

# EIGHTY-FIFTH REPORT

## COMMITTEE ON PUBLIC UNDERTAKINGS (1983-84)

(SEVENTH LOK SABHA)

HINDUSTAN ANTIBIOTICS LTD

(MINISTRY OF CHEMICALS & FERTILIZERS)

[Action Taken by Government on the Recommendations contained in the 67th Report of the Committee on Public Undertakings (Seventh Lok Sabha)]



*Presented to Lok Sabha on .....*

*Laid in Rijya Sabha on .....*

LOK SABHA SECRETARIAT  
NEW DELHI

March, 1984 / Phalguna, 1905 {Saka}

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## CORRIGENDA

TO

EIGHTY-FIFTH REPORT OF THE  
COMMITTEE ON PUBLIC ENTERPRISES  
(1983-84)

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## COMMITTEE ON PUBLIC UNDERTAKINGS

(1983-84)

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

**ACTION TAKEN SUB-COMMITTEE OF THE  
COMMITTEE ON PUBLIC UNDERTAKINGS  
(1983-84)**

1. Shri Madhusudan Vairale—*Chairman*
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7. Shri Satyendra Narain Sinha
8. Shri Hari Shankar Bhabhra
9. Shri Syed Sibtey Razi

## INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to submit the Report on their behalf, present this 85th Report on Action Taken by Government on the recommendations contained in the 67th Report of the Committee on Public Undertakings (Seventh Lok Sabha) on Hindustan Antibiotics Ltd.

2. The 67th Report of the Committee on Public Undertakings was presented to Lok Sabha on 28 April, 1983. Replies of Government to all the recommendations contained in the Report were received by 30 December, 1983. 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 67th Report (1982-83) of the Committee is given in Appendix II.

NEW DELHI;  
13 March, 1984  
23 Phalgun, 1905 (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-Seventh Report (Seventh Lok Sabha) of the Committee on Public Undertakings on Hindustan Antibiotics Ltd. which was presented to Lok Sabha on 28 April, 1983.

2. Action Taken notes have been received from Government in respect of all the 27 recommendations contained in the Report. These have been categorised as follows :—

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

S. Nos. 2-3, 5-15, 17, 18, 20-24, 26-27.

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

S. No. 1

(iii) Recommendations/observations in respect of which final replies of Government are still awaited.

S. Nos. 4, 16, 19 and 25.

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

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

#### A. MERGER OF RISHIKESH UNIT OF IDPL WITH HAL

##### **Recommendation (Serial No. 4, Paragraph 1.29)**

5. The Committee observed that there was considerable force in the argument that two public sector units manufacturing same type of product should be brought under the control of one management even though the technology adopted by them may be different. They hoped that the question of merger of Rishikesh Unit of the Indian Drugs and Pharmaceuticals Ltd. with the Hindustan Antibiotics Ltd. would be considered by Government in

depth and if it was found economical and beneficial necessary steps would be taken in that direction.

6. Government have, in their reply, stated that the question of merger of HAL and Rishikesh Plant of IDPL is being looked into in consultation with HAL and IDPL. It would be necessary to look in depth various related factors such as technology, organisational effectiveness, and the effect on consumer interest of competition among public sector undertakings.

7. The Committee are surprised to find that the Government has not been able to take a decision on the question of merger of Rishikesh Unit of IDPL with HAL even after 9 months of the presentation of their report. They hope that a decision in the matter would be taken soon.

## B. CENTRAL MARKETING ORGANISATION

### **Recommendation, (Serial No. 19) (Paragraph 4.39)**

8. The Committee (1975-76) had recommended that there should be a Central Marketing Organisation both for HAL and IDPL, which would not only be economical but would also lead to greater coordination, evolution of effective sale strategies and development of expertise in the field of sales management. The Secretary of the Ministry informed the Committee (1982-83) that though it was a difficult proposal to implement because of the complexities involved in it, Government would take a decision soon. Regretting that the matter had been kept pending for long, the Committee urged for an early decision in this regard.

9. In their reply, Government have again enumerated the various problems faced in setting up a common marketing organisation for marketing of pharmaceutical products of all public sector units.

It has however, been stated that the question of some sort of common marketing organisation at least for the purpose of selling products in the Hospital Sector is receiving attention of the Government and a final decision in the matter is expected soon.

10. The Committee regret to note that even after the Committee had in April, 1983 emphasised the need for an early decision on their earlier recommendation for a central marketing organisation for HAL and IDPL no final decision has yet been taken in this regard even for institutional sales which was Considered to be feasible. They reiterate that the decision in the matter should be taken at the earliest.

## CHAPTER II

### RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

#### **Recommendation, (Sr. No. 2) (Paragraph 1.21)**

The Committee note that in 1980-81 and 1981-82 HAL's share in the production of antibiotics was 22.1 per cent and 22.3 per cent in bulk products and 5.5 per cent and 7.2 per cent in formulations, respectively. It is expected that Company's growth will be accelerated with the completion of expansion projects. It is nevertheless disappointing to the Committee that the Company's contribution to the drug field was insignificant even 28 years after its setting up. They hope, as stated by the representatives of the Ministry, the company will be able to consolidate its resources in the coming years and thus achieve a significant place in the country's drug production.

