic materials are continuously losing and since takeover, these units have lost above Rs. 100 crores till 31.3.1994. The inadequate orders for the offshore Division have also contributed to the losses. The Committee recommend that urgent corrective action should be taken in this regard.

15. The Committee are perturbed over the fact that the losses of the Company suddenly went upto a staggering level of Rs.101.07 crores in 1993-94 over Rs.3.2 crores in 1992-93 due to the depiction of accumulated interest on Government loans pertaining to earlier years in the accounts for the year 1993-94, on the advice of Government. This was not being done during the earlier years since the financial restructuring proposal was pending before the Government which was rejected in 1992. Eventually the company had to be referred to BIFR in accordance with the provisions of SICA 1995 as amended in 1993. The Committee deplore this abrupt decision of Government for depicting the accumulated interest in a single year which inturn was due to the failure of Government to take timely decision on the restructuring proposal submitted by BSCL. BSCL had submitted a financial restructuring scheme in January, 1989 envisaging inter-alia writing off of Rs.35.57 crores non-plan loan, conversion of balance plan loan of Rs.28.18 crores as on 31.3.1987 into equity and repayment of all loans as on 31.3.1992 to be spread over a period of ten years etc. It was only in 1992 that the Government decided not to approve the restructuring proposals. Since such an indecisiveness on the part of the Government has adversely affected the Company, the Committee desire that the proposals regarding financial restructuring should be cleared expeditiously before the matter is finalised by BIFR.

Recommendation (Sl. No. 7, Para Nos. 14-15)

16. The Committee observe that the Engineering Units of BSCL at Burnpur and Howrah have been depending on orders from Railways. The capacity utilisation in wagon units ranged between 21% and 65% upto 1990-91. During 1992-93 and 1993-94, the utilisation was 31.79% and 44.84% respectively at Howrah and 36.30% and 67.92% respectively at Burnpur. It has been brought to the notice of the Committee that so long as there is demand from the Railways, these units can perform well and survive on their own. The Committee would, however, like to emphasise that the company should make a proper study to explore all possibilities for diversification so that even in the event of inadequate orders from Railways, the units can survive.

Recommendation (Sl. No. 8, Para No. 16)

17. The Committee examined in details the requirement of wagons by Railways vis-a-vis the orders placed on BSCL. It was revealed that at present there are four public sector units and five private sector units manufacturing wagons. The orders to be placed on each unit are decided by the Wagons India Limited, a public sector undertaking. Last year, 6090 orders are stated to have been placed on public sector untis. The Committee have also been informed that the Eighth Plan Document (1992—97) had envisaged a target for wagon procurement of 1,50,000 Four Wheeler Units and the wagon building industry was asked to gear up to meet the requirement. Against such presumed requirement of 30,000 wagons

annually, the offtake of wagons by Railways from the Industry has been 25,261 during 1992-93 and 19000 during 1993-94. The production in BSCL's units during 1992-93 to 1994-95 has been 4885 FWU, 4786.5 FWU and 2270.5 FWU respectively while its capacity is 8661 Four Wheeler Units. Against this the orders placed by Railways on BSCL during these years have been 5120 FWU, 4425 FWU and 2490 FWU respectively. Evidently, there has been a shorfall in offtake of wagons by Railways themselves and under utilisation of BSCL's units.

18. The Committee have been given to understand that the reduced offtake of wagons by Railways has been due to change in the marketing policies. The traffic went on increasing but the consumption and production centres came nearer and the lead became less. However, the Committee would like to point out that it was decided at the level of the Planning Commission that 80% of the orders would be placed on a firm basis for three years which has reportedly not been done by the Railways. They agree with the contention of BSCL that there requirement of wagons by Railways should be made known well in advance so that production of wagons could be planned accordingly. The Committee are surprised to learn that there is no record of the meeting which was held on 22nd July, 1995 with the Planning Commission involving the Ministry of Industry and the Railway Board to look into the matter of procurement of wagons. They fail to understand how in the absence of such records BSCL would be able to follow up the matter with the Railways. Moreover, in view of the very fact that the Government has decided not to give any price preference to the public sector units; the whole matter requires an urgent and serious action on the part of the Government so that the Wagon Units of BSCL which were set up mainly to cater to the demands of the Railways are put to better utilisation. The Committee desire that at least the present practice of giving 60% orders to the public sector should continue.

Recommendation (Sl. No. 9, Para Nos. 17-18)

19. It is disturbing that all the Refractory and ceramic units of BSCL except Salem unit have been incurring losses. The losses incurred by these units (except salem) during the years 1990-91 to 1993-94 were Rs.885.57 lakhs, Rs.960.79 lakhs, Rs. 1022.23 lakhs and Rs. 915.17 lakhs respectively. The reasons for the continuous losses are stated to be obsolete equipment and processes, low capacity utilisation, rising employment cost etc. sometimes the employment cost was even more than the value of production at places like Jabalpur, Raniganj and Gulfarbari. It is surprising that even after MECON's suggestion for change in product mix, no action was taken in this regard. The plea for not having taken any action in this regard simply on the ground that the BSCL has been referred to BIFR in unacceptable to the Committee since it is only a recent development. Since the matter of revival is already pending with BIFR, the Committee would only suggest that the revival plan should be formulated expeditiously by the BIFR and acted upon with full earnestness by the

Government so that the units could become expeditiously viable without further loss of time.

20. Salem unit, which is the only R&C unit earning profit has also shown decline in performance. Its profit declined from Rs.1240.98 lakhs in 1992-93 to Rs.571.23 lakhs in 1993-94 and to Rs.150 lakhs in 1994-95 which is a cause of concern to the Committee. They, therefore, recommend that urgent corrective action should be taken in order to prevent this unit also from going into the red.

Recommendation (Sl. No. 10, Para No. 19-20)

21. The Committee note that though the staff strength of the company has been reduced to 11,911 as on 31.3.1994 and to 9099 as on 31.3.1995 from about 18,000 at the time of take over, no formal study has yet been made to identify shop-wise/department-wise over-employment. About 2500 employees attached to the four chronically sick refractory units are stated to be a burden on the Company. The Committee depricate the inaction on the part of the Company in making a proper assessment of the surplus labour. Now that the Company has been referred to BIFR, the Committee can only expect that the work-study for rationalisation of workforce will be made in line with the revival plan.

Recommendation (Sl. No. 11, Para No. 21)

22. The Committee regret to note that the internal audit system in the Company has been quite inadequate. Earlier, the Audit and Accounts Departments were being managed by the same person. Although, the Audit Department has now been separated and there is a manager for Internal audit, it is admittedly not as elaborate as it should be for a company having multiple units. The Committee, therefore, recommend that the internal audit system in the company should be suitably strengthened.

Recommendation (Sl. No. 12, Para No. 22)

23. The Committee are dismayed to find that there is no regular full-time Chairman & Managing Director of holding Company namely Bharat Bhari Udyog Nigam Limited since June, 1993. The First Panel was not accepted by Government for certain contradictions in the Panel itself while the Second Panel submitted by Public enterprises Selection Board is still under consideration of the Government. In view of the fact that financial health of most of the subsidiaries of BBUNL is far from satisfactory, the Committee strongly recommend that a regular Chairman and Managing Director of BBUNL should be appointed without any further delay.

Recommendation (Sl. No. 13, Para No. 23)

NEW DELHI;
December, 1995
Agrahayna, 1917 (Saka)

KAMAL CHAUDHRY,
Chairman,
Committee on Public Undertakings.