EIGHTY-THIRD REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS (1983-84)

(SEVENTH LOK SABHA)

NATIONAL FERTILIZERS LTD.

(MINISTRY OF CHEMICALS AND FERTILIZERS)

[Action Taken by Government on the Recommendations contained in the 65th Report of the Committee on Public Undertakings (Seventh Lok Sabha)]

सत्यमेव जयते

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LOK SABHA SECRETARIAT
NEW DELHI

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CONTENTS

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(1983-84)

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INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to submit the Report on their behalf, present this 83rd Report on Action Taken by Government on the recommendations contained in the 65th Report of the Committee on Public Undertakings (Seventh Lok Sabha) on National Fertilizers Ltd.

2. The 65th Report of the Committee on Public Undertakings was presented to Lok Sabha on 26 April, 1983. Replies of Government to all the recommendations contained in the Report were received by 18 February, 1984. The replies of Government were considered by the Action Taken Sub-Committee of the Committee on Public Undertakings on 20 February, 1984. The Committee also considered and adopted this Report at their sitting held on 20 February, 1984.

3. An analysis of the Action Taken by Government on the recommendations contained in the 65th Report (1982-83) of the Committee is given in Appendix II.

NEW DELHI ;
March 12, 1984
Phalguna 2905 (Saka)

MADHUSUDAN VAIRALE
Chairman,
Committee on Public Undertakings.

CHAPTER I

REPORT

This Report of the Committee deals with the action taken by Government on the recommendations contained in the Sixty-Fifth Report (Seventh Lok Sabha) of the Committee on Public Undertakings on National Fertilizers Ltd. which was presented to Lok Sabha on 26 April, 1983.

2. Action Taken notes have been received from Government in respect of all the 30 recommendations contained in the Report. These have been categorised as follows :—

(i) *Recommendations/observations that have been accepted by Government* :

Sl. Nos. 1-4, 6, 8, 9, 12-14, 16-20 and 22-29.

(ii) *Recommendation/observation which the Committee do not desire to pursue in view of Government's reply* :

Sl. Nos. 15

(iii) *Recommendations/observations in respect of which replies of Government have not been accepted by the Committee* :

Sl. Nos. 5, 7 and 10.

(iv) *Recommendations/observations in respect of which final replies of Government are still awaited* :

Sl. Nos. 11, 21 and 30.

The Committee desire that the final replies in respect of recommendations for which only interim replies have been given by the Government, should be furnished to the Committee expeditiously after getting the same vetted by Audit.

The Committee will now deal with the action taken by Government on some of their recommendations.

A. Formulation of Corporate Plan

Recommendations, Sl. Nos. 3 &4 (Paragraph 1.21 and 1.22)

3. The Committee noted that the Company did not have any Corporate Plan as approved by the Ministry. They desired that after the finalisation of the micro objectives of the Company its Corporate Plan should also be drawn up early so that the performance of the Company could be judged against the set Plan targets. The Committee also recommended that, as suggested by them in their 49th Report, in future the Plan targets both annually and for the Plan period should be fixed for each undertaking by the Administrative Ministry in consultation with the Planning Commission in regard to (i) production in physical terms ; (ii) value added corelated to sectoral rate of growth indicated in the Plan ; (iii) capital investment ; and (iv) generation of internal resources for capital investment corelated to the resources forecast in the Plan. The Committee hoped that action will be taken to fix various targets as suggested by them. They also recommended that those targets and achievements should also be clearly brought out in the Annual Reports of the Undertaking with an explanation for the shortfalls, if any.

4. The Government in their reply have merely stated that the Company has taken up the formulation of Corporate Plan. The Committee regret to note that nothing has been said by the Ministry in their reply regarding fixation of various targets and showing these targets and achievements thereagainst in the Annual Report of the Undertaking. The objectives and obligations now finalised by the Company are also too general and not specific. The Committee hope that the Corporate Plan being finalised by the Company would incorporate specific targets in various fields of its operation so that the Company functions in the right direction to achieve the set goals within a time frame. These targets and achievements should also be clearly brought out in the Annual Reports of the Undertaking with an explanation for the shortfalls, if any.

B. Delay in Taking Investment Decisions

Recommendation, Sl. No. 5 (Paragraph 2.40)

5. The Committee observed that in February 1973, Government had received feasibility reports for Bhatinda and Panipat Projects, but investment decisions were taken after 18 and 24 months respectively. The Committee regretted that the Ministry took an unusually long time. They hoped instructions issued by the Ministry of Finance (Plan Finance Division) in March 1982 in pursuance of the recommendation of the Committee in their Twenty-seventh Report (1981-82) wherein the Ministries had been asked to ensure that clearance of a project did not normally take more than six months had been noted by the Ministry and in future project approval would not take more than 6 months.

6. In their reply, the Government have stated that the investment decisions are taken keeping in view variety of factors including the need for the project, the scope of the project, the resource availability, etc. Efforts are made to speed up the investment decisions, once these parameters become clear.

7. The Committee are not satisfied with the reply furnished by the Ministry. Barring exceptional cases, the decision on investment proposals submitted by undertakings should not take more than 6 months. They therefore reiterate that steps should be taken by the Ministry to ensure that the instructions issued by the Ministry of Finance (Plan Finace Division) are actually followed.

C. Liquidated damages

Recommendation, Sl. No. 7 (Paragraph 2.42)

8. The Committee noted that for the delays in supply of equipment by the foreign and Indian suppliers both in private as well as the public sector although penalty was stated to have been imposed on the suppliers it had been, generally limited to 5% of the contract value which was insignificant compared to the loss suffered by the Company on account of delays is construction. The Committee suggested that the liquidated damages should be related to the loss to which the undertaking may be put on account of delays in the discharge of the responsibility envisaged in the agreement in regard to the supplies and other aspects like commissioning of the plant etc. to ensure that the interest of the Government/public enterprises was adequately safeguarded.

9. The Government, in their reply, have stated that legally, there is no limit to the compensation that can be claimed for breach of contract, if the contract does not stipulate the quantum of penalty. In commercial practice, the contractor insist on a clause limiting their liability. No party agrees to unlimited liability for consequential loss. While every effort will be made to ensure the interest of Government/public enterprises, it may be difficult to stipulate in a contract of this nature unlimited liability for consequential losses.

10. The Committee feel that it is necessary for the public undertakings to incorporate the clause in the contracts with the suppliers linking liquidated damages to the losses suffered by the Company on account of delays in the discharge of the responsibility envisaged in the agreement. They would invite attention in this connection to the guidelines issued by the Bureau of Public Enterprises in 1977 in regard to entering into foreign collaboration agreement by public enterprises. These guidelines inter-alia provide that the liquidated damages should have a relationship to the loss in terms of value to which the undertaking may be put on account of delays in the discharge of the responsibility envisaged in the agreement in regard to the supplies and other aspects like delay in commissioning of the plant, commencement of production etc. The Committee desire that the matter should be examined by the BPE and suitable guidelines issued in regard to

agreements with contractors/suppliers similar to the guidelines issued regarding agreements with foreign collaborators.

D. Serutiny of Capital Costs of Private Sector Fertilizer Projects

Recommendation, Sl. No. 10 (Paragraph 2.56)

11. The Committee noted that the retention price formula for the fertilizers provides for interest and depreciation on the basis of actual capital cost. There was no mechanism in the Ministry to scrutinise the original capital costs of the fertilizer projects in the private sector and the possibility of over-statement of the expenditure to secure higher retention price could not be ruled out. They, therefore suggested that suitable norms be evolved for determining capital costs of fertilizer projects for fixing the retention price with built-in incentives for keeping down the costs.