#### **Reply of the Government**

**Noted.**

[Ministry of Chemical and Fertilizers O.M. No. 50 (i)/83 DV dated 20.12.1983]

#### **Recommendation, (Sr. No. 3) (Paragraph 1.22)**

The Committee are surprised that the Company has not yet formulated its Corporate Plan. It is only recently that the Company has been advised by the Ministry to formulate such a plan. The Committee desire that the Corporate Plan should be formulated soon. In the absence of a corporate plan, it is difficult to have a clear direction for the Company's growth consistent with its objectives and obligations and the national plans.

#### **Reply of the Government**

In order to have clear direction for the Company's growth consistent with its objectives and obligations and the national plans, the Company has set up a Corporate Long Range Planning Cell in 1978. The Cell has taken up preparation and documentation of Corporate plan document and HAL has intimated that the said plan will be submitted by March, 1984.

[Ministry of Chemicals and Fertilizers, OM No. 50 (i)/83-DV dated 20-12-1983]

### **Recommendation (Sr. No. 5) (Paragraph 2.20)**

In January 1974, HAL submitted proposals to Govt. for expansion of its Penicillin, Streptomycin, Semisynthetic penicillin and Gentamicin plants. Government sanction was, however, given in February 1977. Thus there has been inordinate delay in clearance of the project proposal. It has been stated that delay in sanctioning Penicillin plant took place as initial proposal submitted by HAL was returned by the Ministry, as, in that proposal, capacity assumed was thought to be unrealistic and it also did not contain some of the essential provisions. The Company, was, therefore, asked to recast its proposal within the framework of physical limitations and financial constraints. This shows that the machinery for reliable project formulation in the HAL is weak. This deficiency should be remedied soon. The Committee would also like to draw attention of the Ministry of Chemicals & Fertilizers to the Finance Ministry (Plan Finance Division) instructions issued in March 1982 in pursuance of the recommendation of the Committee on Public Undertakings made in their 47th Report (1981-82) wherein all Ministries have been asked to ensure that clearance of a project does not normally take more than six months.

#### **Reply of the Government**

The Project Management Team of HAL has now been substantially strengthened and qualified Engineers from various disciplines have been inducted in the team. The recommendation of the Committee regarding expeditious clearance of project proposals has been noted.

[Ministry of Chemicals and Fertilizers O.M. No. 50 (1)/83-DV  
dated 20-12-1983]

### **Recommendation (Sr. No. 6) (Paragraph 2.21)**

The Committee note that there have been heavy slippages ranging from 19-20 months in the construction and commissioning of expansion projects. These delays have led to huge cost overruns. Total cost over-runs due to late commissioning of various projects have been stated to be Rs. 709.39 lakhs and the percentage of increase in cost with reference to original estimate was 115.4 in the case of Streptomycin and 87.9 in the case of semi-synthetic Expansion Plant. It is distressing that delays at various stages have proved very costly and the national exchequer has been burdened with an additional sum of Rs. 709.39 lakhs. The Committee are inclined to attribute this lack of effective management control and proper monitoring system to apply on course correction promptly both at the corporate and Ministry level.

### **Reply of the Government**

Major reasons for cost and time over-runs have been workers' strike during 1980, non-availability of cement and steel of proper specifications, power-cut and strikes in suppliers' premises and non-availability of power for commissioning of the projects. These have been beyond the control of the Management. System of management and control of monitoring system do exist in the Company wherein progress of implementation, reasons for delay and corrective measures are taken on a weekly basis. The Ministry also review the progress of implementation of expansion projects during quarterly review meetings and provides necessary assistance to overcome difficulties. However, the Committee's recommendations to make the monitoring system more effective have been noted.

[Ministry of Chemicals and Fertilizers O.M. No. 50 (1)/83-DV dated 20-12-1983]

### **Recommendation (Sr. No. 7) (Paragraph 2.22)**

Except Penicillin Plant no other Plant has been commissioned so far. Dates of commissioning of these plants have been revised thrice. The Committee hope that the dates now fixed will be adhered to. They need hardly point out that delays add to the cost of project which is ultimately reflected in the cost of production.

### **Reply of the Government**

The projects have been completed within the time schedules\* mentioned in para 2.11 of the Committee's Report. However, in respect of Gentamicin, although the plant has been commissioned and rated capacity has been proved, the collaborators are yet to visit to prove guarantee runs, pending settlement of a dispute regarding release of last instalment of know-how fee. It is hoped that the same may be finalised shortly.

[Ministry of Chemicals and Fertilizers O.M. No. 50 (1)/83 DV dated 20-12-1983]

### **Recommendation (Sr. No. 8) (Paragraph 2.30)**

The Committee note that the Company has undertaken a renewal and replacement programme during 1980—85 involving an expenditure of Rs. 1298.13 lakhs, to weed out old and outdated inefficient equipments. They hope that all efforts will be made to implement the programme as scheduled and the physical and financial progress in respect of each component thereof meticulously monitored to avoid any cost and time over-runs.

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\* At the time of factual verification HAL informed that in respect of Gentamicin Project, subsequent to the settlement of the dispute regarding release of last instalment of know-how fee, Hungarian collaborators visited HAL during February, 1984, to solve/suggest process problems.

The Committee would like to emphasise that the programme of replacement and renewals should be implemented in such a manner that the loss of production is minimised during its implementation.

