

**NINETIETH REPORT
COMMITTEE ON PUBLIC
UNDERTAKINGS
(1983-84)**

(SEVENTH LOK SABHA)

SCOOTERS INDIA LIMITED

**(MINISTRY OF INDUSTRY, DEPARTMENT
OF HEAVY INDUSTRY)**

**[Action Taken by Government on the Recommendations
contained in the 68th Report of the Committee on Public
Undertakings (Seventh Lok Sabha)]**



Presented to Lok Sabha on

27 Apr 1984

Laid in Rajya Sabha on

27 Apr 1984

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(1983-84)

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9. Shri Syed Sibtey Razi.

*Ceased to be a Member consequent on his retirement from Rajya Sabha on 9 April, 1984.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to submit the Report on their behalf, present this 90th Report on Action Taken by Government on the recommendations contained in the 68th Report of the Committee on Public Undertakings (Seventh Lok Sabha) on Scooters India Ltd.

2. The 68th Report of the Committee on Public Undertakings was presented to Lok Sabha on 29 April, 1983. Replies of Government to all the recommendations contained in the Report were received on 30 January, 1984. The replies of Government were considered by the Action Taken Sub-Committee of the Committee on Public Undertakings on 30 March, 1984. The Committee also considered and adopted this Report at their sitting held on 30 March, 1984.

3. An analysis of the action taken by Government on the recommendations contained in the 68th Report (1982-83) of the Committee is given in Appendix II.

MADHUSUDAN VAIRALE,

Chairman,

Committee on Public Undertakings.

NEW DELHI,

18 April, 1984

29 Chaitra 1906, (Saka)

CHAPTER I

REPORT

This Report of the Committee deals with the action taken by Government on the recommendations contained in the Sixty-eighth Report (Seventh Lok Sabha) of the Committee on Public Undertakings on Scooters India Ltd. which was presented to Lok Sabha on 29 April, 1983.

2. Action Taken notes have been received from Government in respect of all the 24 recommendations contained in the Report. These have been categorised as follows :

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

S.Nos. 1,2,9-18, 20, 22, 23 and 24.

- (ii) Recommendations/observations which the Committee do not desire to pursue in view of Government's replies.**

S. No. 5.

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

S. Nos 3 and 6.

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

S. Nos. 4, 7, 8, 19 and 21.

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.

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

A Project Planning

Recommendation S. No. 3 (Para 1.45)

4. The Committee pointed out that at the time of taking investment decision in 1974 the Company had worked out rate of return as 44 per cent (Rs. 5 crores per annum) on capital investment of Rs. 12 crores, on the basis of the production capacity as originally assessed. While there was gross under-estimation of capital cost, the production capacity was found to be much less than what was assumed by the Company. The Company had actually suffered a loss of Rs. 32.36 crores during 1974-1982.

The Committee had observed as follows :

“It is most unfortunate that Government decided to instal an old plant purchased from Italy to produce Scooters to fill up gap between demand and supply in the country without making any detailed comparative study and analysis of purchase of the old plant vis-a-vis a new plant. It is amazing that the representatives of the Ministry and the Company had tried to justify the decision. The Committee desire that the failure of officials leading to the gross under-estimation of capital cost and over-estimation of capacity and profitability of the project should be gone into thoroughly.”

5. The Government have stated in their reply that against the sanctioned project estimates of Rs. 12.70 crores, the actual expenditure incurred upto 31st March, 1982 was Rs. 13.48 crores. Thus, there was an increase in expenditure of only 6% over the sanctioned estimates. The balance expenditure of Rs. 8.39 crores comprised of Rs. 5.82 crores on replacements and purchase of some of the consumable items like dies, Rs. 1.96 crores on provision of supporting and enabling facilities and Rs. 61 lakhs on the captive foundry approved by Government in 1976. It has been further stated that it was due to the accounting procedure followed by the Company that the expenditure on replacements has been accounted for under capital expenditure of the project whereas normally such expenditure is accounted for under depreciation.

The Government have added :—

“The decision to purchase the old plant and machinery of M/s. Innocenti of Italy was taken after thorough consideration and examination of all the aspects involved. The plant and machinery had been inspected by a Team of Consultants with which some foreign experts were also associated. Taking into accounts, their recommendations and other

factors, the decision to purchase the old plant was taken. Thus, there is nothing wrong with the decision. In fact some of the established automobile manufacturers in the private sector have been purchasing second hand machinery from abroad. M/s. Hindustan Motors Ltd. and Premier Automobiles Ltd. have purchased second hand machinery from their foreign collaborator namely M/s. Vauxhall of U.K. and FIAT of Italy respectively. Similarly M/s. Bajaj Tempo have purchased machinery from their collaborator M/s. Daimler Benz for the manufacture of their engine OM 616. In view of this position, there was no failure on the part of officials responsible for making assessment of investment level."

6. The Committee are not quite satisfied with the reply furnished by Government. The Ministry have tried to justify the purchase of old plant and machinery inter-alia on the ground that some of the established manufacturers in the private sector had also been purchasing second hand machinery from abroad. The Committee would like to point out that there is nothing wrong in the purchase of old plant and machinery provided the decision is based on correct cost benefit analysis. Unfortunately it was not so in this case. As has been brought out in the original Report, the actual capacity of the plant turned out to be much lower than one lakh scooters and 30,000 three-wheelers per annum on the basis of which profitability analysis had been made. Further, while working out profitability (Internal rate of return), if replacement expenditure is likely to be incurred during the life of the project, in estimating the capital expenditure on the project, it has to be taken into account in the year in which it is likely to occur. The Committee, therefore, reiterate that there has been under estimation of capital cost and over estimation of the capacity and profitability of the project and the reasons for this failure need to be gone into thoroughly.