12. In reply, the Ministry *inter-alia* stated that the Govt. is aware that the present retention price formula gives weightage to companies with higher capital costs. Though the capital costs of private sector fertilizer projects are scrutinised in the Ministry only to a limited extent, the representatives of the Ministry/FICC are normally associated with IDBI and other financing institutions when the loan applications of these private sector companies are considered. The financial institutions make a detailed scrutiny of the cost estimates and do not permit more money than is strictly required for the project. The Committee's suggestion to evolve suitable norms to determine capital costs had been considered and it was felt that it was not possible to have common norms as the cost of a project depended very much on the selection of feedstock, technology, the period of construction, etc. Meaningful comparison of the capital costs were however, being made whenever common factors between projects were identifiable.

13. While the Committee agree that there can be no uniform norm for all kinds of projects, thay feel that considering the fact that there are only few prevalent technologies in the field of fertilizer production, it should not be difficult for the Government with their experience of over 30 years in this field to evolve norms on the basis of feedstock, technology, location of the projects etc. relevant to the projects. They, therefore, reiterate that suitable mechanism be evolved for determining the capital costs of the ferlilizer projects, both in public and private sector, for fixing the retention price and there should be built-in incentive in the pricing formula for keeping down the cost.

E. Installation of Beneficiation Plant at the Pitheads to Upgrade the Quality of Coal

Recommendation, Sl. No. 17 (Paragraph 3.70)

14. The higher ash content in the coal for which the plants were not designed created problems of greater wear and tear and reduced the life of

certain parts of the machinery. The Committee suggested that the question of installing beneficiation plants at the pit heads to upgrade the quality of coal, which would not only help in better life and lower maintenance time of the boilers, but would also reduce the transportation cost should be considered seriously.

15. The Government *inter-alia* stated that Secretary (C & F) met Secretary (Coal) and other officials of the Department of Coal and the coal companies to discuss the problems arising out of inadequate supplies and poor quality of coal. In the meeting it was decided as follows :—

(i) CIL will give high priority to ensure the quality of coal supplies to the fertilizer units and would also ensure that the level of ash in the coal supplies was uniform and within the acceptable parameters of their plants ;

(ii) The CIL should enter into joint sampling of coal supplies for all the fertilizer plants ; and

(iii) The CIL would ensure that the requirements of the fertilizer plants was met in full and the supplies would take place from linked collieries or from specified stockyards.

16. The Committee note the various steps proposed to be taken to ensure supplies of adequate coal of the required quality to the fertilizer plants. They would, however, like to add that in case the proposed measures do not have the desired effect, the question of installing the beneficiation plant at the pitheads to upgrade the quality of coal for supply to fertilizer plants, as suggested by them should be seriously considered.

F. Reduction in Excess Manpower

Recommendation, Sl. No. 21 (Paragraph 4.37)

17. The Committee observed that the manpower at Nangal Unit was high. It was about three times that at Panipat and Bhatinda. In spite of excessive manpower, a large number of casual labourers had been employed. The Committee regretted that although a departmental Committee constituted to review manpawer requirement had submitted its report in October 1981, no action had been taken on the report and this was stated to be still 'under review' by the management. The Committee had urged the need for taking effective steps to employ the surplus manpower productively and to exercise control over employment of casual labour.

18. In reply the Ministry have stated that the manpower at Nangal Unit is no doubt, high compared to that of Panipat and Bhatinda Units. The

production process in Nangal old unit (commissioned in 1961) is labour intensive, and, hence, the staff has to be more compared to the staff requirement of modern sophisticated plants like Bhatinda and Panipat (commissioned in 1979). Moreover, at Nangal there are two sets of plants ; (a) Nangal old Unit which is based on Electrolysis of water and the process involves deployment of huge labour force. At the same time plants are old requiring more maintenance ; and (b) Nangal Expansion plants are based on furnace oil as feed stock. In addition at Nangal, there is a Heavy Water Plant. The casual labour employed was for breaking up of CAN lumps. Such Casual jobs are not feasible to be got done from regular production, maintenance and office staff. Efforts have all along been made to keep the regular staff at the minimum. After considering the report of the departmental Committee submitted in October, 1981 it was considered necessary to undertake another review for which another Committee was appointed in July 1983. The later Committee's report has been received in February 1984 and is under examination.

19. The Committee are surprised to find that instead of taking any action in regard to deployment of surplus manpower in Nangal Unit, another Committee was appointed to review the matter in July 1983. The Committee would like to know why the appointment of another Committee was considered necessary when the manpower requirement had already been reviewed by the departmental Committee in 1981. The appointment of second Committee has also been delayed by more than 1½ years. The Committee do not approve of such delays in important issues relating to establishment matters of the Company. They reiterate that effective steps should be taken immediately to employ gainfully the surplus manpower at Nangal Unit.

G. Sundry Debtors

Recommendation, Sl. No. 24 (Paragraph 4.40)

20. The Committee found that an amount of Rs. 139.68 lakhs was outstanding against the Ministry of Agriculture for more than 3 years. The claim in respect of reimbursement due for fertilizers sold to the fertilizer pool, sent to the Ministry in 1979 after the admissibility of claim had been certified even by the department of expenditure, had not been settled so far. The Committee observed that such inordinate delays in settling of claims by a Government department caused, besides financial constraints, avoidable loss to the undertaking which had to pay heavy interest to commercial banks on amount borrowed to meet the working capital requirements. They hoped that the payment would be made by the Ministry of Agriculture to the Company without any further delay.

21. The Ministry had *inter-alia* stated that the matter regarding realisation of Rs. 139.68 lakhs from the Ministry of Agriculture was being pursued and it was expected that this amount would be realised soon.

22. The Committee regret to note that in spite of their recommendation in April 1983, the amount of Rs. 139.68 lakhs outstanding against the Ministry of Agriculture since 1979 has not been recovered so far. They reiterate that the amount in question should be got cleared from the Ministry of Agriculture without any further delay.

H. Inventory Control

Recommendation, Sl. No. 25 (Paragraph 5.20)

23. Commenting upon the heavy inventories of the Company which was Rs. 81.75 crores at the end of 1981-82, the Committee pointed out that the excessive inventories not only resulted in locking up the funds but also entailed heavy carrying cost. They hoped that the Material Management Review Committee constituted by the management would thoroughly review the inventory of various items and effective steps would be taken on the basis of the suggestions of the Review Committee to reduce the inventories to the minimum.

24. The Government in their reply have stated that the Materials Management Review Committee constituted by the Company is headed by a General Manager and the Materials Managers of all the Units are its members. The inventory holdings of all the units are reviewed by this Committee. This Committee has been making recommendations on inventory control, from time to time and the recommendations are considered by the Management for implementations.

25. The Committee find that despite the measures stated to have been taken up by the Company for inventory control, the position has not improved. In fact, the value of inventories had gone up from Rs. 81.75 crores at the end of 1981-82 to Rs. 136.25 crores at the end of 1982-83. The stock of finished goods has gone up from 16 days sales to 72 days sales. Apparently the steps taken have not produced the desired results for which the Committee would like to know the reasons. They emphasise the need for more effective steps including aggressive marketing strategy to reduce the inventories to the minimum.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation Serial No. 1 (Paragraph 1.19)

The Committee find that even after eight years of establishment of National Fertilizers Ltd., the micro objectives of the Company have not yet been finalised. Belatedly, a statement of corporate objectives as approved by the Board in December 1980 was forwarded to the administrative Ministry, which suggested certain modifications. The corporate objectives in the light of modifications suggested by the Ministry in April 1981 are still under review by a Committee set up by the Company. The Committee are distressed to note that such a long time has been taken to finalise even the basic objectives of the Company. They feel that no realistic and meaningful evaluation is possible unless the objectives for which a Company has been established are fully known. They hope that as assured by the Secretary of the Ministry in the course of evidence, the micro objectives of the Company, clearly laying down the obligations and objectives—financial and economic, would be finalised soon.

