

**COMMITTEE ON PUBLIC
UNDERTAKINGS
(1980-81)**

(SEVENTH LOK SABHA)

NINETEENTH REPORT

ON

**ELECTRONICS CORPORATION OF INDIA LTD.
(DEPARTMENT OF ATOMIC ENERGY)**



*Presented to Lok Sabha on
and*

Laid in Rajya Sabha on

**LOK SABHA SECRETARIAT
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(1980-81)

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2. Shri T. R. Krishnamachari—*Chief Financial Committee Officer*
3. Shri S. C. Gupta—*Senior Financial Committee Officer.*

*Elected w.e.f. 28-11-1980 in the vacancy caused by appointment of Shri P. A. Sangma as Deputy Minister.

**STUDY GROUP II ON PUBLIC UNDERTAKINGS UNDER
MINISTRIES OF FINANCE, INDUSTRY, SUPPLY AND
REHABILITATION AND TOURISM AND CIVIL
AVIATION AND DEPARTMENTS OF ATOMIC
ENERGY, ELECTRONICS AND SCIENCE AND
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5. Shri Rameshwar Neekhra
6. Shri Nagina Rai
7. Shri K. Ramamurthy

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report, on their behalf, present this Nineteenth Report on Electronics Corporation of India Ltd.

2. The Committee took evidence of the representatives of the Electronics Corporation of India Ltd. on 27 and 28 November and 1 December, 1980 and of the Departments of Atomic Energy and Electronics on 23 and 24 December, 1980.

3. The Committee considered and adopted the Report at their sitting held on 14 April, 1981.

4. The Committee wish to express their thanks to the Departments of Atomic Energy and Electronics and the Electronics Corporation of India Ltd. for placing before them the material and information they wanted in connection with the examination of Electronics Corporation of India Ltd. They wish to thank in particular the representatives of the Departments of Atomic Energy and Electronics and the Electronics Corporation of India Ltd. who gave evidence and placed their considered views before the Committee.

NEW DELHI; .

April 20, 1981

Chaitra 30, 1903 (S)

BANSI LAL,
Chairman,
Committee on Public Undertakings.

CHAPTER I

WORKING RESULTS

Electronics Corporation of India Ltd. was established on April 11, 1967 under the Companies Act as a commercial venture under the Department of Atomic Energy with six manufacturing divisions. Approximately 300 personnel from Bhabha Atomic Research Centre (previously Atomic Energy Establishment, Trombay) formed the nucleus of staff at ECIL and brought over the expertise accumulated at Trombay. The Corporation was set up to realise the following objectives:—

- (i) to make commercially viable, the electronics know-how developed at the Bhabha Atomic Research Centre; and
- (ii) to manufacture electronics systems, instruments and components using indigenous technology and thus promote self-reliance in the field of electronics.

A. Profit/Loss

1.2. Government's investment in the ECIL was Rs. 785 lakhs as capital and Rs. 804 lakhs towards loan as on 31 March, 1980. Except in 1972-73 and 1973-74 no dividend was received by the Government during the last 9 years. The Net profit/loss (after tax) of the Electronics Corporation of India from 1971-72 onwards is given below:

Year	(Rs. in lakhs)
1971-72	+68.17
1972-73	+95.68
1973-74	+94.47
1974-75	+88.26
1975-76	+61.86
1976-77	+32.64
1977-78	-105.42
1978-79	-145.64
1979-80	+11.51

1.3. The loss in 1977-78 as stated by the Secretary, Department of Atomic Energy was due to the provision for revision of pay scale of employees for the period 1-1-1977 to 31-3-1978 amounting to Rs. 81.18 lakhs and write-off of obsolete inventories and equipments (Rs. 25.58 lakhs in respect of finished goods and work-in-progress and Rs. 12.20 lakhs in respect of stores and spares). The loss during 1978-79 was stated to be mainly due to lack of orders. During that year also finished goods and work-in-progress worth Rs. 22.23 lakhs and stores and spares worth Rs. 62.73 lakhs were written off. The witness opined that the Corporation should have staggered the write-off of these obsolete items over a period of few years instead of accumulating them.

Unprofitable Divisions:

1.4. The ECIL has at present about 13 production divisions and turns out about 250 products. The Managing Director of the Corporation informed the Committee in evidence that three divisions viz. Computer, Micro-wave and Semi-conductor were making losses over the last few years.

Computer Group:

1.5. The Computer Group of ECIL incurred losses of Rs. 69.24 lakhs, Rs 165.03 lakhs and Rs. 123.59 lakhs during 1977-78, 1978-79 and 1979-80 respectively. Asked about steps taken to improve the performance of this Group, the Corporation informed the Committee in a note that a Management Board had been constituted (1979) by the Board of Directors, to give a direction to the operations of the Computer Group and to dovetail its long range and short-term programme within the framework of the existing policy. The Management Board was stated to have identified the following reasons for the poor performance of the Group:—

- (i) With liberalised import policy, nearly Rs. 60 crores worth of Computers were imported in 1977 and 1978.
- (ii) ECIL continued to depend on indigenous development of Computer technology while technology developed by leaps and bounds abroad.
- (iii) New entrants in Computers commenced manufacture at the lower and using imported LSI technology.

(iv) ECIL had undertaken several highly complex projects, and

(v) development of their software was time consuming.

1.6. Regarding the import of computers, the Managing Director of the Corporation claimed before the Committee that they could have sold Rs. 10 crores worth of computers years before had the imports been not allowed. While admitting that the imported computers were much better and more economical, the witness pleaded before the Committee:—

“It is a national decision whether or not to restrict the consumer to what is available in the country.... This is where some national policy on computers is required.”

1.7. According to ECIL the following measures have been suggested to improve the performance:—

(a) TDC-312 EDP Systems which are already field proven should continue to be marketed to enlarge the customer base in the market. The capability of the 316 and 332 systems should be enhanced with the features available on the latest systems of similar types, if necessary, by procuring one imported system of latest technology to cut down the development time.

(b) The maintenance operations of computers should be treated on a separate footing from manufacturing in order to achieve commercial viability of these operations.

(c) In order to complete the pending supplies of the custom-built systems, increased efforts to make them reliable from the customer view point have to be put in.

1.8. While admitting that there has not been that much marketing efforts which should have been there in respect of Computer Group, the Secretary, Department of Atomic Energy expressed the hope that the Group would reduce its losses during 1980-81 and would break even the next year.

1.9. Asked to state whether any decision had been taken on the recommendation of the Sondhi Committee that the Computer Division of ECIL should be merged with Computer Maintenance

Corporation, the Secretary, Department of Electronics stated during evidence:—

“It is to be deliberated by a high power Committee under the Chairmanship of the Cabinet Secretary. This item has not been considered so far.”

Semi-Conductors Division:

1.10. The Semi-conductors Division of ECIL had been incurring losses since 1973-74 except a nominal profit of Rs. 35,000 during 1975-76. The losses during the years 1977-78 to 1979-80 were Rs. 58.22 lakhs, Rs. 59.21 lakhs and Rs. 5.29 lakhs. The Committee were informed by the Corporation that the working of this Division was examined recently by a Sub-Committee of the Board with reference to the three basic criteria of:—

- (i) essentiality
- (ii) profitability, and
- (iii) potential for further growth

1.11. The Sub-Committee came to the conclusion that the Division was not essential from the point of view of strategic importance, that even after taking into consideration the data presented before it, the Division's profitability was at best nebulous and that this was not an area where the Company would expect to grow rapidly, particularly when there were competitors with foreign collaborations and modern equipment. The Sub-Committee also requested the Managing Director, ECIL to give a report on what would be the consequences of:—

- (i) closing down the Division immediately, and
- (ii) closing it down after two or three years.

1.12. However, the Managing Director stated in evidence that it was decided to rationalise the product-mix of the Division which resulted in reduction of loss to Rs. 5.29 lakhs during 1979-80 from Rs. 59.21 lakhs during 1978-79. The witness further added that since some of the equipment was ten to twelve years old and needed replacement, a firm decision whether to continue or close down the division had to be taken immediately. In the circumstances the Corporation felt that as long as it did not put a burden on the company, the Division be kept operating.

Micro-wave Division:

1.13. The Microwave Division incurred losses to the extent of Rs. 24.70 lakhs, Rs. 13.42 lakhs and Rs. 3.55 lakhs during the years 1977-78, 1978-79 and 1979-80 respectively. When asked to state the reasons for these losses, the Committee were informed in a note furnished by the Corporation that the customers of this Division, viz. P & T and Defence etc. demanded chang'ng levels of sophistication. Efforts made by the Corporation to rationalise the product-mix were not fruitful. Hence it was concluded that this area was not commercially viable and as such in April, 1980, the Division was closed and its men and assets merged with communications Division.

Other unprofitable Divisions:

1.14. Servo Control Division of the Systems Group also incurred losses of Rs. 6.85 lakhs, Rs. 12.17 lakhs and Rs. 4.49 lakhs and the Antenna Systems Group incurred losses of Rs. 3.11 lakhs, Rs. 48.10 lakhs and profit of Rs. 14.83 lakhs during the years 1977-78, 1978-79 and 1979-80 respectively.

(b) Unprofitable Products

1.16. According to information furnished by the Department of Atomic Energy, in view of the accumulating losses and absence of any growth prospect due to various environmental factors, it was suggested during the Performance Review Meeting held on 25-2-1979 that a closer look should be made on the working of each division to determine whether any of the product lines or major products could be discontinued or even one or more of the divisions could be closed down or merged with others in order to improve the overall performance of the company.

1.17. In this Connection, the Manag'ng Director of the Corporation informed the Committee in evidence that they have also eliminated some of the losing products. These were the items where there was no chance of improvement. Subsequently, the Committee were informed in a note furnished by ECIL that it has eliminated one product in 1977-78 (loss Rs. 12.85 lakhs) five in 1978-79 (loss Rs. 13.32 lakhs) and one in 1979-80 (loss Rs. 0.09 lakhs). When the Committee desired to know why this exercise was not done earlier, the witness stated "The Committee of the Board was set up only when we went into the red."

1.18. On being enquired whether all the losing products had been eliminated, the Managing Director of the Corporation informed that certain losing products were the Corporation was hopeful of bringing about an improvement were not eliminated. Later, ECIL furnished a list of such products according to which 20 products in 1977-78 (loss Rs. 26.17 lakhs) 25 products in 1978-79 (loss Rs. 61.70 lakhs) and 11 products in 1979-80 (loss Rs. 26.54 lakhs) were not eliminated. The list included 1 Amp. Rectifier (loss in 1977-78 Rs. 22.98 lakhs and in 1979-80 Rs. 21.20 lakhs). It has been stated that the 1 Amp. Rectifier was not eliminated since the demand was large and the product gave large contribution. It was also not possible to divert the capacity to any other product. The Corporation, however, expected to reduce the loss on this product during 1980-81. The price of this product was fixed lower than cost and it was stated that the market would not bear higher price.

1.19. The Electronics Corporation of India Ltd. was set up in 1967 with the primary objective of designing and manufacturing electronics components, instruments and systems. The company which had been making profits from the fourth year of its incorporation went into the red recently. There have been heavy losses to the extent of Rs. 105 lakhs in 1977-78 and Rs. 146 lakhs in 1978-79. The total investment in the company by Government was Rs. 1589 lakhs comprising Rs. 785 lakhs equity and Rs. 804 lakhs loan as at the end of March 1980. Except in 1972-73 and 1973-74 no dividend was received by the Government so far. Thus, in the age of electronics a venture of this kind which ought to be a paying proposition has not on the whole given a good account of itself and lately has become an object of concern.

1.20. The ECIL has at present 13 production divisions and it turns out about 250 diverse products. Five production divisions viz. Computer, Semi-conductor, Micro-wave, Servo control and Antenna system have incurred losses during the last three years. The aggregate losses of these divisions were Rs. 162.12 lakhs in 1977-78, Rs. 297.93 lakhs in 1978-79 and Rs. 122.09 lakhs in 1979-80. Computers fared very badly throughout this period. Product-wise 21 in 1977-78, 30 in 1978-79 and 12 in 1979-80 were reported to be unprofitable.

1.21. The company landed in this situation on account of factors, partly environmental but largely of its own making. Excessive

research orientation rather than commercial, self-imposed restraint on adapting foreign know-how even on a selective basis in a vastly changing electronic environment unprofitable product mix and lack of effective market surveys and sales promotion as well as cost efficiency were some of the predominant factors. The economic and fiscal policies of Government have also had an adverse impact on the company. Corrective steps have been initiated belatedly. The Committee have dealt with these aspects in the succeeding sections of this Report.

1.22. The Company has since closed down the microwave division and eliminated 7 products. The Committee desire that the product mix should be reviewed critically by the Board of Directors periodically and the results of the review indicated in the Annual Reports of the Directors. The Committee note that the recommendation of the Sondhi Committee for the merger of the computer division of the ECIL with the Computer Maintenance Corporation was to be considered by a high-power committee under the chairmanship of the Cabinet-Secretary. The Committee suggest that pending a decision on the merger, the maintenance of the ECIL computers with the users should be attended to by the Computer Maintenance Corporation.

B. Research & Development

1.23. The Corporation has been undertaking research activities. During 1979-80, Rs. 112.02 lakhs was spent on R&D i.e. 2.70 per cent of sales turnover by CIL and Rs. 23.90 lakhs were received as grants-in-aid from the Department of Electronics. ECIL in a note stated that R&D programmes were an essential part of a viable electronics industry, because this was a field where the rate of obsolescence was extremely rapid. However, the Corporation has also stated that it continued even the development of certain products though the demand did not justify their development. It also took up certain projects for Department of Defence, Atomic Energy and Railways which were not commercially viable without any clear policy direction from Government. Asked to state the profit/

loss incurred by the Corporation on such projects, the Corporation furnished the following information:

(*Profit/loss in Rs. lakhs*)

Sl. No.	Product	1976-77	1977-78	1978-79	1979-80
1.	Synchros	..(→)3.03	(→)3.37	(+) 1.66	(→)0.05
2.	Pilot Magnet .	..	(→)2.06	(→)0.95	(→)1.58
3.	Joysticks	(→)1.98	(→)2.53	(→)5.68
4.	Miniature Cassette Recorder .	..(→)0.12	(→)0.25	(→)0.49	.
5.	Data Acquisition System for Fast Breeder Test Reactor (→)2.59 (cumulative upto 31-3-80)

Asked to state the Government's reaction to the ECIL taking up products which were not commercially viable, the Secretary, Department of Atomic Energy stated in evidence:

“.....Now onwards we have said 'not' to everything until we know how much it fetches us; and how much money we will make.”

1.24. The Department of Atomic Energy had, in a note referred to the desirability of transferring some of the research activities now being conducted by ECIL to BARC or any suitable laboratories. Asked to state whether any decision has since been taken in the matter, the Secretary of the Department stated in evidence:

“.....I agree that we did have awry R&D culture. This is being changed drastically. Regarding the cost efficiency we are improving it. We have changed things a lot. The amount of money which we spent on R&D in ECIL did not show because we were making money. I may assure the Committee that we will see that much of R&D is moved out and only design and development is left.”