B. Revival of Company

**Recommendation Nos. 4, 7, 8, 19 and 21
(Para 1.46, 2.67, 2.68, 3.55 and 4.10)**

7. The Committee had pointed out various deficiencies in the performance of the company. These included abnormally low production, management deficiencies, lack of experienced officers, heavy losses to the extent of Rs. 32.36 crores upto 1981-82, resources constraints etc. The Committee recommended for a realistic review of the production capacity and financial requirements including capital restructuring of the company and for detailed examination of the Recovery Plan with a view to make the unit viable. The Committee hoped that the Ministry would soon be able to take a final

decision on the Company's proposal for restructuring of capital and the recovery plan after examining pros and cons of the Recovery Plan in detail and take decision on additional investment after fully assuring itself that the Company could be made viable.

8. In their reply the Government have stated that the Government had appointed a High Powered Committee under the Chairmanship of erstwhile Secretary (Technical Development) Shri M. Satyapal, to go into the working of a number of sick public sector undertakings including Scooters India Ltd. This Committee carried out a detailed study of Scooters India Ltd. and has submitted its report. That Committee had in its recommendations covered the aspects of management control in a number of critical areas like quality control, satisfactory vendor development and inventory management. It had made several recommendations regarding structural changes and financial assistance/reliefs for the company. This report is under consideration of the Government and a decision thereon is expected soon. It has also been stated that the matter regarding merger of Scooters India Ltd. with HMT Ltd. is under consideration of Government with a view to providing sound management support to the Company.

9. The Committee desire that the decision in regard to the future of the Company should be taken soon and if it is found that it can still be made an economically viable unit, immediate steps may be taken for its rehabilitation. They would also like the Government to ensure before final decision in the matter is taken that the merger of the company with HMT Ltd. would really help in the revival of the company without detriment to the interests of HMT. The Committee would like to know the outcome in this regard.

C. Appointment of Consultants **Recommendation No. 6 (Para 2.66)**

10. M/s. Ingersoll Manufacturing Consultants of U.K. were appointed as Consultants by the Company in July, 1978 to make an in-depth study of the difficulties faced in quantitative and qualitative aspects of production to achieve the break-even level. An amount of Rs. 66.88 lakhs was spent on this account. The Committee were not happy with the way M/s. Ingersoll were appointed as Consultants and observed that the method followed while appointing them and the basis on which their fees were fixed needed explanation.

11. In their reply the Ministry have stated that M/s. Ingersoll Engineers is a World-wide organisation specialising in the production engineering. The clientele of this firm consisted of a number of reputed and leading manufacturers like Fiat, Allis-Chalmers, Hitachi of Japan, General Electric Corpora-

tion etc. When SIL was struggling and a company of this type on the scene offered their services a dialogue was started. M/s Ingersoll Engineers estimated the man-weeks required for the various tasks proposed to be carried out, and quoted their rates. The proposal was discussed in meetings of the Board of Directors of the company from all angles and later on considered in the Ministry. The consultancy fee etc. were decided keeping in view the merits of the proposal.

12. The Committee are not convinced with explanation furnished by the Ministry. They desire that at least in future while appointing any consultants, offers from more than one party should be considered before taking a decision in regard to appointment of such consultants.

D. Appointment of Chairman
Recommendation No. 23 (Para 5.3)

13. The Committee had observed that in spite of their recommending repeatedly that no officer of the Ministry be made Chairman of a public undertaking, a Joint Secretary of the Ministry had been appointed Chairman of the Company. The Secretary of the Department of Heavy Industry informed in evidence that recently steps had been taken to appoint another person as Chairman of the Company and the matter had gone to the Appointment Committee of the Cabinet. The Committee hoped that appointment of the Chairman would be finalised soon

14. In their reply the Government have merely stated that the observations of the Committee have been noted. Nothing has been said in the reply as to why, instead of an officer of the Ministry, a new Chairman could not be appointed so far though according to the Secretary of the Ministry, the matter had gone to Appointment Committee of the Cabinet as far back as in February, 1983. The Committee regret to note the delay in taking a decision in the matter.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation Serial No. 1 (Para 1.43)

Scooters India Ltd. was incorporated in September 1972 with the main object of filling the gap between the demand and supply of scooters in the country. The Company set up its project at Lucknow for the manufacture of one lakh two-wheelers per annum with the old plant and machinery purchased from M/s. Innocenti of Italy though earlier tenders were invited by Government in 1970 from foreign parties for collaboration in a new plant and offer of M/s. Piaggio of Italy (manufacturers of Vespa Scooters) was considered serious and worthwhile. In 1973 the Company also acquired the old plant and machinery of M/s. Innocenti for production of 30,000 three-wheelers per annum. The Committee's examination has revealed several disquieting features in regard to the manner in which the proposal to purchase the old plant and machinery was processed and investment decision taken.

• Reply of the Government

No Comments.

[Ministry of Industry, Department of Heavy Industry D.O. No. 16 (12)/83-AEI (II) dated 30-1-1984]

Recommendation Serial No. 2 (Para 1.44)

One of the factors on which the purchase of old plant and machinery for two-wheelers was sought to be justified was lower initial fixed investment of Rs. 10.90 crores as against Rs. 15.91 crores in the case of new plant and machinery. Capital investment on the project with old plant was grossly underestimated. The actual expenditure upto the end of 1981-82 (Rs. 21.87 crores) was almost double of that assessed at the time of taking investment decision (Rs. 11.90 crores, inclusive of three wheeler plant). Increase in investment has been mainly on supporting of facilities (Rs. 1.96 crores) and renewal and replacement of machines (Rs. 5.82 crores). The expert Committee which had evaluated the life and condition of the old plant had considered provision of supporting facilities to the extent of Rs. 1.26 crores as essential for the commencement of production. No provision for it was.

however, made in the capital estimates. Similarly it was within the knowledge of Government at the time of taking investment decision that some of the machines of the second hand plant would require replacement. The replacement cost as assessed by the Company was expected to be between Rs. 1 crore to Rs. 1.25 crores every year from the 2nd or 3rd year of operation. However, no provision towards expenditure on renewals and replacements was made in the capital estimates of the project on the assumption that this amount could be met from internal resources. The expenditure on balancing machines had also gone up to Rs. 4.02 crores as against provision of Rs. 3.50 crores in the investment plan.

Reply of the Government

No action is necessary on this para.