Recommendation Serial No. 2 (Paragraph 1.20)

The Committee also suggest that the review Committee set up by the Company should be broad based. It should include a representative of the Ministry of Agriculture, which is concerned with the assessment of demand for fertilizers in the country, so that a realistic objective could also be laid down in regard to the market share of the Company. To expedite review after finalisation of the objectives by the Review Committee, the Committee feel that representatives of the administrative Ministry, BPE and Ministry of Finance should also be associated with the Review Committee.

Reply of Government

As suggested by the COPU, the Review Committee appointed by the Company for finalisation of the Micro Objectives of NFL included representatives of administrative Ministry, BPE and Ministry of Finance, apart from Ministry of Agriculture.

The objectives have since been finalised by the Committee which are reproduced below :

CORPORATE OBJECTIVES OF NATIONAL FERTILIZERS LTD.

NFL is an instrument of Society. It has to service the needs of people within the scope of its basic objectives. To achieve this, NFL must :

- Select capable people and improve their knowledge and skills on organised basis.
- Motivate and enthuse the employees to achieve higher productivity with team spirit.
- Lay-down integrated objectives, define individual goals and maintain an atmosphere conducive to achievement of these goals.

The Corporate Objectives of NFL are ;

BASIC CORPORATE OBJECTIVES.

In terms of Memorandum of Association, NFL was set-up to manufacture and market chemical fertilizers, heavy water, other chemicals and bye-products as well as to provide the allied services.

In order to achieve and maintain a leading position in the production and marketing of fertilizers, the following Micro Objectives have been identified :—

MICRO OBJECTIVES

1. *Productivity* :

   To achieve the best possible levels of production and economy in the use of inputs while ensuring safety and proper maintenance of plant and machinery and pollution control. More specifically (a) to strive to raise capacity utilisation from existing 71% (1982-83) to 85% over the ensuing five years ; and (b) to improve upon consumption norms consistently.

2. *Research & Development* :

   To carry out R & D activities for

   (a) increasing plant availability,

   (b) saving use of energy in different forms,

(c) better recovery of saleable bye-products,

(d) process improvement/development, and

(e) increasing utilisation efficiency on a sustained basis in the application of chemical fertilizers in combination with other agricultural inputs.

3. *Profitability*

To manage the assets, men and materials in most effective and efficient manner, ensuring (a) reasonable return on investment commensurate with the principles laid down by the Government, from time to time and (b) generation of increasing internal resources.

4. *Marketing & Consumer Services*

(a) To provide to the farmers high quality products in right time and in adequate quantities and with a package of modern agricultural practices, at the same time, maintaining reputation for fair business practices.

(b) To further intensify promotional efforts for increased use of fertilizers and to maximise distribution of Company's products within the areas covered by the Company, consistent with Government policy.

5. *Organisation*

To develop and maintain an organisational environment for encouraging individual and group initiative, innovation and productivity and also sustain fair deal and humane approach.

6. *Growth*

(a) To achieve reasonable and consistent growth in the business of manufacture and marketing of fertilizers and chemicals compatible with needs of the market.

(b) To work out diversification/expansion schemes to increase the profitability of the Company and meet the changing needs of the customers.

7. *Obligations to Society*

(a) To conduct the business of NFL in accordance with ethical and legal standards and to undertake socio-economic activities, consistent with Government policies, in order to generate good environment in which the Company operates.

(b) To promote development of ancillary industries.

[Ministry of Chemicals and Fertilizers O. M. No. 45/10/83-FD (B) Dated 27th January, 1984]

Recommendation Serial No. 3 (Paragraph 1.21)

The Company does not have any corporate plan as approved by the Ministry. The Committee desire that after the finalisation of the micro objectives of the Company its corporate plan should also be drawn up early so that the performance of the Company could be judged against the set plan targets.

Recommendation Serial No. 4 (Paragraph 1.21)

The Committee would also invite attention in this connection to the recommendation in Para 5 of their 49th Report wherein they have recommended that in future plan targets, both annually and for the plan period, should be fixed for each undertaking by the administrative Ministry in consultation with the Planning Commission in regard to (i) production in physical terms; (ii) value added corelated to sectoral rate of growth indicated in the Plan; (iii) capital investment; and (iv) generation of internal resources for capital investment corelated to the resources forecast in the plan. NFL targets for production had been fixed both annually and for the plan period, the targets for generation of internal resources had been fixed for the plan period only and no targets had been laid down for value added. The Committee hope that action would be taken to fix various targets as suggested by them. These targets and achivemements should also be clearly brought out in the Annual Report of the Undertaking with an explanation for the short falls if any.

Reply of Government

The Company has taken up the formulation of Corporate Plan.

[Ministry of Chemicals and Fertilizers, O. M. No. 45/10/83-FD (B) Dated 6th February, 1984.]

Comments of the Committee

(Please *see* paragraph No. 4 of Chapter I of the Report).

Recommendation Serial No. 6 (Paragraph 2.41)

There have been heavy slippages ranging from 13 to 32 months in the construction and commissioning of the Nangal Expansion, Bhatinda and Panipat Projects with reference to original schedules. There were delays both in civil construction work and in supply of equipments. Even after mechanical completion, the time taken in commissioning and commencement of commercial production was more than originally anticipated. The delays in construction have resulted in cost escalation to the extend of over Rs. 50 crores and loss of production valued at over Rs. 200 crores. The Committee are perturbed over these delays in implementation of projects which have proved to be very costly. These delays, the Committee feel are mostly due to lack of management control and monitoring of the projects both at the corporate and the Ministry level. They would stress that these wings of the organisation should be made more effective with a view to taking timely remedial measures and to avoid such costly delays in future. The Committee would like the Ministry/Company to ensure that schedules fixed for constructing and commissioning of a plant are adhered to as far as possible.

Reply of Government

During the construction and commissioning of Nangal Expansion, Bhatinda and Panipat Projects, the Company had a monitoring Cell in Head Office, in addition to similar Cells at Project Sites. As has already been explained, the primary reasons for delay in case of Bhatinda and Panipat plants were :—

(a) Accident in the Cold Box of the Air Separation Plant in March 1978 at Bhatinda Unit, when the Plant was ready to start trial production. This resulted in a delay of 36 weeks ; and

(b) Irregular supplies of coal and power problems, particularly, at Panipat.

Learning from the past experience, the Company has already strengthened the Head Office Technical Department. The Company proposes to have stronger monitoring Cells at Head Office & Project sites, as and when new projects are taken up for implementation.

The Ministry has also strengthened the monitoring systems. A review of projects is made every quarter and periodical meetings are held in the Ministry with the vendor companies to expedite the delivery of critical equipments.

The recommendations of the Committee have been noted carefully and every effort would be made to ensure that the schedules fixed for construction and commissioning of the plants are adhered to.

