C. P. U. No. 505

COMMITTEE ON PUBLIC UNDERTAKINGS

(1982-83)

(SEVENTH LOK SABHA)

SIXTY-SEVENTH REPORT

ON

HINDUSTAN ANTIBIOTICS LTD.

(MINISTRY OF CHEMICALS & FERTILIZERS)

Presented to Lok Sabha on 28 APR 1983

and

Laid in Rajya Sabha on 28 APR 1983

LOK SABHA SECRETARIAT
NEW DELHI

April 1983/Chaitra 1905 (Saka)

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Page	Para	Line	For	Read
(iii)	-	7	Shrimati Gurbirindor Kaur Brar	Shrimati Gurbrinder Kaur Brar.
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2	1.6	23	Aurogungin	Aureofungin
6	1.17	6	once	one
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10	2.1		Rearrange existing lines 5 to 7 to read as lines 7,6 & 5	
14	2.15	1	Governments	Government
14	2.16	2	contrary	country
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17	2.25	4	experience	experienced
18	2.30	2	programmes	programme
19	2.31	Col.7 line 4	7.88	7.78
21	2.36	5	know	knew
22	2.39	12	contaminants	contaminents
22	2.39	last	insert "is" after "programme"	
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25	2.51	13	sign of full stop	sign of coma
27	2.55	3	used	use
29	2nd	11	lives	gives
29	2nd	18	glasslied	glasslined
30	2.64	9	insert "sell" after "likely"	
30	2.65	3	of	in
34	2.78	21	cast	cost
34	2.79	4	are	and
39	4.5	Col.3 line 1	431.82	531.82
40	4.7	10	delete "an"	
41	4.12	13	delete "we"	

Page	Para	Line	For	Read
42	4.13	11	does	dose
46	4.30	2	the	in
48	4.35	21	may	many
49	4.35	22	present	percentage
52	5.3	14	out	our
65	6.11	last	1977	1971
67	6.22	last	fan	ban
68	6.23	1	closed	close
74	2.67	10	force	fore

CONTENTS

		Page
	Composition of the Committee	(iii)
	Composition of Study Group I	(v)
	Introduction	(vii)
I.	Role of HAL	1
	A. Objectives & Obligations	1
	B. IDPL *vis-a-vis* HAL	7
II.	Production Performance	10
	A. Delays in Creating Additional Capacities	10
	B. Plan for replacement of equipment	16
	C. Capacity Utilisation and production	19
	D. Complaints	31
	E. Standard Costing	32
III.	Pricing	35
IV.	Marketing	39
	A. Marketing	39
	B. Central Marketing Organisation	45
V.	Financial Matters	51
	A. Working Results	51
	B. Sundry Debtors	56
	C. Inventory Control	58
	D. Internal Audit	59
	E. Performance Review	69
VI.	General	62
	A. Industrial Relations	62
	B. Research & Development	63
	Appendix	
	Statement of conclusions/recommendations of the Committee on Public Undertakings contained in the Report	69

1—28LSS/83

COMMITTEE ON PUBLIC UNDERTAKINGS
(1982-83)

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STUDY GROUP I ON SCOOTERS INDIA LTD., HINDUSTAN ANTI-BIOTICS LTD., LIFE INSURANCE CORPORATION OF INDIA, UNITED INDIA INSURANCE CO. LTD. AND PRODUCTIVITY IN PUBLIC UNDERTAKINGS

1. Shri Kamaluddin Ahmed—*Convener*
2. Shri Krishna Chandra Halder—*Alternate Convener*
3. Shri Bhogendra Jha
4. Prof. Ajit Kumar Mehta
5. Smt. Girbirinder Kaur Brar

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Sixty-Seventh Report on Hindustan Antibiotics Ltd.

2. The Committee also examined Paragraph VIII of the Report of the Comptroller and Auditor General of India, Union Government (Commercial) 1981, Part XII—Miscellaneous Topics of Interest.

3. The Committee took evidence of the representatives of National Fertilizers Ltd. on 12, 13 and 14 October, 1982 and of the Ministry of Chemicals and Fertilizers on 27 and 28 January, 1983.

4. The Committee considered and adopted the Report at their sitting held on 7 April, 1983.

5. The Committee wish to express their thanks to the Ministry of Chemicals and Fertilizers and Hindustan Antibiotics Ltd. for placing before them the material and information they wanted in connection with the examination of the Company. They also wish to thank in particular the representatives of the Ministry of Chemicals and Fertilizers and of the Hindustan Antibiotics Ltd. who gave evidence and placed their considered views before the Committee.

6. The committee also place on record their appreciation of the assistance rendered to them by the Comptroller and Auditor General of India.

MADHUSUDAN VAIRALE

Chairman,

Committee on Public Undertakings.

NEW DELHI :
April 16, 1983
Chaitra 26, 1905(*S*)

ROLE OF HAL

A. *Objects and Obligations*

Hindustan Antibiotics Ltd. (HAL) established in March 1954 is mainly engaged in production of penicillin, streptomycin, Vitamin C, ampicillin and various formulations. One of the objectives of the Company is to add new lines to products and sub-products around the strength of expertise both vertically and horizontally and thereby attain 'commanding heights' in the drugs field and especially in the antibiotics field.

1.2 The Government had in November, 1970 accepted the recommendations of the Administrative Reforms Commission that they should, in consultation with the public undertakings, make a comprehensive and clear statement on the objectives and obligations of public undertakings laying down the broad principles for determining their precise financial and economic obligations in matters such a creation of various reserves, the extent to which the enterprises should undertake the responsibilities of self-financing, the anticipated returns on the capital employed etc. The Ministry furnished to the Committee a statement of objectives and obligations drawn up by HAL and approved by the Company's Board of Directors.

1.3 During the examination of the representatives of HAL the Committee enquired as to what was the share of HAL in the total production of bulk antibiotics drugs in the country, the Managing Director HAL informed as follows :—

> "The total share of antibiotics production is 22.1% in 1980-81 and 22.3% in 1981-82. Although there are about 16 antibiotics only 4 are being manufactured by HAL and in respect of that our share is quite substantial. There are 12 major antibiotics manufacturers. So taking the number as well as the total antibiotics, our share is quite substantial as far as antibiotics manufacture is concerned."

1.4 In regard to share in formulations, the Company furnished the following data :

Year	Output of Antibiotics formulations in India (Rs./crores)	HAL's output of Antibiotic formulations (Rs./crofes)	HAL's share of formulation production as a percentage of total production in India (%)
1980-81 . .	240	13·20	5·5%
1981-82 . .	260	18·72	7·2%

1.5 The Committee were informed that according to the Government's Drug Policy at least 40% should be made available to other formulators. HAL sold 40% of the bulk in the market and the rest was formulated by the Company itself. The Managing Director stated that there were "as many as 5,000 formulators. Barring about 100 and odd, who were the major formulators, the rest were in small scale or in medium scale sector. The bulk drugs were sold direct from Pimpri and for formulations HAL had their own distribution network".

1.6 During evidence the Committee drew attention of the Managing Director to the objective of attaining 'commanding heights' in the drug field and asked how far the Company had been able to achieve that, the Managing Director replied :

"It is the objective of the public sector to have the commanding heights in the various fields. There are four such companies. One more is to be nationalised very soon. Totally this comes to 5 companies, one under Government management, to be nationalised very soon. The share in 1978-79 of the public sector in drug manufacture was 24.5% and in formulations 5.7%. In the 6th Plan, in the year 1984-85, share of bulk drug is to be 32.3% and formulations 13.5%. That is, it goes up from 24.5 to 32.3 in bulk drugs and from 5.7 to 13.5 in regard to formulations. Hindustan Antibiotics is the first public sector undertaking in the drug field. We have played a pioneering role and we were the first to make Penicillin. It was in 1954-55. We made streptomycin for the first time in the country in 1962. We were the first to make Ampicillin way back in 1973. This year we started manufacture of Gentamycin for the first time. We will be with it one among the half a dozen manufacturers of this antibiotic in the world. We are the only company to have discovered and introduced original antibiotics viz., Hamycin and Aurogungin. One for agricultural use and the other for human use. We are pioneers also in ancillary development e.g. manufacture of vials. Other units came later on. Thus pioneering work was done by us and we are the leaders in bringing new products which would not have come into the market otherwise, had we not taken the lead.....Multinationals did not come forward to manufacture the bulk drugs because the bluk drugs are highly capital intensive and involves high technology. We are having commanding heights in the sense that our public sector units have made a base with which the country could progress further. The UNIDO classified all the drug manufacturers into 5 categories. According to them, India, Brazil and Mexico are put under the category 5. The drug development in India is of the highest order. About 400 and odd drugs are manufactured in this country. Basically almost, all bulk drugs are made in this country except that there are some shortages in a few cases. The manufacture of these drugs has been possible because of the commanding role that the public sector has played in initiating manufacture of bulk drugs. There are many countries like Indonesia where there is hardly any bulk drug manufacturing industry at all. They only buy the bulk

from outside the country and then they formulate so India is in a unique position to make the bulk drugs and there the companies like Hindustan Antibiotics and IDPL have an important role to play."

1.7 He further added—

"We had started the manufacture of bulk drugs, where others were not stepping in. Along with it we started formulation activity in a small way but it was realised that if we have to be profitable, the profit is in formulations. Therefore, in the 5th Plan, we had come with an expansion and diversification programme with emphasis on the formulations. Most of these programmes have been completed. The formulation plant at Pimpri has been expanded. We are setting up three joint sector units with a majority share holding at Nagpur, Bangalore and Goa. With this additional formulation capacity, the Public Sector share in the formulations is expected to go upto 13.5%."

1.8 He also informed the Committee that through UNIDO, the Company had received some enquiries regarding collaboration in regard to setting up antibiotic industry in Iran and there were also enquiries about production of individual drugs from South Korea, Singapore and WHO.

1.9 The Committee pointed out that in 1980-81 while the total production was worth Rs. 240 crores, the import was worth Rs. 150 crores. In view of the large amount spent on import of drugs the Committee enquired how the Company could claim commanding height. The Managing Director stated that the figure of imports included all types of drugs, out of which only HAL was producing gentamycin. On their part their endeavour was restricted to making their plants run to rated capacity and to that extent help stop imports. He cited the following examples.

"For example, year after year, streptomycin imports were taking place. But we have decided this year that no more import of it should be allowed. CPC (State Chemicals & Pharmaceutical Corporation of India Ltd.) has accepted this. For example, in penicillin products, hardly any import is taking place, because of our capacity. Of course, others are also manufacturing them. Similarly in regard to Ampicillin anhydrous for the last few years, we have been meeting the entire requirements of the country; and to that extent, there are no imports of ampicillin anhydrous. We also developed a process to manufacture ampicillin trihydrate; and we modified the plant to manufacture it. We have told CPC this year that we will make it. In the same plant we are making it. So, no import should take place."

1.10 The Committee during evidence enquired from the Secretary, Ministry of Chemicals and Fertilizers, whether the statement of objectives, drawn up by the HAL and approved by its Board of Directors,

had been approved by the Ministry in pursuance of the guidelines issued by the Bureau of Public Enterprises. He stated :

> "So far as objectives are concerned, the BPE in its circular dated May 1979 required the public enterprises to spell out their micro objectives consistent with the broad objectives spelt out in the Industrial Policy Statement of 1977. The HAL sent the micro objectives of the Company as approved by the Board of Directors in December 1979. The statement of micro objectives was seen in the Ministry and forwarded to the BPE."

1.11 The Committee pointed out that the share of the Company in country's total production of antibiotics was only 22.3% in bulk drugs and 7.2% in formulations. The Committee enquired whether in view of this small share it could be said that the progress of HAL in the last 28 years in achieving its objectives of attaining 'commanding heights' in the antibiotics field had been satisfactory. The Secretary of the Ministry explained :

> "So far as HAL is concerned, it has been a pioneer in the manufacture of bulk drugs in this country. It commenced production of penicillin in 1955 and over these years it is also undertaking the manufacture of essential antibiotics such as streptomycin, ampicillin and gentamycin. At present it is one of the producers of antibiotics in the country. Initially its role was viewed essentially as a bulk manufacturer. Heavy investments were made as most of these bulk drugs were not made in the country and it was essentially required to produce these bulk drugs to supply to other formulators in the country who were importing these bulk drugs. To an extent it has helped in import substitution. In the later years HAL has also decided to establish formulations market though of course it was a late entrant in the field. Now it takes a little time for it, to stabilise itself so far as formulations production and marketing is concerned."

1.12 On the Committee pointing out that there was difference between the terms 'pioneering role' and 'achieving commanding heights', the Secretary stated :

> "This word 'commanding heights' in the public sector is used in a general sense, particularly in the context of the Governments' total infrastructural development. (In case of HAL) it is more in terms of leadership role one plays. Even today IDPL and HAL are the two leaders in the antibiotics field in the public sector. They cover near about 55 to 60%. I would say, leadership role should be established. In the Hathi Committee Report it is mentioned as providing leading role in the public sector."

1.13 In reply to a suggestion of the Committee whether Government would like to substitute the term 'commanding heights' by the term 'leading role', the Secretary stated :

> "When we review all these things, definitely this will also come up for review. 'Commanding heights' is used in public sector in the light of developing infrastructural facilities. There are infrastructures which are essential in fields like Defence, Steel, Railways and others. It has to be 'commanding heights' in the

very nature of things there. In our field there is lot of competition. They do provide leadership role. There is no doubt. That may be the appropriate word to be used than commanding heights."