[Ministry of Industry, Department of Heavy Industry D.O. No. 16(12)/83-AEI (II) dated 30-1-1984]

Recommendation Serial No. 9 (Para 2.69)

The Committee are happy to be assured that with the introduction of 'Lambretta Cento' Scooter, which is stated to be most economical scooter in the Indian Market having large demand, the SIL should be able to compete in the market. The Committee, however, stress the need for an aggressive marketing strategy and for this purpose the marketing department should be qualitatively strengthened.

Reply of the Government

The Marketing Department of the SIL has been qualitatively strengthened. It is now headed by a General Manager. Arrangements have been made for training and development of officials in the field of marketing and marketing management. Supervisors and engineers who have intimate knowledge of the product are drafted to look after servicing operations.

A more effective marketing strategy has been adopted by the Company for increasing the sale of its products as follows :

(a) An intensive service campaign is being carried out all over the country.

(b) An advertisement plan has been drawn up which besides publicity through other media of advertisement include making a film on Lambretta Cento and Vikaram three-wheeler for screening on TV and in Cinema houses. These measures are expected to contribute towards sales promotion.

(c) Action has been taken for registering all the products of the Company with JGS&D. This will enable the Company to increase its share of sales to Government Departments and public sector units.

[Ministry of Industry, Department of Heavy Industry D.O. No. 16(12)/83
AEI (II) dated 30-1-1984]

Recommendation Serial No. 10 (Para 2.109)

The Committee find that the Company without stabilising the production of its major product entered into agreement with State Government undertakings, in 1973-74 for supply of power packs. Without awaiting the approval of the project by Government the Company placed orders for purchase of plant and machinery of the value of Rs. 3.68 crores required therefor. The Committee are surprised to find that Govt. released a sum of Rs. 21 lakhs for this project even before approving it. The supply of power packs by the Company to the State Government Undertakings was much below the quantities required by the licencees and these in some cases were also not found upto the mark and resulted in heavy rejections. To the Committee it appears that the project for supply of power packs was undertaken without any foresight which resulted in the blocking of funds which were badly needed by the Company.

Reply of the Government

No follow up action appears to be called for against this item. However, the observations of the Committee regarding blocking of funds in power pack project which were badly needed by the company require an explanation. The money spent by the company for plant and machinery for this project was even otherwise needed by the company for the manufacture of scooters etc.

The power pack project of SIL was under active consideration of Government in the year 1976-77. Comments received from the various scrutinising agencies were under examination for taking an investment decision. Certain funds were released by Government for essential investment in capital equipment which were even otherwise required as some of the Innocenti plant/machinery were old and needed gradual replacement/balancing and certain new facilities had to be developed like tool room, tool regrinding, inspection etc. These funds were not released (except for a small amount of Rs. 21.36 lakhs) against the pending power pack project. It is incidental that some of the items on which investments were made were also used for manufacture of power packs. Later in 1977, it was decided to defer implementation of the project pending pick-up in the demand for scooters.

Licensees were required to be supplied power packs produced by SIL as per the quality standard laid down by SIL. Complaints received were more of subjective nature rather than technical. Still the company extended the services of its engineers with the required spares to attend to the complaints raised by them. This facility was provided only to maintain good business relationship.

The company have been supplying power packs to Andhra Pradesh Scooters Ltd., over a period of time who have been marketing their scooters under the brand name 'Allwyn Pushpak'. No complaints have been received about power packs from the party.

[Ministry of Industry, Department of Heavy Industry D. O. No. 16(12)/83-AEI (II) dated 30.1.1984]

Recommendation Serial No. 11 (Para 2.110)

The Committee further find that the Company took up the manufacture of 125cc-2 wheelers and also of Mopeds and fans by taking over the Electrical Unit of Ganesh Flour Mills. In these ventures the Company has invested Rs. 68 lakhs and has also suffered a loss of Rs. 6.17 lakhs in 1982 so far as fans are concerned. The Managing Director of the Company admitted in evidence that the Company was not justified in going in for new projects when it has not been able to establish production of its major product.

Reply of the Government

No action appears to be necessary on this para.

[Ministry of Industry, Department of Heavy Industry D.O. No. 16(12)/83-AEI(II) dated 30-1-1984]

Recommendation Serial No. 12 (Para 2.111)

The Committee regret that the Company, has been frittering away financial resources in a variety of side ventures without having a proper assessment about their financial viability and that the Ministry has obligingly advanced funds to the Company apparently without being fully satisfied of the justification. The Committee at this stage can only express a hope that Government will ensure that the Company whose physical and financial performance is very poor is not allowed to fritter away its energy and financial resources atleast in future. The Company ought to concentrate on its major item of production and leave no stone unturned to establish its acceptability with the public.

Reply of the Government

The observations of the Committee have been noted.

[Ministry of Industry, Department of Heavy Industry D.O. No. 16(12)/83-AEI (II) dated 30-1-1984]

Recommendation Serial No. 13 (Para 2.112)

The Company entered into work and labour contract with State Licences for assembling the scooters. The Committee have not been able to understand the rationale behind such contracts, when the Company has itself not been able to utilise its own installed capacity. As admitted by the Managing Director in evidence, this arrangement was not economically in the interest of the Company. The Committee would like that these arrangements be reviewed.

Reply of the Government

The licensing arrangements for assembly of scooters have already expired in most of the State units. The continuation of this arrangement of remaining States like Jammu & Kashmir is under review.