[Ministry of Chemicals and Fertilizers O. M. No. 45/10/83-FD(B) dated 27th January, 1984]

Recommendation Serial No. 8 (Paragraph 2.43)

Besides the escalation in cost on account of delays in construction, the estimates have also increased to the extent of Rs. 26.16 crores in Bhatinda and

Panipat Projects on account of absence of any provision in the original estimates for testing and commissioning on the assumption that actual expenditure on inputs and utilities during this period would more or less match with the sales value of production achieved. These assumptions however, did not materialise. While the expenditure was more than originally anticipated, the production achieved was much lower. In any case the Committee suggest that the estimated expenditure on testing and commissioning should be part of the capital estimates to present a correct picture in regard to the cost of a project and receipts during the construction period could be shown separately.

Reply of Government

The suggestion of the Committee that the estimated expenditure on testing and commissioning should be part of the capital estimates and that the receipts during construction should be shown separately has been accepted and the cost estimates of the Projects now being formulated are exhibited accordingly.

[Ministry of Chemicals and Fertilizers O. M. No. 45/10/83-FD (B) dated 27th January, 1983]

Recommendation Serial No. 9 (Paragraph 2.44)

Heavy cost overrun, ranging from 58% to 75% over the original estimates has also resulted in the increase of cost of production of urea ranging from Rs. 129 to Rs. 296 per tonne. The Committee feel that these results call for greater vigilance and alertness on the part of all concerned to avoid such heavy cost overruns.

Reply of Government

The Government share the concern of the Committee about the heavy cost overruns in some of these projects. While cost overrun per se cannot be avoided in an inflationary situation, efforts are now being made to arrest cost overruns due to time overruns.

[Ministry of Chemicals and Fertilizers O.M. No. 45/10/83-FD (B) dated 27th January, 1984]

Recommendation Serial No. 12 (Paragraph 3.65)

The Committee note that the average capacity utilisation of the three plants of NFL—Nangal, Panipat, Bhatinda had been only 42% in 1980-81 and 70% in 1981-82 against the set objective of 90%. Achievement in the first half of the Sixth Five Year Plan period was also only 38% of the targets fixed which were aimed at achieving on an average only 70% capacity. It has, however, been stated that on the basis of production planned during the remaining plan period, 95% of the targets laid down would be achieved. The Committee are distressed to note that achievement has been much less than the targets. They feel that failure to reach the targets in such a vital commodity make the national economic suffer on two counts, first lower financial return from sizeable investment and secondly heavy drain of foreign exchange on import of substantial quantities of fertilizers to meet the country's requirements. The Committee are also unhappy to find that no serious efforts had been made either by the Company or the Ministry to overcome the problems and achieve the targets fixed.

Reply of Government

After taking into account the performance upto 1982-83, the Company has made a fresh assessment and it is expected that 95% of the targets laid down for the plan period will be achieved. The Company proposes to instal Captive Power Plants at Bhatinda and Panipat Units to ensure uninterrupted supply of power, which has been identified as the biggest bottleneck in achieving the targets of production. After installation of Captive Power Plants, the Company expects to run these plants at a reasonably high level.

[Ministry of Chemicals Fertilizers and O.M. No. 45/10/83-FD (B) dated 27th January, 1984]

Recommendation Serial No. 13 (Paragraph 3.66)

The major constraints in achieving higher productivity have been stated to be equipment problems, inadequate availability and poor quality of coal and irregular and short supply of power. During the last two years production days lost on account of equipment problems, alone were 74, 50 and 191 in Nangal, Panipat and Bhatinda Units respectively. The position was thus particularly bad in Bhatinda Project. The problem is still continuing and the equipment problems have accouned for a loss of 54 days production during April-September 1982. The Committee regret to note that even after three years of the commencement of commerical production the plants continue to suffer from equipment problems and Management has failed to solve those problems which are causing heavy shortfall in production. They would stress the need for immediate action to identify and remove the deficiencies.

Reply of Government

Equipment problems encountered from time to time in any plant are analysed by the Company with the assistance of Plant suppliers, where necessary, and attempt is made to bring the plant back on line within minmium possible time. In this connection, the Committee will be pleased to note that the mojor equipment problems encountered in NFL's plants during the first half of 1982-83 were successfully overcome and the Company was able to achieve capacity utilisation of 86% during the later half of the year. Some equipment problems in fuel oil based plants are not fully avoidable, keeping in view the nature of the feed stock the quality of coal and the nature of the plants themselves. However, with the experience gained over the past few years, the Company has developed expertise in dealing with these problems.

The performance of the plants is reviewed on a daily basis and any problem encountered is immediately attended to by a team of engineers under the personal supervision of the General Manager/Dy. General Mgr. In addition, a comprehensive review is done both at the plant level as well as at the Corporate level to identify the problems of recurring nature and to find solutions therefor. In order to minimise loss of production due to equipment problems, spares of some of the critical equipments are being kept as stand-by.

For close monitoring of the plant problems, a Chief General Manager (Tech) has been appointed at Head Office with primary responblity of keeping close liaison with the General Managers and technical officers of the plants, to make sure that the plant problems particularly, equipment problems, are solved with minimum delay.

[Ministry of Chemicals and Fertilizers OM. NO. 45/10/83-FD (B) dated 27th January, 1984]

Recommendation Serial No. 14 (Parahgraph 3.67)

Inadequate supply of spares of requisite quality by the indigenous suppliers is stated to be another problem faced by the Company. The Committee have already stressed the need for better attention by BHEL in regard to after sale service and manufacturing of adequate spares and their timely delivery in their 44th Report on BHEL. They hope that the recommendation would be implemented in letter and spirit. They would also like the NFL to assess its requirements in advance and place orders sufficiently before the time of requirement.

Reply of Government

Instructions have been issued to the Unit General Managers to assess their requirement of spare-parts and intimate the same to BHEL directly under intimation to Head Office Spare parts Cooridination Cell. The matter has also been taken up with BHEL at the highest level, requesting that timely adequate and requisite quality spares be made available in the overall national interest to augment productivity. Supply of spare-parts will be closely watched to ensure that the plants do not suffer for want of spare-parts.

[Ministry of Chemicals of Fertilizers OM-No, 45/10/83-FD (B) dated 27th January, 1984]

Recommendation Serial No. 16 (Paragraph 3.60)

Another factor which seriously affected the production of the three plants in 1979-80 and 1980-81 was inadequate availability and poor quality of coal. The value of production lost in two years on this account was estimated at Rs. 111.14 crores. The Committee find that the boilers of the plants are designed to use 30% of low sulphur heavy stock as fuel. However, inspite of shortage of coal, the use of low sulphur heavy stock was not resorted to. The Committee feel that had there been better coordination with the Railways and other measures like use of lower sulphur heavy stock taken well in time, the production loss on account of shortage of coal could have been avoided to a great extent.

Reply of Government

The recommendations of the Committee have been noted. The matter regarding supply of coal in adequate quantity and of good quality has been taken up by the Ministry with the Deptt. of Coal as well as with the Railways authorities, from time to time.

It may be mentioned that during the years 1979-80 and 1980-81 (Upto December 1980) as and when coal was available, plants were run with maximum low sulphur heavy stock support. However, the Steam Generation Plants at Bhatindia, Panipat and Nangal are designed to be run on coal as fuel and can accept a maximum of 30% of low sulphur heavy stock as support fuel. These Steam Generation Plants cannot be run exclusively on low sulphur heavy stock. Hence, whom coal was not in stock at all, the Company had no alternative but to shut down the plants. From December 1980 onwards, the Company has been receiving reasonable quantities of coal and there was no occasion to close any of the plants due to non-availabilty of coal.