1.25. The ECIL took up initially commercial exploitation of the capability developed at Bhabha Atomic Research Centre and about 300 personnel of the Research Centre formed the nucleus of the staff of the company. The company was thus an offshoot of the Research Centre. The Committee have received an impression that the company has not still outgrown the excessive research culture of the

erstwhile Atomic Energy Establishment. It continued to develop certain products though the demand did not justify their development. A number of projects which were commercially unviable have been taken up for various Government Departments without a specific directive from Government. During 1977-80, a loss of about Rs. 20 lakhs was incurred on five such projects. The Committee feel that time has come for the ECIL to develop an efficient commercial management culture. They have been assured by the Secretary, Department of Atomic Energy, that the R&D activities of the company were being drastically changed and that much of these activities would be moved out to the BARC/National Laboratories. The Committee would await the action taken in this regard.

C. Working Capital Management

1.26. The working capital (current Assets, Loans and Advances, less trade dues and other current liabilities) of the Corporation at the close of each of the last four years was as under:—

	Rs. in lakhs
1976-77	1752.32
1977-78	2174.23
1978-79	1853.87
1979-80	2272.10

1.27. The working capital represented 7.3 months', 8.0 months', 6.6 months' and 6.6 months' value of production at cost (excluding depreciation) during these years. The working capital as on 31st March, 1980 was financed mainly from cash credit (Rs. 1436.51 lakhs) term loans (Rs. 162 lakhs) loans from government (Rs. 10 lakhs) and partly through internal resources (Rs. 663.58 lakhs).

Inventory:

1.28. According to the analysis of annual accounts of the Corporation, made by the Planning and Analysis Group of the Department of Atomic Energy, a copy of which was called for by the Committee, one of the reasons for the increase in working capital requirements was the increase in the overall inventory holding of

finished goods, raw materials and work-in-progress. The Committee were informed by ECIL in a note that the production and sales during 1975-76 to 1979-80 have been as follows:—

	(Rs. in lakhs)	
	Production	Sales
1975-76		2641
1976-77		2847
1977-78		3041
1978-79		3590
1979-80		4143

1.29. According to the analysis of the PAG the lack of adequate coordination between production and sales resulted in ambitious production plans not matched by sales. As against an increase of 24.4 per cent in the production value in 1979-80 over that in 1978-79, there has been only an increase of 12.1 per cent in the sales of the Corporation over the previous year, resulting in additional accretion to the inventory in the shape of works-in-progress and finished goods. According to the annual reports of the Corporation, the overall inventories were of the order of Rs. 1966.86 lakhs, Rs. 2481.19 lakhs, Rs. 2572.51 lakhs and Rs. 2819.50 lakhs respectively during, the years 1976-77 to 1979-80. In terms of number of months' sales the overall inventory and stock of finished goods during these 4 years were as follows:—

	No. of Months' Sales		
	Overall Inventory	Finished goods	Sales
1976-77	8.8	1.8	(Rs. 405.59 lakhs)
1977-78	10.4	1.9	(Rs. 479.14 ..)
1978-79	8.5	1.2	(Rs. 351.70 ..)
1979-80	8.9	1.6	(Rs. 535.36 ..)

1.30. The analysis by the PAG also brought out that of the 22.5 per cent increase in the working capital requirements of the Corporation during 1979-80 over the previous year, 13.33 per cent increase has been due to the increase in the inventory holding to the tune of Rs. 247.02 lakhs of which finished goods alone accounted for Rs. 181.87 lakhs. The major Divisions responsible for this increase in finished stock were Measuring Instruments Division (Rs. 49.39 lakhs), Semi-conductors Division (Rs. 50.56 lakhs) and Computer Group (Rs. 49.66 lakhs).

1.31. In this connection a representative of the Department of Atomic Energy agreed in evidence before the Committee that there was a tendency to carry a fairly high amount of work-in-progress in the hope of achieving certain sales targets which finally did not materialise. The shortfall in sales targets, therefore, adversely affected the profitability of the Corporation as also the cash position.

1.32. The PAG analysis further stated that major sales of the Corporation took place during the last 3 months of the financial year which affected both the working capital requirements and proper scheduling of production for the year. For instance, during 1979-80, 15.5 per cent of the total annual production and 26.8 per cent of the total annual sales took place in the month of March alone. It has been suggested by the Group that it would be worthwhile for ECIL to explore the possibilities of evening out this uneven pattern of sales and production. The Managing Director also agreed in evidence that it was a question tied up with marketing. He added that improvement in this direction could be effected if the product mix was rationalised.

Sundry Debtors:

1.33. Another factor affecting the working capital requirement was the high level of dues from sundry debtors. From the credit policy of ECIL, as intimated by the Corporation, it is noticed that the policy (March 1973) provided for full prepayment by private parties and payment within a maximum period of 4 weeks of receipt of materials in the case of others. The policy also stipulated discussion by the Heads of Divisions of the statement showing amounts overdue for 2 months with the Financial Controller and of the statement showing amounts overdue for 3 months with the Managing Director.

1.34. The Sundry Debtors position at the end of each of the last four years and the amount outstanding for more than one year at the end of these years were as follows:—

	(Rs. in lakhs)	
	Total	Amount out- standing for more than one year
1976-77	748.59 104.77
1977-78	916.25 182.51
1978-79	887.83 187.10
1979-80	1123.89 199.21

1.35. The level of total sundry debtors worked out to about three months' average annual sales. Asked to explain the reasons for the high level of sundry debtors the Committee were informed by the Corporation in a note that the Divisions/Groups often relaxed the credit policy to improve their sales performance. Further, the sales reached a peak figure in the last month of the financial year. Substantial amounts were stated to have been collected in the first quarter of the following financial year.

1.36. Outstanding for more than one year as on 31st March, 1979 in respect of government departments and undertakings amounted to Rs. 162.48 lakhs. Of this the Department of Atomic Energy itself accounted for Rs. 52.43 lakhs i.e. 33.3 per cent. In reply to a question, the Corporation informed the Committee that the share of the Department and its allied units in the total sales of ECIL during that year was only 5.82 per cent. When the Committee pointed out this fact to the Secretary of the Department of Atomic Energy, he stated during evidence:—

“Yes, I looked at that. When we place a contract with ECIL, there is always a 5 or 10 per cent retention money. They may have supplied everything except some small part, but we cannot release the money till that too is supplied as otherwise Finance will come down upon me.”

1.37. However, a representative of the Department assured the Committee that they were now releasing the entire amount to improve the corporation's cash position since it was an in-house company.

1.38. In reply to a question the Committee were informed by the Managing Director in evidence that the Corporation was not charging any interest on the outstanding dues although it had to pay interest at the rate of 18.4 per cent on cash credit for working capital requirements. When asked about the desirability of charging interest on the amounts overdue, the representative of the Department of Atomic Energy stated before the Committee:—

“We have not considered it so far, but we will suggest to them that they may give some kind of incentive for early payment and disincentive for late payment.”

1.39. The Department of Atomic Energy informed the Committee in a note that in one of the Performance Review Meeting they

had suggested immediate steps to be taken for better working capital management, if necessary, with the help of professional agencies. When the Committee desired to know the follow-up action taken by the Corporation they were informed by the Department that ECIL has entrusted individual Materials Managers with the responsibility of keeping a close watch on each division's raw materials inventory. Their future increments and promotion would depend on their effectiveness in managing the inventory of raw materials. The Company also proposed to have a team of 4-5 managers in each division to share the responsibility of managing the work-in-progress inventory, mainly because it was becoming difficult to pin down the responsibility of individual managers at this stage. The responsibility of finished goods held in stock would lie with the marketing group.

1.40. In reply to a question whether norms had been fixed for inventory holdings, the Committee were informed by the Corporation that due to the different production cycles of products manufactured in various Divisions, it was difficult to fix uniform norms for each of them. However, some monetary limits have been laid down for each of the Divisions. In evidence the Managing Director stated that these monetary limits had their basis in terms of number of months.

1.41. Informing the Committee about the effect of various steps taken to improve the working capital management in the corporation, the Secretary, Department of Atomic Energy stated:—

“We have been able to reduce the sundry debtors to Rs. 8 crores, but we would like it to be less than half that figure.”

In respect of inventories, the witness added:—

“There is slight improvement, but I would like it to be more. Inventory is roughly of the order of 250 days production, which is more or less in line with what you have for light and medium industries and electronic industries.”

Write-off:

1.42. The Corporation in a note furnished to the Committee informed that all items of raw materials, stores and spares which have not moved during the last three years are reviewed and proposed for write-off. Similarly items of work-in-progress and finished goods which have not moved for two years are reviewed and proposed for write-off. According to information furnished to the Committee

after their visit to ECIL, the slow-moving/obsolete items written-off during the last four years are as under:—

Year	(Rs. in lakhs)		
	Stores and spares	Finished goods	and work-in-progress
1976-77		16.80	..
1977-78		12.20	25.58
1978-79		62.73	22.43
1979-80		43.99	54.82
	<u>153.72</u>	<u>102.63</u>	

1.43. The Managing Director of the Corporation informed the Committee during evidence that out of Rs. 102.63 lakhs, Rs. 22 lakhs worth of items could be sold and about Rs. 8 lakhs had already been realised. The witness conceded that all aspects had not been taken into account before the write-off. Separate books were stated to have been maintained to have a control on the written off items. When pointed out by the Committee that by this procedure the control on such items would suffer, a representative of the Department of Atomic Energy stated "I take note of it."

1.44. The working capital employed by the ECIL is disproportionate to its activities and it exceeded six months' value of production at cost from year to year. At the end of March 1980 it amounted to Rs. 22.72 crores and it was financed mainly from cash credit (Rs. 14.37 crores). The working capital has been locked up in heavy inventory and trade credits. The level of inventory was Rs. 28.19 crores and it represented 8.9 months' sales. During the period 1975—80 sales consistently fell below the value of production except in the year 1978-79. The result was a net addition to inventory of works-in-progress and finished goods to the extent of Rs. 10.97 crores. Losses have arisen from the investment of the working capital in trading stocks that were subsequently rendered obsolete. During the last three years the value of stock written-off was Rs. 2.22 crores. Inadequate credit control has caused large sums to be unnecessarily immobilised in the financing of credit to customers. At the end of March 1980 the outstanding dues amounted to Rs. 11.24 crores. Of these Rs. 1.99 crores were more than one year old, and no interest is charged on the overdues although the company pays interest at the rate of 18.4 per cent on the cash credit

it takes for financing working capital. The situation which contributed in no small measure to the losses of the company, thus calls for strict inventory and credit control. The Committee would suggest the following in particular:—

Uneven sales during the year and building up of inventory of finished goods for a long time should be avoided by properly staggering the production programme and marketing after rationalising the product-mix and adjusting the production to match the sales. Norms should be evolved for inventory holding, and strictly enforced. In order to have proper watch over the disposal of inventories whenever any item is written off, it should not be removed from the main account books reducing the value to nullity. A system of incentive for prompt payment of dues by the customers and disincentive for delayed payment should be adopted. In any case interest at the market rate should be charged on outstanding dues.

CHAPTER II

PRODUCTION AND SALES

2.1. The production and sales figures as furnished by the Corporation for the last five years vis-a-vis the targets were as follows:—

Year	(Rs. in lakhs)					
	Production			Sales		
	Plan	Actual	% of achievement	Plan	Actual	% of achievement
1975-76	3062	2901	95	3034	2641	87
1976-77	3502	3238	92	3328	2847	85
1977-78	3905	3373	87	3886	3039	78
1978-79	3909	3454	88	4290	3590	84
1979-80	5397	4361	81	5561	4142	74

These figures are inclusive of excise duty, sales tax etc.

2.2. ECIL has stated that the shortfall in actual production/sales activity was due to lack of orders for products of some of the Divisions and delay in the materialisation of long-term contracts. Production was also stated to have been affected due to designing and testing problems and delay in development of new designs.

A. Production

Capacity utilisation

2.3. It was noticed from the information regarding installed capacity and the actual production that in the cases of many products, the actual production was less than the installed capacity. Asked to state the reasons for the slow capacity utilisation, the Corporation in a note stated that electronics industry was a labour intensive industry where the machinery was mostly used for measuring and testing purposes. In ECIL the Divisions were stated to have been organised in such a manner that Plant and Test Equipment requirements were common to the categories of products needing specialised production or the testing equipment were grouped to optimise installed capacity utilisation.

2.4. In this connection, the Committee desired to have the percentage utilisation of machines costing more than Rs. 50,000 during the year 1979-80. From the information furnished by the Corporation, the Committee noticed that out of 83 such machines, percentage utilisation in respect of 31 was 50 per cent or below. In fact, some of the machines were being utilised to the extent of 9 or 10 per cent. Five machines whose percentage utilisation was nil were being sold.

B. Long term contracts

2.5. The Managing Director informed the Committee in evidence that the main Divisions dealing with long term contract projects were the Antenna Group, the Computer Group and the Power Instrumentation Group. In reply to a question, the witness admitted that in the case of Antennas escalations of cost took place due to delays in completion of project. In other cases, though the escalation was not much, the profits on the projects did go down.

2.6. Asked to give details of projects whose completion was delayed and the effect of such delays on the profitability, the Corporation furnished the following information:—

(Rs. in lakhs)

Division	Project	Estimated Cost	Estimated Profit	Actual profit	Extent of delay
Power Reactor Instrumentation Division	Rajasthan Atomic Power Project—1	62.50	13.03	5.46	2 yrs.
Do.	Do.—2	112.54	23.50	18.98	2 yrs.
Do.	Heavy Water Project	56.52	11.30	13.72	3 yrs.
Do.	Heavy Vehicle Factory, Avadi.	108.69	10.00	(—)24.49	3 yrs.
Computer Group	Fast Breeder Test Reactor	88.56*	4.43	4.43	1 yrs. 3 months
Do.	Automatic Message switching system—1	66.43*	2.63 (Tentative, not yet finally accepted)	5.46	4 yrs.
Do.	Do. 2	47.55*	14.72		..
Antenna systems Group	Radar & Communication Project Office—1.	202.01	21.77	7.18	1 1/2 yrs

* Sale Price

2.7. Explaining the reasons for delay, the Corporation stated that delay in completion of RAPP-I & II projects as far as ECIL was concerned was due to (i) late receipt of drawings and details (ii) delay in receipt of supplies and (iii) due to changes in priorities effected by customer. In respect of Heavy Water Project also, the delay caused was stated to be due to similar reasons. In the case of HVF, Avadi Project, delays were mainly attributed to (i) lack of knowledge of customers proceedings (ii) owing to requirement of inter-changeability with other makes, reverse engineering and due to delay in developing Sub-Contractors (iii) delay in obtaining bulk production clearance from customer and (iv) delay in receipt of supplies from sub-contractors.