[Ministry of Industry, Department of Heavy Industry D.O. No. 16(12)/83—A.E.I. (II) dated 30.1.1984]

Recommendation Serial No. 14 (Para 3.32)

The Committee find that the actual cost of production of the main products of the Company was more than the standard and budgeted cost. In 1981-82 the actual cost of production for two-wheelers was Rs. 7,806 as against the budgeted cost of Rs. 5,385/- and standard cost of Rs. 5493. Similarly in case of three-wheelers the actual cost of production was Rs. 28,601 as against the budgeted cost of Rs. 17,605 and standard cost of Rs. 18,568. The cost of production has also been far in excess of the selling price resulting in huge losses. During the years 1975-82, the loss per vehicle ranged from Rs. 997 to Rs. 2281 in case of two-wheelers and from Rs. 6893 to Rs. 26926 in case of three-wheelers. The Committee regret to note that besides low production there was laxity in cost control. The consumption of materials was higher than the standards fixed. Material variance analysis had, however, not been carried out inspite of the deficiency having been repeatedly pointed out by the cost auditors. The actual rejections were generally more than those considered normal by the Company. The loss on

this account worked out to Rs. 44.46 lakhs in Iron Foundry during 1978-82 and Rs. 5.10 lakhs in die-casting upto 1976-82. The Committee desire that steps should be taken to reduce the rate of rejection by ensuring proper quality of inputs and facilities for production. Usage variance analysis in respect of materials should also be regularly carried out to identify the factors which result in higher consumption with a view to taking timely remedial measures.

Reply of the Government

Scooters India Ltd. has taken action to bring down the level of rejection and thereby reduce cost of production. An effort has been made to procure raw materials only from established suppliers for ensuring proper quality of inputs. The supervision and process control in the plant have been tightened. In the foundry rejection of cylinders for Vijai Super had reduced to 14% during January-March '83 from a level of 30% which resulted in a monthly saving of Rs. 1.4 lakhs. Task Forces were set up in April, 1983 to study production methods of the high value items in the machine shop and to identify and implement measures to reduce the level of rejection. Till date bulk of the remedial measures recommended have been implemented and rate of rejection of these items has been brought within norms. Implementation of remedial measures in respect of certain other components has been initiated and rate of rejection of these items dropped substantially as is shown by the following data :

Item	Rejection (%) due to Machining defect				
	May 83	June 83	July 83	Aug. 83	Target
Crank Shaft Assembly	9	5	4	2	1
Crank Shaft (Magneto half)	13	6	7	2	3
Kick Starter Shaft	18	8	6	5	3
Cluster Gear	13	6	7	5	4
First Gear	14	11	8	5	3

A micro-computer has been installed and systems are being developed to carry out usage variance analysis.

[Ministry of Industry, Department of Heavy Industry D.O. No. 16(12)/83—
AEI (II) dated 30.1.1984]

Recommendation Serial No. 15 (Para 3.33)

There was abnormally low utilisation of man and machine hours. Percentage of idle hours to total labour hours was 11.2, 13.2 and 15.2 in 1978-79, 1979-80 and 1980-81 respectively. Similarly, percentage of machine hours utilised to available hours during the 1980-81 and 1981-82 was 56.7 and 57.8 respectively. The Company had fixed standard hours required for the production of different components which were 35 per cent higher than the Innocenti Operation Sheet Cycle Time. No comparative analysis of the standard hours vis-a-vis the actual hours utilised had, however, been made so as to ascertain the efficiency of labour. However, a test check by audit showed that the actual hours utilised were much in excess of the standard hours resulting in additional expenditure to the extent of Rs. 2.14 crores in 5 shops only in 1977-78 and 1978-79. The value added per employee compared very unfavourably with other scooter manufacturing companies in India. The value added per employee in SIL was Rs. 14,000 in 1979-80 as against Rs. 28,000 in API in 1980 and Rs. 28,000 in Bajaj Auto Ltd. in 1978-79. There was high percentage of idle labour hours due to machine break-downs. Evidently the maintenance of plant and machinery has not been given the attention it deserved. The Committee would stress the need for regular preventive maintenance to minimise the machine break-downs. The low labour utilisation and productivity is obviously mainly on account of surplus labour which the Committee have dealt with elsewhere in this Report.

Reply of the Government

SIL has taken steps to ensure that regular preventive maintenance is carried out by maintenance staff. Further daily cleaning and oiling at exposed lubrication points is now being carried out by the Machine operators themselves and this is being checked by maintenance staff on a regular basis.

[Ministry of Industry, Department of Heavy Industry D.O. No. 16(12)/83—
AEI (II) dated 30.1.1984]

Recommendation Serial No. 16 (Para 3.34)

Non-availability of materials is stated to be another factor responsible for idle man and machine hours. The Committee, however, find that as on 31-3-1982 the inventory of raw material was actually excessive in as much as it was to the extent of 4.15 month's requirement as against the norm of 2.5 months. The Committee cannot help observing that there has been no proper control over the purchase of raw materials to match the actual requirements in a comprehensive manner. It is essential to ensure that these

are procured in time as per the requirements to avoid men and machines remaining idle and at the same time to ensure that there is no excessive inventory.

Reply of the Government

The observations of the Committee have been noted.

[Ministry of Industry, Department of Heavy Industry D.O. No.
16(12)/83-AEI (II) dated 30-1-1984]

Recommendation Serial No. 17 (Para 3.35)

The Committee also take a serious view of the delay in rectifying the various deficiencies in the costing system pointed out by the cost auditors from time to time. They desire that immediate steps should be taken to implement the various suggestions made by the cost auditors to have better cost control.

Reply of the Government

The deficiencies pointed out by the Cost Auditor mainly consisted of the following :

- (i) Maintenance of PSL on the basis of weighted average rates fixed at the beginning of the year instead of on the basis of actual rates.
- (ii) Material-labour variance analysis not compiled.
- (iii) Actual component costs cannot be determined.
- (iv) Non-maintenance of accounts of scrap generated.
- (v) Non-maintenance of job cards for capital jobs executed departmentally.
- (vi) Unnecessary retention of slow/non-moving stores.
- (vii) Non-reconciliation of accounts of materials issued to outside parties for processing.

The following steps have been taken :—

- (a) A computer has since been installed and the requirement of cost audit referred to at items (i) to (iii) will be taken care of.