[Ministry of Chemicals & Fertilizers O.M. No. 45/10/83-FD (B) dated 27th January, 1984]

Recommendation Serial No. 17 (Paragraph 3.70)

The higher ash content in the coal for which the plants were not designed has created problem of greater wear and tear and reducted the life of certain parts of the machinery. The Committee suggest that the question of installing beneficiation plants at the pit heads to upgrade the quality of coal, which would not only help in better life and lower maintance time of the boilers, but would also reduce the transportation cost should be considered seriously.

Reply of Government

The Committee's observattions were brought to the notice of the Deptt. of Coal a Summary of whose observations is given below :—

"It may be stated that the main complaiant regarding quality of coal relate to high ash content, supply of over-sized coal and presence of extraneous materials in the coal supplies. The coal companies have been directed to give the highest priority in ensuring that the quality of coal supplies is in accordance with the requipments of the consumers. Apart from preparation of coal by washing which is practise din regard to cooking coal supplied to steel plants and which also is being considered for being introducted for dealing with the high ash coal to be supplied to certain thermal stations. the main thrust in terms of measures in improving quality of coal is to implement a time-bound programme for installation of CHPs (Coal Handling Plants) and mini CHPs at the coal mines. In the short term breaking of over-sized coal by manual means and manual segregation of extraneous materials is being undertaken wherever mechanical handling facilties have not yet come up. In order to get a continuous feed back from the conssumers regarding their problems a forum has been set up as indicated earlier which is proving to be useful inasmuch as coal companies are able to take immediate remedial action on the basis of the actual problems posed by the consumers at the meeting of joint producers and consumers council."

Secretary (C & F) met Secretary (Coal) and other officials of the Deptt. of Coal and the coal companies to discuss the problems arising out of inadequate supplies of coal and poor quality of coal. In the meeting it was decided as follows :—

(i) CIL will give high priority to ensure the quality of coal supplies to the fertilizer units and would also ensure that the level of ash in the coal supplies was uniform and within the acceptable parameters of their plants.

(ii) The CIL should enter into joint sampling of coal supplies for all the fertilizer

(iii) The CIL would ensure that the requirements of the fertilizers plants was met in full and the supplies would take place from linked collieries or from specified stockyards.

In terms of the decision of the above meeting, joint inspection for sampling the coal at the loading point is being instituted.

[Ministry of Chemicals of Fertilizers O.M. No. 45/10/83—FD (B) Dated 27th January, 1984]

Comments of the Committee

(Please see paragraph no. 16 of Chapter I of the Report)

Recommendation Serial No.18 (Paragraph 3.71)

The Committee view with concern the loss of production to the extent of

Rs. 87.65 crores on account of power cuts as well as power failures/voltage fluctuations during 1979-82. The problem is particularly serious in Nangal Unit — I, where electricity is the main feed stock and the shortage of power not only affects the production of fertilizers but also of heavy water. Power is drawn from Bhakra, but actual distribution is controlled by the State Government. Though demands of various consumers for power are expected to be kept in view by the State Govt., while the quantum of power generated in 1981 in Bhakra has doubled as compared to 1964 the Committee note that the power made available to Nangal fertilizer Plant was even less than 50% of that supplied in 1964. Inspite of the matter having been taken up at various levels and the fertilizer plants included in the priority list for supply of power, the Company is facing serious power problem.

Reply of Government

Nangal-I Unit based on electrolysis process was put up at a time when Bhakra Power was available in plenty. Since then the demand of power has grown phenomenally in the user States of Punjab, Haryana and Himachal both for industrial and agricultural purposes. This is the reason why adequate power has not been made available to the Nangal Fertilizers Plant whose raw material is electricity. The current agreement with the BBMB is to expire by 1985 and it is doubtful if the aggreement would be extended by them under-writing massive quantity of power at low rates for the Nangal-I Plant. In fact in the overall national context it may not be advisable to continue the electrolysis plant consuming huge quantities of electricity whose opportunity cost is much higher beyond 1985.

The possibility of substituting the electrolysis plant with some other suitable alternative which will cut down the power consumption in the Nangal-I Plant drastically and also to keep the heavy water plant going is being examined. A view on this will be taken soon in consultation with Deppt. of Atomic Energy.

[Ministry of Chemical & Fertilizer O.M. No. 45/10/83-FD (B) Dated 27th January, 1984]

Recommendation Serial No. 19 (Paragraph 3.73)

In the case of Panipat and Bhatinda Units, in view of the fact that in ammonia production process, power interruptions cause heavy damages, belatedly a decision had been taken by the Company to have captive power plants of 25 MV at each of the plants. It would, however, take 3 years to set up the power plant after the approval of the proposal by Government. In the meantime, in order to avoid heavy losses on account of power problem, the Committee stress the need for persuading the State Governments to implement the decision taken at the meeting with the Cabinet Co-ordination Secretary in

February 1982 and the supply of power to fertilizer plants be accorded priority next only to agriculture. The committee hope that the Central Government will be able to make the State Government realise their obligation to the Public Undertakings in their state and ensure regular and uninterrupted power supply to them.

Reply of Government

The Central Government has been impressing upon the State Government at different levels that the fertilizer plants must be accorded top priority in the matter of supply of power.

[Ministry of Chemicals & Fertilizers OM. No. 45/10/83-FD (B) Dated 27th January, 1984]

Recommendation Serial No. 20 (Paragraph 4.36)

The Committee find that against the set objective of 30% gross return on capital employed and 15% net profit post-tax, the NFL had suffered operational losses to the extent of Rs. 55.88 crores in 1979-80 and 1980-81 (14.26 crores in 1979-80 and Rs. 41.62 crores in 1980-81). Even during 1981-82, the operating profit was Rs. 38.29 crores or 6.74% of capital employed. The working results are poor despite the fact that Government had paid subsidy to the Company to the extent of Rs. 177.18 crores during the last 3 years. The cost of production was high at the three plants of NFL mainly due to lower production. Consumption of feed stock per tonne of ammonia was also higher as compared to Fertilizer Industry Coordination Committee norms which cannot be attributed only to power failures and voltage dips. The Committee urge that the Company and the Ministry should constantly review the performance of the three fertilizer plants, with a view to removing the constraints that impede the production and cost efficiency. Unless frequent reviews are made and timely corrective measures are taken, the Committee are afraid that the financial objectives set by the Company will not be possible to achieve.

Reply of Government

The recommendations of the Committee have been noted carefully. The Secretary, Ministry of Chemicals & Fertilizers, is reviewing the performance every quarter, It may however, be pointed out that the loss suffered by the Company during 1979-80 and 1980-81 was primarily due to non-availability of coal and power problems. The Company has been able to wipe off the accumulated losses of Rs. 55.88 crores during the year 1981-82 itself. In fact, the Company generated a net surplus of Rs. 4.25 crores during 1981-82. The Company has also earned a profit of about Rs. 34.56 crores during 1982-83. With further improvement in production, it is expected that the operating results for the ensuing years will be still better.

[Ministry of Chemicals & Fertilizers O.M. No. 45/10/83—FD (B) dated 27th January, 1984]

Recommendation Serial No. 22 (Paragraph 4.38)

The Committee are glad to note that the Company has introduced productivity-linked incentive scheme which is stated to have produced good results. They would, however emphasise the need for fixing suitable norms for earning incentive not only for level of production but also for consumption of materials based on FICC norms.