2.8. Projects taken up by Computer Group were stated to be more or less in the nature of development projects with special purpose application and maiden computerisation projects in India. The quotations were based on the prevailing prices of the general purpose items. As the hardware employed for executing the projects was also getting improved from time to time gradually because of the overlap between development and productionisation activities, ECIL could not anticipate the actual efforts that were required to successfully execute these projects at the time of entering into agreements.

2.9. Besides, the analysis made by the Planning and Analysis Group of the Department of Atomic Energy brought out that the following major programmes planned for the year 1979-80 did not materialise:—

(a) *Launching of products*

Sound Ranging Systems

Productionisation of TDC-316 EDP Systems

VT 7 A Fuezes

Distance Measuring Equipment

(b) *Completion of the major contracts*

Ferrite Core Memory

First Data Entry System for power plants

(c) *Absorption of know-how in respect of*

Isotope Thickness Gauges

X-Ray Baggage Inspection System

It has also been added by the PAG that the implementation of these programmes would have resulted in higher profitability of the Corporation.

2.10. Regarding the steps taken to ensure timely completion of projects, the Managing Director of the Corporation stated in evidence:

"The Board said recently that a reporting system should be there and information should be made available to them about deliveries, quality, feedback from customers, price information and all that. They said, this should be available to them on a quarterly basis."

C. Production Constraint

2.11. In reply to a question the Corporation informed the Committee that it was facing production constraint in respect of products of (i) commercial TV sets and (ii) power reactor instrumentation and control division.

Capacity for manufacture of TVs:

2.12. The Committee were informed by the ECIL that the Corporation had made a representation in December, 1978 for expansion of the capacity of TV Production by 30,000 sets and that the Corporation was informed by the Government that an organised unit cannot be granted a capacity exceeding 20,000 TV receivers per annum. The Committee were further informed that though the licensed capacity of ECIL was 20,000 sets per annum, it has been possible for the Corporation to get a higher share of market because of the collaboration agreement entered into with State Electronic Undertakings and procurement from other private sector units. These collaboration agreements provided *inter alia* for giving know-how by ECIL for the manufacture of commercial TV receivers and assuming marketing responsibility by the Corporation for sets manufactured by the associated units. Sets procured from outside are included in the production and sales of the Corporation. In this way the total production of TV sets during 1979-80 was more than 38,000.

2.13. Asked to state the policy of Government for expansion of production capacity for TVs, a representative of the Department of Electronics informed the Committee in evidence that after a review of the whole situation about TV licensing in the context of

the requirements for the decade 1980—1990, the Department have recently recommended to the Approval Board of the Ministry of Industry that ECIL's capacity should be raised from 20,000 to 40,000 per annum.

Power Instrumentation:

2.14. Regarding Power Instrumentation, the Managing Director, ECIL informed the Committee that conventional power was going to be a very large expansion area in the country and Rs. 30,000 crores would be spent on it. As such the Corporation wanted to enter the field of conventional power instrumentation. But as the Instrumentation Ltd., Kota was already in the field and Keltron had a collaboration with a foreign company, ECIL, wanted a clear directive from the Department of Electronics whether it should enter this field. The witness assured the Committee that once the directive was received, "we can crash into it with tremendous strength because we have the background." The witness claimed that if restrictions were not imposed and the Corporation was given a free hand to develop and market its products, it would show progress and would be able to achieve Rs. 90 crore production planned by it for 1984-85.

2.15. In this connection, a representative of the Department of Electronics informed the Committee in evidence that within the framework of public sector, the Department of Electronics had been discussing with ECIL whether there should not be a broad division of labour amongst the public sector companies. It was stated that most of the process plants today required computer control in addition to the basic instrumentation. It was therefore felt that the ECIL, with its experience acquired on computer control for certain projects such as the Atomic Power Plants and the Fast Breeder Test Reactor at Kalpakkam should really operate in the important area of computer based progress control systems for thermal plants, cement plants etc. Simultaneously, the existing instrumentation companies were urged to concentrate on the instrumentation area so that there would some division of labour in terms of efforts, skills etc. One of the reasons for this particular way of planning of areas of activities of the different public sector companies and ECIL's role in that plan was stated to be that ECIL did not hold an industrial licence to make process control instrumentation and hence could not go for its manufacture.

2.16. When the Committee enquired whether healthy competition was preferable to division of labour or vice-versa, the witness

stated that the situation was not at all monopolistic in process control instrumentation since, apart from ECIL there were five companies—two in public sector and three in private sector—already holding industrial approvals to make process control instrumentation and thus adequate capacity existed for users to be able to make their purchases on a fully competitive basis.

2.17. The witness also informed the Committee that their Department felt that it was in the interest of the major public sector companies themselves that the existing division of labour should apply. The Department have also since been assured by ECIL that it would not enter the area of process control instrumentation but would go in for computer based control systems instead. However, the witness added that there have been some technological changes in the recent past, which are making the distinction between control instrumentation and the computer system less clear than hitherto. The Department of Electronics was, therefore, in dialogue not with all the three public sector companies to see what should be the precise division of labour over the 1980—85 plan period in terms of technologies, products, services etc.

D. Sales

2.18. ECIL informed the Committee in a note that while half of its products happened to be monopolistic in nature, the other half faced stiff competition. Asked to name the divisions facing competition, the Managing Director of the Corporation informed the Committee that the divisions which faced competition keenly were Television, Computer, Semi-conductors, Instruments and Communication. The Committee were also informed by ECIL in a written reply that there was constraint of demand in respect of the following Divisions:

- (i) Computers
- (ii) Instruments
- (iii) Semi-conductor devices
- (iv) Servo motors and gear motors.

2.19. According to the Department of Atomic Energy, severe competition faced from imported sources particularly in the case of computers resulted in shortfall in actual sales as compared with plan.

2.20. Asked whether any market surveys were conducted, the Corporation informed in a written note that Government agencies like Information, Planning and Analysis Group of Department of Electronics and DGTD regularly arranged for surveys to be conducted by Export Committees. These surveys covered several aspects like demand, capacity, product specifications, technology etc. ECIL participated in many of the surveys and made use of these reports in drawing up plans for its growth. ECIL also conducted market surveys on its own to supplement the information obtained from published reports and to obtain any specific data. The following surveys were stated to have been conducted during the last two years:

Oscilloscopes	1977
Microwave Diathermy Units	"
Junior Spectrophotometers	"
Medical Image Intensifier Systems	"
Electronic Desk Calculators	1978
ECG Recorders	"
Communication Equipment	"
Surge Comparison Tester	1979
Marine Electronic Equipment	"

2.21. It was also stated that consequent to the implementation of the concept of "Business Group" marketing function formed part of the integrated responsibility of the respective Group. However, an exception had been made in respect of Computer Group where marketing function was distributed among three groups.

2.22. Among the other steps taken for sales promotion were stated to be:

- (i) Interaction by the designers with a select cross section of end users during the development of the product to ensure its acceptability in the market when introduced.
- (ii) Identification of certain persons in marketing for the specific task of sales promotion and maintenance of direct personal contact with the prospective customers through the net-work of Branches besides mailing of sales literature and quotations.
- (iii) Arranging special seminar/demonstrations at principal cities and at the customers' premises to convince the prospective customer of the suitability of the products.

(iv) Utilising suitable advertising media for promotion of sales.

2.23. Asked to indicate the main buyers of the products manufactured by ECIL the following customer composition was furnished by the Corporation:

	Percentage		
	1977-78	1978-79	1979-80
Government Departments (comprising Defence Railways, Communications and Department of Atomic Energy) .	30	28	38
Public Sector Enterprises	14	12	16
Other parties (including individuals universities and research institutions).	48	55	35
Requirements of other divisions of the Corporation	8	5	11
	100	100	100

2.24. When the Committee desired to know the percentage of sales to purely private institution and individuals the Managing Director, ECIL informed the Committee in evidence that while sale of TV sets was entirely to private individual and 25 per cent of the computers sold or rented were to private sector companies, no process control computers were sold to private sector. But the share of total sales of the Corporation in terms of value to purely private sector, excluding universities and research institutions was stated to be about 12 per cent excluding TV and 30 per cent including TV.

2.25. On the question of increasing the market potential of ECIL the Committee were informed by the Managing Director that the independent agency *viz.*, IBCON appointed to study the manpower requirements in the corporation had also come to the conclusion that ECIL needed to strengthen its marketing Research.

2.26. Enumerating the steps taken to improve the marketing potential of the corporation, the witness stated that incentive bonus scheme evolved recently to improve the general productivity would also apply to marketing. The witness added:

"In certain areas we have already appointed agents, in some other areas we are planning to appoint agents because we find that in some parts we are not able to penetrate ourselves, so we will have to do it through agents. After sales (service) is another thing we are concentrating on.

We believe that we should be able to offer a better after sales service and this something which professional people value, whether it is medical, communications etc. Lastly, we are internally planning to appoint liaison officers, Ministry-wise and project managers for every project. So, this is the package of measures we have taken to ensure that our marketing will be sharper than it has been till now."

E. Complaints

2.27. The Committee were informed by the Department of Atomic Energy in a note that there had been complaints against ECIL regarding unsatisfactory after-sales-service for TVs. Asked to state the exact nature of such complaints, the Corporation informed the Committee that it had sold about 1.80 lakh TV sets in over 16 cities all over the country. While the sales in seven important cities were covered through the Corporation's own show-rooms, and in nine other cities through dealers, service centres had been established by ECIL in all the places manned with a total of about 150 field service technicians. It was added that on the average a total of 750 complaints per day—400 from the 45,000 warranty sets, 250 from the 24,000 annual service contracts and 100 casual complaints from EC TV customers not covered under warranty or annual service contract were received in all places. The number of complaints rose to 1,000 during monsoon period.

2.28. Regarding service contracts of TV sets, the Secretary, Department of Atomic Energy informed the Committee that a new scheme of retainer technicians was on trial, about this scheme the Corporation stated that while its own service technicians generally attended to the warranty sets, the sets on service contract were attended to by authorised service engineer/technician who were not ECIL employees but have been entrusted with this job on annual contract basis in places like Bombay, Delhi, Madras and Calcutta. These authorised service technicians were basically diploma/degree holders, who were given technical orientation to take up EC-TV servicing. In this case, the customers were registered with ECIL and all the remittances were made to ECIL. ECIL rendered support service and liaison with customers to maintain its image.

2.29. To improve the position in regard to complaints of TV sets, in addition to deployment of service technicians and service re-

trainers at various places the following steps were stated to have been taken:

- (i) Improving the mean time between failures (MTBF) of the set resulting in percentage of failures being much less than in the earlier days.
- (ii) Providing two-wheeler (motor cycles, scooters) transport facility to many technicians so that they need not depend on public transport system.
- (iii) Maintenance of each service centre with adequate spares and test equipment for rendering prompt service.
- (iv) Monitoring service complaints through computerised system to increase efficiency.
- (v) Providing periodical training in customer service to service technicians.

F. Export Possibility

2.30. The ECIL has stated exploring export markets though in the next few years to come the accent will be mostly on meeting the indigenous requirement. The Committee were informed by the Department of Atomic Energy that ECIL has secured the following two foreign contracts:

- (i) Export of Ferrite Core Memory to USSR valued at Rs. 3.65 crores;
- (ii) Export of Tropo Scatter Antenna and Links to USSR valued at Rs. 65 lakhs.

2.31. Both these contracts were presently under execution. Besides earning foreign exchange to the tune of Rs. 4.30 crores, these contracts are expected to enable the company to specialise production in these fields, which will, in turn, result in repeat orders.

2.32. Asked about the profitability of the Corporation on these contracts, the Managing Director informed the Committee in evidence that while on the antennas job, the erection was going on in Russia and the Corporation would earn a profit of at least Rs. 10 lakhs, there was some problem in regard to export of ferrite core memory to USSR. It was stated that Electronic Trade and Technology Development Corporation who initially received the order for

ferrite core memory, in turn placed it on ECIL since it had experience in this area. But the agreement with the Russians was on the basis of 10 computers being imported from them. Since these computers were not imported due to some reasons, they were not placing orders for ferrite core memory. Apart from these two contracts secured by ECIL, the Committee were informed that the Corporation manufactured and supplied certain mineral exploration equipment during 1979-80, order for which had been secured from Iraq by the Atomic Minerals Division of the Department of Atomic Energy in 1979. The design know-how for the equipment was supplied by the Department. In reply to a question the Committee were informed in a note by ECIL that the estimated profit on this contract was 20 per cent.

G. Expansion Programme

2.33. According to the Corporate objectives of the Corporation, it aims at doubling the turn-over during each Five Year Plan period. It has been stated that the Corporation has to dovetail its programmes into the five-year national plan for growth of electronics industry in the country. Currently, the relevant plan is stated to be the electronics plan 1978-83 drawn up by the Department of Electronics.

2.34. According to the expansion programme drawn up by the Corporation for the period covered by the Sixth Five-Year Plan 1980-85, the year-wise targets of production and sales are as under:

	<u>Rs. lakhs</u>	
	Production	Sales
1980-81	4766	4872
1981-82	6231	6276
1982-83	7112	6972
1983-84	8202	8073
1984-85	9141	9157

The production and sales are exclusive of sales tax, excise duty, etc.

2.35. It has been stated that in view of falling profitability, ECIL, has identified the following major thrust areas for expansion during 1978-83:

- (i) Instrumentation and controls
- (ii) Instruments
- (iii) Computers.
- (iv) Communications.

2.36. There was shortfall in production (5 to 19%) and sales (13 to 26%) compared to what was planned for by the company during all the years 1975-76 to 1979-80. The production and sales were Rs. 43.61 crores and Rs. 41.42 crores as against the planned levels of Rs. 53.97 crores and Rs. 55.61 crores respectively in 1979-80. Undoubtedly there has been under-utilisation of men and machine. A combination of factors has led to this phenomenon. Lack of orders for products of some of the divisions and delay in completion of long-term contracts are stated to be the main reason. There are, however, production constraints for products of two divisions, viz., commercial TV sets and power reactor instrumentation and control products. There are demand constraints in respect of products of four divisions viz. computers, instruments, semi-conductor devices and Servo and gear motors. Though half of the products of the ECIL is monopolistic in nature the other half faces stiff competition. The products that face such competition are stated to be TV, computer, semi-conductors, instruments and communication equipments. The Committee have, however, received an impression that the existence of a captive market offered by the Departments of Government and other public undertakings has lulled the company into complacency about sales promotion and cost efficiency. The customer composition shows that the sales to purely private individuals/institutions is only 12 per cent excluding TV and 30 per cent including TV. In such a situation the company could improve its turn-over and get over the losses only by an imaginative market survey and sales promotion altering the product mix and cutting down on costs.