- (b) Job cards are opened at the time of starting the job. Material is booked in the job card as and when it is drawn for the job. However, labour is booked in the job card on completion of the job.
- (c) The scrap generated is utilised in different Shops, e.g. aluminium scrap is used in Die Casting and sheet metal scrap is used in Foundry. Therefore, it is difficult to identify and maintain accounts of scrap generated areawise. The company is taking steps to lay down detailed Casting System for each area so that cost data are generated for evaluation.
- (d) Regular monitoring is done to prevent build up of slow/non-moving items. As regards the backlog, action has been taken to dispose of the items or to put them to alternative use.
- (e) A procedure for accounting and reconciliation of materials issued to third parties has since been introduced.

[Ministry of Industry, Department of Heavy Industry D.O. No.16(12)/83-AEI
(II) dated 30-1-1984]

Recommendation Serial No. 18 (Para 3.54)

The Committee note that the Company in its Project Report prepared in 1974 had assessed its manpower requirement as 2200. But in 1976-77 the Company had under its employment 3346 persons which had been constantly increasing and on 31st March, 1982 their number had increased to 3534. In spite of the excessive manpower the Company had engaged casual staff workers. Surprisingly, the Company had also been paying overtime allowance and during the last three years (1979-80 to 1981-82) overtime paid for was as much as Rs. 75.1 lakhs. The Committee regret that when the Company's production was much less than its assessed capacity it had been employing excessive manpower. During the period 1976-81 absenteeism in the Company, in certain months had ranged upto as high as 23 per cent. As pointed out earlier in this report the labour utilization and productivity are poor. Such a situation has arisen only on account of poor man management in the Company. The Committee regret that this vital aspect of management control has not attracted the attention of the Ministry. They hope immediate steps would be taken to make full use of the existing strength. They would also urge that effective steps should be taken to reduce absenteeism and payment of overtime allowance.

Reply of the Government

The manpower strength in SIL on 31-8-82 was 3534. This was reduced to 3488 on 30-4-83 and to 3428 on 31-7-83. Efforts are being made to make full use of the existing strength. An attendance incentive scheme has been introduced with a view to reduce absenteeism. Monthly overtime has been

reduced to 4862 hours during April-July 1983, from an average of 12854 hours in 1982-83. Steps are being taken for further rationalisation of staff strength.

[Ministry of Industry, Department of Heavy Industry D.O. No. 16(12)/83-AEI (II) dated 30-1-1984]

Recommendation Serial No. 20 (Para 3.58)

The Committee regret to note various systems' deficiencies in the Company as pointed out by Audit. Not only were there no accounting and internal audit manuals, there was also no budget manual conforming to the guidelines issued by BPE in March 1968. The internal audit system was also not effective and needs to be strengthened to carry out a critical review of the systems, procedures and operations as a whole. The Committee stress that immediate steps should be taken to remove these deficiencies to have a better control over the working of the Company.

Reply of the Government

Routine audit functions previously attended to by Internal Audit have been off loaded to a firm of Chartered Accountants by SIL. The internal Audit staff has been entrusted with the review of systems and procedures. A micro computer has since been installed and with computerisation of certain systems relating to machine and labour utilisation, inventory control and costing, it is expected that deficiencies will be eliminated.

Compilation of manuals has also been taken in hand by the Company.

[Ministry of Industry, Department of Heavy Industry D.O. No. 16(12)/83—AEI (II) dated 30.1.1984]

Recommendation Serial No. 22 (Para 4.14)

A sick enterprise like SIL deserved more attention by the Ministry. The Committee, however, find that the number of performance review meetings held by the Ministry was only 2 in 1979-80 and 3 each in 1980-81 and 1981-82 as against 4 to be held as per the guidelines of BPE. The representatives of BPE and Planning Commission were also not generally invited to the performance review meetings. The Committee hope that at least in future the administrative Ministry would hold the performance appraisal meetings as per BPE guidelines, make a meaningful appraisal of the working of the Company and provide timely guidance.

Reply of the Government

As per BPE Guidelines Performance Appraisal Meeting to evaluate the working of Scooters India Ltd. is now being held regularly in the Ministry. Two such meetings have already been held on 30.7.1983 and 10.10.1983.

[Ministry of Industry, Department of Heavy Industry D.O. NO. 16(12)/83—AEI (II) dated 30.1.1984]

Recommendation Serial No. 23 (Para 5.3)

The Committee are constrained to observe that in spite of their recommending repeatedly that no officer of the Ministry be made Chairman of a Public Undertaking, a Joint Secretary of the Ministry has been appointed Chairman of the Company. The Committee are opposed to the idea of having an officer of the Ministry as the Chairman of an Undertaking under its control because they feel that such an arrangement is not conducive to assess the working and efficiency of the Company in the Ministry in an objective and an impartial manner. The Secretary of the Department of Heavy Industry informed in evidence that recently steps had been taken to appoint another person as Chairman of the Company and the matter had gone to the Appointment Committee of the Cabinet. The Committee hope that appointment of the Chairman will be finalised soon.

Reply of the Government

The observations of the Committee have been noted.

[Ministry of Industry, Department of Heavy Industry D.O. No. 16(12)/83—
AEI (II) dated 30.1.1984]

Recommendation Serial No. 24 (Para 5.7)

The guidelines issued by BPE in May 1969 provided that Board of Directors should lay down detailed powers and functions of the Financial Adviser particularly in regard to matters which should be reserved for concurrence/consultation with the Financial Adviser and those on which F.A. need not be consulted. This has however, not been done so far. The head of the Finance Division was also not invited to the Board meetings prior to May 1979 as required under the guidelines. The post of General Manager Finance was also lying vacant and the G.M. (production) is looking after the finance as well. The Committee take a serious view of the laxity in Financial Control particularly in a sick undertaking like SIL. They desire that immediate action should be taken to appoint a suitable person to head the Finance Division and to implement the guidelines issued by BPE.

Reply of the Government

A retired officer of the Indian Defence Accounts Service has been appointed in the Company as a Financial Controller. The Chief Financial Controller performs the functions and responsibilities of the Head of Finance

Division. The company is taking action to implement, the guidelines issued by the Bureau of Public Enterprises in regard to laying down of detailed powers and functions of Financial Adviser. Further steps for appointment of a regular G.M. (Finance) in the company have been initiated.