Reply of Government

The productivity linked incentive scheme introduced by the Company has four factors on which incentive is calculated:—

(1) The level of production. The base level of production has been kept at 70% to enable the workers to claim the incentives. The base level for officers is 80%.

(2) Man-power factor which takes into account actual man-power plus overtime compared to the standard man-power for each group.

(3) Attendance factor —this is worked out for each individual while calculating incentive. This is an incentive for the workers to reduce absentism ; and

(4) Material consumption factor— Norms of important inputs have been fixed as standards and the incentive is based upon improvement over the norms. These norms have been fixed after taking into account the FICC norms and they are very tight.

It can, therefore, be seen that the norms have been built into the incentive scheme for consumption of materials also as suggested by the Committee.

[Ministry of Chemicals & Fertilizers O.M. No. 45/10/83—FD (B) Dated 27th January, 1984]

Recommendation Serial No. 23 (Paragraph 4.39)

Although the prices of ammonia sulphate and CAN had been decontrolled w.e.f. June 1980, the price of CAN fertilizers had been normally pegged at Rs. 1250/-per tonne resulting in aloss of Rs. 1.35 crores to the Company in 1981-82. The Committee note in this connection the proposal made in the Budget for 1983-84 fully exempting ammonium sulphate and CAN from excise duty which would partly help in reducing their cost of production. The Committee do not think that informal price pegging of the products at an unremunerative level is appropriate. This arrangement, therefore, requires looking into in case the position has not been reviwed after the granting of the duty exemption.

Reply of Government

The prices of CAN and Ammonium Sulphate are not now controlled either formally or informally. The companies producing these products are free to sell them at whatever prices the market can bear.

[Ministry of Chemicals and Fertilizers O.M. No.45/10/83—FD (B) Dated 27th January, 1984]

Recommendation Serial No. 24 (Paragraph 4.40)

The volume of book debts has also gone up and were equivalent to 27.20% of sales in 1981-82 as against 16.36% in the previous year. The Committee would stress the need for taking effective steps to realise the debts outstanding for long. Incidentally the Committee find that an amount of Rs. 136.68 lakhs was outstanding against the Ministry of Agriculture for more than three years. The claim in respect of reimbursement due for fertilizers sold to the fertilizer pool, sent to the Ministry in April, 1979 after the admissibility of claim had been certified even by the Department of Expenditure, has not been settled so far. The Committee cannot but regret such inordinate delays in settling of claims by a Government Department which besides financial constraint causes avoidable loss to the undertaking which has to pay heavy interest to commercial banks on the amount borrowed to meet the working capital requirements. They hope that the payment would be made by the Ministry of Agriculture to the Company without any further delay.

Reply of Government

The matter regarding realisation of Rs. 139.68 lakhs from the Ministry of Agriculture is being pursued and it is expected that this amount will be realised soon. As regards Sundry Debtors in general, their realisation is being monitored very closely and every effort is being made to ensure that the debts are realised at the earliest. It may, however, be mentioned that Credit sales are being made normally to cooperatives and institutional buyers, which are government agencies. Hence, the likelihood of any debt becoming bad is very remote.

[Ministry of Chemicals and Fertilizers O.M. No. 45/10/83-FD (B) Dated 27th January, 1984]

Comments of the Committee

(Please *see* paragraph no. 25 of Chapter I of the Report)

Recommendation Serial No. 25 (Paragraph 5.20).

The Committee find that the total value of inventories in the three plants of NFL was Rs. 81.75 crores at the end of 1981-82. The stock of raw materials, stores and spares was equivalent to about 5.32 months' consumption. There was need for improvement in inventory control particularly at Nangal Unit were the value of chemicals and catalysts was more than the combined stock of these items at Panipat and Bhatinda Units. Further, general stores and Spares valued at Rs. 4.59 crores (including imported items worth Rs. 2.39 crores) had not moved for more than 3 years. In addition, surplus construction materials worth Rs. 1.66 crores were lying undisposed for long. The Committee need hardly point out that the excessive inventories not only result in locking up of funds but also entail heavy carrying cost. They hope that the Materials Management Review Committee constituted by the Management would thoroughly review the inventory of various items and effective steps would be taken on the basis of the suggestions of the Review Committee to reduce the inventories to the minimum. The Committee would suggest the formation of such Review Committees at Bhatinda and Panipat Plants also.

Reply of Government

It is brought to the notice of the Committee that the Materials Management Review Committee constituted by the Company is headed by a General Manager and the Materials Managers of all the Units are its members. The inventory holdings of all the Units are reviewed by this Committee. This Committee has been making recommendations on inventory control, from time to time and the recommendations are considered by the Management for implementation.

[Ministry of Chemicals and fertilizers O. M. No. 45/10/83-FD (B) Dated 27th January, 1984]

Comments of the Committee

(Please *see* paragraph No. 25 of Chapter I of the Report)

Recommendation Serial No. 26 (Paragraph 5.21)

The physical verification of stocks has revealed heavy shortages which have gone up from Rs. 54.42 lakhs in 1979-80 to Rs. 213.17 lakhs in 1981-82 showing a four-fold increase within two years as against 135% increase in the value of production. The Committee regret to note that in Panipat Unit alone the shortages amounted to Rs. 153.54 lakhs out of which loss of urea was to the extent of Rs. 131 lakhs. The Committee would like to be informed of the findings of the Departmental Committee set up by the management to go into these losses and the action taken on the basis thereof.

Reply of Government

The production and shortage of Urea in respect of Panipat Unit found during the three years 1979-80, 1980-81 and 1981-82 are given below :

Year	Production MT	Shortage MT	Shortage as a % age to production
1979-80	139526	1087	0.78
1980-81	148346	1179	0.79
1981-82	395912	4233	1.07

It has been noticed that the quantity of Urea found short at Paitpan during 1981-82 was valued at the average sales price instead of the cost of production. Actually, the value of shortage should have been Rs. 96.73 lakhs instead of Rs. 131 lakhs reported earlier.

The Board of Directors have approved a norm of 1.5% in respect of shortages in handling and dust losses of Urea. However, considering that the shortage at Panipat was excessive compared to other two Units of the Company, the management appointed a Committee to go into the reasons therefor. The Committee made recommendations and following corrective measures have been taken :

1. Maximum quantity to be bagged directly to reduce dust losses when the quantity is first taken to Silo and then to bagging plant ;
2. To ensure accurate bagging, more intensive system of regular maintenance and caliberation of bagging machines has been introduced.
3. The percentage of check weighment of filled bags has been increased to ensure that correct quantity is bagged and errors, if any, are rectified with minimum loss of time.
4. All incoming and out-going Urea trucks are weighed to ensure that no truck carries more quantity.
5. It is also proposed to arrange physical verification of finished products twice a year instead of present system of once a year.

It is hoped that with the above measures, the shortages on physical verification of end products would come down.

[Ministry of Chemicals and Fertilizers O. M. No. 45/10/83-FD (B) Dated 17th February 1984]

Recommendation Serial No. 27 (Paragraph 5.22)

Shortages have also been noticed in the coal received at the three plants. The Committee were informed in evidence that test checks of coal wagons was being done to check the quantity of coal received and a departmental Committee had been appointed by the Company to go into transit and handling losses. They hope that the departmental Committee would undertake a detailed investigation and suggest effective means to minimise losses due to transit shortages and handling losses.