#### **Reply of the Government**

The schedule of replacement and renewal programmes is being continuously monitored by the Company and it is expected that barring unforeseen circumstances, the programme will be adhered to. Care will also be taken by the Company to minimise loss of production during implementation of R & R programme.

[Ministry of Chemicals and Fertilizers O.M. No. 50 (1)/83-DV dated 20-12-1983]

#### **Recommendation (Sr. No. 9) (Paragraph 2.49)**

The Committee find that the production of major products viz. Penicillin, Streptomycin, Ampicillin has been more than the installed capacity in the years 1979-80, 1980-81 and 1981-82. However, the production has been less than the targets fixed by the Company except in the year 1980-81. The Committee were informed that by careful control and maintenance of strain, by proper loading and scheduling of fermentation and by reducing the downtime, the Company has been able to achieve production in excess of the installed capacity. The Committee are, therefore, not in a position to compare the production with the achievable capacity. It is time that the installed capacities are reassessed in the light of technology and other improvements in production. Thereafter, realistic targets should be laid down for assessing the performance thereagainst.

#### **Reply of the Government**

HAL has reported that realistic assessment of installed capacities will be done after full commissioning of the expanded capacities. In the feasibility reports of the expansion projects, phase-wise build up of installed capacities has been worked out according to which full installed capacities will be reached in all the plants after 3.4 years of commissioning. Except in respect of Pencillin, such a stage has not been reached in other plants, where expansion has been carried out. Only after full installed capacity is attained according to the stipulations made in the feasibility report, realistic assessment of the capacities will be possible. .

[Ministry of Chemicals and Fertilizers O.M. No. 50 (1)/83-DV dated 20-12-1983]

### **Recommendation (Sr. No. 10) (Paragraph 2.50)**

One of the reasons advanced by the Company for not achieving the present targets was non-availability of raw materials. The Committee are surprised that HAL which has been in the market for such a long time has not been able to establish its regular and dependable source of supply. Ministry should look into this and take appropriate action so that the problem could be minimised, if not altogether eliminated.

#### **Reply of the Government**

Non-availability of some of the essential raw materials in time arises due to various factors, viz. shortage of material itself, power cut in suppliers' premises, etc. Although the Company has been able to establish dependable sources of supplies in respect of raw materials, packing materials, etc., instances of temporary production loss due to non-availability of raw materials at times do arise in any industry of this type. Ministry has been reviewing such problems during quarterly review meetings and HAL has been bringing to the attention of the Ministry such difficulties where intervention of the Ministry may be necessary. The system is now working satisfactorily.

[Ministry of Chemicals and Fertilizers O.M. No. 50 (1)/83-DV dated 20.12.1983].

### **Recommendation (Sr. No. 11) (Paragraph 2.51)**

Another reason for shortfall in actual production has been stated to be the 'problem of contamination'. The Managing Director, in evidence, tried to explain the causes for contamination and efforts being made by the Company to overcome them. Contamination is caused mainly by human failure as well as uncertainty of power supply. As far as human factor is concerned, the Managing Director stated that courses on contamination control in fermentation technology with a duration of 3-4 days have been/are being arranged. The power shortage and fluctuation, he said, has accentuated the problem. On account of power failure, fermentors come to zero pressure and this results in contamination. It is, however, heartening to know that MSEB have realized the gravity of the problem and have assured the Company of an uninterrupted power supply. Since contamination of drugs could endanger human life, the Committee hope that the MSEB authorities will keep up the assurance. On its part, the Company should take every step and make every effort to see that pure and uncontaminated drugs reach the consumers.

#### **Reply of the Government**

Contamination is a phenomenon in the fermentation stage of the drug in the Antibiotic Bulk production. In case of contamination, prescribed titres/

potencies/output cannot be reached in the fermentation stage and depending on the incidence of contamination, batch is either processed for subsequent operations or drained. The Company has got a fulfledged Quality Control Department equipped with modern instruments, trained staff duly approved by FDA and an animal house. The Company has also set up Quality Assurance Cell whose job is to monitor all instances of product complaints, rejections, etc. so as to build up requisite quality standards in the processing stage of the drug itself. Products are released for sale only after due testing and approval of Quality Control Lab. There is also a system of surprise checks by FDA authorities about the methods of testing and documentation. System of obtaining crosschecks from other reputed laboratories is also in existence. Accordingly, no drug which does not pass quality standards can go to the market.

[Ministry of Chemicals and Fertilizers O.M. No. 50 (1)/83-DV dated 20.12.1983].

#### **Recommendation (Sr. No. 12) (Paragraph 2.61)**

The plant for the manufacture of Vitamin C based on the technology from National Chemical Lab., Pune, with a licensed capacity of 125 tons per annum was set up in 1973. Performance of the plant was, however, not satisfactory and Govt. appointed a task force in 1974 to look into the difficulties. On the recommendations of the task force, technical assistance of M/s Roche Products Ltd. was obtained free of charge in 1977. Modifications to the plant were carried out and trial runs were taken but the production was still not found satisfactory. The production of Vitamin C has since been suspended and economic alternative uses for the plant are being explored. The Ministry has, in its recent note to the Committee, stated that "the lay out of Vitamin C plant by and large, does not conform to accepted principles of scientific layout". The Committee have also been informed that the matter has again been referred to M/s Roche Products Ltd. in 1982 for rehabilitating the plant. As stated by the Ministry, M/s Roche Products Ltd. are looking into the matter. The Committee regret that the Vitamin C plant has been limping from 1973 and the apprehension of shortcomings in the basic technology and the layout of the plant still persists. The Committee appreciate the efforts for indigenisation, but they feel that before making investments, the indigenous technology should have been proved fully for mass production. At this stage, they can only express the hope that M/s Roche Products Ltd. will be able to rehabilitate the plant and the Company will derive the full benefit of the investment in it. If it is decided to abandon the Vitamin C plant altogether the Committee expect that

alternative use of the plant will be explored immediately and the facilities available put to full use.