[Ministry of Industry, Department of Heavy Industry D.O. No. 16(12)/83—
AEI (II) dated 30-1-1984]

Comments of the Committee

(Please see para 14 of Chapter I of the Report.)

CHAPTER III

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

Recommendation Serial No. 5 (Para 2.65)

Production performance of the company presents a dismal picture. During the last three years, production of two wheelers (vehicles and power packs) was on an average 45 per cent of the originally assessed capacity (1 lakh). The production for two wheelers (including power packs) in 1981-82 (42047) was even lower than that achieved in 1980-81 (48042) and 1979-80 (45383). As regards 3-wheelers it was only 1.73 per cent of the capacity (30,000) during the same period. The Committee feel that such a disappointing performance was bound to be there as the project had been undertaken without the basic essentials. The Detailed Project Report was not available to the Company in its entirety. No technical consultants were appointed in the beginning and the Company went without sufficient expertise in a highly competitive sector in establishing production capacity and stabilising production. Consultancy Services were, however, obtained since 1977 when it was already too late. Its product 'Vijay' Scooter had lost the market by then damaging its image which resulted in low morale and productivity. The Secretary of the Ministry admitted in evidence that not to have consultants at the right stage was one of the failures. In this connection, the Committee note that M/s. Innocenti were expected to be partners in a joint venture with Government and to give technical advice. It is unfortunate that Government did not promptly advise the Company to look for another consultant when it became clear soon that M/s. Innocenti were not likely to be partners of the venture and technical consultants to the SIL. According to the Committee this was a serious lapse on the part of the Ministry which requires an explanation.

Reply of the Government

In October, 1969, Government had decided that the basic approach in respect of the scooter industry should be to avoid foreign collaboration. It was also agreed that if any private sector manufacturer is prepared to take up production of scooters completely with indigenous know-how and material he should be allowed to do so. In March, 1976 it was decided that permission for import of designs, drawings and documentation in respect of Appendix-I Industries could be given in areas where foreign collaboration was not nor-

inally permitted subject to a minimum export condition of five times the value of initial import of know-how. Again in August, 1977 various measures for upgradation of technology in the automotive sector were discussed. Government accorded approval to manufacturers of passenger cars, jeeps and two-wheelers for foreign technical collaboration for the upgradation of the engines manufactured by them for use on these vehicle. In January, 1981 Government accorded permission for import of technology for the manufacture of moped mini-motorcycles fitted with an engine upto 100cc capacity.

2. In the light of the above policy, the question of providing a foreign collaboration for SIL could hardly arise in 1972. The company had not accepted M/s. API Ltd. as its technical collaborator and also not asked for a foreign collaboration. Inspite of this, Govt. had provided services of several consultants and consultancy firms at various stages as mentioned in para 2.15 of the Report. The Company derived several advantages from these assignments.

3. In retrospect it can be concluded that a technical collaboration for Scooters India was a necessity particularly in the initial stages but the Government policy in 1972 could not envisage a foreign technical collaboration and there were not many parties in the world at that time manufacturing scooters who could give technical expertise to SIL. M/s. Innocenti of Italy had gone into voluntary liquidation and the other scooters manufacturing foreign party was Piaggio of Italy who already had a collaboration in India. As such, there was no possibility of obtaining technical guidance from either of these two parties.

[Ministry of Industry, Department of Heavy Industry D.O. No. 16(12)83
AEI(II) dated 30-1-1984]

CHAPTER IV

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

Recommendation Serial No. 3 (Para 1.45)

At the time of taking investment decision in 1974 the Company had worked out rate of return as 44 per cent (Rs. 5 crores per annum) on capital investment of Rs. 12 crores, on the basis of the production capacity as originally assessed. While there was gross under estimation of capital cost, the production capacity was found to be much less than what was assumed by the Company. As pointed out subsequently in this Report, the Company has actually suffered a loss of Rs. 32.36 crores during 1974-82. The Committee feel that it is most unfortunate that Government decided to instal an old plant purchased from Italy to produce Scooters to fill up gap between demand and supply in the country without making any detailed comparative study and analysis of purchase of the old plant vis-a-vis a new plant. It is amazing that the representatives of the Ministry and the Company had tried to justify the decision. The Committee desire that the failure of officials leading to the gross under-estimation of capital cost and over-estimation of capacity and profitability of the project should be gone into thoroughly.

Reply of the Government

In this connection it may be stated that against the sanctioned project estimates of Rs. 12.70 crores, the actual expenditure incurred upto 31st March 1982 was Rs. 13.48 crores. Thus, there was an increase in expenditure only 6% over the sanctioned estimates. The balance expenditure of Rs. 8.39 crores comprised of Rs. 5.82 crores on replacements and purchase of some of the consumeable items like dies, Rs. 1.96 crores on provision of supporting and enabling facilities and Rs. 61 lakhs on the captive foundry approved by Government in 1976. Here, it may be pointed out that it is due to the accounting procedure followed by this Company that the expenditure on replacements has been accounted for under capital expenditure of the project, whereas normally such expenditure is accounted for under depreciation.

The decision to purchase the old plant and machinery of M/s. Innocenti of Italy was taken after thorough consideration and examination of

all the aspects involved. The plant and machinery had been inspected by a Team of Consultants with which some foreign experts were also associated. Taking into account their recommendations and other factors, the decision to purchase the old plant was taken. Thus, there is nothing wrong with the decision. In fact some of the established automobile manufacturers in the private sector also have been purchasing second hand machinery from abroad. M/s. Hindustan Motors Ltd. and Premier Automobiles Ltd. have purchased second hand machinery from their foreign collaborator namely M/s. Vauxhall of UK and FIAT of Italy respectively. Similarly M/s. Bajaj Tempo have purchased machinery from their collaborator M/s. Daimler Benz for the manufacture of their engine OM 616. In view of this position, there was no failure on the part of officials responsible for making assessment of investment level.