1.14 The Committee enquired from the Secretary, Ministry of Chemicals & Fertilizers as to what was the production growth of the drugs industry in the Fifth Five Year Plan (1974-79) and how did it compare with the growth of HAL during the period. In reply he stated as follows :

"As against an increase in the value of production during the Fifth Plan by about 122%, for bulk drugs and 163% for formulations, HAL's value of production increase was 123% during the same period. With the completion of the projects for expansion of the capacity of bulk drugs and formulations, its growth is expected to accelerate during the coming years. Its sales also grew at a rate of 37.5% during 1981-82 and is expected to increase further at a rate of 36% during the current year. Briefly I can give you an idea of what exactly the position has been particularly in the Sixth Plan period and what is its share because that is the major thrust of this question. So far as monitored antibiotics are concerned, apart from IDPL and HAL, we have two bulk drug manufacturers also in India, namely Alembic as well as Standard Pharma. So far as penicillin is concerned, HAL has been producing and its share of the total is about 30-36% both during 1980-81 and 1981-82. Regarding Streptomycin, its share in the total production of the drug was 40% in 1980-81 and 42.25% in 1981-82. Regarding Ampicillin Anhydrous this is 100% of the total production in the country in the organised sector. There are number of producers, 7 or 8 producers, in the country for Trihydrate. Regarding Ampicillin formulations as a whole, HAL's share is only 9% or so of the total production. Competing firms are there and they are also giving to others. Gentamycin is another major antibiotic. Here it is 100%. Nobody else is producing."

1.15 In regard to the proposals to accelerate the growth of HAL, the Secretary stated :—

"The growth of HAL in the next few years will depend upon some very important factors. One is, the full utilisation of the expanded capacity in the manufacture of bulk drugs and formulations. The first thing has to be to consolidate the position, to have the necessary infrastructure in this important field so that it is able to reach the expanded capacity in the matter of manufacture of Bulk drugs and Formulations and to utilise them fully. This will, quite naturally, depend upon HAL's own success in the matter of obtaining greater share of the market. The proper strategy has to be followed. Efforts have to be made in the field of marketing. Both production and marketing steps have to go together. These two have to be very well-developed now. The other area where HAL's success will depend upon is in obtaining technologies for the manufacture of new drugs, Vitamin B.12 etc. Refampicin is an important drug. It is anti-TB and anti-leprosy drug. Nobody else is

producing it in the country. There is a greater demand. It is imported totally. HAL has approvals for this purpose. If they are able to get suitable technology, it would be a worthwhile investment and it can progress. This would depend upon the availability of resources of the plan period, particularly in the coming years, in the 7th Plan also, HAL should move forward and they have been asked to give some attention to it to see in what way particularly in the short term any improvement can be made. We are considering these proposals particularly for the bulk drugs, in case they are able to get suitable technology. But marketing is a very very important area. IDPL and HAL have agreed to do it. This is the area which require to be stepped up."

1.16 On an enquiry about the provision made in the Sixth Five Year Plan for future development of HAL, the Secretary stated :

"Provisions have been made. About two months ago, a new investment proposal was approved for HAL and that is a down phasing kind of investment. For that money is being given. There is no problem for that. Most of the production of formulations went to the State Governments. Apart from that, they sell bulk drugs to other formulators in the country with overall result that they have not been able to develop the trade market at all. They have got into a vicious circle. They have got the capacity. They ought to produce more. They do not have the proper organisation to interact with the members of the medical profession, with the people who prescribe these medicines. Now this point is being looked into by the management."

1.17 When enquired whether there was any corporate plan for HAL providing targets for (i) production in physical terms (ii) value added (iii) capital investment and (iv) generation of internal resources, the Secretary of the Ministry replied :

"So far as corporate plan is concerned, the HAL has not prepared once. Actually this concept of corporate plan is coming up significantly only now. We have now been insisting on the public undertakings to have corporate plans and not only to go on the basis of the Sixth Plan or the Annual Plan where basically production, investment etc. are broadly indicated. Corporate plan is a more detailed document covering various aspects of the overall functioning of the Company; apart from production and investment, it has also Chapters on personnel management, management development financial performance, industrial relations etc. These are matters which we are now examining, and we have asked the HAL also to prepare a corporate plan. One problem which I want to mention and which has relevance to this question is about laying down in the micro objectives any references to the question of return on investment or financial returns, etc. as were mentioned, for example, in the earlier statement that was once forwarded-anticipated returns on capital employed and wage and pricing policy, etc. There is a little problem here so far

as the drug industry is concerned. While we can certainly indicate broadly, based on the undertaking range of production, what exactly are the basic bulk drugs and formulations to be produced. So far as returns are concerned much depends on a number of factors. It may be that changes take place in technologies, and unless the investment decisions are taken on a new scheme or on modifications or renovations to the existing ones, it becomes very difficult to establish with reliability the returns on the capital employed."

1.18 In regard to generation of internal resources, the Secretary informed that since the Company was incurring losses, there was no generation of internal resources for the last 3-4 years.

1.19 On a further enquiry as to what was the difficulty in finalising the objectives very precisely, the Secretary, stated "it should be possible to do a little more examination of this. I accept some measure of rethinking is possible."

1·20 According to the statement of objectives and obligations drawn up by HAL, the Company was expected to "attain the Commanding heights in the drugs field and specially in the antibiotics field". It was clarified in evidence before the Committee that what was envisaged was only a pioneering and leadership role. The Committee desire that the basic role should be defined in concrete terms.

1·21 The Committee note that in 1980-81 and 1981-82 HAL's share in the production of antibiotics was 22·1 per cent and 22·3 per cent in bulk products and 5·5 per cent and 7·2 per cent in formulations, respectively. It is expected that Company's growth will be accelerated with the completion of expansion projects. It is nevertheless disappointing to the Committee that the Company's contribution to the drug field was insignificant even 28 years after its setting up. They hope, as stated by the representatives of the Ministry, the Company will be able to consolidate its resources in the coming years and thus achieve a significant place in the country's drug production.

1·22 The Committee are surprised that the Company has not yet formulated its corporate plan. It is only recently that the Company has been advised by the Ministry to formulate such a Plan. The Committee desire that the Corporate Plan should be formulated soon. In the absence of a Corporate Plan it is difficult to have a clear direction for the Company's growth consistent with its objectives and obligations and the national plans.

B. *IDPL Vis-a-Vis HAL*

1.23 The Indian Drugs & Pharmaceuticals Ltd.'s plant at Rishikesh is engaged in manufacture of the following bulk antibiotics—

1. Penicillin including Potassium Penicillin G, Sodium Benzyl Penicillin and Procaine Penicillin.
2. Tetracycline including Tetracycline Hydrachloride and Oxytetracycline Hydrochloride.

3. Streptomycin Sulphate.

4. Semi-Synthetic Penicillin including Ampicillin and Amoxycillin.

5. Erythromycin.

1.24 The Hindustan Antibiotics Ltd. are also manufacturing items mentioned at S. Nos. 1, 3 and Ampicillin of item 4 above. Both the plants are basically manufacturing antibiotics, though in some cases with different technologies.

1.25 The Committee drew the attention of the Secretary, Ministry of Chemicals & Fertilizers to the recommendations of the Hathi Committee that the production of narrow spectrum antibiotics should be assigned to HAL in preference to IDPL and desired to know whether the expansion of HAL was sanctioned keeping in view this recommendation. The Secretary explained as follows :—

"Taking into account the following facts, it was decided to approve the expansion for both HAL and IDPL. In IDPL the proposed expansion was more related to the maximum utilisation of the existing plant capacity with investment on certain plants and equipments. In HAL it was the introduction of high-yielding Japanese strains and the technology required certain investments in plant and machinery to overcome limitations. Regarding Ampicillin there was no significant saving in building one large plant of 70 tonnes capacity as compared to two plants of 35 tonnes capacity each at Pimpri and Rishikesh. In the data on which the final economic appraisal was made, all these were gone into, all the normal processes of scrutiny of projects. In consultation with the Planning Commission and PIB it was found that no significant saving could be achieved by having one large plant of 70, rather than two of 35. That is why the Project Appraisal Division agreed that this was a viable investment for which both HAL and IDPL could go in for. Basically, these are two different strains. A very careful analysis was made of the question whether it should be only with HAL or IDPL. Earlier, the production of streptomycin and Penicillin had started in 1960s and the 1959s in both HAL and IDPL."

1.26 He went on to say—

"Even before the Hathi Committee, both HAL and IDPL were making narrow spectrum antibiotics. The Hathi Committee recommended that the two should be brought into HAL. This expansion was for better utilisation of facilities. In IDPL certain facilities were rendered surplus. To utilise the existing facilities these expansions were considered. Having regard to the availability of existing facilities in both the places, how to utilise them in an optimum manner was the question before the Government. The Project Appraisal Division of the Planning Commission, our own Financial Adviser and the PIB took the view that there is not much of saving in creating a large plant in one place, rather than two smaller plants utilising the existing facilities in the two places."

1.27 In reply to a query of the Committee whether the question of merger of Rishikesh Unit of IDPL with HAL had been considered, the Secretary stated :

> "This question of the merger of the two units has not been considered so far, as there are two technologies and the units are at two different locations and there are two different types of equipment. The investments are made under both these concerns separately. Also production is needed from both these concerns to meet the requirements. The question of bringing IDPL Rishikesh under the ownership of HAL has not been considered at all. The strains and processes for the manufacture of Pencillin in HAL appear to be fairly more efficient than those in IDPL."

1.28 When the Committee pointed out that when the two units come under any Public Undertaking, it could prove beneficial and economical in the field of marketing, the Secretary observed, "The point is well taken note of."

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

II

PRODUCTION PERFORMANCE

A. *Delays in creating additional capacities*

One of the reasons for slow growth of HAL has been delay in creating additional capacities for manufacture of various drugs. The Committee on Public Undertakings were informed in September 1976 that HAL had submitted proposal to Government of India for a total annual pencillin expansion project raising the capacity only upto 200 m.m.u. was expected that the plant would be completed by 31-3-1981. However, the production of 500 m.m.u first crystals of Penicillin and if approved it was commissioned on 1-7-81. Similarly for streptomycin, it was stated in January, 1978 that additional production capacity had been approved and expansion had commenced. But the expanded capacity has not yet been commissioned. There have been heavy delays in construction and commissioning of semi-synthetic penicillin expansion project, formulations II project and the Gentamycin Plant, which are yet to be commissioned.

2.2 The reasons assigned for the delay by the Company are mainly strike/agitation by workers during January—May 1980, re-scheduling of the visit of the representatives of the collaborators (in case of penicillin expansion plant), delay in supply of cement and steel, delay of deliveries due to labour unrest and power cuts at suppliers works, delay in supply of power by the Maharashtra State Electricity Board.

2.3 The major reasons for cost overrun are stated to be cost escalations due to inflation, variation in custom-duties, change in scope of the projects after entering into collaboration agreements and inadequate provision for instrumentation in original feasibility report. The time and cost overrun in commissioning of various plants is stated to be as follows :—

Name	Time overrun	Cost overrun (Rs. in lakhs)	%age increase with reference to original estimate
Penicillin Expansion . . .	22 months	92·03	45·4%
Streptomycin Expansion . .	22 months	335·96	115·4%
Semi-synthetic Expansion . .	19 months	146·44	87·9%
Formulations II	20 months	55·94	18·1%
Gentamycin	21 months	79·02	31·1%

2.4 During evidence the Committee enquired from the Managing Director HAL reasons for time and cost overrun in respect of above five projects, the expansion of which was undertaken by the HAL. The Managing Director informed that this expansion was sanctioned by the Board in January 1974 (November 1977 in respect of Formulations II),

and Government sanction was given in February 1977 (June 1978 in respect of Formulations II). He further stated that the work regarding Penicillin, Streptomycin and Ampicillin was given to the consultng engineering firm in March 1978 and for Gentamycin and Formulations II in October 1978. He went on to say :—

> "Then we had a 61 days agitation in the year 1980 followed by a strike for 46 days. This strike ended just before the monsoon. Unfortunately, that year, the monsoon was slightly heavy. During the strike period, the civil contractor had to wind up the site. He had to organise the site again. Before that could be done, the monsoon was on. As a result of that, most of these projects got affected very badly. In addition, we had certain problems in getting cement and steel.
>
> Inflation was also taking place in the country. Delay also meant that interest charges were building up. The price went up high during this period."

The Managing Director further added that :—

> "the mechanical completions were delayed from 1 to 16 months, but we were not able to commission them for long time, because power was not available. We required 8 MW of extra power, the Maharashtra State Electricity Board had to expand a sub station."

2.5 The Committee were also informed that the delay in deliveries of equipment by the suppliers on an average delayed construction of expansion of some of the plants by 8 to 14 months. On an enquiry the Managing Director stated that wherever there were delays, according to the order placed, HAL levied penalties on the suppliers to the extent stipulated under terms of the purchase order.

2.6 In reply to an enquiry of the Committee whether assistance of the Ministry of Chemicals & Fertilizers was sought to resolve the problems of supply of cement, iron and power, the Managing Director stated :

> "Energy Ministry, Electricity Board, even the Chief Minister, all went into this problem. He also tried to intervene. Ultimately it was found that was not due to any lack of will on the part of the Government of Maharashtra. Regarding steel, as is well known, there was non-availability of certain sections or certain categories of steel. Civil-designs were made which specified steel of certain specifications, of certain sizes, etc. But the actual availability was something else. So, we had to request the architects to change the design according to what exactly was available. We asked them to re-design the whole thing. In deliveries there were delays. The steel and cement delays in some cases, from time to time, were rather marginal. It may be delay for a few weeks and so on.
>
> Labour agitation persisted and delayed many things. That was also one of the reasons. Subsequently there was the monsoon. The cumulative effect of all these—cement shortage, agitation of staff, and arrival of monsoon—was a delay of 8 months or 9 months or 12 months in various projects."

2.7 In regard to the actual commissioning of the plants, the Managing Director stated :

> "From January (1982) we have started commissioning all the plants, except the penicillin plant, which was ready in 1979 itself. Then there was some delay on the part of the collaborators to send the commissioning engineers. Then the strike took place. After the strike, it has been commissioned in May 1981."

2.8 Thereupon, the Committee pointed out that the investment so far made in the expansion projects was lying idle. The Managing Director agreed by saying "You are right that any increase in the cost of equipment etc. will ultimately get reflected in the cost of production."