2.37. The Committee note that in the electronic industry where there are multipurpose capital goods and testing equipments it is not feasible to identify the capacity for production of various products. In the alternative it is imperative to ensure the optimum use of men and machines. The extent of the use is the index of efficiency. The Committee are, therefore, surprised that the ECIL has not systematically ascertained the extent of idle time of men and

machines and analysed the causes for a meaningful production and cost control. It was only recently in 1979-80 that the utilisation of machines, each costing more than Rs. 50,000 was ascertained. This showed that out of 83 such machines, 31 were utilised to the extent of less than 50 per cent of the available time. Some of the machines were utilised to the extent of 10 per cent. The Committee have been informed that 5 machines which could not be utilised at all were being sold. That there should have been a laxity in the past in exercising the kind of control that has been lately brought about is deplorable. The Committee recommend that there should also be an analysis of man-hour utilisation for appropriate timely action to improve it and to re-deploy labour wherever necessary. The position in regard to man-hour and machine-hour utilisation should be brought out in the annual report of the company in future.

2.38. There has been delay of more than one year in execution of eight long-term contracts of the value range Rs. 47 lakhs to Rs. 202 lakhs for supply of power reactor instrumentation and computer system. The delay resulted in reduction of profits in 3 cases and loss of Rs. 24.49 lakhs as against anticipated profit of Rs. 10 lakhs in one case. Further, a number of major profitable programmes planned for 1979-80 did not materialise. All this clearly shows that there has been no system of project monitoring and control. It is only now after the Committee took up the company for examination that a system of reporting in this regard to the Board of Directors is sought to be introduced. The Committee trust that in future there will be no negligence on the part of the management.

2.39. TV Division of the ECIL is quite remunerative. The Committee note that though there is demand for EC TV sets the production could not be augmented, the Government having as a matter of policy refused to license the expansion beyond 20,000 sets per annum. But the company had overcome this restraint by sharing its know-how with State Electronic Corporations and undertaking the marketing of the sets (18,000 in 1979-80) manufactured by them. The Committee, however, understand that the Department of Electronics have recently recommended expansion of ECIL's capacity to 40,000 sets. There are large number of complaints from the customers at present. The Committee expect that the ECIL should aim at complete customer satisfaction.

2.40. Another division where production constraint is encountered on account of licensing policy of the Government is that of process control instrumentation. The Committee note that already

Instrumentation Limited, Kota and Keltron are in the field of conventional instrumentation, but the ECIL has also the capability. The Department of Electronics are in favour of a division of labour amongst public sector companies and feel that ECIL should confine itself to computer based control system. The Committee desire that the matter should be settled early so that the ECIL can gear up its production programme for the future.

CHAPTER III

PRICING AND COST CONTROL

A. *Pricing Policy*

3.1. Asked about the pricing policy of the ECIL, the Committee were informed by the Corporation that the prices of its products were generally fixed with reference to cost of production. In certain cases, where complicated design and technology were involved, a detailed study of the cost structure was made with reference to cost estimates and prices were then fixed. In respect of systems like instrumentation required for the Atomic Power Projects etc., the rates were negotiated with reference to cost of completed orders and long term contracts were entered into with the customer.

3.2. However, the Department of Atomic Energy intimated the Committee in a note that in certain cases, the selling price of ECIL's products had been fixed lower than the cost of production/cost of sales. The number of such cases during the preceding three years is as under:—

1977-78	..	44
1978-79	..	54
1979-80	..	32

3.3. It was stated that this had been done in order to exploit a potential market with the expectation that with the higher volume of activity, the incidence of per-unit-fixed-cost would be lower. The Managing Director of the Corporation explained to the Committee that such cases related to products manufactured for the first time; or where ECIL's costs were high and it had to get into the market.

3.4. Subsequently, the Committee were furnished with a list of 16 products by the Corporation where the price had been fixed lower. Out of these 4 products were stated to have been made profitable. In respect of 2 it was stated that the products were part of systems which were profitable as a whole. The Corporation

had increased the selling prices or they were under review in respect of 3 products, while the cost of another 3 products was expected to be brought down. In respect of one product it was stated that one-third of the cost was shared by the product of another division which gave profit element to that division. Another product meant for internal consumption was expected to break-even this year.

3.5. Asked in how many cases the corporation's expectation that with higher volume of activity the incidence of per unit fixed cost would be lower, did materialise, the ECIL stated in a note that increased price for subsequent order has been received for Control Boxes for Heavy Vehicle Factory, the production of which was taken up in 1979-80. Another product Anuncitors was stated to have made considerable progress in the share of market and was progressing to enter with advanced version.

3.6. The Committee were also informed by the Department of Atomic Energy that in a number of cases where production was undertaken on contract basis, the management of ECIL renegotiated the prices at the instance of the Department. Prices were thus renegotiated by ECIL on Pilot Magnet supplied to the Jabalpur Gun Carriage Factory and Synchros supplied to BEL, respectively. In reply to a question, the Corporation subsequently intimated to the Committee that even after increase in price, it was still losing on Pilot Magnet.

3.7. ECIL informed the Committee that in the case of those items which were produced for the first time in India, which were hitherto being imported, the costs were estimated with reference to the c.i.f. price of such items or equivalent ones. According to the instructions issued by the Bureau of Public Enterprises in December, 1968, the price should be fixed with reference to the landed cost of comparable imported goods (not on the basis of c.i.f. price) and if it becomes necessary to have the price higher than the landed cost the matter should be referred to the administrative ministry for examination in depth in consultation with the Ministry of Finance, BPE etc. When the Committee expressed doubt that the fixation of price with reference to the c.i.f. price would amount to significant under pricing, the Managing Director of the Corporation stated in evidence that prices of only those items in respect of which customs duty was not payable were fixed with reference the c.i.f. prices of similar imported items. The prices of rest of the products were fixed on the basis of landed cost plus 20 per cent as per guidelines of Committee of Secretaries. The witness cited the example of Bharat Electronics Ltd. who did not pay duty on the components

supplied to them by ECIL. BEL purchased components from ECIL only if the prices matched the c.i.f. prices of imported components. The Managing Director conceded that this was not profitable for ECIL. Asked to furnish details of such supplies, ECIL in a note informed the Committee that in view of the customer's desire to match c.i.f. prices, 10 per cent rebate was given in all sales of Tantalum Capacitors to BEL. The total sales to BEL were Rs. 30 lakhs. Thus the Corporation's profit was reduced by Rs. 3 lakhs.

B. Standard Costs

3.8. The Committee desired to know whether there was any system in the corporation for computing the cost of execution of contracts entered into for supply of systems so as to compare it with the value realised in each case. The Managing Director, ECIL replied in his evidence that in order to work out the profit or loss, the actual cost at the end of each contract was worked out which was then compared with the initial estimated cost. When asked to state whether the corporation had a system of standard costing with a view to help quoting against orders received for systems, the witness stated that they were not used to standard costing as normally understood. Only the material, labour required and drafting or engineering requirements were estimated and quotations made against such estimate.

C. Service Contracts

3.9. It was noticed from the revised estimates for 1979-80 of the Corporation that the Instruments Marketing Group and the Computer Marketing Group were expected to incur losses to the extent of Rs. 14.73 lakhs and Rs. 28.49 lakhs respectively. It was also noticed that the income from service contracts in the Instruments Marketing Group was only Rs. 1.50 lakhs against the expenses of Rs. 6.50 lakhs on this account. The corresponding figures for 1980-81 are expected to be Rs. 1.88 lakhs and Rs. 6.31 lakhs according to budget estimates. The income and expenditure on sale of spares and accessories was Rs. 4.00 lakhs and Rs. 6.18 lakhs respectively during 1979-80 and are expected to be Rs. 5.00 lakhs and Rs. 6.93 lakhs during 1980-81. In addition a loss of Rs. 5.87 lakhs was also incurred on account of Installation and Commissioning which is expected to be Rs. 5.24 lakhs during 1980-81.

3.10. Likewise in the Computer Marketing Group the losses on service contracts were Rs. 10.18 lakhs during 1979-80 and are expected to be more or less the same during 1980-81. The losses on

Installation and Commissioning which were Rs. 4.23 lakhs during 1979-80 according to the revised estimates, are expected to rise to Rs. 8.62 lakhs. While discussing the service contracts for computers, the Managing Director, ECIL stated in evidence:—

“This will be a losing proposition until we come out of depreciation. Initially we started by charging 5 per cent of the computer as the actual maintenance charge, Computer Maintenance Corporation which is looking after all the imported systems is possibly charging 11 per cent. So, we also found from this that we are making a loss. We have to go up from 5 to 9....At 9 per cent we would definitely be breaking even.”

D. Comparative Prices

3.11. The Committee were informed that prices of products manufactured by ECIL for which competition was faced from other manufacturers were fixed with reference to prices of competitors' products. When asked about the mechanism in the Corporation to monitor the prices of competitors for products of similar type, the Managing Director stated in evidence:—

“We get feed back from all our marketing staff....They find out the competitive offers plus open tenders.”

3.12. From the information furnished by the Corporation, it is noticed that prices of many of the products manufactured by ECIL are higher than those of the competitors. A few examples will illustrate the point:—

Product	Corpora- tion's price (Rs.)	Compe- titor's price (Rs.)
<hr/>		
1. Nuclear Instruments		
GS 866 C	12,000 7,200 6,500 7,500	8,000
2. Measuring & Industrial Instruments		
ICCU consisting of MM 884 B	14,100	10,000 1,1000 8,000

Product	Corpora- tion's price (Rs.)	Compe- titor's price (Rs.)
MS 872 B	7,350	3,000 2,000
RPS 80 . . .	44,000	12,000
TC 713 & TD 747 .	40,000	31,000 18,800
3. Microwave Instruments		
Signal generator V 471 .	27,500	12,000
VSWR set up U 185	4,250	2,200
U 186 .	4,500	2,200
U 210	2,400	1,050
UA 230	2,000	700

3.13. When the attention of the Managing Director, ECIL was drawn to the higher prices of ECIL's products, the witness stated that some of these were not total instruments but accessories to the total instruments. The witness claimed that in general, the Corporation was competing in the market with about 10 per cent additional price and anything less than that would cut into their profits. The witness also added that their prices were higher in the Instrument Group but in case of Capacitors, transistors and computers they were able to compete with others.

3.14. Subsequently, in a written reply the Corporation stated that the prices of its products were higher in some cases mainly because of superior specifications even though they fell in the same classification. Other reasons advanced for the higher prices were use of better components, better reliability, longer life and safety. In respect of some products the Corporation was able to realise better prices because of its long standing and established quality. In cases where the corporation encountered marketing difficulties, the products were stated to have been replaced newer and cheaper models.

3.15. Agreeing with the Committee that the cost structure in ECIL compared to its competitors was high, the Secretary, Department of Atomic Energy assured during evidence that he would get it examined.

E. Overheads

3.16. The Department of Atomic Energy in a note expressed the feeling that there was scope to improve the level of cost efficiency in the corporation by reducing cost of production and effecting savings wherever possible. According to the analysis of Annual Accounts of ECIL prepared by the Planning and Analysis Group, factory overheads constituted a major portion of the ex-factory costs of products in each of the divisions of ECIL. While factory overheads constituted 26 per cent of the cost overall, divisions such as Micro-wave Division and Power Reactor Instrumentation Unit had factory overheads to the extent of 58 per cent. The Special Products Division one of the loss making divisions had a factory overhead of the order of 61 per cent of the cost.

3.17. The analysis also revealed that the System Engineering Group which was set up during 1978-79 did not have any sales during 1979-80 although it had sales of Rs. 1.60 lakhs during 1978-79. This resulted in an increase in the loss of the division over the previous year. In fact there was no production in SEG during 1979-80 and the losses were solely on account of factory overheads being allocated to the division. The PAG has urged that since SEG is now entering its third year it would be necessary to have a close watch on its performance so as to ensure that it does not become a drag on the Corporation's performance. The Group has also suggested introduction of systems of cost control especially in the area of factory and administrative overheads as they constitute a significant portion of the Corporation's expenses.

3.18. While admitting that the overheads were high compared to the turnover, the Managing Director of the Corporation stated before the Committee:—

“The material is 35 per cent; the direct labour is about 5 to 8 per cent and the rest of it forms overheads which is a fixed charge. If this can be spread over a large turnover, the cost efficiency will improve.”

F. Sub-Contracting

3.19. Among the other steps taken to reduce the cost of production were stated to be the optimisation of product-mix and use of sub-contracting. The Department of Atomic Energy also suggested in one of the Performance Review Meetings that before taking up any new product for production, the company should examine if the

product or any part of it could be profitably sub-contracted. It was also suggested that as much of its existing products/product lines as possible could also be considered for this purpose.

3.20. When the Committee desired to know how sub-contracting would reduce the cost of production, the Managing Director of the Corporation stated in evidence that where labour intensive operations were involved, the small industries were paying almost half the wages paid to ECIL's workers and thus their overheads on that account were lower. They were able to do in a more economical way. The witness added that in some cases, since ECIL's costs were high, it was not able to sustain itself. Therefore, ECIL gave the items that were repetitive for being assembled by outsiders.

3.21. The witness informed the Committee that in this way the Corporation had built up Rs. 3 crores worth of sub-contracting in the last three or four years excluding T.V. According to the Department of Atomic Energy production worth Rs. 4.8 crores was obtained through sub-contracting during 1979-80. It was stated by the Managing Director that the staff thus rendered surplus would be absorbed in the expansion plan of the Corporation.

3.22. According to the C&AG's report on Union Government (Commercial) 1979 Part IV, the Corporation had no system of ascertaining idle time for labour and machinery specifying the reasons therefor. The Committee were, however, informed in evidence by the Managing Director that recently the Corporation has started booking utilisation of machines costing more than Rs. 50,000. The system of booking idle time for labour was also now stated to be in vogue. When asked why such system was not introduced earlier the witness stated that it was felt that the variety of products was large and the products changed every third year.

..

G. Productivity

3.23. According to the information furnished by ECIL the number of employees in the Corporation increased from 5455 in 1976 to 6617 in 1980. On the contrary the value added by the Corporation remained more or less stationary, it being Rs. 1390 lakhs, Rs. 1396 lakhs and Rs. 1400 lakhs during 1976-77, 1977-78 and 1978-79 respectively. The value added at constant prices during these years was Rs. 1377 lakhs, Rs. 1351 lakhs and Rs. 1304 lakhs respectively. The value added per man-month in fact declined from Rs. 2045 in 1976-77 to Rs. 1901 in 1977-78 and to Rs. 1816 in 1978-79. There was, however, a slight improvement during 1979-80 when the value added

by the Corporation rose to Rs. 1743 lakhs and the value added per man-month to Rs. 2184.

3.24. In view of this, the Committee desired the Corporation to justify the increase in number of employees. ECIL in a written reply informed the Committee that the increase was restricted only to those Divisions which had a full order book and the additional staff strength was justified by the increase in activity. In this connection the Committee were informed by the Managing Director of the Corporation in evidence that the increase in number of employees was in four divisions viz. Instruments, Power Reactors, Computers and Television. However, according to information subsequently furnished to the Committee, it is noticed that percentage of man-hours utilised to man-hours available in the Power Reactor Instrumentation Division ranged between 71 per cent to 74 per cent during 1977-78 to 1979-80. In the Nuclear Instruments this percentage was as low as 69 per cent during 1979-80.