### **Reply of the Government**

The Committee's observation that before making investment, the indigenous technology should have been proved fully for mass production is noted. Basic defects in the lay-out of the plant and the technology could not be corrected even after repeated attempts were made by way of rehabilitation and assistance of M/s Roche Products Ltd. Efforts in this direction are still continuing. Meanwhile, the Company is utilising the facilities for manufacture of Aureofungin and simultaneously working out alternate use of the plant. It has already identified a few products which can be taken up for commercial production in the Vitamin C plant and is in dialogue with some of the parties regarding technology etc. The Company has also proposed for utilising part of the facilities of Vitamin C Plant for manufacture of Rifampicin.

[Ministry of Chemicals and Fertilizers O.M. No. 50 (1)/83-DV dated 20.12.83].

### **Recommendation (Sr. No. 13) (Paragraph 2.67)**

In March 1976 in their 80th Report (5th Lok Sabha), the Committee had suggested that "the public sector should also have appropriate blend of bulk and formulations so as not to make losses, but generate adequate margin on capital invested to make it self-reliant and growth-oriented. The Committee regret that prompt action on this suggestion had been initiated and that the question of economic viability of the Company has come to fore only recently. They, however, welcome the decision of the Company to diversify to other formulations which have scope for high mark-up. They would, at the same time, like to invite Company's attention to one of its one objective of reducing cost and making life-saving drugs increasingly available to the consumers at reasonable price. The Committee hope that the Company, while diversifying its product range, will ensure that drugs are made available to the consumers at reasonable prices in a manner that would regulate the prices of drugs in the market in larger public interest.

### **Reply of the Government**

The Committee's observations that the Company, while diversifying its product range, will ensure that drugs are made available to the consumers at reasonable prices, as fixed by the Government from time to time based on cost analysis done by BICP, has been noted.

[Ministry of Chemicals and Fertilizers O.M. No. 5 (1)/83-DV dated 20.12.1983].

### **Recommendation (Sr. No. 14) (Paragraph 2.73)**

The Committee note that the Company has a medical services deptt. and Quality Assurance Cell which investigate complaints regarding quality of drugs and also monitor norms necessary for good manufacturing practices. The Committee would like to emphasise that quality of a product, particularly in the drug field, makes or mars the image of a Company. They would, therefore, urge the Company to exercise stricter quality control and ensure that drugs marketed by it are the quality drugs.

### **Reply of the Government**

Right from the inception of the Company, HAL has created Quality Control facilities within the organisation. The Quality Control Laboratory of the Company is a fulfledged Department with necessary scientific staff duly approved by FDA authorities and it is well equipped to carry out all chemical, pharmacological, bacteriological tests and assays so that final products are in accordance with pharmacopoeial standards in purity, stability, sterility, etc. QCL also carries out regular control tests and checks up various stages of production to supplement efforts of the Manufacturing Division and its process control laboratories. The Company maintains its own house standards which are in the certain cases more stringent than the limits prescribed in Indian Pharmacopeia. Quality control Laboratory is independent of production and though administratively reports to the Managing Director, functions independently as far as its sphere of work is concerned.

In order to supplement the efforts of Quality Control Laboratory, the Company has created a Quality Assurance Cell with the following objectives :

- (i) to formulate mode of quality control at various stages of production, starting with raw materials as well as for testing procedures;
- (ii) to document latest standard operating procedures;
- (iii) to insist on enforcement of good manufacturing practices at all levels.
- (iv) to introduce quality circle concept for improvement in quality of products;
- (v) to investigate into product complaints in collaboration with other agencies and suggest preventive measures;

Company's Medical Services Division is manned by professional Doctors who interact with the medical profession and in cases of complaints of any of the products of the Company, they go deep into such complaints so as to avoid such recurrence in future. Thus, the Committee's observation about exercising stricter quality control and to ensure that drugs marketed by the Company are quality drugs have been incorporated in the Company's business philosophy and objectives as well as in practice.

[Ministry of Chemicals and Fertilizers O.M. No. 50 (1)/83-DV dated 20.12.1983].

**Recommendation (Sr. No. 15) (Paragraph 2.79)**

The Committee note that only a partial system of standard costing had been introduced in HAL in 1981-82 after the Technical Services Department laid down target norms of operational efficiency and consumption of material. The norms for consumption of services and other fixed expenses were stated to be still under examination by the Technical Services Deptt. The Committee need hardly stress the need for an effective cost control. In this context, scientific analysis of variations between the standard and costs actual costs to enable stricter cost control assumes urgency. The Committee, therefore, desire that an efficient cost control system should be introduced as soon as stabilisation in different disciplines of production is achieved.