2.9 Another reason for increase in cost is that collaborators suggested certain modifications which were accepted by HAL. It was explained that those modifications were made as a result of further developments that the collaborators had made after signing the agreement.

2.10 On an enquiry, the Managing Director stated that collaboration agreements in respect of expansion of Penicillin was to expire in 1986 and that of gentamycin in 1983.

2.11 In a note furnished after the evidence, the Company informed that the current status about commissioning of all the Expansion Plants/new Projects was as follows :—

Item	Scheduled Dates (As Approved by PIB)		Actual/ Anticipated Dates
	Original	Revised	
I. Penicillin Expansion			
Start of project	26-04-78	——	26-04-78
Mech. completion	30-05-79	——	14-06-79
Successful commissioning	30-09-79	——	31-07-81 (completed)
II. Streptomycin			
Start of Project	07-06-78	——	07-06-78
Mech. completion	28-12-79	28-02-80	28-02-81
Commissioning@	28-03-80	28-05-80	30-11-82*
III. Semi-Synthetic(Pencillin Expansion) Plant			
Start of Project	16-08-78	——	13-09-78
Mech. completion	28-02-80	30-06-80	31-07-81 (completed)
Commissioning@	30-05-80	31-08-80	31-03-83+
IV. Gentamycin			
Start of Project	22-01-79	——	22-01-79
Mech. completion	18-03-80	18-03-80	31-07-81
Commissioning@	28-06-80	28-06-80	31-12-82£
V. Formulations Plant-II			
Start of Project	30-10-78	——	30-10-78
Mech. completion	31-03-80	31-05-80	15-04-81
Commissioning@	02-06-80	02-08-80	31-12-82

@ The dates shown against commissioning are dates the production started from the Plant after trial runs.

* Since revised to 31-3-1983 due to certain problems faced in fermentation and teething troubles with a few equipments.

\+ Since revised to 30-6-1983 as internal technology and process are being stabilised.

£ Since revised to 30-6-1983 because of dispute with collaborators regarding release of last instalment of know-how fee due to which their visit for solving process problems and proving guarantees not determined.

2.12 Details of Formulation Plant II are as follows :—

Project	Anticipated/ actual completion of guarantee runs	General Remarks
		Airconditioning system of Formulations-II under modification.
I. Vialling (Power filling)	30-6-1983	Overseas suppliers" representative visiting in February, 1983 to solve certain problems faced.
II. Capsulation . .	31-12-1982	1. The capsulation machines procured from indigenous source did not work and hence being returned. 2. Two semi-automatic capusling machines procured & installed
III. Liquid injections . . .	31-3-1983	———
IV. Tablets (Veterinary) . .	30-4-1983	———

2.13 The delays in creating additional capacities have been both in sanctioning of the project as well as in their execution. The Committee enquired from the Secretary of the Ministry of Chemicals & Fertilizers reasons for delay in sanctioning the expansion schemes. In regard to the penicillin expansion project, the Secretary explained :

"The proposal for expansion projects in HAL were received in February 1974, and as per the normal procedure they were circulated to the various Ministries. The proposal for capacity expansion of penicillin manufacture was considered at the inter-ministerial meeting in October, 1974. HAL was asked to recast the feasibility report. The capacity build up assumed was unrealistic and some essential provisions had been omitted.

To give you briefly, the build-up assumed was 100% capacity in the first year. This assumption on the part of HAL was unrealistic. This was one point which was brought to our notice. Certain essential provisions had been omitted—payment for technology was not provided for. HAL was asked to revise it taking into consideration these factors.

The report was received in March 1975. It was considered by PIB in July 1975. PIB took a view that demand for penicillin should be re-assessed taking into account the requirement of ampicillin also. A Committee under the Drug Controller was asked to assess the demand for penicillin. Based on its recommendation, a revised note was also submitted to PIB in December 1975. PIB in January 1976 decided that it would be necessary to consider proposals of both HAL and IDPL so that there is no lack of co-ordination Series of discussions took place. A combined note was submitted in October 1976. PIB considered these proposals in November and December 1976 and granted its approval for expansion of production of penicillin, streptomycin, ampicillin and gentamycin in December, 1976. Soon after in February 1977 the Cabinet also approved it. Sanction was issued the same month."

2.14 When the Committee pointed out that the delay took place because of the initial proposal of HAL being sent back—the proposal should

have been within the framework of limitations—both financial and resources and that it was the responsibility of Government to coordinate and guide at the initial stage, the Secretary replied "the point is well taken."

2.15 HAL had submitted proposal to Governments for a total annual production of 500 mmu first crystal of penicillin, but the expansion of the plant upto 200 mmu only was sanctioned by Government. The Committee enquired the reasons therefor. The Secretary replied :

> "This Group under the Chairmanship of Dr. Gothoskar, Drug Controller of India, worked out the demand estimate of 320 million mega units of bulk penicillin. It is equivalent to 400 million mega units of Potassium Penicillin first crystals. In addition, 180 million mega units of Penicillin of first crystal for semi synthetic penicillin thus making a total of 580 million MU of potassium penicillin G first crystal.
>
> It is considered that for production of 580 mmu, a capacity of 640 mmu estimating a capacity utilisation of about 90% is required.
>
> With the capacities of 230 mmu and 200 mmu sanctioned for IDPL and HAL, the total capacity in the country came to 660 mmu.
>
> In the circumstances, the total capacity sanctioned was only 200 mmu, with existing capacity of 105 mmu of first crystals plus 95 mmu of the first crystals under the expansion scheme. This was based on an assessment of actual requirements as estimated by the Drug Controller of India and, therefore, the annual production of 500 mmu was not approved and it was restricted to a total capacity of 200 mmu."

2.16 On an enquiry whether 200 mmu would meet the requirements of the contrary, a representative of the Ministry stated that it would.

2.17 On the question of lowering down the proposed capacity, the Committee pointed out that there seemed to be some lack of coordination entailing expenditure in preparing feasibility reports more than once, the representative observed that "some expenditure of this type is unavoidable. The preliminary work in this direction is done by the public undertaking itself."

2.18 On this the Committee enquired as to what was the system of monitoring of the execution of the project in the Ministry. The Secretary, informed the Committee as follows :—

> "The system of monitoring of execution of projects in the Ministry is through the quarterly review meetings which are conducted by the Secretary with the representatives of the public undertakings, the concerned Ministries, the Planning Commission, the Bureau of Public Enterprises, the DGTD etc. of course, the problems are also gone into to find out reasons for the delay.
>
> Actually this review more or less started more effectively somewhere in 1979 and when a new system of monitoring of projects was evolved, we had so many undertakings under our Ministry and the investments are so large that it was necessary to give up the old normal system of monitoring based on whatever information was given by the public undertakings.

So we evolved a new system which was scientifically done in the sense that a separate proforma was developed for getting the information in time so that a review could be done as quickly as possible after the quarter is over, rather than prolong it so long that the monitoring becomes meaningless or the Ministry is not able to undertake any remedial measures. Possibly ours is one of the Ministries where the system of monitoring is fairly well developed. It has been there right from 1979 onwards. Every quarter, apart from a review of the normal operations of the company in terms of its yearly programme, yearly production and all that, there is a separate review along with it of all the projects under execution. The interaction between Government and the public undertakings is much closer now, and many problems which the public sector faces or even we face sometimes in dealing with other Ministries are sorted out so that to the extent possible all avoidable delays are cut out and the projects can go forward in time. This is the procedure that we are now following and we find that it has been of use and it has yielded definitely beneficial results."

2.19 Thereupon the Committee pointed out that in spite of the monitoring, there were delays in execution of projects. The Secretary explained that there were problems in the plant itself and outside also. There were problems in getting assistance of State Governments for certain matters. There was strike in the plant on two occasions, there was difficulty in acquiring land for the electric sub-station, there was difficulty of power supply. He assured that their monitoring fully helped the undertaking in solving some of these problems, although it did not eliminate all the delays.

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

2.21 The Committee note that there have been heavy slippages ranging from 19 to 22 months in the construction and commissioning of expansion plants. These delays have led to huge cost over-runs. Total cost over-runs due to late commissioning of various projects have been stated to be Rs. 709·39 lakhs and the percentage of increase in cost with reference to original estimate

was 115·4 in the case of Streptomycin and 87·9 in the case of Semi-synthetic Expansion Plant. It is distressing that delays at various stages have proved very costly and the national exchequer has been burdened with an additional sum of Rs. 709·39 lakhs. The Committee are inclined to attribute this to lack of effective management control and proper monitoring system to apply on course correction promptly both at the Corporate and Ministry level.

2. 22 Except Penicillin Plant no other plant has been commissioned so far. Dates of commissioning of these plants have been revised thrice. The Committee hope that the dates now fixed will be adhered to. They need hardly point out that delays add to the cost of project which is ultimately reflected in the cost of production.

B. Plan for replacement of Equipment

2.23 A programme for renewal and replacement of equipment involving the expenditure of Rs. 1258.13 lakhs was drawn in 1979 and approved, for the plan period 1980—85. Based on the up-to-date programme of various R&D Programmes, the proposed phasing of the programme was expected to be as under :

Year	Amount (Rs./Lakhs)
1980-81	114·96**
1981-82	188·57**
1982-83	230·00*
1983-84	315·00*
1984-85	308·00*
1985-86	81·60*
1986-87	20·00*
TOTAL :	1258·13

* : Estimated expenditure
** : Actual expenditure

Although originally the programme was expected to be completed within a 5-year period, the actual period is somewhat extended, because of preliminary work involved in major items like Air Compressors, Boilers, 3.3 KV System etc.

2.24 Replacement and renewal programme, as proposed, is expected to take care of (a) Bulk Plants, (b) Formulations Plant, (c) utilities like steam plant, refrigeration unit, air systems, electric supply, cooling towers and water supply system. It is also proposed to procure better facilities for material handling and storage. The programme is expected to remove bottle-necks in production by procuring balancing equipments and replacing old equipment with more efficient ones.

2.25 Elaborating the objectives of the programme, the Managing Director informed the Committee during evidence as follows :—

"The objectives are like these : one is that we have old boilers. Not only that. As we have experience, due to power cut we get into problem. So, we are thinking of going in for total energy concept. That means we generate high pressure steam and use low pressure steam for our purpose. This way, it will be economical and cost benefit proposals are being investigated and the report is being prepared. The next major investment that we have to make is on the Compressor plant that is required for penicillin and streptomycin. They are very old compressors and they are to be replaced. We found that the power compressors go in for high tension power. Now, we have to switch over to 3.3 KVA supply. Many of our cables are 15 to 18 years old. In any case, they have to be replaced. Then there is replacement of old vialing lines. They are to be replaced with a newer modern line. We have penicillin, streptomycin and a few other producing plants. Some of these are old and we want to revamp them. We will have to provide whatever additional facilities that are required.

In the existing boiler itself, we want to improve the performance. For this we have installed now a DM water plant. We have already installed economiser which will improve the condition of the boiler. We want to go in for automation and energy is a major cost factor in our operations. In fact, for energy we have made a separate cell and this cell is monitoring and trying to reduce the consumption of fuel. We have been able to get very good results. In the year 1979-80, our consumption was 48 to 50 kilo litres of furnace oil per day. At that time the turnover was Rs. 17.6 crores. Last year our turn-over was almost Rs. 27 crores and our furnace oil requirement has gone down from 48—50 kilo litres to 38—40 kilo litres per day. That means, there is 20% reduction.

Now that our new facilities have come, we are having a shut down of streptomycin plant and we are replacing some of the old equipments."

2.26 The Managing Director also informed that mostly there would be indigenous expertise, except in case of high horse power compressors. Major portion of this programme would be over in 1984-85.

2.27 The Committee were also informed that better technologies were being sought for. The Managing Director informed the Committee in this regard as follows :—

> "We wanted to update the technology in mainly three areas. One is Streptomycin. In this we have written to a number of companies and we have received a response from one of the suppliers that they will be interested in making a proposal to us. This was received a few weeks back and they will be submitting proposal on streptomycin of better strain and then we will evaluate it and take a decision. We were in correspondence with a number of other suppliers, but the response was not good. In penicillin we have already bought 30,000 titre strains. But even 50,000 titre strain is being developed. There is a company—Panlabs, which does the work on loan type of an arrangement for several companies including even the leading manufacturers. Now we have the experience of taking this strain and developing it. We are trying to participate in this research programme of Panlabs."

2.28 The witness also stated that it was only the strain and not the technology which was being imported. On a further enquiry whether HAL had ventured any collaboration in this regard, it was stated :—

> "In Streptomycin, we have got a positive response from one of the countries, viz. China. They are making very cheap Streptomycin. They had responded to us. And on penicillin, we had already submitted a proposal to participate in the Panlab research programme. We have written a letter a couple of months back to China. They replied, saying that they were interested, and would write to us again. In penicillin, the proposal is to improve our extraction efficiency Whatever is generated in the broth, extraction is an art and a science. We are discussing with a Company which is giving a much better extraction efficiency. We will come with a concrete proposal for improving it."

2.29 The Committee were also informed that these technologies were not being used currently in the private sector in the country.

2.30 The Committee note that the Company has undertaken a renewal and replacement programmes during 1980-85 involving an expenditure of Rs 1258.13 lakhs, to weed out old and out dated inefficient equipments. They hope that all efforts will be made to implement the programme as scheduled and the physical and financial progress in respect of each component thereof meteculously monitored to avoid any cost and time overrun. The Committee would like to emphasise that the programme of replacement and renewals should be implemented in such a manner that the loss of production is minimised during its implementation.