3.25. The Committee were informed by the Managing Director, that till 1979-80 the man-power was being recruited more-or-less on the request of the various Divisions based on the growth plan. But now the Man-power Committee constituted to deal with proposals for additional man-power has evolved norms for determining the level of employment needed. The ratio of added value to salaries and wages plus depreciation is considered for assessing the reasonableness of the requests of the divisions for addition to the manpower. The witness informed the Committee that this ratio was at present 2 and the Corporation aimed at 2.5.

3.26. The Committee were intimated by ECIL in a note that an independent agency had been appointed to study the existing manpower vis-a-vis requirements in one division. When the Committee desired to be apprised of the results of the study the Managing Director, ECIL informed the Committee that IBCCN, the independent agency had come to the conclusion that manpower utilisation was 40 per cent in the Assembly Line. The agency has now been asked to conduct an experiment by taking a batch of 15 workers and demonstrating what is the maximum they can produce.

H. Incentive Bonus

3.27. In order to improve the general productivity the Corporation proposed to introduce an Incentive Bonus Scheme. The Managing Director informed the Committee that the incentive bonus

would be in addition to the normal bonus but the total would not exceed 20 per cent. The additional bonus will be linked to achievement of division-wise and quarter-wise targets of production, sales and service. Payment under the new scheme will be made if the targets are achieved to the extent of 90 per cent which would ensure at least break-even for the corporation. The scheme was stated to have been sent to Ministry of Finance and was expected to be cleared shortly.

3.28. The Secretary, Department of Atomic Energy informed the Committee in evidence that their Planning and Analysis Group has completed the investigation into the possibility of developing documentation in Nuclear Instrumentation Division of ECIL for control of material consumption with reference to standards and has evolved standard bills of the materials and other methods of controlling costs. The witness added that this was being extended to other divisions also.

3.29. The Committee were also assured by the witness that:—

“Greater cost control has been introduced in working; and each division and sub-division is made a profit centre.... We are tightening up things and taking a very hard look at whatever they are doing.”

3.30. As pointed out by the Committee earlier, there is not much of cost control consciousness in the ECIL. Selling prices of several products had been fixed lower than the cost of production/cost of sales. There were 44 such cases in 1977-78, 54 in 1978-79 and 32 in 1979-80. With the available data the Committee are unable to form an opinion as to how far such large-scale under pricing was commercially wise. The company's expectation in some cases that with the market picking up the fixed cost per unit would come down, did not materialise. Further, in a number of cases the management had to renegotiate on coming to know that the prices quoted before undertaking production on contract basis was lower than the cost of production. Admittedly, no scientific standard costing system has been introduced in the company. Such a system is necessary for cost control on the basis of analysis of usage and rate variances between standards and actuals. The Committee also notice that Instruments and Computers Marketing Divisions are incurring losses on account of the company not realising the cost of services and the cost of spares from the service contracts fees and the sale price of spares respectively. There is a case for increasing

the computers maintenance charge, which is at present 5 per cent as against 11 per cent charged by the Computers Maintenance Corporation for imported computers.

3.31. According to instructions issued by Government in December, 1968, the pricing of products, monopolistic or semi-monopolistic in nature should be within the landed cost of comparable imported goods. In circumstances where the cost of production is very high and it becomes necessary to have the prices higher than the landed cost the matter should be referred to the administrative Ministry concerned for examination in depth in consultation with the Ministry of Finance/BPE etc. However, the prices of such products of ECIL are stated to be fixed on the basis of landed cost plus 20 per cent as per the guidelines of Committee of Secretaries. The Committee wish to point out in this connection that there cannot be a general permission to fix the prices at a higher level in all cases. There should be a case to case study of the cost structure and cost efficiency and thereafter the prices should be determined as otherwise it will encourage inefficiency.

3.32. The Committee suggest that in view of the foregoing analysis the cost structure and the costing system need to be gone into. On the basis of a review the scope for economy should be identified and prices rationalised. There is scope for cutting down on "overheads" and improving productivity of labour. In a labour intensive industry such as electronics overheads to the extent of about 60 per cent seems incredibily high. Further, the value added per man month declined from Rs. 2045 in 1976-77 to Rs. 1901 in 1977-78 and Rs. 1816 in 1978-79 but increased to Rs. 2184 in 1979-80. Evidently manpower utilisation is poor. The Committee desire that the ratio of value added to wages plus depreciation which is at present 2 should be progressively improved. In this connection the Committee would stress that the proposed incentive bonus scheme should be introduced without further delay.

CHAPTER IV

ENVIRONMENTAL IMPACT

4.1. One of the reasons for the losses in recent years has been stated to be the rapid strides made by the technology abroad. International electronic equipments were much more advanced and much more miniaturised and more reliable. The development at ECIL could not keep pace with the high technology of the developed countries. Imports were also liberalised due to the improvement in foreign exchange position with the result demand for ECIL goods fell below projections and production had to be curtailed. Import of computers alone amounted to Rs. 60 crores during the last two years. Demand for computers was also affected by the IBM gifting away 150 computers on winding up their operation in India.

4.2. The Committee enquired if the Department of Atomic Energy reviewed at any time prior to 1977-78, the policies and programmes of the Company in the context of changing conditions of the electronics industry in the country. They were informed by the Secretary of the Department that it was first realised sometime in 1975-76 that our technology should be updated. However, there was no foreign collaboration agreement entered into by ECIL till 1978-79. Recently, the Corporation had a change in policy and it had entered into three foreign collaboration agreements during the last two years. Besides, 13 more agreements are in various stages of finalisation.

The Secretary admitted.—

“.....We should have foreseen that at some stage, our own technology would have to be updated, to meet that competition. That we were at fault, there is no doubt..”

A. Licencing and Import Policies

4.3. The Committee were informed by the Electronics Corporation that the industrial licencing policy, import policy and the tariff structure underwent several changes from the time ECIL came into existence.

(a) Import Policy

4.4. A major change in the import policy took place in the year 1975-76 when automatic licencing based on the previous year's consumption was introduced. Indigenous clearance was no longer specifically required for import, if the item had been imported in the previous year. A further step towards liberalisation was taken in the year 1978-79 when the import policy switched from the earlier system to one with list of banned items not to be imported, a restricted list of items which can be imported against licence carrying only a face value limit and open general licence for items not appearing in the other two categories. The liberalisation was stated to have had the effect of encouraging considerably import of goods previously not allowed to be imported.

4.5. It was added by the Corporation that according to the import policy for 1980-81 announced by the Government on 15th April, 1980, a wide range of capital goods were brought under Open General Licence (OGL). These products covered instruments, testing and electronic equipment, instruments for TV industry, etc. With the liberalisation of the items under OGL, the import of these items became an attractive proposition to the users and to that extent the difficulties for marketing of the products made by indigenous manufacturers got accentuated. In this connection the Committee were informed by the Managing Director in evidence that the list of OGL covered nearly 350 different types of instruments. When the Committee enquired how this policy affected ECIL, the witness stated that according to the Government's Liberal Import Policy particularly the OGL, Scientific and Research Laboratories, institutions of higher education, hospitals recognised by State or Central Government could import equipment, components of electronics under OGL. As the majority of the Corporation's instruments went to this market, this policy resulted in considerable loss of business that ECIL had from universities and other research institutions.

4.6. Asked to state the extent of business loss suffered by the Corporation, the Committee were informed in a written note by ECIL that owing to liberal imports of test and measuring instruments, it experienced reduction in its sales of the order of Rs. 34 lakhs and Rs. 85 lakhs during the years 1978-79 and 1979-80 respectively.

4.7. Asked whether the matter of placing electronic instruments under OGL was brought to the notice of Department of Electronics

the Managing Director, ECIL stated that though the matter was discussed several times, this was not done officially since it was thought that this was a Government policy and the corporation would not be able to do much about it.

4.8 On a query from the Committee whether ECIL was consulted before putting electronic items under OGL and whether its objections were taken into consideration the Secretary, Department of Electronics informed the Committee that ECIL's objection had been a very recent one and that too only for bringing the oscilloscopes of 100 MHZ to 150 MHZ in the banned list. The Department had received no formal objection from ECIL.

4.9. Asked to state the latest position of items under OGL, the Department of Electronics informed the Committee in a written note as follows:

"The import of capital goods against OGL can be broadly divided into two categories (a) items required by electronic industry and (b) items required by scientific, research and educational institutions.

The import policy formulated by the Ministry of Commerce for the year 1977-78 liberalised imports because of the comparatively easy foreign exchange position. The Import Policy that year, introduced a new concept of free licensing of capital goods for actual users. The Import Policy pertaining to capital goods required by the manufacturers, introduced in that year, a list of 41 items for free licensing. This benefit was extended subject to the condition that the importer did not exceed licences/approved capacity. 1977-78 Import Policy did not place any items required by the Electronic Industry on the OGL list. In 1978-79 Policy, the concept of free licensing was deleted. 7 items of test and other electronic instruments were placed under OGL. In 1979-80 the OGL list included 35 items of machinery and 6 items of test and other instruments. 1980-81 Import Policy has 64 items of machinery and 9 items of test and other instruments required by the Electronic Industry in the OGL List.

"The items to be placed on the free Licensing List in 1977-78 were selected from a list of Capital Goods required by the Electronic Industry. The list had been compiled by a technical panel appointed by the Chairman, Electronics

Commission. A preliminary indigenous angle clearance was also done for each item before it was proposed for the OGL."

It was also been stated that the Management of ECIL has given certain suggestions for recasting the import policy for the year 1981-82.

(b) Industrial Licensing

TV Picture Tubes

4.10. ECIL had informed the Committee that in some cases, organisations which had been given licence did not have even the know-how for the items for which ECIL was refused licence. Elaborating the point, the Managing Director, ECIL informed the Committee in evidence that the Corporation had applied for licence to manufacture TV tubes which was rejected. Another company M/s. Anand Electronics was granted the licence but that company requested ECIL for the necessary know-how. Asked whether ECIL had the know-how, the witness stated that though the Corporation was not manufacturing TV tubes, but being engaged in manufacture of other tubes, it had the basic knowledge.

4.11. When the Committee desired to know the ECIL's application for making TV tubes was rejected and the licence given to another party, a representative of the Department of Electronics for licensing additional capacity in this area, for the manufacture informed the Committee:

"In May, 1974, we wrote to the ECIL that there was no scope for licensing additional capacity in this area, for the manufacture of TV picture tubes. These were the guidelines which the Government had issued. After two years, the Government took a new policy decision. At that time, all the applications which were pending were reviewed and licence was granted. At that time, there was no application from the ECIL."

4.12. In reply to another question, the representative of the Department stated that when it was decided to grant licences for manufacture of TV tubes, neither fresh applications were invited, nor the ECIL was informed about it.

4.13. Subsequently, the Committee were informed in a note furnished by the Department Electronics that apart from ECIL's

application dated 17th January, 1973, 15 other applications including that of M/s. Anand Electronics for the manufacture of TV Picture Tubes were considered in January, 1974 and barring two approvals viz, those for WBIDC and M/s. Anand Electronics, given with a view to serve regional requirements and in the light of overall considerations of capacity constraint and non-approval of import of technology, all the remaining 14 applications were rejected. This decision taken in January, 1974 was communicated to ECIL in May, 1974 stating there was no scope for licensing further capacity in this line of manufacture.

B. Licencing for Computers

4.14. The Committee were informed that ECIL was the only major national company licenced to manufacture a range of computer systems covering the scientific, real time and business application areas. Over the last 4 to 5 years, a number of competitions like DCM, Operations Research Group and Hindustan Computers Limited, etc., were stated to have entered the field of marketing computer systems to cater to essentially commercial applications. These companies were perhaps adopting the kit assembly methods by importing fully tested printed circuit boards completely assembled with components. These methods implied almost total import of the computers without any significant manufacture involved in the process. It was difficult for any indigenously manufactured product to compete with these almost imported products. Operations of these companies were stated to be cutting into ECIL's computer business in a big way because the systems being supported by these companies were covering the EDP range from the small micro computer to the systems bordering on performance range of ECIL's TDC-312, TDC-316 class of machines.

4.15. The ECIL informed the Committee in a note that ICIM, subsidiary of ICL has been given a licence to manufacture 2,904 series computer systems which were comparable to the medium and large scale computer systems manufactured by ECIL.

In regard to giving licence to ICL, the Secretary, Department of Electronics, stated that in terms of specifications, performance and volume of production, ECIL was producing a relatively small number of TDC-312 and TDC-316 computers when ICL was given the licence in 1978. TDC-312 and TDC-316 in no way clashed with ICL-2904. The Committee were also informed by a representative of the Department that at that time the trend of import of computers was running at a rate of 5 or 6 computers and this trend

was expected to go up. So it was thought to economise the imports. ECIL's TDC-332 was still on paper in the sense they were in the process of designing it. There was also a distinct gap between TDC-316 and TDC-332. The Department of Electronics wanted to fill this gap by giving licence to an Indian company. At that time only ICIM could give the necessary technology.

4.16. The Secretary, Department of Atomic Energy informed the Committee that they had objected to ICL being given licence for manufacture of 2904 computers. A representative of the Department of Electronics admitted that ECIL had requested the Government to wait for a year or so. When asked to state the reasons for not accepting ECIL's request, the witness stated that the import trend was on the increase and the Department of Electronics' assessment was that ECIL's TDC-332 programme might not be ready by March, 1979. Therefore it was thought expedient to get another production programme on the ground. In this connection, the Secretary, Department of Electronics stated:

"We are now given to understand that TDC-332 can be made fully operational by the end of 1981. There would be no conflict, since TDC-332 is very powerful."

4.17. On being enquired whether all these points were discussed with the Electronics Corporation of India, a representative of the Department of Electronics informed the Committee.

"This particular question was examined on technical grounds and a Committee was set up by the then Chairman, Prof. M.G.K. Menon. This particular Committee, consisting of technical people, people from industries, academic institutions and so on, deliberated on the specifications for 2903/2904 series with respect to ECIL's product ranges like TDC-316 and TDC-332. We knew the specifications of the systems that they already had. From point of view, we did have discussions, but they were not part of the Committee."

4.18. In reply to a question whether the matter was discussed at the highest level with the Department of Atomic Energy and whether they were convinced, a witness stated:

"It was not discussed with the Chairman, Atomic Energy Commission, but it was discussed with the management of ECIL...They did not agree, but we made an assessment.'

4.19. According to a report appearing in the journal 'Computer Weekly International' dated 16-3-1978, ICL would in fact be manufacturing 2903s and call them 2904 series. When the Committee desired to know whether the Department of Electronics had taken any precautions in this regard, the Secretary of the Department stated:

"Whether it is a small licensed manufacturer with imported contents or a large computer manufacturer, the licensed party has to provide a phased manufacturing programme and a year by year indigenisation programme... We know that they are going according to the phased manufacturing programme. If they are making any deviation, we will know it. We have a standing committee which monitors the entire thing. They cannot get away like that because they have to supply to the various people and the computer professional community in this country is very well integrated. We have an effective monitoring mechanism by which we feel we would be able to look into this aspect and at present, I have no apprehensions."