Reply of Government

The Board of Directors after careful consideration of the system in vogue in various other users of coal fixed a norm of transit loss at 2% plus handling loss of 2%. Thus, shortages up to 4% of the quantity handled in a year are normal losses. Hence, the shortages of coal found after physical verification were well within the approved norms.

It would be appreciated that these losses are unavoidable to some extent.

The Departmental Enquiry Committee set up by the management has suggested effective means to minimise the losses. The following measures have been adopted and it is expected that the losses in future will come down :

1. The belt weigher and the integrator in the Coal conveying system would be checked more regularly and at shorter intervals for regular and proper preventive maintenance.

2. Test checking of the quantity of coal received in Box Wagons has been introduced.

3. The quantity of coal consumed is also checked with reference to the quantity of steam raised, combustible in flyash, coal rejects, etc. This will ensure more accurate reporting of consumption.

4. Physical verification of coal would be done twice a year instead of once a year being done at present.

Instructions have also been issued to ensure physical verification as and when stocks are minimum. This will reduce the error in physical verification.

[Ministry of Chemicals & Fertilizers O.M. No. 45/10/83-FD (B) Dated 6 February, 1984]

Recommendation Serial No. 28 (Paragraph 6.4)

The Committee regret to note the absence of a Managing Director in the Company for $1^1/_2$ years during the crucial period of its operation (October 1979 to May 1981). Admittedly the absence of the Chief Executive affected the working of the Company. The Committee would invite attention in this connection to their recommendation in para 7 of their Eight Report and would reiterate that the procedure for selection and making appointments to the post of Chief Executive of public undertakings should be streamlined and steps taken to see that the vacancies for whatever reasons are not allowed to remain unfilled for long.

Reply of Government

The Committee's observations regarding streamlining the procedure for selection of the Chief Executives have been noted. It will be ensured that the vacancies at the level of Chief Executives do not remain unfilled for long.

[Ministry of Chemicals & Fertilizer O.M. No. 45/10/83-FD(B) Dated 27th January, 1984[

Recommendation Serial No. 29 (Paragraph 7.4)

The Company has taken up the marketing of pesticides and insecticides through agro-service centres set up in backward and remote areas. The Committee would emphasise the need for more vigorous efforts for the sale of these items by opening more such centres and educating the farmers about the method and advantages of their use.

Reply of Government

The recommendations of the Committee have been noted for implementation. The number of Agro Service Centres is being increased as also the facilities for educating the farmers are being augmented.

[Ministry of Chemicals and Fertilizers O.M. No. 45/10/83-FD (B) Dated 27th January, 1984]

CHAPTER III

RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF GOVERNMENT'S REPLIES

Recommendation Serial No. 15 (Paragraph 3.68)

Incidentally, the Committee find that on an imported waste heat boiler at Nangal II costing about Rs. 2 crores an expenditure of Rs. 96 lakhs was incurred for repairs abroad and the boiler failed again after one month of its recommissioning. An Expert Committee appointed after second failure of the boiler to investigate the causes of the failure and to recommend corrective measures found *inter-alia* design deficiencies in the boiler. On the basis of the recommendations of the Expert Committee the boiler was subsequently got repaired in India and was stated to be working satisfactorily but at reduced capacity. The Committee feel that the detailed inquiry into the causes of failure of the boiler and the remedial measures needed for its satisfactory working should have been conducted before sending it for repairs abroad. In the absence of it, they fail to understand how was it ensured that the boiler would work satisfactorily on recommissioning. The Committee desire that the matter be examined further and responsibility fixed for the design deficiencies in the boiler and for incurring infructuous expenditure on its repair abroad.

Reply of Government

When the Waste Heat Boiler at Nangal II failed, the Company had no 'in-house' experience of repairing the same. As this was a highly sophisticated and proprietory item, the Company had no choice but to approach the original manufacturers for repairing the same. A detailed investigation into the causes of failure would have meant considerable loss of production. Hence, in the best interest of the Company, it was decided to get the Waste Heat Boiler repaired from the manufacturers, as early as possible.

The arrangement was that a team of four engineers would remain in the works of the original suppliers of the equipment during the period of repairs, so that they would get the necessary training and expertise to repair the boiler in future. This is the precise reason that when the boiler failed again, it was possible to repair the same at Nangal. The engineers not only learnt the technique of repairs but also the fabrication of special tools required for executing the job.

Since similar Waste Heat Boilers are satisfactorily working in other plants, it cannot be established that the design was deficient. The main reason of failure of the Boiler was stress corrosion due to the presence of sodium and cholo-ride in the water.

[Ministry of Chemicals and Fertilizers O.M. No. 45/10/83-FD (B) Dated 17th February 1984].

CHAPTER IV

RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation Serial No. 5 (Paragraph 2.40)

In February 1973, Government had received feasilibility reports from Bhatinda and Panipat Projects, but investment decisions were taken after 18 and 24 months respectively. The Committee regret that the Ministry took an unusually long time. They hope instructions issued by the Ministry of Finance (Plan Finance Division) in March 1982 in pursuance of the recommendation of the Committee in their twenty-seventh report (1981-82) wherein the Ministries have been asked to ensure that clearance of a project does not normally take more than six months haue been noted by the Ministry and in future project approval will not take more than 6 months.

Reply of Government

The investment decisions are taken keeping in view variety of factors including the need for the project, the scope of the project, the resources availability, etc. Efforts are made to speed up the investment decisions, once these parameters become clear.

[Ministry of Chemicals & Fertilizers O. M. No. 45/10/83-FD (B) Dated 27th January, 1984.]

Comments of the Committee

(Please see paragraph no. 7 of Chapter I of the Report)

Recommendation Serial No. 7 (Paragraph 2.42)

For the delays in supply of equipment by the foreign and Indian suppliers both in private as well as in the public sector, although penalty is stated to have been imposed on the suppliers it has been generally limited to 5% of the contract value which was insignificant compared to the loss suffered by the Company on account of delays in construction. The Committee suggest that the liquidated damages should be related to the loss to which the undertaking may be put on account of delays in the discharge of the responsibility envisaged in the agreement in regard to the supplies and other aspects like commissioning of the plant, etc. to ensure that the interest of the Govt./Public enterprise is adequately safeguarded.

Reply of Government

Legally, there is no limit to the compensation that can be claimed for breach of contract, if the contract does not stipulate the quantum of penalty. In commercial practice, the contractor insist on a clause limiting their liability. No party agrees to unlimited liability for consequential loss. While every effort will be made to ensure the interest of Govt./Public enterprises, it may be difficult to stipulate in a contract of this nature unlimited liability for consequential losses.

[Ministry of Chemicals & Fertilizers O. M. No. 45/10/83-FD (B) Dated 27th January, 1984.]

Comments of the Committee

(Please see paragraph no. 10 of Chapter I of the Report)

Recommendation Serial No. 10 (Paragraph 2.56)

In spite of heavy cost overrun the rate of financial return based on the revised estimates is stated to be almost the same in the case of Nangal Expansion and higher for Bhatinda and Panipat Projects as compared to that assessed originally. This is because the retention price formula for the fertilizers provides for interest and depreciation on the basis of actual capital cost. As a result of increase in the cost of the projects, the retention price also went up. The difference between the retention price and the ex-works selling price is paid as subsidy to the Companies. With the result either the exchequer has to bear a higher subsidy burden on account of cost overrun due to poor project management or the consumer has to pay the higher price. The Committee were informed that in order to correct the situation a decision had been taken in April 1981 that for new projects wherever there was delay in commissioning as compared to the original target date the escalation in capital cost on account of the delay will not be reckoned for the purpose of retention price except escalation in respect of cost of equipment due to circumstances beyond the control of project authorities. The Committee hope that change introduced in retention price formula will help in better project management and financial control by the project authorities. The Committee, however, find that there is no mechanism in the Ministry to scrutinise the original capital costs of the fertilizer projects in the private sector and the possibility of overstatement of the expenditure to secure higher retention price cannot be ruled out. They, therefore, suggest that suitable norms be evolved for determining capital costs of the fertilizer projects for fixing the retention price with built-in incentive for keeping down the cost.