C. CAPACITY UTILISATION AND PRODUCTION.

2.31 The following table shows item-wise licenced capacity, installed capacity, targets and actual productions for the years 1979-80, 1980-81 and 1981-82 :

	Capacity per annum		Production					
			1979-80		1980-81		1981-82	
	Licensed (1979-80 to 1981-82)	Installed	Target	Actual	Target	Actual	Target	Actual
Bulk Drugs								
Penicillin (G+V) MMU . . First Crystals . . .	160	105 (140 in 1981-82)	162	130·15	145·00	134·99	164·21	141·70
Bulk Penicillin MMU		84	19·80	74·14	83·99	90·65	110·959	83·506
Streptomycin Tons .	170	85	108·00	91·03	100·00	91·00	119·524	108·08
Ampicillin Tons	35	5	6·00	8·41	7·50	7·88	8·33	5·72
Vitamin C Tons	125	125	30·00	17·57	25·00	27·54	0·877	1·741
Formulations								
Vials Lacks	2315·5	780·0	834·11	705·78 + 78·85	781·00	707·90 + 13·07	1029·00	800·41 + 26·00
Tablets Lacks	11870·50	1200·0	1237·00	979·46	819·53	758·94	790·55	503·82
Capsules Lacks	4262·64	720·0	672·15	482·15 + 52·79	905·95	673·70 + 232·36	407·33	446·46 + 366·77
Syrups								
Suspensions Lacks .	6192·40	2·40	9·30	4·30 + 0·81	41·55	16·93 + 1·36	56·98	25·45 + 4·30

(+ Production on loan licence)

2.32 The reasons for shortfall in production as compared to the targets during the years 1979-80, 1980-81 and 1981-82 (besides strike and agitational approach of workmen in 1979 and 1980) are stated to be broadly :—

(i) delay in installation of certain equipments/maintenance and breakdown of certain equipments.

(ii) lower yields and efficiencies and sterility problems,

(iii) intermittent power cuts, frequent power fluctuations and delay in supply of additional power by Maharashtra State Electricity Board,

(iv) non-availability of certain raw materials as well as packing material of required quality and at appropriate time,

(v) production being kept deliberately low to liquidate inventories in 1981-82 in case of penicillin and

(vi) problems of contamination (in case of streptomycin).

2.33 It would be seen from the statement above that in the case of penicillin as well as streptomycin the actual production is higher than the installed capacity, except for bulk penicillin in 1981-82. The production had, however, been lower than the targets for these years. In this connection, the Committee enquired from the Managing Director HAL during his evidence the basis on which installed capacity was fixed and how did they exceed capacity utilisation. The Managing Director explained as follows :—

"There are several reasons as to why we have got better performance. Now, strains are living beings and normally they are supposed to give 30,000 ml. They are fed with carbo-hydrate and various other nutrients. If we carefully control them and maintain them, even though the guarantee is 30,000 we are getting 34 or even 35 or 36 thousand v/ml. That is one aspect. The second aspect is about the fermenters. These are loaded up to a certain level. We can load it slightly more although normal loading is to a certain extent only. Earlier we were getting extraction efficiency of about 58 to 60. Today we are getting 64 or even 66 sometimes. Then there is another factor. Normally the plant operation is taken as 300/330 days working. There are about 35 days which are available as down-time in any normal plant. But if we are planning our maintenance and so on, we can squeeze some extra days and out of this, there is turn-round of the fermenter. It is to be run for 7 to 8 days, it is to be harvested and it is to be cleaned, etc. and in this process we can reduce the down-time and get extra time. So, we can get slightly a little more days out of the normal days available. Also proper scheduling of fermenter is done. By these we are trying to get extra so that these drugs are not allowed to be imported."

2.34 On a further enquiry whether the Company had any special Task Force to go into the question of fixing the capacity of the Plants from time to time. The Managing Director stated :

"The old plants were giving whatever were the rated capacities in each case. Regarding the new plants, we have started these just now. Once we complete the guarantee run, we will go

over to section by section commissioning. We hope to take guarantee run sometime in November. This will be done under ideal conditions. We will know what is the capacity of the plant. Regarding Panicillin plant, it started after strike was over. We have taken the guarantee run of plant along with Toyo Jozo experts. It is giving rated capacity. We are getting slightly better than this. That is how we establish the capacity."

2.35 Asked whether there was any possibility of improvement in the capacity, would HAL reassess its capacity, the Managing Director stated that in "old plants' capacity reassessment would not be possible now". He further clarified :

"In the old plants we had better performance. It was due to slightly better utilisation of the fermentor plant capacity, slightly getting the better extraction efficiency e.g. if the efficiency was 80% we say why not 81% or 82% and so on or by changing certain parameters we could slightly improve the performance and the capacity. The batch operation plants work 300 days and the continuous plant 330 days. But by reducing the plant down-time we get extra time and slightly more loading is possible. As a combined effect of these factors, we were able to get more than the rated capacity. Now, the plant capacity has been expanded and the commissioning has also started. Now, we have taken the guarantee-run and with the new guarantee-run we have to see the new capacity under the existing expansion."

2.36 The Committee further wanted to know the reasons for the targets of production in 1980-81 both for penicillin and streptomycin being fixed lower than the targets for 1979-80 and why the total production was still lower. The Managing Director informed as follows :—

"In the year 1980-81, we know that the strike had taken place. When the original target was fixed, that was higher than the previous target. For penicillin, the original target for 1979-80 was 173 and for 1980-81 the target was 200 and for streptomycin the original targets were 108 and 125 respectively for 1979-80 and 1980-81. Thus the original target for 1980-81 was higher than 1979-80. The revision took place in August-September, by which time the strike had already taken place. This was the unique opportunity when the entire plant was shut down. We did not have such a shut down for the last 26 years."

2.37 As against the actual production being higher than the installed capacity, the Committee wanted to know the reasons for the targets of production of tablets (790 lakhs) being fixed much lower than the installed capacity (1200 lakhs) and production being only 503 lakhs in 1981-82.

This was explained by the Managing Director as follows :—

"We were to partly get the job done on loan licence from other formulators and we did this also in the previous year. In this

particular year prices of some bulk drugs increased, but proportionately the prices of formulations did not increase immediately with the result the sale of these drugs was not profitable. Also there were escalation clauses in marketing of some drugs. So they were to give some price increase also. But even that was not given. So our production requirement got reduced, because of this constraint. So we did not do the loan licence which was anticipated."

2.38 In regard to shortfall in target of capsules the Committe were informed that there was shortage of empty capsules and the other reason was :—

"In formulation II expansion, we purchased two machines. They did not work. We are returninig them to the manufacturer. Partly, these machines were to take care of the old machines which we have. We have to phase out the old machines and the new machines have to take their place. That is why, from our own plant, our performance was low. That is why we had to go in for loan licence."

2.39 In regard to the problem of contamination which had affected production of streptomycin in 1980-81, the Managing Director explained in detail the reasons therefor as follows :—

"We feed the strains on the nutrients. And when we do the whole operation, first of all the fermentor has to be completely sterilized. There is not to be any living being there. The liquid media that we charge into it, is also sterlized. And in that media, we add straints. They grow and produce penicillin or streptomycin, as the case may be. And after some hours, their productivity falls and the broth is harvested, and the penicillin and streptomycin are extracted.

In the whole process, contaminents get into it and then they eat up the nutrients and media that is charged. As a result, the penicillin or the streptomycin production goes down. So, the contamination is highly undesirable. There is an agitation going on. The air is made contamination free for which there are filters.

Unfortunately, the power supply in the region is not very stable. The Fermentors are always kept under positive pressure. But when there is power stoppage or fluctuations, then the Fermentors come to zero pressure and through the gland, the contamination gets into the fermenters. During the strike, the ferementers were lying idle for 1½ months. During the period whatever materials were there inside, they got solidified and the crust was formed; and that crust removal normally takes time. We took extra care to clean the Fermentors. Now we have been thinking how to solve this problem. Another reason for contamination is human failure. Some new type of filters have come into the market. So, we have drawn up a programme to replace these filters with this new type of filters and this programme will be over by September, 1983. In some fermentors, we have changed them and they are giving good result. When this programme completed, this will be reduced."

2.40 As for as human factor was concerned it was stated that during the last 3-4 years, 134 training courses with a duration of 3-4 days had been arranged. Courses on contamination control in fermentation technology had also been held. It was stated the Company was trying to up-date the technology and the knowledge of the people who were operating the plant.

2.41 As regards the loss suffered on account of contamination, the Managing Director stated that it would be difficult to estimate directly because the contamination not only affects the medicine, but depending upon the type of contamination even the titre and efficiency are reduced and in the crystalisation, there is an effect of contamination. In totality, he added, it would be difficult to estimate the extent of loss. He however, clarified that contaminants do not find their way into the product.

2.42 The Committee were informed that so far as power failures and fluctuations were concerned the matter had been taken up with the Maharashtra State Electricity Board and the Central Government, who in turn were taking up with the State Government. In this connection, the Managing Director stated that :—

> "In 1982 there were 41 fluctuations, 15 failures and 84 load-shedding, totalling 540 hours. In the year 1981, there were 58 fluctuations, 11 failures and 39 load-sheddings. Similar figures were there for 1980."

2.43 It was further stated :—

> "Recently we had a discussion with the Electricity Board at the senior level. We told them that this continuous power-shedding will affect our industry where material worth lakhs of rupees is in each fermentator. We brought an official and showed him round. We explained our difficulties. Fortunately, he was an understanding man. He has now allowed no reduction of power in fermentation plants. The contamination is therefore, reduced to that extent. Even recently when there was 60 per cent of power cut, we were not subjected to a major power shedding as a result of the discussion we had with MSEB. So, the fermentors were not affected."

2.44 One of the reasons for not achieving the targets of production for several products is non-availability of certain raw materials as well as packing material of required quality and at appropriate time. The raw material in question is procaine hydrocholoride caustic soda lye, erythromycin stearate, chloramphenical powder, tetracycline HCI, acetic acid, butyl acetate and methanol. It has been stated that one of the these items was available only from one source, in one case there was country-wide shortage, some items are canalised and there was short supply, in some items there was shortage in production. It has also been stated that "sometimes, the shortage of raw materials was experienced because of delay in payment to suppliers arising out of paucity of adequate funds". The shortages in packing items were temporary for short periods.

2.45 In regard to frequent break-down of equipment, the Committee enquired whether the Company had a system of planned preventive maintenance. The Company informed in a note that it did have a system of planned preventive maintenance, but some break-down do occur; which are due

to problems of corrosion and aging of equipment. Action was on hand for renewal and replacement of imported machineries and indigenous equipments.

2.46 One of the reasons for low production of Amplicillin Anhydrous in 1981-82 was less market demand for the product, besides non-availability of 6 APA during 1974 to 1977. The Committee enquired why the arrangements for supply could not be made in time. The Managing Director explained :—

> "According to the agreement, the American Home product was to supply 6 APA. When we invited the tenders for one year, they quoted the price which was competitive and therefore we bought from them. But in the subsequent year, they quoted a higher price and because of the agreement, we could not buy from the other supplier. There was another supplier who was offering at a lower price of the same quality and the same type of material. But because of the clause in the agreement, we asked for the legal opinion and according to the opinion, they advised that even though the firm was not willing to supply at a lower price, we could not go to the other supplier. Subsequently, the other firm said, if you have any problem, we will indemnify as for as the legal position is concerned. In between we had problems in getting the supply. In 1974-75, we did manage to get some supply. In 1975-76, we had got the problem of tender and higher price."

2.47 In regard to utilisation of capacity of the Amplicillin plant, the Managing Director stated :—

> "First we did it by charging the batch operation reactor more than what was specified. We took a chance to charge it by 10 to 15 per cent more. There is always an empty space above the reactor. Secondly, as against 79 per cent efficiency, we got a slightly better efficiency. Then, in the batch operation process, the capacity is determined by the weakest link, like in the chain. We found that the weakest link was the centrifuge. We had a similar centrifuge lying idle in one of the plants and we transferred that here. So, thirdly, by strengthening the weakest link, we were able to get more out of it. Today that plant can produce 1.2 tonnes per month, almost 15 tonnes per year."

2.48 When the Committee pointed out that during the last four years the production of Ampicillin Anbydrous was very much less, the Managing Director explained as follows :—

> "There are two reasons. Particularly during 1975-76, we had a problem of procuring it from the cheapest source. Subsequently, we had a problem that the product was not passing the quality. The people who were manufacturing said that the product was not passing the quality control. So, a lot of investigation was carried out on the subject. Finally. we said, let us get fresh reference sample instead of the one which might have deteriorated. Accordingly, we wrote to three sources to give us fresh reference samples. We received fresh reference samples and we found that the old sample reference was not upto

the mark. We had written to Italy, U.K. and also to Calcutta. After that, there was no problem. During three months of 1977-78, we produced 900 Kg. Once the problem was resolved, in the following year, we produced 4 tonnes and in the subsequent year, we produced 8.4 tonnes. Today, we are geared up to produce 15 tonnes a year."

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

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

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

(i) *Vitamin C*

2.52 In regard to low production of Vitamin C and further fate of the Vitamin C plant the Managing Director stated :

> "This Vitamin 'C' plant was mechanically completed in 1973 and they started commissioning the plant. But they were getting substantially lower efficiencies that contemplated. As against the efficiency which was contemplated at 35%, they got 9% efficiency. That means, the cost of production was very high. So, all these years, these targets have no meaning because still today the plant has not been successfully commissioned. So, every year they are hoping that the problem shall be sorted out in that year. But as against the capacity of 125 TPA, they were able to produce certain percentage only. Not in a single year, the plant was really commissioned and a guarantee run taken and capacity established.
>
> In 1975, there was Brig. Shahaney Committee which went into the problem as to why the technology based on indigenous technology is not working. Finally they had appointed the NRDC, NCL and HAL Experts Committee. These Committees finally recommended collaboration with Roche Products.
>
> When revamping of the Plant based on Roche Products was being done, there was no target fixed at all.
>
> We are not running the plant. We are using it for alternate purposes. We have long term plan and a short-term plan."