4.20. The Committee were given to understand by ECIL that in an earlier case where ICL were given licence to manufacture 1901-A computers, that company did not meet the obligations stipulated in that licence. Mere assembly operations resorted to by them resulted in neither any technology transfer nor any employment potential. The representative of the Department of Electronics conceded this during evidence and stated:

"The facts are like that. They did not carry through the programme. They stopped inbetween."

4.21. When the Committee desired to know what precautions had been taken before granting the licence for 2904 series to ensure that ICL would now fulfill the terms of the licence, the witness stated:

"....before it was approved, we had detailed discussions with the Indian company as well as the foreign collaborators, what technology they were going to have..... Government had the means to control the company and make them behave. We have used all the means in terms of approving the phased programme and then only licence is issued."

4.22. On the question of the programme of manufacture given by ICL and quality of computers manufactured so far the witness informed:—

“100 computers in five years were to be given. In the first year they have to produce much smaller number—5 or 6 and subsequently to increase production to 20 per year. They produced five or six. Next year they will be producing 18..... The computer performance, we have not tested, because that is to be given to the customer. But we have checked that this has been manufactured according to our approval; the programme is also according to our approval.”

4.23. In reply to a question whether any enquiry had been made by the Department about the performance of the computers already supplied to customers by ICL, the witness replied in the negative. However, the Committee were assured that this would be done.

C. Import of Know-how ..

4.24. The Committee were informed by the Electronics Corporation that the State Electronics Development Corporation while looking for activity, were trying to take up product lines that were already existing. This resulted in duplication of the existing activities. Some times, even the duplication of activity was backed by imported technology. In other words for products for which the country had indigenous know-how, State Electronic Development Corporations were seeking foreign know-how. In this connection, the production of semiconductor devices, instrumentation, transreceivers etc. by different State owned electronics corporations were cited. The duplication of production of such electronic products was stated to result in unhealthy competition.

4.25. When asked by the Committee whether the Directorate General of Technical Development did not ensure that import of foreign know-how was not allowed in cases where indigenous know-how was available, the Managing Director, ECIL stated during evidence that DGTD was about to clear import in knock-down condition of PLC (programmable logic controller) from a foreign supplier while the same had already been developed by ECIL and it has also received an order for Rs. 1 crore from Bokaro Steel Plant. The witness also informed the Committee that according to Department of Electronics, when some body was issued a licence to manufacture, he must also have access to know-how—foreign or India. However, as far as ECIL was concerned, the Committee

were given to understand that before sharing the know-how with others, it would like to make some profit on the products developed by it. For example Haryana asked for know-how from ECIL for the trans-receivers developed by the Corporation. But ECIL declined the know-how since its production had not stabilised.

4.26. ECIL has suggested in a note furnished to the Committee that for efficient working of the Corporation, Government should draw some guidelines as to the areas where it thinks that the present technological gap between the foreign and the Indian know-how was large and where it was considered necessary to import foreign technology and the areas where imported technology would not be important. Government should draw guidelines on 3 or 5 years basis of area which would be reserved for indigenous technology.

4.27. Asked to state the Government's views in this regard, the Department of Atomic Energy intimated to the Committee:

"The above suggestion was made with special reference to the operations of the Computer Group of the Corporation whose performance has been adversely affected by the liberalised import policies for import of computer systems and sub-systems which have made the indigenous efforts infructuous. It was therefore suggested that specific areas which are of strategic and critical importance and wherein there is much greater need for sophisticated systems which the indigenous efforts may not be able to cater to, should be free for imports while all the rest of the areas and specially the field of consumer electronics like TV sets, measuring instruments, calculators etc., should be reserved for the indigenous industry even if it means sacrificing on latest available technology and increased cost of production.

The suggestion is based on the fact that if the indigenous electronics industry has to gradually become self-reliant then we must strike a balance between our desire to keep pace with the advances in the electronics technology abroad and what can adequately meet our modest requirements without compromising on the functional requirements of the systems. The Department had suggested that in areas such as steel, power defence, tele-communications, atomic energy and spaces it may be necessary to adopt the latest electronics systems either because of the

large investments in the sector or because of the strategic importance. It is also in these sectors that imports or foreign technical collaboration be allowed in a restricted manner and wherever possible such imports be largely confined to that of components. In the opinion of the Department, foreign collaboration for development of electronic sub-systems is not required except in very special cases.

While agreeing with the Department's views, the Sondhi Review Committee on Electronics recommended that there need be a list of banned items/processes for foreign collaboration leaving the entire residual areas free for foreign collaboration. The Committee recommended that full powers be vested in the Electronics Approval Board to examine and sanction proposals for foreign collaboration as well as equity participation even if this involves departures from the existing guidelines keeping the specific requirements of the electronic industry in view. The Committee, however, did not specify any list of items/processes or areas which will be earmarked for the indigenous industry and those wherein foreign collaboration will be banned.

4.28. In this connection, the Department of Electronics, have expressed their views as follows:—

"The process of the proposed identification has to be a continuous one. Certain areas which have presented themselves are those where the reliability of the products obtaining indigenously can meet the requirements of the coming few years. This also applies to areas which already have sizable investment. Illustrations can be cited as manufacture of Air Route Surveillance Radars, certain equipments required for the Meteorological Department etc. The guidelines for industry published by Department of Industrial Development contain an illustrative list of areas in the Electronic Industry in which collaboration with foreign parties has been banned. The list include General purpose transistors & Diodes, Paper, Mica and Variable Capacitors, TV Receivers, Tape-Recorders, Teleprinters, P.A. Systems, Record Players/Changers. Certain technologies developed indigenously through the grants of technology Development Council

of the Department of Electronics such as Quartz crystals for electronic watches, liquid crystal displays, etc. also constitute areas in which no foreign collaborations are permitted.

D. Foreign Collaboration

4.29. The Committee were informed by the Electronic Corporation of India that it has so far entered into three foreign collaboration agreements. These are:

- (i) With M/s. NERA Division of M/s. Elektrish Bureau, Norway relating to purchase of designs and drawings for manufacture and supply of microwave Antennas to the specifications laid down by P. & T. (9-2-1979).
- (ii) With M/s. Nippon Electric Co. Ltd., Japan relating to purchase of written technical information for manufacture of cassegrain type earth station antenna including feed, with a diameter of 7.5 mts. 4.5 mts. and 11 mts. (25-3-1979); and
- (iii) With M/s. Friesake and Hoepfner GMBH (West Germany), relating to purchase of designs and drawings for Isotope gauging equipment for the Bokaro Cold Rolling Mill Complex in the first instance and to various other steel, paper, rubber, textile, asbestos, cement, plastics and similar relevant industries thereafter. (4-7-1979).

4.30. Asked whether any defects were found in the agreements, the Corporation informed the Committee that as the collaboration agreements entered into with the foreign firms were for outright purchase of designs|drawings|know-how, it did not face any difficulties. However, from the details of the agreements furnished to the Committee, it was seen that the Corporation would also have to make payment of royalty on sales over a long period. On the attention of the Managing Director being drawn to this fact, he agreed that it was not a case of outright purchase of technology but a collaboration agreement. In respv to a question, the Committee were subsequently informed by ECIL that it made a lumpsum payment of Rs. 8.00 lakhs to NERA, Rs. 8.47 lakhs to NEC and Rs. 9.00 lakhs to Friesake and Hoepfner during 1979-80. When the Committee enquired whether there was a warranty clause in all these agreements, the witness informed that the Corporation would have to make extra payment to the foreign firms if their engineers came here to remove any difficulty and to ensure the performance.

4.31. When the Committee desired to know whether horizontal transfer of technology by ECIL was permissible, they were informed by the witness that the agreements contained clauses according to which technology could be transferred to any other party in the country only in consultation with the foreign firms. On being pointed out by the Committee that this was restriction unfavourable to ECIL, the Managing Director conceded:—

“It is not fully free”.

4.32. The witness, however, pleaded that all these collaborations had been looked into by the concerned Ministries, viz. Department of Electronic and Electronics Commission who were responsible for ensuring that imported technology was transferred horizontally in the most judicious manner. He further added that all these agreements had been approved by the Foreign Investment Board.

4.33. The Committee also noticed that the collaboration agreements contained the following clauses regarding export rights:—

- (i) Agreement with NERA: ECIL is free to export the products manufactured by them to any third country excepting Norway, Sweden, Finland, Denmark, Iceland, Nigeria, Bulgaria and China.
- (ii) Agreement with M/s. Nippon Electric Company Ltd., A non-exclusive right and licence to export antenna manufactured by ECIL using technical information from M/s. Nippon Electric Co. to certain countries listed in the agreement.
- (iii) Agreement with M/s. Frieske and Hoepfner, West Germany: A non-exclusive licence to ECIL to use and sell the products in the non-exclusive Territory during the currency of the agreement.

When the Committee enquired why such restrictions on export were accepted by ECIL, the Managing Director stated during evidence:—

“This is part of the bargain. This is the maximum they were able to agree”.

4.34. While discussing these restrictions on export rights, horizontal transfer of technology within the country, contained in the

collaboration agreements, the Secretary, Department of Electronics, informed the Committee:—

“Basically the conditions imposed by the Govt. are that horizontal transfer should be possibly on mutually agreed terms and, secondly, the export should be possible to all countries where the collaborator does not have any licence to manufacture. We understand, in this case favourable conditions have been incorporated.... It is hardly foreseen that we will need to transfer present technology to another company for some time to come because the requirement will not be that much to support the activities of two companies in this area.”

4.35. The witness, while adding that the agreements had been fully scrutinised, assured the Committee that their Department would examine them with a view to removing any lacunae and making them favourable in all respects.

E. Elimination of Bottlenecks.

4.36. The Committee were informed by the ECIL in a note that the Department of Electronics was responsible for making the recommendations in the matter of issue of licences and for import of electronic capital goods as well as for permission to enter into foreign collaboration agreements for progressive manufacture within the country.

4.37. The Corporation also reported to the Committee that in order to achieve a significant break-through in production, it was essential that certain bottlenecks mostly relating to industrial licensing and import procedures were eliminated. Asked to state what in the opinion of the Government were these bottlenecks and what steps were proposed to be taken to remove them, the Department of Atomic Energy informed the Committee that according to ECIL management, the semi-conductor technology was developing rapidly and the micro processors in the miniaturised LSI (Large Scale Integrated Circuits) chips were now available at very attractive prices. These micro-processors were now freely being used in control instrumentation with the result logic and sequential control cards were readily fitted into a variety of industrial equipment for the purpose of their control and efficient operation. It would, therefore, be very difficult to segregate the control and instrumentation electronics required for various machines and equipments for the purpose of monitoring imports. ECIL was stated to have suggested a procedure to prevent large-scale import of electrical control instrumentation, particularly

for large projects which appeared to have been implemented by the Department of Electronics of late. Similar complication was stated to be developing in the licensing area in the field of control instrumentation. A variety of equipment, such as, programmable Logic Controllers, Data Acquisition Systems were now being built using latest Semi-conductor technology. Even solid State controllers for ordinary motors would have similar control electronics. It was, therefore, becoming difficult to define exactly the scope of an industrial licence held by a party.

4.38. According to the information furnished by the ECIL, the Department of Electronics have announced a new policy in April, 1979 in regard to licensing and development of industries for mini/micro computers, electronics calculators and other micro-processor and medium/large size computers. The liberalised policy provided for careful monitoring application of the more complex products and import of various kinds of peripherals.

4.39. The objectives of the policy were stated to be as under:—

- (i) Marshalling uses along desired lines;
- (ii) Promoting system engineering capabilities appropriately in the small scale and the organised sectors;
- (iii) Bringing about standardization in regard to critical components and peripherals to the extent necessary;
- (iv) Ensuring that the indigenous industry is built up based on indigenous designing and manufacturing activity rather than on import of kits etc.; and
- (v) Import of technology, software etc. wherever needed, are approved and monitored in a coordinated manner.

4.40. The policy envisaged setting up of the inter-departmental Standing Committee to function in the Department of Electronics and the terms of reference were as follows:

- (i) Approval of phased manufacturing programme for the industry;
- (ii) Approval of raw-materials/components/peripherals import requirement for the industry.
- (iii) Foreign exchange allocation;

- (iv) Monitoring of the conditions on the letters of Intent/Small scale approvals, *vis-a-vis* having value of less than Rs. 3 lakhs and conformity with the phased manufacturing programme;
- (v) Consideration of the applications pending in this area and also consideration of fresh applications that may be received instead of normal practice by Screening Committee.

The setting up of the Standing Committee was expected to provide a focal point for the development and monitoring of this area of industry in a coordinated manner and to examine and dispose of applications for grant of capacity, import assistance and any other special problem which the industry might encounter in its developing phase.

4.41. On being asked why such coordination could not be affected earlier, the Secretary, Department of Electronics stated during evidence that the various ingredients of computers—whether micro or large—had gone through rapid changes in the seventies. There was a revolution in the semi-conductor technology. So it was considered fit to allow the industry in the international scene to settle down before taking any decision so that it could have a cost-effective approach. The witness added that the technology the world over effectively settled down round about 1978, and now the industries which have been licensed were going about vigorously on the programme of making micro-based systems, micro-computers and mini-computers.

4.42. In reply to the question how the arrangement now made would mitigate the hardships faced by existing electronic units in the country, particularly the ECIL, the witness stated:—

‘.....the Standing Committee would examine this. Normally in such areas, what happens is that various approvals as well as the requirements of phased manufacturing programme as well as the approval of raw material components and equipments, propositions from various companies etc. go around between the Ministries. We thought that it is expeditious if the various Ministries sit together and meet frequently and take decisions and arrive at a consensus on a particular approach rather than the matter going round in a land-roving fashion.’

F. Adverse Tariff Structure

4.43 In a note furnished to the Committee, the ECIL informed that at the time of its formation the Customs Duty was 60 per cent on electronic components and instruments and 40 per cent on heavy machinery imports. This tariff structure continued more or less unchanged till the year 1976-77 except for additional levies in the form of auxiliary duties which were gradually increased upto 15 per cent. After the ECIL specifically represented against the high incidence of customs duty on computer peripherals and its effect on the marketability of the indigenous computer systems, the customs duty on computer peripherals were reduced in 1977-78 from 101.25 per cent to 40 per cent. But this reduced duty was also made applicable for import of entire computer systems thereby again affecting the position of ECIL's indigenous computer systems *vis-a-vis* imported computer systems. It was added by the Corporation that though the Department of Electronics had a special procedure for clearing import of computer systems, as far as ECIL could see, it was virtually a liberalisation of the import of computer systems. In the year 1977-78 the customs duty on electronic components was also raised to 129 per cent again affecting the marketability of finished instruments *vis-a-vis* the imported equivalents. As of 1979-80 the customs duty has been hiked further to 137.6 per cent for electronic components, 89 per cent for instruments and 54 per cent for computer peripherals and computer systems.