**Reply of the Government**

The Company has been using budgeted cost based on past consumption and an assessment of possible improvements as standards for the purpose of cost control. Effective steps have been taken for cost reduction in the areas of energy (power and furnace oil raw materials, packaging items etc. The Company was implementing expansion programmes for Penicillia, Streptomycin, Ampicillin, Gentamicin, etc. during the last 4-5 years. These expansion have now been completed and the Company has planned to evolve standards based on the performance guarantee by the collaborators and these will be used for cost control in future years. Thus, question of evolving standard cost is basically linked with stabilisation in the production process based on the existing technologies at various stages of production.

[Ministry of Chemicals and Fertilizers O.M. No. 50(1)/83-DV dated 20-12-1983].

**Recommendation (Sr. No. 17) (Paragraph 4.25)**

The Committee regret that HAL does not have a fully organised Marketing Division. An Inter-Ministerial Committee, constituted by

Bureau of Public Enterprises had made comprehensive recommendation in 1971 to build up a marketing organisation of the Company. The Board of Directors examined various possibilities and decided in 1976 to strengthen the marketing organisation of the Company in a phased manner. In evidence before the Committee in January 1983, Ministry's representatives have stated that during the last 1—1½ years, the emphasis has been on marketing and admitted that there had not been proper integrated plan in the area of expansion and marketing. It is surprising that when the Inter-Ministerial Committee had suggested as far back as 1971 the building-up of Company's Marketing Organisation, Government and the Company have merely discussed the issue at their review meetings and have not taken any concrete steps to strengthen the Company's marketing organisation. It was perhaps due to the absence of an organised marketing division that the Company has been carrying huge stock of finished goods which valued at Rs. 431.82 lakhs in 1979-80, Rs. 712.03 lakhs in 1980-81 and Rs. 646.17 lakhs in 1981-82. The Committee feel that the present market which is highly competitive can be effectively influenced only through aggressive marketing strategy. They hope that final decision on this vital wing of the Company—Marketing Division will be expedited.

#### **Reply of the Government**

The company has brought about structural changes in its Marketing Division during the last six years. During early 1978, a major plan of expansion of field force was taken up and the same has been implemented in a phased manner. The Company was working with 19 medical representatives till 1977 who were looking after routine sales to hospitals. This lacuna has been remedied over the years and the Company's Marketing Division has been organised on professional lines as a result of which there has been some thrust on trade marketing. There are Marketing Managers specially assigned to market products in different sectors viz. Bulk, Agro-vet and Exports, sales of formulations in trade and sales of formulations in Institutions. Field marketing force has also been segregated for sale of formulations in trade, hospital as well as for agricultural and veterinary products. Distribution system have been further streamlined. With all these steps the Company has been able to achieve sales growth of 30% annually during the last two years.

[Ministry of Chemicals & Fertilizers O.M. No. 50 (1)/83-DV dated 20.12.1983]

#### **Recommendation (Sr. No. 18) (Paragraph 4.26)**

**The Committee hope that the Ministry will be able to persuade all the**

State Governments to give preference to the public sector undertakings while making purchases of medicines for use in the States.

**Reply of the Government**

The Government has already requested the State Governments for giving preference to public sector drug companies in the matter of purchases. Some State Governments have already issued orders, giving such preference. In respect of purchases by Central Govt. agencies and Public Sector units, instructions have already been issued that excepting items also produced in the small scale sector, purchases will be made from the public sector drug companies based on their price lists without calling for tenders.

[Ministry of Chemicals & Fertilizers O.M. No. 50 (1)/83-DV dated 20.12.1983]

**Recommendation (Sr. No. 20) (Paragraph 5.13 and 5.14)**

The Committee note that the Company had been doing financially well till 1972-73. However, after that year, the Company had started incurring losses and at the end of 1981-82 the accumulated loss amounted to Rs. 24.60 crores as against its paid-up capital of Rs. 21.55 crores. The Company has thus wiped out its entire capital. According to the Company, major factor for the losses was delay in the approval of fair selling price of its products since 1970 when the DPCO came into force. Another reason was its product-mix. The Company has been mostly producing drugs under Category I for which price control was stated to very rigid and scope for mark-up was very little. The Company's capital structure and high interest liability were stated to be the other reasons for its adverse financial results.

The Committee hope, the Government having agreed to look into the pricing aspect and also deciding to re-structure the Company's capital base and to grant a moratorium of five years on the repayment of loans and interest holiday for a period of five years, the Company will be able to improve its financial performance. The Committee would, however, like to caution the Company that all these concessions and facilities will be of no avail unless it is able to gear up its production and cost control and improve sales management.

**Reply of the Government**

The Company has intimated that it has noted the Committee's observations.

[Ministry of Chemicals & Fertilizers O.M. No. 50 (1)/83-DV dated 20.12.1983]

### **Recommendation (Sr. No. 21) (Paragraph 5.25)**

The Committee observe that the Company's sundry debts have gone up from Rs. 415.64 lakhs in 1979-80 to Rs. 1246.58 lakhs in 1981-82, nearly three times. On the basis of internal audit report for 1979-80 the Board has stressed that a definite progress should be followed to reduce increasing sundry debts. The Committee are surprised that instead of improving the position, it had been allowed to deteriorate as the percentage of debts to Company's sale has gone up from 23.9 in 1979-80 to 44.7 in 1981-82. By the end of 1982, Rs. 864 lakhs were outstanding against Government Departments ranging from a period of 45 days to 360 days. The Company and the Ministry are now seized of the problem. The Committee hope that vigorous efforts will be made to recover the dues and in future such a huge amount will not be allowed to be blocked as debts.