2.53 Asked why Roche were selected, the MD stated that Roche were the world leaders in production of Vitamin C followed by Takede of Japan. One of the reasons for Roche technology not being able to improve the performance of HAL plant was that HAL plant was too small for Roche and that they were doing this free of charges. The Committee were also informed that no substantial import of Vitamin C had taken place. Only marginal imports might have been made.

2.54 A total amount of Rs. 2.15 crores had been invested in the plant and at present its written down value was Rs. 7.8 lakhs.

2.55 In regard to the use of the plant, the M.D. informed the Committee—

> "We have a long-term and short-term plan to use this plant. On the short-term basis we are making aureofungin. That is being produced as we do not have a plant for making that and it is being marketed by us. Similarly we have another product-Hamycin. As and when required we will be producing that in this plant. That is also being marketed. This is a pilot plant which our R & D long ago required and this 125 tonnes plant is filling that gap. We are running it and in the process we are producing process packages for these products. Rifampicin is a very powerful antibiotic for TB and leprosy. In fact this

antibiotic reduced the treatment for TB from 18-24 months to 6-9 months. Similarly, for leprosy also it is an excellent drug. So we have a plan to used this facility plus some of the Fermentors in Gentamicin plant and for both we have to pay some know-how fees. We will use these equipments to make this very powerful antibiotic for TB and leprosy. We have already made a feasibility report. It has already been submitted to the Government and we have also made a foreign collaboration application. We have already signed the contract for technology and we feel confident that we will be able to use this facility. In the meantime we are using it also and reproducing aureofungin and Hamycin."

2.56 The Managing Director further clarified the reasons for the failure of the plant as follows :—

"If you ask me frankly, the NCL started the work on the process in 1953. They developed the technology in 1958 and it was offered to us in 1960 pilot. In 1965 we put up the plant. Then we took a decision to go for a feasibility report. Then it was decided to put up this plant. The work started in 1968. In 1973, the plant was ready but it was not giving the rated efficiency. In 1975, the Shahaney Committee was appointed who in turn appointed an expert committee where top scientists from the NCL, NRDC and HAL were participating. In the meantime there was a proposal that we should take assistance of Roche Products and, on that basis a feasibility report was made which was also approved by the E.F.C. To start with, on that basis, the plant was put up. Unfortunately when this decision was taken, Vitamin C production in the world must be much smaller. Subsequently things picked up. They wanted to exploit the indigenous technology. Unfortunately it did not click. It was a mistake perhaps, honest mistake, to exploit the indigenous technology. It failed. It was a deformed child-born and we tried to revive that. The plant itself was already built. In the existing plant we had to make some modifications. The capacity was small. It was free of charge technology. Perhaps that could be limiting factor. Whatever be the reason, we could not achieve the results. The technology was developed indigenously much earlier. It was altogether the best one that we got. We have taken the calculated risk to exploit the indigenous technology. Unfortunately it failed."

2.57 The M.D. informed the Committee that the plant was working as a multi purpose pilot plant for R&D purposes and under long term basis HAL would be using the plant.

2.58 On an enquiry of the Committee, the Secretary of the Ministry gave a detailed account of the history of the Vitamin C Plant, where in spite of several efforts, the indigenous technology could not be upgraded to commercial scale. The Committee were informed that in 1975 a Task Force, headed by the then D.G.T.D. (Brig. V. W. Shahaney) suggested that HAL should get better technology. On the suggestion of the Task Force, enquiries were floated and only one firm Roche offered to revamp the Plant. They gave 35 recommendations, out of which HAL implemented 31, and

the remaining 4 were not implemented by mutual agreement, as they were either not feasible or involved high capital expenditure. The plant; however, did not work upto expectations.

2.59 The setting up of Vitamin C plant was also subject matter of comment, when the Committee on Public Undertakings (1975-76) examined the working of the Company, they had recommended that the decision to set up the Vitamin C plant without proper techno-economic survey of the project should be investigated and responsibility fixed. This was reiterated in 1978-79. The action taken in this regard was however, not intimated to the Committee as desired by them. The representative of the Ministry explaining failure on the part of Ministry for not intimating the action taken, stated :

> "Most of these points regarding the CSIR, task force and Planning Commission have been mentioned in the previous replies to the Committee. The only thing is that it has not been mentioned in a composite way. That is an omission."

2.60 In a consolidated note submitted to the Committee after the evidence the Ministry of Chemicals & Fertilizers *inter alia* stated as :—

> "There are two courses open for re-vamping the plant namely (1) to increase the capacity to a level significantly higher than 125 tonnes per annum. This will need substantial investments. It is also not certain whether with the existing technology HAL would be able to maintain the overall conversion efficiency at 45%. Incidentally it may be mentioned that Vitamin C plants of other units in India are operating at about 40 — 42% overall efficiency and have capacities nearly 4 times that of HAL, and (ii) there has been significant progress in the Vitamin 'C' technology in many parts of the world. Two of the largest producers of the world who control more than 60% of world's production, are operating their plants at overall conversion efficiency ranging from 60-65%. Moreover their plant size is nearly 20 times that of the existing Vitamin 'C' producers in India other than HAL. Because of the near monopoly situation in the world, it appears that these two units are not interested in transferring their know-how. In view of the difficulties faced by HAL they have approached UNIDO to render necessary assistance to obtain better technology so as to make the existing plant economically viable with minimum capital expenditure.
>
> The matter was also again discussed with M/s Roche Products Limited in 1982 in the context of rehabilitating the plant. M/s Roche have now intimated that they are looking into the matter and will let us know shortly.
>
> The lay out of Vitamin 'C' plant at HAL, by and large, does not conform to accepted principles of scientific lay out. While designing the lay-out, the prime importance should be not only to see the ease of operation of the plant but also ensure the conversion of energy required for transfer of materials during operation. The principle of utilisation of gravity flow has not been properly exploited while designing the lay out of the

plant. If one looks at the material flow, it is noticed that the intermediates right from the first stage of reaction are being transferred to the next higher floor and the final product, viz. Vitamin 'C' is produced at the topmost floor. Vitamin 'C' has to be brought back again to the ground floor for packing and despatch. This has necessitated the use of pumps and other conveying systems which largely could have been eliminated if the principle of gravity flow were exploited adequately. The inadequacy of lay out had also been noticed by the Task Force appointed under the Chairmanship of Brig. Shaheney, former DGTD.

As regards material of construction, it appears, because of lack of experience, perhaps adequate attention was not paid in selecting proper material of construction. This has resulted in failure to obtain IP grade Vitamin 'C' in the first and second crop during crystallisation from crude Vitamin 'C'. Impurities in crude Vitamin 'C' could not be washed out in the present equipment. The hydrogenator which is used for conversion of dextrose to Sarbitol is made mild steel. At sarbitol stage HAL had found out the impurities like iron and nickel (HAL use nickel catalyst). Improper materials of construction of evaporators/crystalliser also tives colour to the product due to addition of metallic impurities. At other stages also, because of use of mild steel equipment, impurities in various intermediate products go on building up. During the study of the technologists from M/s. Roche India, they suggest replacements of various mild steel equipment which apparently were responsible for increasing concentration of impurities especially iron content, by stainless steel, glasslied, epoxy coated vessels at appropriate places. Whenever feasible, with minor investment, HAL had taken action. e.g. at the Sorbose stage they had used epoxy coated vessels. In place of abonite filter at the last stage they had replaced it by polypropylene filter. However, major changes which require substantial capital outlay, were not undertaken. It is felt that unless a thorough study of impurities a various stages is made in order to pinpoint the source of impurities, with the existing material of construction of equipment, HAL may not be able to obtain Vitamin 'C' of IP grade at first and second crop during crystallisation from crude Vitamin 'C'."

2.61. The plant for the manufacture of Vitamin C based on the technology from National Chemical Laboratory, Pune, with a licenced capacity of 125 tons per annum was set up in 1973. Performance of the plant was, however not satisfactory and Government appointed a task force in 1974 to look into the difficulties. On the recommendations of the task force, technical assistance of M/s. Roche Products Ltd. was obtained free of charge in 1977. Modifications to the plant were carried out and trial runs were taken but the production was still not found satisfactory. The production of Vitamin C has since been suspended and economic alternative uses for the plant are being explored. The Ministry has, in its recent note to the Committee, stated that "the lay out of Vitamin 'C' Plant, by and large, does not conform to accepted principles of scientific lay out." The Committee have also been informed that the matter has again been referred to M/s.

Roche in 1982 for rehabilitating the plant. As stated by the Ministry M/s. Roche Products Ltd. are looking into the matter. The Committee regret that the Vitamin 'C' plant has been limping from1973 and the apprehension of shortcomings in the basic technology and the lay out of the plant still persists. The Committee appreciate the efforts for indeginisation, but they feel that before making investments the indeginous technology should have been proved fully for mass production. At this stage they can only express the hope that M/s. Roche Products Ltd. will be able to rehabilitate the plant and the Company will derive the full benefit of the investment in it. If it is decided to abandon the Vitamin 'C' Plant altogether the Committee expect that alternative use of the plant will be explored immediately and the facilities available put to full use.

(ii) *Formulations*

2.62 The targets of formulations were also not achieved during the period 1979-80 to 1981-82 though there was marginal variations between the actuals and the estimates. Among the formulations made by the Company, 84% are in drugs falling in category I and II and 16% are in drugs falling in category III and IV.

2.63 While fixing the prices under Drug Price Control Order, drugs falling in Category I, have a mark up of 40%, those under category II have a mark up of 55% and in category III depending upon the nature of formulations the mark up is either 60% or 100% and category IV drugs are decontrolled.

2.64 During evidence the Managing Director informed that it was only during the last two years that HAL took a decision to increase percentage of formulation production and sale thereof. In a note submitted to the Committee after evidence the Company has stated:

> "During the year 1982-83, out of the budgeted production of Bulk Drugs amounting to Rs. 21.92 crores, Bulk Drugs worth Rs. 12.25 crores was estimated to be used for captive consumption. The percentage works out to 56%. In addition, HAL is likely to substantial quantity of Bulk Drugs to its associated formulators in three Joint Sector Formulation Units, whereby percentage of Bulk Drugs produced in HAL that will be formulated in HAL, along with three associated Joint sector units may work out to around 70%."

2.65 On the Committee pointing out that there was low production of formulations in the product-mix of HAL which affected the profitability of the Company adversely, as there was higher margin of formulations than in bulk drugs, a representative of the Ministry explained during evidence as follows :

> "In the case of HAL, most of their bulk drugs and formulations belong to mass consumption and life saving categories, which come in Category I and II of the Drug Price Control Order. Four categories are listed there; Categories I and II are mass consumption and life saving; category III is essential Category IV is de-controlled variety. For categories I and II the mark up is kept very low, because we want to make them cheaper for the sick persons. So, the mark up is low in I and II. The

mark ups in the price of I and II formulation will be lower than III and IV. In HAL, 84 per cent of the formulations is of category I and II. That is why their ratio is low. If there is more diversification to Category III and IV, the position will improve."

2.66 On the question of correcting this imbalance, the representative stated:

"The question of the economic viability of the company came into force in recent times. It is only in 1978. Policy Statement and in 1979 by the Drug Price Control Order these four categories and the artificial keeping down of the mark up in the essential categories was introduced. In the post-1979 situation, HAL's formulations are low mark up formulations. So, they are diversifying to other formulations. This come into focus only after 1979. During our reviews, the Ministry has been asking them to diversify the formulations into category III and IV formulations and to go into trade sale rather than institutional sale. This imbalance is being corrected. But you cannot enter the market overnight. More and more formulations are being introduced. But it is very difficult to enter a well-entrenched market because of severe competition."

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

D. *Complaints*

2.68 A total of 13592 batches of different products were released and marketed by the HAL during 1979-80, 1980-81 and 1981-82. During these years 84 cases of adverse reactions were reported. Out of the 84 adverse reactions, 30 cases proved fatal. The Committee enquired during evidence whether there was any manufacturing defect in the products. The Managing Director explained that each and every case of adverse reaction was investigated and the product was tested and invariably those samples were found to be of standard quality. He further stated that in such cases there were other reasons for causing death-improper sterilisation/rinsing of syringe-contamination of distilled water. He also added that HAL had introduced programmes for making persons using the drugs aware of the risk involved and precautions necessary for use of drugs.

2.69 In regard to some batches of products being found below specifications, the Managing Director stated that the Company's drugs go all over the country and sometimes during transit, due to heat and moisture certain colour changes did take place, but the efficacy of the drug remained perfect. He admitted that in a few cases HAL had received complaints about foreign particles. He assured the Committee that HAL had a fulfledged and excellent quality control department. It was further stated that in each department of the formulation, workers had been identified whose job was to go round and see that good manufacturing practices were followed.

2.70 The Company has a Medical Services Department which investigated complaints mostly by on-the-spot visits. In addition the Company has formed a quality assurance cell which analyses each product complaint in depth and also monitors the norms necessary for good manufacturing practices.

2.71 Of the total number of batches marketed during the last three years product complaints worked out to 1.34% and withdrawals 0.5%.

2.72 On an enquiry, the Committee were informed that during the last three years the Defence authorities had rejected some of HAL products and the incidence of rejection as compared to total sales to Defence Services worked out to 0.95% in 1979-80, 2% in 1980-81 and 4.42% in 1981-82. The rejections were mostly on account of change in colour of the product.

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

E. *Standard Costing*

2.74 The Report of the Comptroller & Auditor General of India, Union Government (Commercial) 1981 Part XI-Resume of Company Auditor's Reports and Comments on Accounts of Government Companies in respect of HAL *inter alia* pointed out that (i) system of standard costing had not been introduced. Standard costs had not been fixed (ii) There were large variations between actual consumption of raw materials and standards fixed in respect of some of the major items of raw materials and (iii) There was no system of ascertaining idle time for labour, specifying the reasons therefor.