4.44. The Corporation made a number of representations to the Government that the duty structure was heavily weighted in favour of the total systems preventing the growth of the indigenous industry. By importing the components and manufacturing these products within the country, the indigenous manufacturers were put in a great handicap as they were unable to recover the costs because of the availability of the imported items at far lower prices. The Government revised the tariff structure in June, 1980 wherein components attracted a duty of 56.6 per cent, instruments 89.0 per cent and computer systems and sub-systems a duty of 69.4 per cent.

4.45. When the Committee desired to know why initially customs duty on components was kept higher, a representative of the Department of Electronics stated in evidence that there was a basic difference in the mechanisms of protection of different segments of our electronics industry. In the case of computers, no computer could be imported without detailed scrutiny on a case by case basis by the Department of Electronics. This scrutiny was from several

aspects, but particularly from the viewpoint of indigenous availability and import substitution. The import tariff applied only to such computers as were so cleared by the Department. There being such detailed evaluation in every case, the import duty was reduced to 40 per cent.

4.46. This witness added that, in the case of electronic components going into systems and equipments (including computers) except for a relatively small number of components which were on the banned list of import policy, no protection by means of administrative regulation was provided. The protection to component industry was provided solely through tariffs. A high import duty of 137.6 per cent for components was fixed in order to make our components broadly competitive price-wise with the highly industrialised countries. Without such tariff protection, no one would invest in component production with the result that the country would be heavily dependent on imported components for its system and equipments.

4.47. The Secretary, Department of Electronics, however admitted in evidence that the tariff structure was not correct and it has been corrected. In this connection, the Committee were informed by another witness that as part of the 1980-81, Union Budget, the import tariff on the components going into mini micro and other types of computers was brought down from 137.6 per cent to 45 per cent (plus 8 per cent countryveiling duty) while on all other types of electronic components, the duty continued to be 137.6 per cent.

4.48. The working of a business enterprise cannot be assessed in isolation. It has to be viewed in the perspective of the environment in which the enterprise is working. The Committee have attempted to do this while examining the ECIL. Initially the accent in the company was rightly only on import substitution based on indigenous know-how. Liberalisation of imports in recent years on account of comfortable foreign exchange position and rapid development of technology in advanced countries with which ECIL could not keep pace had an unsettling effect on the company's operations. The demand for products thus came down and production had to be curtailed. There was, therefore, need for reorientation of the policies and programmes of the company; the need was there from 1975-76. In this connection, the Committee appreciate the frank deposition of evidence by the Secretary, Department of Atomic Energy that "we should have foreseen that at some stage our own

technology would have to be updated to meet that competition. That we were at fault, there is no doubt."

4.49. In order to cope with the rapid development of technology in advanced countries, 13 foreign collaborations are now under consideration besides the three that were finalised in the year 1979-80. A scrutiny of the terms of the collaboration agreements reveals that there are several restrictions on export rights and horizontal transfer of technology within the country. The Secretary, Department of Electronics assured the Committee that the agreements would be examined with a view to removing any lacunae and making them favourable in all respects. The Committee would await the result of the examination early.

4.50. The environmental impact on the ECIL was not confined only to rapid strides in technology elsewhere. The economic and fiscal policies of the government did affect the working of the company. The Committee, however, see that in a manner these are inter-related.

4.51. ECIL was the only major indigenous enterprise licensed to manufacture a range of computer systems covering the scientific, realtime and business application areas. Over the last 4-5 years a number of competitors have emerged to cater to essentially commercial applications. These are reported to be perhaps adopting the kit assembly methods by importing fully tested printed circuit boards completely assembled with components. The ECIL's grievance is that it is difficult to compete with these almost imported products. The Committee desire that this aspect should be gone into by the Department of Electronics.

4.52. Incidentally, the Committee understand that licence granted to ICIM, a subsidiary of ICL for the manufacture of 2904 series of computer system was initially objected to by the ECIL/Department of Atomic Energy. According to a report appearing in the journal 'Computer Weekly International' the concern would in fact be manufacturing a less sophisticated version (2903s) than what it was licensed for. The Secretary, Department of Electronics, while justifying the grant of license did not have any apprehension about quality. The Committee, however, note that the past performance of ICL in India was admittedly not satisfactory. The performance of the 2904 computers should therefore be ascertained from the users and the Committee informed.

4.53. Demand for ECIL computers was also affected by the IBM gifting away 150 computers on winding up their operation in India. Further, with the liberalised import policy, nearly Rs. 60 crores worth of computers were reported to have been imported in 1977 and 1978. According to the Managing Director, ECIL the company could have sold Rs. 10 crores worth of computers had the imports not been allowed.

4.54. Admittedly, the customs tariff structure between 1977-78 and 1979-80 was unsound as it was heavily weighted in favour of import of total computer systems preventing the growth of indigenous industry. The computer systems and sub systems attracted lower duty whereas components attracted much higher duty. The Committee, however, note that after the company had represented a number of times the anomaly has been removed in June 1980. The duty on components was brought down from 137.6 per cent to 45 per cent plus 8 per cent countervailing duty. The Committee feel that there must be some arrangement in Government to promptly assess the impact of fiscal policies and to change the policies to the extent necessary.

4.55. On the one hand the ECIL's products like computers were reported to have been rendered unprofitable on account of the industrial licensing and import policies of government, on the other profitable lines of production were either not allowed to be established or expanded. The Committee have already referred to the expansion of capacity for TV sets. In 1979, the company was refused a licence for the manufacture of TV Tubes although it had the necessary know-how on the ground that there was no need for additional capacity. Yet, at the same time, a licence was granted on regional considerations to a private firm which did not have the requisite know-how. However, it came to light that when licences were granted to some more private units two years later,—the ECIL's claim was not considered on a purely technical ground that the company did not renew its application. The Committee are unable to resist a feeling that had the ECIL been under the administrative control of the Department of Electronics it would have made a difference.

4.56. Since 1975-76 there has been progressive liberalisation of import control. Lately a wide range of capital goods has been brought under OGL. The liberalisation is stated to have had the effect of encouraging considerably import of goods previously not allowed to be imported. Particularly the instruments' division of

the ECIL is reported to have been affected badly by such imports. Owing to liberal imports of testing and measuring instruments the company income from sales suffered Rs. 1.19 crores during 1978—80. The Committee, however, understand that the matter was not formally taken up in time with the Government. The Committee desire that the matter should be examined by Government on the basis of the suggestions now given by the ECIL.

4.57 In a developing situation there is trade off between imports of products and know-how, and indigenous development. There has to be a clear policy in this regard, at least in the short run, and the areas have to be demarcated so that the indigenous concerns like the ECIL could plan their activities in advance. Frequent changes in policy and uncertainties can seriously hamper the progress of indigenous industry. The Committee feel that the matter deserves immediate consideration. It is apparent to the Committee that although the Department of Electronics is responsible for making recommendations in the matter of issue of licences and import of electronic goods as well as permission to enter into foreign collaboration there is not much of coordination with the public sector production units and other related administrative Ministries. This aspect should also be considered forthwith. The Committee are anxious to obviate any kind of hardship unwittingly caused to indigenous industry by the operation of economic and fiscal policies of Government. In order that this may be ensured there should be a periodic and well coordinated review of policies.

CHAPTER V

GENERAL

A. Board of Directors

5.1 According to the instructions issued by the BPE in 1975 for 'on going' projects about 43 reports on 11 subjects were to be sent by the company to the administrative Ministry at periodical intervals. From the minutes of Board Meetings of ECIL, it was noticed that of these 43 reports, only 4 quarterly profit and loss account and financial position reports were being gone into by the Board of Directors. When the Committee enquired as to why the Board did not go into reports like monthly production performance, machine utilisation, sales, order book position, inventory, exports, employment, internal resources and management ratios periodically to ensure effective control, the Managing Director ECIL stated in evidence that the Board met once a quarter and discussed the monthly status report which contained data regarding division-wise production, sales, pending items, inventories, reasons for deviation from planned targets etc.

B. Annual General Meetings

5.2. According to Section 171(1) of the Companies Act, 1956, a notice of not less than twenty-one days is required to be given in writing for holding an annual general meeting. The date of issue of notice and the dates of Annual General Meetings of the ECIL during the last three years were as follows:—

Number of Annual General Meeting	Date of Issue of Notice	Date of Meeting
13th	31-8-1980	6-9-1980
12th	29-7-1979	1-8-1979
11th	4-9-1978	4-9-1978

5.8. It was noticed that the notice of twenty-one days was not given in any of the annual general meetings of the company held

during the last at least 8 years. Asked to state the special circumstances, if any, necessitating holding of the annual general meeting at a very short notice, the Corporation in a note furnished to the Committee stated:—

“There are no special circumstances necessitating to hold the AGM (Annual General Meeting) by giving a shorter notice. However, on the dates on which AGMs were held, it so happened that invariably a Board meeting was also held. The Government Directors being busy and some of them also being shareholders, it was felt that holding the AGM on the same day as that the Board Meeting would facilitate their attendance at the AGM.”

It was added by the Corporation that whenever AGM was held without giving 21 days notice, waiver of the notice period was obtained from the shareholders as required under Section 171 of the Companies Act.

C. Performance Review Meetings

5.4. According to instructions issued by the Bureau of Public Enterprises, Performance Appraisal Meetings in respect of production enterprises were to be held not less frequently than once in six months. These are required to be held every quarter since 1975 as per instructions issued in March 1975. Asked to state the number of times such meetings were held in respect of ECIL during the period 1977-78 to 1979-80, the Department of Atomic Energy intimated the Committee that two meetings—one in February, 1979 and another in June 1980—were held during this period. When the Committee pointed out the importance of such meetings particularly in view of the deteriorating performance of the Corporation, they were assured by the Secretary, Department of Atomic Energy during evidence:—

“We will hold meetings now more frequently as required by BPE.”

5.5. Within the limited time at their disposal, the Committee have endeavoured to undertake a fairly comprehensive appraisal of the working of the ECIL. Their examination has revealed many shortcomings. To overcome these shortcomings control and direction were needed, but both were sadly lacking. There was no effective check on the management by the Board of Directors or the

General Body or even by the Administrative Department. The Board failed to give appropriate policy directions to the management in time. The Government could have corrected the position. In this connection, the Committee note that though a variety of performance reports are sent to Government periodically, even on a monthly basis, not all of them were placed before the Board of Directors. Surprisingly, the Board had only quarterly meetings during the period when the company was in the red. The Committee are of the view that there should be tighter control over the management by the Board rather than by Government and that the Board should be made accountable to the Government. There should, therefore, be more frequent meetings of the Board.

5.6. The Annual General Body meetings have been reduced to a farce. The meetings are summoned with ridiculously short notice. The notice for the meeting on 4 September 1978 was issued on the same day. The kind of control that the shareholders could exercise on the basis of the documents circulated on the day of the meeting could well be imagined. The Committee desire that in future such things should not happen.

5.7. It is distressing that there has been virtually no action oriented reviews of performance of the ECIL by the Department of Atomic Energy. During the last three years 1977—80 only one meeting was held as against the prescribed quarterly meetings which should have been 12 in all. Especially in view of the deteriorating performance of the company, performance reviews should be organised in the manner already laid down by Government. The Committee have no doubt that ECIL would not have landed in this mess had the control, coordination and policy formulating system worked properly and satisfactorily.

NEW DELHI;
April 20, 1981
Chaitra 30, 1903 (S).

BANSI LAL,
Chairman,
Committee on Public Undertakings.

APPENDIX

Summary of Conclusions/Recommendations of the Committee on Public Undertakings contained in the Report.

S. No.	Reference to Para No. in the Report	Summary of Conclusions/ Recommendations
(1)	(2)	(3)
1	1.19	<p>The Electronics Corporation of India Ltd. was set up in 1976 with the primary objective of designing and manufacturing electronics components, instruments and systems. The company which had been making profits from the fourth year of its incorporation went into the red recently. There have been heavy losses to the extent of Rs. 105 lakhs in 1977-78 and Rs. 146 lakhs in 1978-79. The total investment in the company by Government was Rs. 1589 lakhs comprising Rs. 785 lakhs equity and Rs. 804 lakhs loan as at the end of March 1980. Except in 1972-73 and 1973-74 no dividend was received by the Government so far. Thus, in the age of electronics a venture of this kind which ought to be a paying proposition has not on the whole given a good account of itself and lately has become an object of concern.</p>
2	1.20	<p>The ECIL has at present 13 production divisions and it turns out about 250 diverse products. Five production divisions viz. Computer, Semi-conductor, Micro-wave, Servo control and Antenna system have incurred losses during the last three years. The aggregate losses of these divisions were Rs. 162.12 lakhs in 1977-78, Rs. 297.93 lakhs in 1978-79 and Rs. 122.09 lakhs in 1979-80. Computers fared very badly throughout this period, Product-wise 21 in 1977-78, 30 in 1978-79 and 12 in 1979-80 were reported to be unprofitable.</p>

(1)	(2)	(3)
3	1.21	The company landed in this situation on account of factors, partly environmental but largely of its own making. Excessive research orientation rather than commercial, self-imposed restraint on adopting foreign knowhow even on a selective basis in a vastly changing electronic environment unprofitable product mix and lack of effective market surveys and sales promotion as well as cost efficiency were some of the predominant factors. The economic and fiscal policies of Government have also had an adverse impact on the company. Corrective steps have been initiated belatedly. The Committee have dealt with these aspects in the succeeding sections of this Report.
4	1.22	The company has since closed down the microwave division and eliminated 7 products. The Committee desire that the product mix should be reviewed critically by the Board of Directors periodically and the results of the review indicated in the Annual Reports of the Directors. The Committee note that the recommendation of the Sondhi Committee for the merger of the computer division of the ECIL with the Computer Maintenance Corporation was to be considered by a high-power committee under the chairmanship of the Cabinet-Secretary. The Committee suggest that pending a decision on the merger, the maintenance of the ECIL computers with the users should be attended to by the Computer Maintenance Corporation.
5	1.25	The ECIL took up initially commercial exploitation of the capability developed at Bhabha Atomic Research Centre and about 300 personnel of the Research Centre formed the nucleus of the staff of the company. The company was thus an offshoot of the Research Centre. The Committee have received an impression that the

(1)

(2)

(3)

company as not still outgrown the excessive research culture of the erstwhile Atomic Energy Establishment. It continued to develop certain products though the demand did not justify their development. A number of projects which were commercially unviable have been taken up for various Government Departments without a specific directive from Government. During 1977-80, a loss of about Rs. 20 lakhs was incurred on five such projects. The Committee feel that the time has come for the ECIL to develop an efficient commercial management culture. They have been assured by the Secretary, Department of Atomic Energy, that the R & D activities of the company were being drastically changed and that much of these activities would be moved out to the BARC/National Laboratories. The Committee would await the action taken in this regard.