### **Reply of the Government**

Increase in the amount of sundry debts from 1979-80 to 1981-82 is primarily due to increase in the volume of sales. Further the position during 1979-80 cannot be taken as representative due to strike at the close of the year from 18.3.1980 wherein there had been no sales at the close of the year. The Company notes the Committee's recommendations that vigorous efforts are necessary to recover dues and in future such large amount should not be allowed to be blocked as debts. In this regard, the Company has taken a policy to stop despatches to some parties whose payments remain outstanding for a certain period. Necessary credit policy is being formulated.

[Ministry of Chemicals & Fertilizers O.M. No. 50 (1)/83 DV dated 20.12.1983]

### **Recommendation (Sr. No. 22) (Paragraph 5.30)**

The Company which is not sound financially has been carrying a huge inventory costing Rs. 1448.36 lakhs (at the end of 1981-82). The Committee need hardly point out that a huge working capital is locked up in inventories with the attendant interest liability. Though the Committee had been assured in 1976 in reply to their recommendation (Sl. No. 72) contained in 80th Report (5th Lok Sabha) that the Company and the Board were keeping a constant vigil over the inventories and Government also proposed to keep a watch on the situation, they regret that neither the Company nor the Ministry had a meaningful control with the result a huge stock of inventory was allowed to accumulate. They hope Company's Inventory Control System will soon be streamlined and also concerted efforts will be made to bring down the inventory to a reasonable level.

### **Reply of the Government**

The Company has intimated that its overall position regarding inventory of raw materials is within reasonable limits. In general stores and spare parts, there has been some accumulation over the years due to liability to dispose of some of the insurance spares of some outdated equipments. Necessary efforts to bring good finished goods inventory to a reasonable level are being made. Steps have been taken to streamline inventory control system to avoid over-provisioning of materials/stores items. The Ministry reviews overall inventory position of the Company during quarterly review meetings and issues guidelines, wherever necessary, for bringing the inventory within norms.

[Ministry of Chemicals & Fertilizers O.M. No. 50 (1)/83-DV dated 20.12.1983]

### **Recommendation (Sr. No. 23) (Paragraph 5.33)**

The Committee are surprised to note that in HAL there is no system of submitting a consolidated Internal Audit Report to the Board of Directors and that only individual audit reports are issued from time to time. Internal Audit is an important instrument of self-assessment. The Committee recommend that a consolidated Internal Audit Report containing the highlights of internal audit should be brought out yearly and placed before the Board of Directors with action taken thereon by the management.

### **Reply of the Government**

As recommended by the Committee, the system of submitting consolidated internal audit report at the end of each year to the Board of Directors along with action taken thereon has been introduced with effect from the report for 1981-82. Based on the observations and directives of the Board of Directors, necessary remedial measures are taken by the Company.

[Ministry of Chemicals & Fertilizers O.M. No. 50 (1)/83-DV dated 20.12.1983]

### **Recommendation (Sr. No. 24) (Paragraph 5.35)**

The Committee expect the Ministry to have regular and comprehensive performance reviews of the activities of the Company so that the Company is constantly kept on its toes and is adequately guided to improve its physical and financial position.

### **Reply of the Government**

The Ministry has increased the frequency of comprehensive performance reviews of the activities of the Company. Of late, a system of reviewing the performance during every month has been started and necessary guidelines are issued on that basis. The Ministry also takes necessary measures based on the monthly D.O. letters written by the Chief Executive of the Company to the Secretary of the Ministry wherein performance in all important areas like production, sales, collections, inventory, etc. are indicated against target and assistance required from the Ministry is stated. It is hoped that with these measures, physical and financial position of the Company will be improving year after year.

[Ministry of Chemicals & Fertilizers O.M. No. 50 (1)/83-DV dated 20.12.1983]

#### **Recommendation (Sr. No. 26) (Paragraph 6.22)**

The Committee note that the Company has a Research and Development Centre, which was established in 1955. Though it has to its credit discovery of two antibiotics in India, the manufacture of these antibiotics—Hamycin and Aureofungin, has however, not yet becomes commercially viable for one reason or the other. Similarly, manufacture of another product, Heomycin Sulphate, based on the process developed by the R & D Unit is uncertain. In case of all the three products, the production is meagre and still on an experimental stage. The Committee have already commented upon Hamycin and Aureofungin in their last Report in 1975-76. Since then, much to the regret of the Committee, there has not been any market improvement. In case of Neomycin Sulphate, efforts to make the project successful had been sporadic and after twelve years when the Research and Development Unit could establish a few batches conforming to Indian Pharmacopoeia specifications, it was found that there was no demand for this product in the market. The presumption of the Company that with a ban on the topical use of Gentamicin, demand for Neomycin Sulphate would pick up does not appear to be correct as such a ban is not under consideration. Not only this, equipment and imported material worth Rs. 2.28 lakhs and Rs. 4.53 lakhs respectively are lying idle. The Company has not been able to dispose them of or utilise them.

The Committee are disappointed that the research and development efforts of HAL have not borne any fruit. The strains developed or being developed are either commercially non-viable or have no market demand. The R & D Centre, therefore requires qualitative strengthening.