2.75 The Company informed in a note that (i) In a multi-process/ multi-product industry, introduction of fulfledged system of standard costing is difficult. A partial system of standard costing had been tried out during the year 1981-82. Technical Services Division of the Company undertook a study and laid down target norms of operational efficiencies and consumption of materials. These norms are yet to be stabilised since they have been introduced on trial basis for the existing technologies of penicillin and streptomycin. In respect of other bulk drugs attempts will be made

to introduce similar norms only after the plants are fully commissioned and the technologies established (ii) As the new processes and technologies were under stabilization, certain norms were tentatively adopted, visualising ideal conditions like continuous availability of raw material, uninterrupted power supply, absence of contamination in fermentors, etc. Since some of these conditions were beyond control and rarely obtained in actual practice, the actual consumption deviated from the norm; (iii) System of documenting idea time for labour is difficult in a continuous process industry.

2.76 The Committee desired to know from the Secretary of the Ministry during his evidence as to how in the absence of any standard costing the Ministry satisfied themselves about the cost efficiency of the HAL. The Secretary of the Ministry stated it was an inherent function of the production unit to evolve a system of costs. He went on to say:

> "A review of the costing system and the variation of the actual cost from the standard/budgetary cost etc. are basically exercises conducted by the management and the Board of Directors. Normally, in the Ministry itself the comparisons are not directly made because it is an inherent function of the production unit to evolve a system of costing based on either past year's experience or the project norms and revise it as soon as it is stabilised and prepare standard norms. However, one way in which Government does come to know about the variations are because of the BICP mechanism of costing. When a bulk drug or formulation cost has to be studied for the purpose of price, a detailed study is made by the BICP. Then things come out as to exactly how the costs vary. Apart from that, in the Ministry itself, by and large, these comparisons are not made. The Board of Directors is required to review from time to time what is the position regarding costing and what corrective measures are required in order to bring down costs, wherever they are increasing. So far as HAL is concerned, it is using the budgetary costing based on past consumption for the purpose of cost control. In the last four years, the Company has been going through an expansion phase for penicillin, streptomycin and ampicillin. The penicillin project has been completed and the process has been stabilised. The Company has now evolved standards based on the performance guarantees given by the collaborators, and these are used for cost control from the current year. Similar standards will be evolved when the processes for the manufactures of other bulk drugs are stabilised."

2.77 A representative of the Ministry further explained that while having standard costing, one has to have stabilisation of the process. Unless stabilisation was established, standard costing had very little meaning. It was explained that in HAL there were changes on account of expansion and new process were under stabilisation. He added that :

> "Pencillin plant has been expanded. There has been stabilisation of the process and the company from this current year arrived at a standard cost. This standard cost can be compared with the actuals. In the case of other drugs the process has not been stabilised. It cannot be compared."

2.78 In regard to the norms of consumption of materials and conversion efficiencies adopted by B.I.C.P. for various products, a representative explained as follows :

"When BICP takes up the cost study, they go into the actual technological process for the last, at least, three years. They go into the performance for the last so many years and they analyse the batch data and see which batch data can be taken into account for the purpose of arriving at a cost. In other words, these batch data should be at a condition when the plant should be operating at a stabilised level and also at the optimum efficiency. In other words, the consumption norms worked out by BICP are fairly stringent. They are doing this at a certain point of time. If the technological process does not change, these consumption norms can be taken to be correct and they would be valid for a few years also. But when they change, the cost will also change. In the case of HAL, I think, the BICP had done a study in 1978 and they arrived at certain norms. Since then, there have been certain changes. These changes should be taken into account when the cost is arrived at. In the case of raw materials, the BICP takes into account the optimum consumption. As regards other coversion casts, they go by company's own allocation system and then arrive at a certain overall cost. To it, they add a profit which is about 10% of the net-worth depending on the category of the drug and then arrive at the final selling price after adding selling and distribution cost. This is the methodology which the BICP normally follows."

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

III

PRICING

The fixation of prices of bulk drugs and formulations is governed by :—

(i) the Drugs (Prices Control) Order 1970—effective May 1970.

(ii) the Drugs (Prices Control) Order 1979—effective 31-3-1979.

3.2 A common procedure applies to the public and the private sector in the matter of price control.

3.3 The 1979 order incorporates the pricing decisions of the New Drug Policy announced in Lok Sabha in March 1978. The prices of all bulk drugs and formulations were frozen before the announcement of New Drug Policy and this freeze remained in operation till August 1980.

3.4 The prices are fixed on the basis of cost studies conducted by the Bureau of Industrial Costs and Prices (BICP) after taking into account the cost data presented by the manufacturers.

3.5 In January 1981 HAL was granted increase in price of streptomycin and penicillin, taking into consideration the increase in cost on account of escalations in the prices of petroleum products in August 1979 and June 1980 and in cost of all inputs upto December 1979 and of major raw material upto 1980.

3.6 HAL's prices of its products were last revised as follows :—

	Name of Bulk Drug	Date of revision	Revised selling price	Cost of production (1981-82)
			(Rs. per Kg./bu)	
1.	Streptomycin (kg) . .	3-8-82	847·42	785·81
2.	Penicillins (bu) . . .	5-7-82		
	Pot. Pen. V. . .	Do.	885·69	757·07
	Proc. Pen. G. . .	Do.	856·71	766·34
	Pen. G. Sod .	Do.	900·82	1034·71
	Pen. G. Ist Crystals .	Do.	583·03	515·95
	Benzathene Pen. G. (kg.)	9-3-81	1271·00	1109·52

3.7 During evidence the Committee enquired from the Managing Director, HAL, reasons for the cost of production of Penicillin G Sodium being higher than the selling price not only in 1981-82 but also in previous years. The M.D. admitted this fact by saying :

> "Two or three reasons are there. One reason is that the cost of penicillin is higher. Another reason is sterility rejections. The third reason is, we are trying to improve the efficiency and partly it has already been achieved.
>
> Even today, in spite of revision of price the selling price is below the cost of production. We have asked our Technical Service Department to study the process whether our efficiency is low; if so how it

can be improved. Also renewal and replacement is taking place in this particular section."

3.8 In a note submitted to the Committee after evidence the Company informed that total losses suffered during 1981-82 due to selling prices being lower than the cost of production had been assessed and the figures worked out as under :—

Total production of Pen. G. Sod. during 1981-82 : 21870 Bu.

Difference between cost of production and selling prices/BU : Rs. 176.57.

Total loss on account of this item : Rs. 38.62 lakhs.

3.9 The Company has further stated that had the selling price of Rs. 900.82 been fixed during 1981-82, the loss would have come down to Rs. 30.96 lakhs from Rs. 38.62 lakhs. It has not been possible to quantify the loss suffered by the Company on account of non-revision of prices from 1974 to 1981.

3.10 The Committee enquired from the Secretary of the Ministry of Chemicals and Fertilizers, during his evidence the procedure followed for fixing the prices of drugs, reasons for delay in revising the prices and measures proposed for avoiding the delay in revising the prices. As regards the procedure for fixing prices under DPCO the Secretary stated that the manufacturers had to apply to the Bureau of Industrial Costs & Prices, which undertook cost and technical studies on the basis of data provided by the manufacturers.

3.11 The Secretary further explained that the Drug Prices Control Order came into force in 1970. It then controlled prices of 22 drugs. Later in 1978, nine more drugs were added to it. In 1978, based on Government decision on the recommendations of the Drugs and Pharmaceuticals Industry Committee (Hathi Committee), prices of 75% of formulations were kept under control, besides the concerned bulk drugs. Along with that Government also announced a price freeze for one year i.e. till 1979. It was pointed out that during normal times, this procedure would have been all right, but in August, 1979 with the increase in the prices of petroleum products prices of all things went up. The Secretary stated :

"For a normal situation, the earlier procedure would have been alright. But here the reports that had come in from BICP were out of date and had to be updated because the number of bulk drugs had increased many more bulk drugs had to be cost-studied on an emergency basis. For every case of leader prices of formulations one cannot go to the Cabinet. The powers had to be got delegated to the Ministry. As a result of discussions with industry, and so on, it was decided to take orders on a revised shortened procedure for implementing these escalations along with the DPCO. The procedures were drawn up and the Ministry went before the Cabinet in November 1979, if I remember right. The Government was changing at that time. So, the papers were returned and we were asked to submit them to the new Government. After the new Government took over in 1980, the new Cabinet referred it to a

Cabinet Sub-Committee. The Cabinet Sub-Committee had a few meetings. Lots of discussions took place and the proposals had to be revised on the basis of these discussions. There was a general impression, both in Parliament and outside, that the pharmaceutical industry was making considerable profits and it was asked why price rise should be given, the consumers would be affected, and so on. It had to be pointed out that while the private sector had cushions and they had a number of declared prices, the public sector had no such cushion and they were in the red, their very survival was at stake. Appreciating these points, after a few Sub-Committee meetings between April, June and July 1980, eventually the Cabinet Sub-Committee took a decision for interim price revision and laid down the procedure.. The report of the Sub-Committee went before the full Cabinet and they took a final decision in August 1980. The procedure thereafter was for BICP to do a quick updating of the already-made reports which were pending before the Ministry, doing, instead of a detailed cost study, an across-the-table study-calling for details and scrutinising those details and accepting whatever *prima-facie* looked reasonable. The updated reports started coming in from November 1980, and the revised prices were given."

3.12 In regard to delays in revising the prices, the Secretary stated :—

"There is not much of a problem so far as normal times and normal inflations are concerned. But some in-built time lag between the escalations happening in the field and the prices being announced is unavoidable. In the case of Streptomycin, the report of the BICP was received in April 1980. It was processed in May 1980. The Cabinet decision was available in August 1980. After the decision of the Cabinet in August 1980, the proposal for revising the price was initiated on 10th September, 1980. The price of Streptomycin for HAL was revised on 6th October, 1980, after getting the order cleared from the Ministry of Law. This price took into consideration costs upto the end of December 1979. The BICP's recommendations for increasing the price on account of escalation in the cost of major raw materials upto the end of August, 1980, became available on 1st December, 1980. The proposal for further revision in price as recommended by BICP was circulated on 15th January, 1981. The orders of the Minister for the revised price were taken on 21st January, 1981. The price was notified on 30th January, 1981. Two price revisions were given during the short period from August 1980 to 30th January 1981. The prices of formulations based on Streptomycin were revised on 2nd December, 1980 based on bulk drug price. The prices were again revised on 9th March, 1982, on the basis of the price revision of bulk drug of January 1981.... There was one price revision in 1976. The next one was in April 1979 and then in December 1980—January 1981."

3.13 The Committee pointed out that there was time lag between escalation of prices of inputs and revision of prices of drugs and enquired the

steps been taken to cut down the delays. The Secretary informed the Committee as follows :—

> "The BICP takes a minimum of four to five months for their studies; they visit the plants also. When I said six months, I meant after the BICP studies. That apart, Sir, the point you have raised is well taken. This only highlights the fact that the entire pricing mechanism we have for drugs needs a review because the situation is such that one has to wait for two to three years—because of the procedure itself which is time-consuming. In the last more than a year, there have been considerable representations not only from the public sector but also from trade and industry."

3.14 The witness conceded that it was extremely difficult for any government machinery to have a system which can respond speedily and with flexibility to changes in costs of 250 to 300 bulk drugs. The procedure laid down was time consuming. He stated that :

> "The whole question as to what can be done to have a little more liberalisation of the drug pricing policy to ensure that the interests of the industry do not suffer and more particularly in the public sector also where heavy investments have been made has been coming under review."

3.15 He further informed the Committee that Government was seized of the matter and a number of suggestions had been made by the Industry—they all agreed that there was need for liberalisation. One of the suggestions was introduction of an automatic escalation formula in the system itself through an index.

3.16 Fixation of prices of bulk drugs and formulations is governed by the orders issued from time to time under the Drugs (Price Control) Order The prices are fixed on the basis of cost studies conducted by the Bureau of Industrial Costs and Prices (BICP), after taking into account the cost data presented by the manufacturers. The BICP takes 4 to 5 months for its study and thereafter Government take 6 months to come to a decision. Therefore, there is a considerable time lag between the escalation in the prices of different inputs and the revision of the prices of the finished drug products. HAL has been put to a considerable financial strain on account of delay in the revision of prices. The Committee note that the Ministry is alive to this problem and is examining a few suggestions in this regard including introduction of escalation formula through an index. The Committee hope that Government will be able to evolve a pricing system soon for the drugs produced in the country which will not only provide for a fair return to the industry but will also ensure availability of medicines to the common man at a reasonable price.

IV

Marketing

A. Marketing

The marketing operations of HAL can be grouped as follows :—

1. Bulk Drugs	Sale is made direct to Pharmaceutical manufactures (This also includes streptomycin, which is a canalised item and allocations are made by canalising agents)
2 Pharmaceutical Formulations .	This includes dosage forms for use on human beings and on animals and for use in crop protection. These are sold to institutions like army, Government Medical Store Depots, State Government Hospitals, ESI Hospitals and to the trade.
3. Exports . .	The Company concentrates on global tenders for exploring the export market. Limited promotion in this regard is carried out through agents in different countries. Exports are handled by HQs.

4.2 The products are stocked at Head Office at Pimpri and 14 branches located mainly in State Headquarters, besides there are Medical representatives at various locations.

4.3 The marketing organisation of HAL was studied by an inter-Ministerial Committee constituted by the Bureau of Public Enterprises which made comprehensive recommendation in 1971 to build up a marketing organisation of the company. The Board of Director examined various possibilities and decided in 1976 to strengthen the marketing organisation of the Company in a phased manner.

4.4 Now HAL has a General Manager (Marketing) with three Managers looking after marketing, though the post of General Manager (Marketing), created in April 1982 and one of the Marketing Managers were lying vacant, as on 20-7-1982. The Committee were later informed that orders for appointing a person as General Manager (Marketing) after an interview were under issue.