6

1.44

The working capital employed by the ECIL is disproportionate to its activities and it exceeded six months' value of production at cost from year to year. At the end of March 1980 it amounted to Rs. 22.72 crores and it was financed mainly from cash credit (Rs. 14.37 crores). The working capital has been locked up in heavy inventory and trade credits. The level of inventory was Rs. 28.19 crores and it represented 8.9 months' sales. During the period 1975-80 sales consistently fell below the value of production except in the year 1978-79. The result was a net addition to the inventory of works-in progress and finished goods to the extent of Rs. 10.97 crores. Losses have arisen from the investment of the working capital in trading stocks that were subsequently rendered obsolete. During the last three years the value of stock written off was Rs. 2.22 crores. Inadequate credit control has caused large sums to be unnecessarily

(1)	(2)	(3)
ly immobilised in the financing of credit to customers. At the end of March 1980 the outstanding dues amounted to Rs. 11.24 crores. Of these Rs. 199 crores were more than one year old, and no interest is charged on the overdues although the company pays interest at the rate of 18.4 per cent on the cash credit it takes for financing working capital. The situation which contributed in no small measure to the losses of the company, thus calls for strict inventory and credit control. The Committee would suggest the following in particular:—		

Uneven sales during the year and building up of inventory of finished goods for a long time should be avoided by properly staggering the production programme and marketing after rationalising the product-mix and adjusting the production to match the sales. Norms should be evolved for inventory holding, and strictly enforced. In order to have proper watch over the disposal of inventories whenever any item is written off, it should not be removed from the main account books reducing the value to nullity. A system of incentive for prompt payment of dues by the customers and disincentive for delay payment should be adopted. In any case interest at the market rate should be charged on outstanding dues.

7 2.36

There was shortfall in production (5 to 19 per cent) and sales (13 to 26 per cent) compared to what was planned for by the company during all the years 1975-76 to 1979-80. The production and sales were Rs. 43.61 crores and Rs. 41-42 crores as against the planned levels of Rs. 53.97 crores and Rs. 55.61 crores respectively in 1979-80. Undoubtedly there has been under-utilisation of men and machine. A combination of factors has led to this phenomenon. Lack of

(1)	(2)	(3)
<p>orders for products of some of the divisions and delay in completion of long-term contracts are stated to be the main reason. There are, however, production constraints for products of two divisions, <i>viz.</i>, commercial TV sets and power reactor instrumentation and control products. There are demand constraints in respect of products of four divisions, <i>viz.</i>, computers, instruments, semi-conductor devices and Servo and gear motors. Though half of the products of the ECIL is monopolistic in nature the other half faces stiff competition. The products that face such competition are stated to be TV, computer, semi-conductors, instruments and communication equipments. The Committee have, however, received an impression that the existence of a captive market offered by the Departments of Government and other public undertakings has lulled the company into complacency about sales promotion. The customer composition shows that the sales to purely private individuals/institutions is only 12 per cent excluding TV and 30 per cent including TV. In such a situation the company could improve its turnover and get over the losses only by an imaginative market survey and sales promotion altering the product mix and cutting down on costs.</p>		

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2.37

The Committee note that in the electronic industry where there are multipurpose capital goods and testing equipments it is not feasible to identify the capacity for production of various products. In the alternative it is imperative to ensure the optimum use of men and machines. The extent of the use is the index of efficiency. The Committee are, therefore, surprised that the ECIL has not systematically ascertained the extent of idle time of men and machines and analysed the causes for a meaningful production and cost control. It was only recently in 1979-80 that the utilisation of machines, each costing

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9	2.38	<p>more than Rs. 50,000 was ascertained. This showed that out of 83 such machines, 31 were utilised to the extent of less than 50 per cent of the available time. Some of the machines were utilised to the extent of 10 per cent. The Committee have been informed that 5 machines which could not be utilised at all were being sold. That there should have been a laxity in the past in exercising the kind of control that has been lately brought about is deplorable. The Committee recommend that there should also be an analysis of manhour utilisation for appropriate timely action to improve it and to redeploy labour wherever necessary. The position in regard to manhour and machine-hour utilisation should be brought out in the annual report of the company in future.</p>
10	2.39	<p>There has been deplorably delay for more than one year in execution of eight long-term contracts of the value range Rs. 47 lakhs to Rs. 202 lakhs for supply of power reactor instrumentation and computer system. The delay resulted in reduction of profits in 3 cases and loss of Rs. 24.49 lakhs as against anticipated profit of Rs. 10 lakhs in one case. Further, a number of major profitable programmes planned for 1979-80 did not materialise. All this clearly shows that there has been no system of project monitoring and control. It is only now after the Committee took up the company for examination that a system of reporting in this regard to the Board of Directors is sought to be introduced. The Committee trust that in future there will be no negligence on the part of the management.</p>
		<p>TV Division of the ECIL is quite remunerative. The Committee note that though there is demand for EC TV sets the production could not be augmented, the Government having as a matter of policy refused to license the expansion beyond 20,000 sets per annum. But the company had circumvented this restraint by sharing its</p>

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		known-how with State Electronic Corporations and undertaking the marketing of the sets (18,000 in 1979-80) manufactured by them. The Committee, however, understand that the Department of Electronics have recently recommended expansion of ECIL's capacity to 40,000 sets. The Committee expect that the ECIL should aim at complete customer satisfaction.
11	2.40	Another division where production constraint is encountered on account of licensing policy of the Government is that of process control instrumentation. The Committee note that already Instrumentation Ltd., Kota and Keltron are in the field of conventional instrumentation, but the ECIL has also the capability. The Department of Electronics are in favour of a division of labour amongst public sector companies and feel that ECIL should confine itself to computer based control system. The Committee desire that the matter should be settled early so that the ECIL can gear up its production programme for the future.
12	3.30	As pointed out by the Committee earlier, there is not much of cost control consciousness in the ECIL. Selling prices of several products had been fixed lower than the cost of production/ cost of sales. There were 44 such cases in 1977-78, 54 in 1978-79 and 32 in 1979-80. With the available data the Committee are unable to form an opinion as to how far such large-scale under pricing was commercially wise. The company's expectation in some cases that with the market picking up the fixed cost per unit would come down, did not materialise. Further, in a number of cases the management had to renegotiate on coming to know that the prices quoted before undertaking production on contract basis was lower than the cost of production. Admittedly, no scientific standard costing system has been

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introduced in the company. Such a system is necessary for cost control on the basis of analysis of usage and rate variances between standards and actuals. The Committee also notice that Instruments and Computer Marketing Divisions are incurring losses on account of the company not realising the cost of services and the cost of spares from the service contract fees and the sale price of spares respectively. There is a case for increasing the computers maintenance charge, which is at present 5 per cent as gainst 11 per cent charged by the Computers Maintenance Corporation for imported computers.

13 3.31 According to instructions issued by Government in December 1968, the pricing of products, monopolistic or semi-monopolistic in nature, should be within the landed cost of comparable imported goods. In circumstances where the cost of production is very high and it becomes necessary to have the prices higher than the landed cost the matter should be referred to the administrative Ministry concerned for examination in depth in consultation with the Ministry of Finance|BPE etc. However, the prices of such products of ECIL are stated to be fixed on the basis of landed cost plus 20 per cent as per the guidelines of Committee of Secretaries. The Committee wish to point out in this connection that there cannot be a general permission to fix the prices at a higher level in all cases. There should be a case to case study of the cost structure and cost efficiency and thereafter the prices should be determined as otherwise it will encourage inefficiency.

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The Committee suggest that in view of the foregoing analysis the cost structure and the

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costing system need to be gone into. On the basis of a review the scope for economy should be identified and prices rationalised. There is scope for cutting down on "overheads" and improving productivity of labour. In a labour intensive industry such as electronics overheads to the extent of about 60 per cent seems incredibly high. Further, the value added per man month declined from Rs. 2045 in 1976-77 to Rs. 1901 in 1977-78 and Rs. 1816 in 1978-79 but increased to Rs. 2184 in 1979-80. Evidently manpower utilisation is poor. The Committee desire that the ratio of value added to wages plus depreciation which is at present 2 should be progressively improved. In this connection the Committee would stress that the proposed incentive bonus scheme should be introduced without further delay.

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The working of a business enterprise cannot be assessed in isolation. It has to be viewed in the perspective of the environment in which the enterprise is working. The Committee have attempted to do this while examining the ECIL. Initially the accent in the company was rightly only on import substitution based on indigenous know-how. Liberalisation of imports in recent years on account of comfortable foreign exchange position and rapid development of technology in advanced countries with which ECIL could not keep pace had an unsettling effect on the company's operations. The demand for products thus came down and production had to be curtailed. There was, therefore, need for reorientation of the policies and programmes of the company; the need was there from 1975-76. In this connection, the Committee appreciate the frank deposition of evidence by the Secretary, Department of Atomic Energy that "we should have foreseen,

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		that at some stage our own technology would have to be updated to meet that competition. That we were at fault, there is no doubt."
16	4.49	In order to cope with the rapid development of technology in advanced countries, 13 foreign collaborations are now under consideration besides the three that were finalised in the year 1979-80. A scrutiny of the terms of the collaboration agreements reveals that there are several restrictions on export rights and horizontal transfer of technology within the country. The Secretary, Department of Electronics assured the Committee that the agreements would be examined with a view to removing any lacunae and making them favourable in all respects. The Committee would await the result of the examination early.
17	4.50	The environmental impact on the ECIL was not confined only to rapid strides in technology elsewhere. The economic and fiscal policies of the government did affect the working of the company. The Committee, however, see that in a manner these are inter-related.
18	4.51	ECIL was the only major indigenous enterprise licensed to manufacture a range of computer systems covering the scientific, realtime and business application areas. Over the last 4-5 years a number of competitors have emerged to cater to essentially commercial applications. These are reported to be perhaps adopting the kit assembly methods by importing fully tested printed circuit boards completely assembled with components. The ECIL's grievance is that it is difficult to compete with these almost imported products. The Committee desire that this aspect should be gone into by the Department of Electronics.

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19	4.52	Incidentally, the Committee understand that licence granted to ICIM, a subsidiary of ICL for the manufacture of 2904 series of computer systems was initially objected to by the ECIL/Department of Atomic Energy. According to a report appearing in the journal 'Computer Weekly International' the concern would in fact be manufacturing a less sophisticated version (2903s) than what it was licensed for. The Secretary, Department of Electronics, while justifying the grant of license did not have any apprehension about quality. The Committee, however, note that the past performance of ICL in India was admittedly not satisfactory. The performance of the 2904 computers should therefore be ascertained from the users and the Committee informed.
20	4.53	Demand for ECIL computers was also affected by the IBM gifting away 150 computers on winding up their operation in India. Further, with the liberalised import policy, nearly Rs. 60 crores worth of computers were reported to have been imported in 1977 and 1978. According to the Managing Director, ECIL, the company could have sold Rs. 10 crores worth of computers had the imports not been allowed.
21	4.54	Admittedly, the customs tariff structure between 1977-78 and 1979-80 was unsound as it was heavily weighted in favour of import of total computer systems preventing the growth of indigenous industry. The computer systems and subsystems attracted lower duty whereas components attracted much higher duty. The Committee, however, note that after the company had represented a number of times the anomaly has been removed in June 1980. The duty on components was brought down from 137.6 per cent to 45 per cent plus 8 per cent countervailing

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duty. The Committee feel that there must be some arrangement in government to promptly assess the impact of fiscal policies and to change the policies to the extent necessary.

22 4.55 On the one hand the ECIL's products like computers were reported to have been rendered unprofitable on account of the industrial licensing and import policies of government, on the other profitable lines of production were either not allowed to be established or expanded. The Committee have already referred to the expansion of capacity for TV sets. In 1974 the company was refused a licence for the manufacture of TV Tubes although it had the necessary know-how on the ground there was no need for additional capacity. Yet, at the same time, a licence was granted on regional considerations to a private firm which did not have the requisite know-how. However, it came to light the when licenses were granted to some more private units two years later, the ECIL's claim was not considered on a purely technical ground that the company did not renew its application. The Committee are unable to resist a feeling that had the ECIL been under the administrative control of the Department of Electronics it would have made a difference.

23 4.56 Since 1975-76 there has been progressive liberalisation of import control. Lately a wide range of capital goods has been brought under OGL. The liberalisation is stated to have had the effect of encouraging considerably import of goods previously not allowed to be imported. Particularly the instruments' division of the ECIL is reported to have been affected badly by such imports. Owing to liberal imports of testing and measuring instruments the company's income from sales suffered Rs. 1.19 crores during 1978-80. The Committee, however, un-

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derstand that the matter was not formally taken up in time with the Government. The Committee desire that the matter should be examined by Government on the basis of the suggestions now given by the ECIL.

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In a developing situation there is trade off between imports of products and know-how, and indigenous development. There has to be a clear policy in this regard, at least in the short run, and the areas have to be demarcated so that the indigenous concerns like the ECIL could plan their activities in advance. Frequent changes in policy and uncertainties can seriously hamper the progress of indigenous industry. The Committee feel that the matter deserves immediate consideration. It is apparent to the Committee that although the Department of Electronics is responsible for making recommendations in the matter of issue of licences and import of electronic goods as well as permission to enter into foreign collaboration there is not much of coordination with the public sector production units and other related administrative Ministries. This aspect should also be considered forthwith. The Committee are anxious to obviate any kind of hardship unwittingly caused to an indigenous industry by the operation of economic and fiscal policies of Government. In order that this may be ensured there should be a periodic and well coordinated review of policies.

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Within the limited time at their disposal, the Committee have endeavoured to undertake a fairly comprehensive appraisal of the working of the ECIL. Their examination has revealed

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many shortcomings. To overcome these shortcomings control and direction were needed, but both were sadly lacking. There was no effective check on the management by the Board of Directors or the General Body or even by the Administrative Department. The Board failed to give appropriate policy directions to the management in time. The Government could have corrected the position. In this connection, the Committee note that though a variety of performance reports are sent to Government periodically, even on a monthly basis, not all of them were placed before the Board of Directors. Surprisingly, the Board had only quarterly meetings during the period when the company was in the red. The Committee are of the view that there should be tighter control over the management by the Board rather than by Government and that the Board should be made accountable to the Government. There should, therefore, be more frequent meetings of the Board.

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The Annual General Body meetings have been reduced to a farce. The meetings are summoned with ridiculously short notice. The notice for the meeting on 4 September 1978 was issued on the same day. The kind of control that the shareholders could exercise on the basis of the documents circulated on the day of the meeting could well be imagined. The Committee desire that in future such things should not happen:

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It is distressing that there has been virtually no action oriented reviews of performance of the ECIL by the Department of Atomic Energy. During the last three years 1977-80 only one meeting was held as against the prescribed quarterly meetings which should have been 12

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in all. Especially in view of the deteriorating performance of the company, performance reviews should be organised in the manner already laid down by Government. The Committee have no doubt that ECIL would not have landed in this mess had the control, coordination and policy formulating systems worked properly and satisfactorily.