### **Reply of the Government**

It may not be correct to infer that Research and Development efforts of HAL have not borne any fruit considering that only to commercial antibiotics were invented and developed in the country in HAL Research Centre. Recently, R and D Centre has also developed a device for safe and reliable detection of pregnancy using ELISA technique and the same has been marketed as Nancy Kit. Company's R & D has developed more than 60 new formulations which are taken up for commercial production in a phased manner. R and D Centre has also brought about a positive improvement in the strain of Gentamicin Sulphate that what was obtained from the Hungarian collaborators. The Committee's suggestion that R and D Centre requires qualitative strengthening has been taken note of.

[Ministry of Chemicals and Fertilizers OM. No. 50 (1)/83-DV  
dated 20-12-1983]

### **Recommendation (Sr. No. 27) (Paragraph 6.23)**

The Committee need hardly emphasise the necessity for close coordination in the R&D activities of not only the Hindustan Antibiotics Limited and the Indian Drugs & Pharmaceuticals Limited, but also of all the drugs and pharmaceuticals manufacturing companies in the public sector.

### **Reply of the Government**

The R&D Centre has been maintaining close collaboration not only with R&D Centre of IDPL but also with other Research Laboratories like Central Drug Research Institute, Lucknow, National Chemical Laboratory, Pune, Indian Institute of Reproduction, Bombay, etc. Such collaborative efforts are manifested during regular visits of scientists taking part in collaborative projects, etc. and the Company's suggestion to have intensive collaboration in this regard will be given due importance while framing future policy and programmes of R&D Centre.

[Ministry of Chemicals & Fertilizers O.M. No. 50 (1)/83-DV dated 20.12.1983]

## **CHAPTER III**

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

#### **Recommendation (Sr. No. 1) (Paragraph 1.20)**

According to the statement of objectives and obligations drawn up by HAL, the Company was expected to "attain the commanding heights in the drugs field and specially in the antibiotic field". It was clarified in evidence before the Committee that what was envisaged was only a pioneering and leadership role. The Committee desire that the basic role should be defined in concrete terms.

#### **Reply of the Government**

HAL has been a pioneer in the manufacture of bulk antibiotics in the country. It commenced commercial production of Penicillin in 1955 and over the years, it has taken up for the first time ; basic manufacture of Streptomycin, Ampicillin and Gentamicin. Today it is one of the major producers of antibiotics in the country. HAL's value of production has increased by 123% during the Fifth Five Year Plan and with the completion of projects for expansion in the capacity of bulk drugs and formulations, its growth is expected to accelerate during the coming years.

The objective of public sector attaining commanding heights is a macro objective as a whole and does not apply to every industry. In the drug industry in particular, with over 150 units in the organized sector including well-known multinationals and nearly 5000 small scale units, no single unit can attain commanding heights. Taking these into account, the drug policy envisages only leadership role to the public sector as a whole. The public sector in general and HAL in particular has played leadership role in the manufacture of essential drugs in the country.

[Ministry of Chemicals & Fertilizers OM. No. 50 (1)/83-DV dated 20.12.1983]

## **CHAPTER IV**

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

**NIL**

## CHAPTER V

### RECOMMENDATIONS IN RESPECT OF WHICH FINAL REPLIES OF GOVERNMENT ARE STILL AWAITED

#### **Recommendation (Sr. No. 4) (Paragraph No. 1.29)**

There is considerable force in the argument that two public sector units manufacturing same type of product should be brought under the control of one management even though the technology adopted by them may be different. The Committee hope that the question of merger of Rishikesh Unit of the Indian Drugs and Pharmaceutical Ltd., with the Hindustan Antibiotics Ltd. will be considered by Government in depth and if it is found economical and beneficial necessary steps will be taken in this direction.

#### **Reply of the Government**

The question of merger of HAL and Rishikesh Plant of IDPL is being looked into in consultation with HAL and IDPL. It would be necessary to look in depth various related factors such as technology, organisational effectiveness, and the effect on consumer interest of competition among public sector undertakings.

[Ministry of Chemicals and Fertilizers O.M. No. 50 (1)/83-DV dated 30.12.1983].

#### **Comments of the Committee**

Please see paragraph 7 of Chapter I of the Report.

#### **Recommendation (Sr. No. 16) (Paragraph No. 3.16)**

Fixation of prices of bulk drugs and formulations is governed by the orders issued from time to time under the Drugs (Price Control) Order. The prices are fixed on the basis of cost studies conducted by the Bureau of Industrial Costs and Prices (BICP), after taking into account the cost data presented by the manufacturers. The BICP takes 4 to 5 months for its study and thereafter Government take 6 months to come to a decision. Therefore, there is a considerable time lag between the escalation in the prices of different inputs and the revision of the prices of the finished drug products. HAL has been put to a considerable financial strain on account of delay in the revision of prices. The Committee note that the Ministry is alive to this

problem and is examining a few suggestions in this regard including introduction of escalation of formula through an index. The Committee hope that Government will be able to evolve pricing system soon for the drugs produced in the country which will not only provide for a fair return to the industry but will also ensure availability of medicines to the common man at a reasonable price.