4.5 The following table indicates the value of finished stock at the close of the last three years :—

Year	Rs. in lakhs	Stock in terms of number of months' sale
1979-80	431·82	3·7
1980-81	712·03	4·2
1981-82	646·17	2·8

4.6 It would be seen-that there has been heavy accumulation of finished goods. The internal auditors had pointed out that certain products were manufactured in excess of marketing requirements. Depots were having in stock products having short shelf life. The production of penicillin was kept low in 1981-82 to liquidate inventories. In their audit report for the year 1979-80 the internal auditors had suggested various measures to reduce huge stocks remaining unsold and also to make proper assessment of performance in terms of potential orders obtained from medical representative.

4.7 The Committee enquired during evidence the reasons for heavy accumulation of and steep rise in stock of finished goods. The Managing Director admitted that there had been increase in the last few years. He explained that—

> "In fact, in the last five years we did an analysis of the company and we found a number of areas in which we found some action was needed. So, we made a phased programme of action. For example, in marketing we decided increasing our trade share, which was only four lakhs six years back. For this a series of an action were taken by us. The first was to increase medical representatives so that our sales can be increased. Our company with twenty five years' standing had only 19 representatives as against very small companies having hundred representatives. There we took a phased programme of increasing the number of representatives. We had to take a second step. If trade sales had to go up, we should have brand names. But we did not have them. Then, we must also have literature for the representatives. For this, we started a Medical Services Department. Our production range was very narrow. Only a few years ago, we had them in one category, viz. category I. We wanted to diversify and have categories II, III and IV. We developed 60 new products. We made a 3 phased programme. Phase-I of marketing was to increase the efforts in that direction. Our aim was to concentrate on growth. Our sale had gone up by 100% in five years. The second phase, now before us, is to continue normal growth; and to cut inventories and outstandings. Phase III will come after 1-2 years in which we have to excel in terms of our growth, inventories and outstandings. So, we were on the first phase; and we are now going to the second. From 4.2 months in 1980-81 inventories went down to 2.76 months although sales had gone up. We are aware that there is scope for further reduction in inventory; and we are taking steps in that direction."

4.8 The heavy accumulation of stock, was explained by a representative of the Ministry of Chemicals & Fertilizers during evidence, as follows :—

> "With expansion new capacity has been created. Earlier they had no problem because whatever they were producing were used up mostly by Government. Now with this expansion, new marketing strategy has to be evolved. From low markup category, they have to diversify into categories III and IV. When they diversify they have to produce in anticipation of

sale. So, they have to produce and keep in stock. These things will take some time. In categories III and IV the multinationals are very strong in our country.

The off-take for Government institutions and hospitals takes place during the last two quarters of the year. They do not space their orders throughout the year. So, in anticipation of DGS&D rate contract and Government orders, during the middle of the year they have to keep some stock."

4.9 As regards the shelf life of drugs the Managing Director informed the Committee that in case of HAL the incidence of life expired drugs was negligible. In 1981-82 it was 0.5% and in 1980-81 it was less than that.

4.10 In regard to the sale representatives of HAL it was stated that the Company had 66 representatives in 1979-80, 119 in 1980-81 and 112 in 1981-82.

4.11 On an enquiry, the Committee were informed that the value of sales made by the representatives was Rs. 16.71 lakhs in 1979-80, Rs. 10.94 lakhs in 1980-81 and Rs. 15.81 lakhs in 1981-82. The low sale in 1980-81 was due to the strike in that year. In regard to total expenses on sale, the Committee were informed that the expenses were Rs. 81.41 lakhs in 1979-80, Rs. 83.49 lakhs in 1980-81 and Rs. 131.00 lakhs in 1981-82 and that expenses as a percentage of sales to trade were almost constant between 4-5% in 1979-80.

4.12 Elaborating the system of work by the representatives, the Managing Director informed the Committee that—

"Both (Sale and hospital representatives) will have to work because hospital representatives will have much larger territories and they are also responsible for effecting the collection after the sales are made. Earlier, because we did not have people exclusively for this, the work was getting delayed. Now we have bifurcated. In the month of March we went to the Board for reorganisation. That was approved in the month of April. After April we gave options to people and according to their merit we made a division. But we did not have supervisors for trade representatives. So, we created supervisors' posts and some of them have been selected as supervisors. So, we now for every 6-8 trade representatives, there is a supervisor to have effective control. Then we have created divisional Managers' posts as far as the trade is concerned and in the hospitals now, we have gone in for more depots. Now we have 13 depots as against three depots previously."

4.13 The Managing Director further informed that HAL did not have sole selling type of distributors, but they had distributors who would buy material and then give it to the chemists. They got a commission of 5% on injectable product and 7½% on other products.

4.14 The Managing Director also informed the Committee that—

"In 1975-76 our trade sales were only of Rs. 4 lakhs. In the Government sector there were 19 representatives—one man in

each province. Till 1975-76 no trade sale was being done. We wanted to be competitive and profitable. We took decision for this purpose. Whatever the doctors prescribe the patients buy. For this, trained representatives have to be with us. We got some posts approved and then they were trained. Along with that literature is required. We never had any literature at all.

So, this literature was created. In order to create the literature, we created a medical service department where two doctors were appointed to go into the technical aspects. The doctors know that what type of precautions to be taken and what does and so on. Earlier, we used to sell by HAL's name. Now, we have to register a brand name and also convene doctors' conferences. Our doctors are going around various places, meeting with medical practitioners in order to boost the sale. After introducing this scheme, our sales went up by 81 times. In the second phase, we are bifurcating the representatives into trade and hospital sectors. We have invested about Rs. 30 crores in the expansion and diversification. Vaterinary and agriculture sector is a small one and it has started just now. we are giving minimum number of representatives to that sector-8 for agriculture and 12 for veterinary."

4.15 On an enquiry, the Committee were informed that HAL had 13 products with brand names such as dynacil, longacillin, cibrolin, erynate, hamycin, etc. Most of these brand names were introduced in the last two or three years. He pointed out that when HAL was selling products under generic name i.e. ampicillin, the chemists used to substitute it, but with a brand name they cannot do so.

4.16 The Committee enquired about the number of agricultural representatives and progressive farmers doing the sale work for HAL and the quantum of work done by them. The Managing Director stated that HAL did the promotion of agricultural items by giving them to the leading farmers in some districts of Maharashtra and the results the farmers would get by using the same would add to the promotional effort. He also added :—

"In any case, we have reduced cost of production. We will promote this more vigorously. We are increasing the staff to 15 people. This will not make a big dent in the total turn-over. 40% of increase for Agriculture is a small part of it.

In Maharashtra, Gujarat and Madhya Pradesh area, we have 5 distributors and dealers. One technical man is working in South India. He is for Madras, Kerala, Tamil Nadu, etc. There are 7 distributors, 175 dealers."

4.17 In reply to the question whether the doctors were prescribing HAL's products, the Managing Director stated :

"People have various promotions scheme, but we cannot really say anything. We were not in the market under our brand names. We have come with more formulations recently. We

were not having enough distribution points, literature etc. We are now gearing up.

Unfortunately we are coming into the field at a time when there are multinationals and other big companies well entrenched, but we are confident that we are going about it systematically and we will be able to get results. So far, we have achieved good results. In the last five years we have doubled our sales and we are confident that the way we are going about it systematically we will be able to deliver the goods."

4.18 On another enquiry whether there was any resistance from Government hospitals with regard to quality, the Managing Director informed that quality-wise HAL had been accepted very well in the market. The Secretary of the Ministry of Chemicals and Fertilizers also confirmed that from quality angle HAL had not so far been questioned.

4.19 The Committee wanted to know when the deficiencies in the marketing management of HAL came to the notice of the Ministry and what remedial measures have been taken to improve the marketing performance. The Secretary of the Ministry informed the Committee as follows :

"The HAL's performance in marketing, both sales outstanding and finished goods, is reviewed in quarterly review meetings. Suggestions have been made regarding development of new formulations and to develop a comprehensive marketing strategy also. Special emphasis is now laid on strengthening marketing functioning as it will determine the level of the capacity utilization for bulk drugs and formulations and consequently its profit. Government departments obviously invite tenders not only from the public sector but from other agencies also. Where DGS&D comes into the picture, the public sector is asked to Indicate that they will not charge more than the lowest quoted rates. In that case, some prices for formulation get reduced. The margin available is not adequate. This was leading to a situation where heavy inventory was also built for supply, heavy outstanding is there. 85 per cent of the sales of the company are in institutional area; only 10-15 per cent are in the trade area. They are concentrating on government hospitals and institutions; and this, of course, is an area which has to be reversed; but it is necessary to enter the trade area also. They have drawn up schemes for entering the trade area, talking to medical people, chemists and druggists so that their products are well-known and this kind of inter-action with the people who prescribe these medicines is established. We are suggesting some of these measures and are requesting the Board to look into the whole question and formulate some suitable measures so that all these years this kind of heavy reliance on government departments alone with consequent difficulty not only in getting low margin but realising the payments is reduced.

4.20 When the Committee pointed out that there had not been proper integrated plan in the area of expansion and marketing, the Secretary observed :—

"There is considerable truth in your statement. There is a need for very fine coordination between production planning and marketing. Now the vicious circle is continuing. We want both

production and marketing development to keep pace with each other."

4.21 To another query of the Committee as to when it was realised that there was a necessity to strengthen the market, a representative of the Ministry stated that —

"During the last one and a half years the emphasis is on marketing. We have realised that what can be marketed has to be produced and only that product which will give a profit can be produced."

4.22 The Committee drew attention of the Company's representative to a suggestion made to them that it may be made obligatory for all government/semi government organisation to obtain their requirements of drugs exclusively from public sector drug manufacturers. The Managing Director reacted by saying —

"The Government is very sympathetic to this proposal and for the last four years certain proposals have been made and discussions have been held. Even right now the Ministry is working on one agreed proposal in the light of the discussion that is taking place. Already since 1980, the Government has given a ten per cent price preference for the public sector purchases. Even yesterday morning we had discussion with the Ministry people. There is an angle of small-scale sector also. So, without affecting the small-scale sector, how it can be done, it has to be seen. Certain proposals were discussed and we are following this up and are hopeful certain decision will be coming up in the near future.

But, unfortunately, in the small scale sector people have 15% price preference. Actually, this works only against the larger units. The small scale people have still an edge over us."

4.23 In this context, the Committee were informed by the Secretary of the Ministry in this regard as follows :—

"The Government has also written to the State Governments for giving preferences to public sector drug companies in the matter of purchases. Many State Governments have issued orders giving such a preference and efforts are also being made to reserve a certain percentage of orders for medicines by the Central Government organisations to the public sector undertakings without calling for competitive tenders. On this discussions have been held with the Ministry of Industry and other Ministries."

4.24 The break up of sales between Government Sector and private sector was stated to be as follows :—

Year	Government sector	Private Sector
1979-80	Rs. 8·45 crores	Rs. 2·58 crores
1980-81	Rs. 9·71 crores	Rs. 3·32 crores
1981-82	Rs. 14·47 crores	Rs. 3·24 crores

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

4.26 The Committee hope that the Ministry will be able to pursuade all the State Governments to give preference to the public sector undertakings while making purchases of medicines for use in the States.

B. Central Marketing Organisation

4.27 The Committee on Public Undertakings (1975-76) recalling their recommendations in an earlier Report on Role & Achievement of Public Undertakings (1973-74), had recommended that Government should evolve a centralised sales and marketing set up for each type of industry and set up a central marketing organisation for HAL and IDPL. In January, 1978 Government had informed the Committee that a working group comprising the representatives of the Ministry of Chemicals & Fertilizers, IDPL, HAL and Smith Stanistreet & Co. had been constituted in September 1977 to consider the matter for marketing of drugs produced by IDPL, HAL and Smith Stanistreet. It was also stated that the Group had initial sittings and had prepared an interim note. The Group was to meet again in January 1978 to make their final recommendation.

4.28 During evidence (January 1983) the Committee desired to know action taken in the matter. The Managing Director HAL informed that a few meetings were held by the Ministry and certain discussions took place, but no decision had been taken, although between IDPL and HAL, they had discussed this matter from time to time. Asked to give his opinion about the joint functioning of marketing of HAL and IDPL, the Managing Director stated—

> "Personally, we are sister companies and understanding and consultations on mutual basis will be beneficial to both the companies. Practically, every month either they consult us or we consult them. Many times, the Ministry people also bring us together.

4.29 The witness emphasised the need for gearing up marketing by saying :—

"Our expansion has been mainly to cater to the capacity that we have created. We are not in the trade market. So, the emphasis was to go into the trade market which is more profitable.

In fact, the Government said that the sooner we do it, the better it is because we have not only to formulate more of our bulk drugs but we have also to see that they are sold and that our capacity utilisation is better, so that our profitability is better. I wish to assure the Committee that whatever steps we are taking will definitely get us better results and improved performance of the Company. About the misgiving that this will increase the expenditure, we are confident that the expenditure will not increase disproportionately. It will be maintained well within the norms fixed. At the same time, it will improve the performance. We are confident that we will be able to do so."

4.30 He also stated that an opinion can be formed on the basis of concrete proposals and terms of this organisation, but the principle HAL was in favour of the proposal. He however added that :—

"We have started three joint sector independent units at Nagpur, Goa and Karnataka. Since these are independent companies, although we are majority shareholders, they have to take decisions which are in their best interest. Sometimes, the interest clash.

When we have undertaken that we will market the joint sector products, we submitted quotations to some Government tender and we have supplied the material. Now they are demanding us to under-write their production and their collection.

In our own company, there are difficulties, which we are trying to sort out. How can we underwrite? If there is a joint company, they have to underwrite. It is our collective responsibility. They will ask us to produce. If it is produced and we do not have orders, whose responsibility will it be? Or if we sell it, they are not able to collect, whose responsibility is it? These details are to be worked out and they are beneficial. Certainly we are for such proposal."

4.31 On being asked whether this question has been placed before the Board of HAL, the Managing Director stated :—

"Unfortunately it is a fact that it has not been discussed in the Board. Some discussions have taken place in the Government.