Reply of Government

The Govt. is aware that the present retention price formula gives weightage to companies with higher capital costs. Though the capital costs of private sector fertilizer project are scrutinised in the Ministry only to a limited extent, the representatives of the Ministry/FICC are normally associated with IDBI and other financing institutions when the loan applications of these private sector companies are considered. The financial institutions make a detailed scrutiny of the cost estimates and do not permit more money than is strictly required for the project.

The Committee's suggestion to evolve suitable norms to determine capital costs has been considered and it is felt that it is not possible to have common norms as the cost of a project depends very much on the selection of feedstock, technology and the site peculiarites, the equipment selection, the period of construction, etc. Meaningful comparison of the capital costs are, however, being made whenever common factors between projects are identifiable.

[Ministry of Chemicals & Fertilizers O. M. No. 45/10/83-FD (B) Dated 27th January, 1984.]

Comments of the Committee

(Please see paragraph no. 3 of Chapter I of the Report)

CHAPTER V

RECOMMENDATIONS IN RESPECT OF WHICH FINAL REPLIESE OF GOVERNMENT ARE STILL AWAITED

Recommendation Serial No. 11 (Paragraph 2.57)

The Committee would also like to point out that in the case of fertilizer projects, having the retention price system, the financial rate of return does not reflect the true economics of the project. It is essential to have economic cost benefit analysis and the internal rate of return determined thereby. In the case of three projects of NFL no such analysis had been made originally but is stated to have been done when the estimates were revised and the projects were found economically viable. The Committee suggest that the economic cost benefit analysis of the fertilizer projects in the public sector should be undertaken at periodical intervals and the result of such analysis brought out in the Annual Report of the Department of Fertilizers as has been agreed to by the Planning Commission in the case of coal industry in pursuance of the recommendations of the committee in their 17th Report (1980-81).

Replay of Government

The committee's observations will be duly taken into account when the Annual Report of the Ministry is finalised.

[Ministry of Chemicals & Fertilizers O. M. No. 45/10/83 FD (B dated 27th January, 1984]

Recommendation Serial No. 21 (Paragraph 4.37)

The manpower at Nangal Unit was also high. It was about three time that at Panipat and Bhatinda. In spite of excessive manpower a large number of casual labourers have been employed. The Committee regret that although a departmental Committee constituted to review manpower requirement had submitted its report in October 1981, no action had been taken on the report and this was stated to be still 'under review' by the management. The Committee would urge the need for taking effective steps to employ the surplus manpower productively and to exercise control over employment of casual labour.

Reply of Government

The manpower at Nangal Unit is, no doubt, high compared to that of Panipat and Bhantinda Units. The production process in Nangal old unit (commissioned in 1961) is labour intensive, and, hence the staff has to be more compared to the staff requirement of modern sophisticated plants like Bhatinda and Panipat (commissioned in 1979). Moreover, at Nangal there are two sets of plants ; (a) Nangal old Unit which is based on Electrolysis of water and the process involves deployment of huge labour force. At the same time plants are old requiring more maintenance ; and (b) Nangal Expansion plants are based on furnace oil as feed stock. In addition, at Nangal, there is a Heavy Water Plant.

The casual labour employed was for breaking up of CAN lumps. Such Casual jobs are not feasible to be got done from regular production, maintenance and office staff. Efforts have all along been made to keep the regular staff at the minimum.

After considering the report of the departmental Committee submitted in October 1981, it was considered necessary to undertake another review for which another Committee was appointed in July 83. The later Committee's report has been received in February 1984 and is under examination.

[Ministry of Chemicals and Fertilizers OM No. 45/10/83-FD (B) Dated the 18th February'84]

Comments of the Committee

(Please *See* paragraph No. 19 of Chapter I of the Report)

Recommendation, Serial No. 30 (Paragraph 7.7)

The Committee hope that an early decision will be taken in regard to the manufacture of phosphatic fertilizers by the Company.

Reply of Government

The proposal of the Company to manufacture phosphatic fertilizers is being considered in the totality of the demand/supply position of the phosphatic fertilizers, the desirability of the technology being adopted for this purpose and the relative health of the Nangal-I Plant which would need to be in operation for quite sometime under the scheme proposed by the Company.

[Ministry of Chemicals & Fertilizers O. M. No. 45/10/83-FD (B) Dated 27th January, 1984]

NEW DELHI ;

March 2, 1984

Phalguna, 12, 1905 (Saka)

MADHUSUDAN VAIRALE,
Chairman,
Committee on Public Undertakings.

APPENDIX I

MINUTES OF THE 47TH SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS HELD ON 20.2.1984

The Committee sat from 15.30 to 16.00 hrs.

PRESENT

Shri Madhusudan Vairale—*Chairman*

MEMBERS

2. Shri Kamaluddin Ahmed
3. Shri Lakshman Mallick
4. Shri N. Kudanthai Ramalingam
5. Shri B. D. Singh
6. Shri Hari Shankar Bhabhra
7. Shri Mahendra Mohan Mishra
8. Shri Narendra Singh
9. Shri Manubhai Patel
10. Shri M. S. Ramachandran
11. Shri Syed Sibtey Razi

SECRETARIAT

1. Shri M. K. Mathur—*Chief Financial Committee Officer*
2. Shri S. C. Gupta—*Senior Financial Committee Officer*
3. Shri G. S. Bhasin—*Senior Financial Committee Officer*

OFFICE OF THE COMPTROLLER AND AUDITOR GEDERAL OF INDIA

1. Shri R. C. Suri—*Chairman, Audit Board*
2. Shri K. P. Lakshmana Rao—*Secretary, Audit Board*

The Committee considered the following Action Taken Reports, as approved by the Action Taken Sub-Committee and adopted the same :—

* * * * *

(ii) Action Taken Report on 65th Report of CPU (1982-83) on National Fertilizers Ltd.

* * * * *

The Committee authorised the Chairman to finalise the Reports on the basis of factual verification by the Ministry/Undertaking concerned and Audit and to present the same to Parliament.

The Committee then adjourned.

APPENDIX-II

(*Vide* Para 3 of Introduction)

Analysis of action taken by Government on the Recommendations contained in the 65th Report of the Committee on Public Undertakings (Seventh Lok Sabha)

I	Total number of recommendations made	30
II	Recommendations that have been accepted by the Government (*Vide* recommendations at S. Nos. 1-4, 6, 8, 9, 12-14, 16 to 20 and 21 to 29)	23
	Percentage to total	76.67%
III	Recommendations which the Committee do not desire to pursue in view of Government's replies (*Vide* recommendation at S. No. 15)	1
	Percentage to total	3.33%
IV	Recommendations in respect of which replies of Government have not been accepted by the Committee (*Vide* recommendations at S. Nos. 5, 7 and 10)	3
	Percentage to total	10%
V	Recommendations in respect of which final replies of Government are still awaited. (*Vide* recommendations at S. Nos. 11, 21 and 30)	3
	Percentage to total	10%

C.P.U. No. 530

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