[Ministry of Industry, Department of Heavy Industry D.O. No. 16(12)/83-AEI(II) dated 30-1-1984]

Comments of the Committee

(Please see para 6 of Chapter I of the Report)

Recommendation Serial No. 6 (Para 2.66)

Belatedly from January, 1977 to November, 1980 five consultants were appointed, one after the other, and total expenditure of Rs. 70.56 lakhs was incurred on the services rendered by them. M/s. Ingersoll Manufacturing Consultants of U.K. approached the Ministry in December, 1977 and offered to help the Company. The Ministry introduced them to the Company. They were appointed in July, 1978 to make an indepth study of the difficulties faced in quantitative and qualitative aspects of production to achieve break-even level. They submitted their Report between March, 1979 and June, 1980. An amount of Rs. 66.88 lakhs was spent on this account. According to the Audit the basis of selection of consultants and fixation of their fee could not be ascertained. Further by the time Report of M/s. Ingersoll had become available production of the new product "Vijay Super" Scooter had stabilised and 'it had won market acceptability and there were no complaints'. "The Committee regret that even after appointment of M/s. Ingersoll as consultants at heavy cost the basic objective of achieving break even level of production has not been achieved. The Committee are not happy with the way M/s. Ingersoll were appointed as Consultants. The method followed while appointing them and the basis on which their fees were fixed need explanation."

Reply of the Government

The method of appointment of M/s. Ingersoll Engineers as consultants of this company has already been mentioned by Secretary (HI) in his oral evidence. This is world-wide organisation specialising in the production engineering. The clientele of this firm consisted of a number of reputed and

leading manufacturers like Fiat, Allis-Chalmers, Hitachi of Japan, General Electric Corporation etc.

When SIL was struggling and a company of this type on the scene offered their services a dialogue was started. M/s. Ingersoll Engineers estimated the man-weeks required for the various tasks proposed to be carried out, and quoted their rates. The proposal was discussed in meetings of the Board of Directors of the company from all angles and latter on considered in the Ministry. The consultancy fee etc. were decided keeping in view the merits of proposal.

M/s. Ingersoll Consultants made a large number of recommendations for improving the product of SIL. A number of these recommendations were implemented which certainly benefitted the company.

[Ministry of Industry, Department of Heavy Industry D.O. No. 16 (12)/83—
AEI (II) dated 30.1.1984]

Comments of the Committee

(Please see para 12 of Chapter of the Report)

CHAPTER V

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

Recommendation Serial No. 4 (Para 1.46)

Even now the Company is not able to make a firm assessments of its installed capacity. Capacity reassessed in 1977 was revised in 1978 and 1981. The capacity of the plant as re-assessed is less than half of that originally estimated i.e. 60,000 (including power packs) for two-wheelers and 2000 for three-wheelers as against the originally assessed capacity of 1 lakh and 30,000 respectively, inspite of the fact that only 33 per cent components for vehicles are produced in the factory. However according to the Ministry the capacity could be more. The Committee expect the Ministry and the Company to make a realistic review of its production capacity and financial requirements to sustain production at a level that would make the unit viable.

Reply of the Government

Government had appointed a High Powered Committee under the Chairmanship of erstwhile Secretary (Technical Development) Shri M. Satyapal, to go into the working of a number of sick public sector undertakings including Scooters India Limited. This Committee carried out a detailed study of Scooters India Limited and has submitted its report. The Committee has made several recommendations regarding structural changes and financial assistance/reliefs for the company. This report is under consideration of the Government and a decision thereon is expected soon.

[Ministry of Industry, Department of Heavy Industry D.O. No. 16 (12)/83—
AEI (II) dated 30.1.1984]

Comments of the Committee

(Please see para 9 of Chapter I of the Report)

Recommendation Serial No. 7 (Para 2.67)

One of the reasons for short fall in production was non-availability of components. The Committee find that with a view to ensuring supply of components of approved quality at reasonable rates the company encouraged setting up of ancillary units and incurred an expenditure of Rs. 40.49 lakhs up to March, 1982 on providing infrastructural facilities to these units. The Company had also invested Rs. 78.8 lakhs in two joint ventures with U.P. State Industrial Development Corporation Ltd. for meeting the requirements of speedometers, magnets, tyres and tubes. In spite of these units the

Company faced the problem of non-availability, or inadequate supply, of components including magnets, tyres and tubes. The Committee feel that it was expected of the Company to work out the economics of establishing ancillaries and making investment in State Government undertakings with reference to its own ways and means position and availability of components from already established sources of supply. The Committee regret that the Company could not have a regular and assured arrangements for the supply of the components required by it to meet its production requirements inspite of having made an investment of Rs. 119.29 lakhs in ancilliary units, etc. The Ministry should look into this aspect to find solution to the problem.

Reply of the Government

The Satyapal Committee has conducted a detailed study of the working of Scooters India Ltd. and has in its recommendations covered the aspects of management control in a number of critical areas like quality control, cost control, satisfactory vendor development and inventory management. As stated earlier, this report is under consideration of Government and it is expected that a decision will be soon taken.

[Ministry of Industry, Department of Heavy Industry D.O. No. 16(12)/83-AEI
(II) dated 30-1-1984]

Comments of the Committee

(Please see para 9 of Chapter I of the Report)

Recommendation Serial No. 8 (Para 2.68)

To increase its production and arrest losses the Company has drawn up a Recovery Plan and submitted to Government in September 1982. The Plan envisages a capital investment of Rs. 23 crores on renewal/replacement and balancing facilities during the next five years. With the implementation of the plan the Company hopes to raise its production level to 90,000 scooters per annum by 1987-88, which would enable it to earn an operating profit of Rs. 18 lakhs in 1985-86. The Secretary of the Ministry stated in evidence that the Recovery Plan has to be considered keeping in view the stage of the Scooter Industry in the country and future size of the Company. The Scooter Industry is going to reach very highly competitive stage and competition will be in regard to price, quality of the product and fuel efficiency. He said for all these a dialogue has been started and Government wanted to enlarge the scope of Recovery Plan having regard to the future size of the Company and the improvement of the product etc. He also informed the Committee that Government was having a dialogue with M/s, Suzuki for technical assistance. The Committee hope that the Ministry will examine pros and cons of the Recovery Plan in detail and take decision on additional investment after fully assuring itself that the company could be made viable.