#### **Reply of the Government**

The question of revision of the existing price system/drug price control order 1979 is being considered in depth by National Development Council on drugs & pharmaceuticals. Among the three Working Groups appointed by the NDEC, one is examining exclusively pricing policy and procedures. Industry as well as experts are associated with this Working Group. The report of this Working Group is expected to be available by the end of January. As soon as the recommendations of the NDDC are available, the Government would take a view of the pricing policies and procedures. In the meanwhile in order to have better co-ordination, the Licensing and Pricing Division of the Ministry have been brought together under the administrative control of a single Joint Secretary.

[Ministry of Chemicals and Fertilizers O.M. No. 50 (1)/83-DV dated 30.12.83].

#### **Recommendation (Sr. No. 19) (Paragraph 4.39)**

The Committee note that no decision has been taken on the recommendation made by them in March 1976 that there should be a Central Marketing Organisation both for HAL and IDPL. It was held by the Committee then that such an organisation would not only be economical but would also lead to greater co-ordination, evaluation of effective sale strategies and development of expertise in the field of sales management. The Committee gathered an impression during the present discussions that though the Managing Director of HAL was in favour of such an organisation, he was not enthusiastic about the proposal, as it involved a number of administrative problems. The Secretary of the Ministry was of the opinion that a common marketing organisation was feasible in regard to institutional sales but for trade sale, it may not be desirable. Stating that it was a very difficult proposal to implement, because of the complexities involved in it, the Secretary informed that Government will take a decision on this shortly. The Committee regret that the matter has been kept pending for long. They would therefore, urge for an early decision in this regard.

### **Reply of the Government**

**Setting up of a common marketing organisation for marketing products of all public sector units imposes certain problems as detailed below :**

- (i) Purchase decision of pharmaceuticals are generally not taken by consumers but taken for them by the physicians. Hence product has to be promoted to physicians by medical representatives who have to explain special features, advantages, etc. of the products. Representatives will face problems in promoting too many products, many of which have competing therapeutic uses. The promotional efforts will get diluted if too many products are to be promoted.
- (ii) Close coordination between purchasing unit, quality control and the medical services department and the Marketing unit is essential in marketing pharmaceuticals, specially for investigating adverse reactions, feed-back from the market, etc. These may be difficult to achieve if the Marketing Organisation is a separate activity from Production and Quality Control units of the undertakings.
- (iii) In view of product range, fluctuating demand for certain products on a seasonal basis, production of formulation has to be closely coordinated with the Marketing Division's demand estimation, particularly since drugs and formulations have limited life. Such integration will be difficult to achieve by a Central Marketing Organisation, assigned to market products for a number of purchasing units located in different parts of the country.
- (iv) Concentrating marketing of all pharmaceutical products by public sector undertakings in one organisation may make it vulnerable on the industrial relations front.

Nevertheless, question of some sort of common marketing organisation at least for the purpose of selling products in the Hospital Sector is receiving attention of the Government and a number of meetings have been held recently with the representatives of public sector undertakings and the Government is expected to take a final decision in the matter soon.

[Ministry of Chemicals and Fertilizers O.M. No. 50 (1)/83-DV dated 20.12.1983].

#### **Comments of the Committee**

Please see paragraph 10 of Chapter I of the Report.

**Recommendation (Sr. No. 25) (Paragraph 6.4)**

The Committee note that dispute between the Management and the workers has been pending since January 1978. They hope that the differences will be resolved amicably soon.

**Reply of the Government**

It is regretted that the stalemate over acceptance of industrial D.A. formula at the rate of Rs. 1.30 per point by the Workers' Union has not been resolved as yet and accordingly, no settlement could be reached. The Government has recently constituted tripartite body to go over the question of neutralisation rate of D.A. and it is felt that the Union is awaiting the findings of the Committee and decision of the Government on this matter.

(Ministry of Chemicals & Fertilizers OM. No. 53 (1)/83-DV dated 20.12.1983].

NEW DELHI;  
13 March, 1984  
23 Phalguna, 1905 (Saka)

**MADHUSUDAN VAIRALE**  
*Chairman*  
*Committee on Public*  
*Undertakings*

## APPENDIX I

### MINUTES OF THE 47th SITTING OF COMMITTEE ON PUBLIC UNDERTAKINGS HELD ON 20.2.1984

The Committee sat from 15.30 hrs to 16.30 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*

#### REPRESENTATIVES OF C & A.G.

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

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

\* \* \* \*

(iii) Action Taken Report on 67th Report of CPU (1982-83) on Hindustan Antibiotics Ltd.

\* \* \* \*

The Committee authorised the Chairman to finalise the Reports on the basis of factual verification by the Ministry/Undertaking concerned and Audit, wherever necessary, 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 Sixty-Seventh Report of the Committee on Public Undertakings (Seventh Lok Sabha).

I. Total number of recommendations made	27
II. Recommendations that have been accepted by the Government ( <i>Vide</i> recommendations at S. Nos. 2-3, 5-15, 17-18, 20-24, 26-27)	22
Percentage to total	81.48%
III. Recommendations which the Committee do not desire to pursue in view of Government's reply ( <i>Vide</i> recommendation at S. No. 1)	1
Percentage to total	3.70%
IV. Recommendations in respect of which replies of Government have not been accepted by the Committee	NIL
Percentage to total	NIL
V. Recommendations in respect of which final replies of Government are still awaited ( <i>Vide</i> recommendations at S. Nos. 4, 16, 19 and 25)	4
Percentage to total	14.81%

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