Reply of the Government

Government had appointed a High Powered Committee under the Chairmanship of erstwhile Secretary (Technical Development) Shri M. Satyapal, to go into the working of a number of sick public sector undertakings including Scooters India Limited. This Committee carried out a detailed study of Scooters India Limited and has submitted its report. The Committee has made several recommendations regarding structural changes and financial assistance/reliefs for the Company. This report is under consideration of the Government and a decision thereon is expected soon.

[Ministry of Industry, Department of Heavy Industry D.O. No. 16(12)/83-AEI (II) dated 30-1-1984]

Comments of the Committee

(Please see para 9 of Chapter I of the Report)

Recommendation Serial No. 19 (Para 3.55)

From the Report of the Technical Consultants (M/s. Ingersoll), the Committee find that almost every functional department of the Company needs to be strengthened. The Managing Director of the Company admitted in evidence that failure of the Company was mostly due to management failure and he also expressed his helplessness to get experienced persons as they were reluctant to join the Company which had a poor image. The Committee feel that in such circumstances the Ministry should have extended a helping hand by arranging services of experienced officers from other undertakings under its administrative control. At a Review Meeting held by the Minister of Industry in December 1981 it was decided that HMT and BHEL would consider requests from Scooters India Ltd. to depute some trained Managers to the Company in order to assist in toning up its operations. The Committee regret that inspite of such an assurance no serious effort had been made by the Ministry to provide experienced managerial assistance to Scooters India Ltd. The Committee desire that the Ministry should attend to this forthwith.

Reply of the Government

The matter regarding merger of Scooters India Limited with HMT Ltd. is under consideration of Government with a view to providing sound management support to the Company.

[Ministry of Industry, Department of Heavy Industry D.O. No. 16(12)/83-AEI(II) dated 30-1-1984]

Comments of the Committee

(Please see para 9 of Chapter I of the Report)

Recommendation Serial No. 21 (Para 4.10)

It is distressing to find that the Company has been incurring heavy losses as against the estimated annual profit of about Rs. 5 crores (before tax) from 1977-78 onwards. Its accumulated loss at the end of March 1982 had reached a staggering figure of Rs. 32.36 crores as against the paid up capital of Rs. 5.25 crores. The annual loss has gone up from Rs. 4.45 crores in 1979-80 to Rs. 7.68 crores in 1981-82. Poor production performance and laxity in cost control, as pointed out earlier in this Report, are mainly responsible for this state of affairs. The loans taken to meet the deficit on account of heavy losses have made the debt equity ratio of the Company unsound, as it was 5:1 as against the normal ratio of 1:1. The resultant heavy interest charges on the loans have pushed the company into the red more and more. It is facing serious financial constraint. It was expected of Government to take timely initiative for the revival of the Company. The capital restructuring proposal submitted by the Company to Government about 2½ years back is still under consideration by a Committee constituted by the Planning Commission. A recovery plan submitted by the Company in September 1982 also awaits the approval of Government. The Committee hope that the Ministry will soon be able to take a final decision on the Company's proposal for restructuring of capital and the recovery plan.

Reply of the Government

A Committee headed by erstwhile Secretary (Technical Development) Shri M. Satypal has made recommendations for structural changes in the organisation of Scooters India Limited to make the unit viable. The recommendations of the Committee are under consideration of the Government. A decision is expected soon. Performance Review meeting to evaluate the working of Scooters India Ltd. are being held regularly in accordance with the BPE guidelines in the Ministry. Two such meetings have already been held on 30th July, 1983 and 10th October, 1983.

[Ministry of Industry, Department of Heavy Industry D.O. No. 16(12)/83—
AEI (II) dated 30.1.1984]

Comments of the Committee

(Please see para 9 of Chapter I of the Report)

NEW DELHI:

18 April, 1984

29 Chaitra, 1906 (Saka)

MADHUSUDAN VAIRALE

Chairman,

Committee on Public Undertakings.

APPENDIX I

*Minutes of the 50th sitting of the Committee on Public Undertakings held
on 30.3.1984*

The Committee sat from 10.30 hrs. to 11.00 hrs.

PRESENT

Shri Madhusudan Vairale—*Chairman*

MEMBERS

2. Shrimati Gurbrinder Kaur Brar
3. Shri Lakshman Mallick
4. Shri Pratap Bhanu Sharma
5. Shri Hari Shankar Bhabhra
6. Shri Mahendra Mohan Mishra
7. Shri Manubhai Patel

SECRETARIAT

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

REPRESENTATIVES OF C.&A.G.

1. Shri R.C. Suri—*Chairman, Audit Board*
2. Shri B.D. Duggal—*Joint Director, commercial*

The Committee considered and adopted the Action Taken Report on 68th Report of CPU(1982-83) on Scooters India Ltd. as approved by the Action Taken Sub-Committee.

The Committee authorised the Chairman to finalise the Report on the basis of factual verification by the Ministry of Industry (Department of Heavy Industry)/Scooters India Ltd. and Audit and to present the same to Parliament.

The Committee then adjourned.

APPENDIX II

(Vide para 3 of the Introduction)

Analysis of the action taken by Government on recommendations contained in the 68th Report of the Committee on Public Undertakings (Seventh Lok Sabha) on Scooters India Ltd.

I	Total number of recommendations.	24
II	Recommendations that have been accepted by the Government (Vide recommendations at S. Nos. 1,2, 9-18, 20,22,23 and 24)	16
	Percentage to total	66.67
III	Recommendations which the Committee do not desire to pursue in view of Government's reply (<i>vide</i> recommendation at S.No. 5)	1
	Percentage to total	4.17
IV	Recommendations in respect of which replies of Government have not been accepted by the Committee (<i>Vide</i> recommendations at S. Nos. 3 and 6)	2
	Percentage to total	8.33
V	Recommendation in respect of which final replies of Government are still awaited. (<i>Vide</i> recommendations at S. Nos. 4,7,8, 19 and 21)	5
	Percentage to total	20.85

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