We have to go to the Board with a concrete proposal and such a proposal has not yet emerged. The Board

requires a concrete proposal. How can the production be underwritten ?

It is a joint market. If a conscious opinion comes and if it comes in the form of a proposal then, it can be put up to the Board.

The Government had initiated action on this and we had a meeting on this subject and certain proposals were discussed."

4.32 The Secretary of the Ministry of Chemicals and Fertilizers revealed that Working Group had suggested some alternatives and these alternatives were discussed at length and IDPL and SSPL were in favour of continuing the *status quo*. He added :

"As marketing had to be closely coordinated with production and unless the production was centralised, the marketing cannot be centralised. HAL felt that some form of common marketing would be desirable to avoid unhealthy competition. IDPL and SSPL pointed out that too large a product-mix, as a result of centralised marketing of the products of all the companies would lead to dilution of efforts and the public sector companies might end up losing the market to private sector companies."

4.33 It was also stated that the Working Group which was to meet again had not met so far.

4.34 In regard to the recommendation of the Committee, the Secretary stated :

"In the light of the recommendations of COPU in its 37th Report, reiterating the desirability of setting up a Central Marketing Organisation a meeting of the public sector companies was held in this Ministry in August, 1979 and various aspects of centralised marketing were considered in the meeting. There was a general concensus among the public sector undertakings that a common marketing organisation is feasible in regard to institutional sales. However, in order to go into this question in greater detail, the public sector undertakings were required to prepare a Working Paper examining the various alternatives of a common marketing set up and highlighting legal and financial aspects. The Paper was to include data regarding products, sales force, sales pattern etc. While all the companies furnished the data, only HAL and SSPL commented, that too not comprehensively, on the issue of central marketing.

The problem of public sector undertakings undercutting one another in the tenders floated by Government institutions was discussed more than once in the quarterly review meetings taken by Secretary. In February 1981, a meeting was taken by Secretary to discuss this issue. After

discussions, the following guidelines were laid down in submitting tenders for purchases by Central and State Governments :—

(a) Where there are common uniform selling prices notified by Government under DPCO 1979, public sector undertakings should not quote below such prices.

(b) Where there are differential prices, no company should quote below the lowest or the lower of such differential prices.

The prices referred to are the maximum retail prices minus the trade discount.

Even this has not been working very satisfactorily for the reason that one or the other of the public sector undertakings has been accusing other public sector undertakings of quoting below those rates and the latter justifying it on the ground of remaining competitive *vis-a-vis* the small scale units and the private sector units. But some amount of consultation and common rate tendering has taken place.

4.35 The Secretary further stated :

"In the pharmaceuticals industry with its large number of products in different therapeutic groups, setting up a common marketing organisation for marketing the products of all the public sector units will pose problems for the following reasons :

(i) The purchase decision of pharmaceuticals are generally not made by the consumer, but made for him by his physician. Hence the products have to be promoted to the physicians by the medical representatives who would have to explain the special features, advantages etc. of products. The representative will face problems in promoting too many products, many of which have competing therapeutic uses.

The method of marketing in drugs is different from the method adopted with the regard to engineering products. We deal with drugs here. For example, the public sector companies have a large range of products, some of which are competing products. So, the same medical representative has to canvas for a large number of products at the same time. This way the medical representive will face problems in promoting too may products.

The communication effort will get diluted if too many products are to be promoted.

(ii) Close coordination between the producing units, quality control and the medical services departments and the marketing unit is essential in marketing pharmaceuticals, especially for investigating adverse reactions, assessing the

feed-back from the market etc. and this may prove difficult to achieve if the marketing organisation is a separate entity, marketing the products of a number of producing units.

(iii) In view of the product range and the fluctuating demand for pharmaceutical products seasonally and otherwise, the production of formulations has to be closely coordinated with the marketing division's demand estimates. Such integration would be difficult to achieve by a Central Marketing Organisation marketing products from a number of producing units located in different parts of the country. Production will have to be based on feed-back. So, one more agency means lesser coordination.

In the highly competitive pharmaceutical market intensive efforts to promote the sales are needed a compact marketing organisations selling the products of a single company are likely to have an advantage over a large organisation.

While a common marketing organisation is likely to cost less in terms of expenditure, rate of growth of sales many slow down due to the reasons mentioned above and ultimately selling expenditure as a present of sales may end up being higher.

Concentrating the marketing of all pharmaceuticals produced by PSUs in one organisation may make it vulnerable on the industrial relations front."

4.36 The Secretary went on to say that further discussions on the common Marketing Organisation were held with the Public Sector Undertakings. During the discussions, he added :

"The public sector representatives pressed the point that Government should purchase its requirements from them without calling for tenders, at prices fixed under DPCO. They were also of the view that a Committee consisting of representatives from the Marketing Divisions of the five companies could coordinate the supply of pharmaceuticals to Government agencies. A suggestion that PSUs should meet and nominate a leader in each region who will quote one common rate on behalf of all PSUs has been mooted. One view was expressed that a common Marketing Organisation for marketing the products of all the five companies in both the institutional and trade markets was feasible but it would require the underwriting of the production of the PSUs by the Marketing Organisation. All the others were of the view that a Common Marketing Organisation for trade sales was neither desirable nor feasible. In view of the problems, progress has to be stepwise and cautious. Since no such under-writing would be practicable Government finds it difficult to enforce the decision."

4.37 Giving views of the Government on the subject, the Secretary stated :

> "It is very difficult to implement because of the complexities involved in it. Had all been producing one particular formulation, it would have been easier to organise. Here we have a situation where each one is having different drug and different formulation. Some of these are competing.
>
> The effort now is first of all to establish a market so that they are able to at least monitor what they are producing and arrange a market for that."

4.38 Asked whether it was not incumbent on the Government to send a reply to the recommendation of the Committee, the Secretary replied :

> "We have not taken any decision on that. It is still under consideration..... It will be decided in a couple of months."

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

V

FINANCIAL MATTERS

A. *Working Results*

The Company was doing well financially till 1972-73 but thereafter it had been continuously running into losses since 1973-74 and the accumulated loss at the end of the year 1981-82 amounted to Rs. 24.60 crores as against the entire paid up capital of Rs. 21.55 crores. The losses suffered had gone up from Rs. 298.03 lakhs in 1979-80 to Rs. 639.47 lakhs in 1980-81 and was Rs. 569.43 lakhs in 1981-82. This is inspite of the fact that the capacity utilisation in respect of major products is sated to be more than 100 per cent and the prices fixed by the Bureau of Industrial Costs and Prices allow a post-tax return of 14% on net worth (capital plus free reserves).

5.2 The working results of the Company during the years 1979-80, 1980-81 and 1981-82 are as follows :—

(Rs. in lakhs)

Sl. No	Particulars	Actuals 1979-80	Actuals 1980-81	Actuals 1981-82
1.	2	3	4	5
A.	*Income* :			
1.	Sale of antibiotics . .	1718·54	2026·88	2788·43
2.	Increase (+)/Decrease (—) in stocks	(+)261·68	(+)243·17	(—)77·51
3.	Value of production . .	1980·22	2270·05	2710·9
4.	Add : Misc. Receipts including subsidy	63·94	62·35	135·36
5.	Total increase (3+4) . .	2044·16	2332·40	2846·27
B.	*Expenditure*			
1.	Raw materials . . .	1097·00	1328·99	1322·92
2.	Power	209·69	224·93	320·69
3.	Fuel	204·68	288·44	364·58
4.	Int. on cash credit . .	37·60	52·55	97·25
5.	Other expenditure including provisions	679·96	727·13	878·04
	Total (B1 to 5) . .	2228·93	2622·04	2983·48
C.	Profit (+)/Loss (—) before depreciation, Int. Tax & previous years adjustments . . .	(—)184·77	(—)289·64	(—)137·21
	less Depreciation . . .	62·34	79·87	84·15

1	2	3	4	5
D.	Profit (+)/Loss (—) after Depreciation but before int. & tax	(—)247·11	(—)369·51	(—)221·36
	Less Int. on Govt. Loans .	185·65	291·94	356·51
E.	Profit (+)/Loss (—) after depreciation & int. but after tax. .	(—)432·76	(—)661·45	(—)577·87
	Previous year adjustment Cr.(—) /Dr(+)	(—)134·73	(—)21·98	8·44
F.	Net working results Profit (+)/Loss (—) . . .	(—)298·03	(—)639·47	(—)569·43
	Development Rebate Reserve .	—	—	—
G.	Net working results Profit (+)/ Loss (—)	(—)298·03	(—)639·47	(—)569·43

5.3 During evidence the Committee enquired from the Managing Director the reasons for constant losses. He explained as follows :—

"The largest single factor responsible for the losses of the Company has been the delay in the approval of the fair selling prices, especially of the bulk drugs of the Company, commensurate with the increase in the cost of inputs that has taken place. I will explain. One small example. In 1970 the DPCO came into existence. From 1970 to 1981, that is, for 12 years there were only two price increase and one price reduction by DPCO. Then there was an increase in the beginning of 1981 based on the 1979 input prices. Since that increase, only on 21 input items the increase that has taken place is to the extent of Rs. 5 crores in 2 years. Then there is an increase in the price of furnace oil and out bill on this account has gone up from Rs. 2 crores to 4 crores. We do not get any compensation for this increase. Then in July 1981 the Maharashtra Government increased the electricity charges by 50% with the result that our electricity bill which was Rs. 2.4 crores went upto Rs. 3.6 crores. That is an increase of Rs. 1.2 crores. Only on 21 items out of 15,000 odd items, we had an increase of Rs. 5 crores. Based on this increase price revision has been done recently in July. If this revision would have been given last year, we would have got extra Rs. 6.4 crores and Rs. 6.4 crores would have changed our picture. We would have come to a break-even situation and we would not have made any cash losses. We would have made profits last year itself.

Now fortunately whatever increase that had taken place partly the price revision has taken place in July-August this year and our proposal for restructuring is also under consideration of the government. The interest and the past losses and the cash losses—that amounted to Rs. 11 crores and the interest Rs. 11 crores and depreciation is Rs. 6 crores. Basically we have to take loans to meet cash losses and on that loss we have to pay interest and to pay interest we have to take loans. So for both loans and to pay interest we have to take loans. So we are in a vicious circle."

5.4 When the Committee drew attention of the Managing Director to the accumulated losses, which were more than their working capital and had been going up, the Managing Director stated :

> "We are mainly in Category I where there is a rigid price control. The mark up is also very low. For example, the price increase which has been given in July and August was for the input price increases which we incurred for eight months up to June last year. Had we received the compensation which was due last year instead of this year, we would have got extra Rs. 6.4 crores last year itself. We would have made profit of Rs. 80 lakhs after paying very high interest charges on previous loans. Last year the total loss was Rs. 5.69 crores. Out of that interest charges paid to the Government were of the order of Rs. 3.56 crores, Rs. 84 lakh was the depreciation and Rs. 1.24 crore was the cash loss."

5.5 The Committee asked what was the fate of other manufacturers of Category I drugs. The Managing Director stated that fortunately for them they were formulating more, whereas HAL was not only making bulk drugs, but was also not formulating enough. So the other people had cushion in larger volume of formulation. He added that though some of the big drug companies were under financial strain, they were able to manage because they had other divisions which made good profit. He went on to say :

> "Fortunately, most of these companies are selling a large number of formulations where there are good margins. The product mix is different. We are mainly on our old licences, we are making 92 per cent of the production in category I, where the price control is very rigid, whereas most of these companies have a range of category I, II, III and IV products. In category III there is 100 per cent mark up. In category IV there is no price control at all."

5.6 The Committee wanted to know during evidence of the Ministry the circumstances peculiar to HAL leading to continuous losses since 1973-74. A representative of the Ministry explained as follows :—

> "It is the predominance of bulk drugs in the product mix. Originally if they had started on formulations, their profits would have expanded. But, for historical reasons, they started on bulk drugs to serve a social purpose. In recent times, in the present context of rapid inflation the situation has been very adverse to them, as compared to other companies, which have a better product mix. Even in the matter of sales to Government institutions, since it is done on the basis of competitive tenders, they have competitive tenders, they are faced with competition from the small scale sector, where the overheads are low and cost of production less. Further, the small scale sector does not produce many things from the basic stage, they produce mostly from the penultimate stage. Further, they have a price preference over the public sector. Because of these advantages, and the broad policy of encouraging the small scale sector, Public Sector Undertakings are facing competition from the

small-scale sector. Further, because of their dependence on Government institutions the orders are not spread evenly throughout the year. Then they have to wait for the next year for realisation. This leads to higher costs. 84 per cent of HAL's formulations are low mark up categories. This is peculiar to HAL.

They have made huge investment. There is depreciation on that. Then, in order to avoid depletion of working capital, they have taken more loans from the Government on which they have to pay interest. These are causing losses. Further, the prices are determined by BICP. Yet, while tendering they have to quote in competition with the small scale sector."

5.7 On the Committee inviting suggestions for reducing the losses, the Secretary opined :—

"The price mechanism is partly responsible. It depends upon the inroad they make into the profitable sales in trade area to stabilise the new technology and to improve it further so that they go into quick commercial production."

5.8 The Company informed the Committee in August 1982 that consequent upon the recurring losses in the working results of the Company after the oil price hike in 1973 and onwards, the cost of inputs increased from year to year without a corresponding increase in the selling prices for the drugs. The Company had to resort to Government loans to meet cash losses and working capital needs. Further, the Company was neither in a position to repay the loans nor to pay interest on it except by taking further loans. As a result, the total loans outstanding as on 1-4-1981 amounted to Rs. 3,544.79 lakhs, the break-up of which was as follows :—

	(Rs. in lakhs
Plan loans	1051·80
Non-Plan loans	2211·71
	+281·28*
TOTAL	3544·79

*represents interest due to be paid in 1980-81.

5.9 The Company therefore proposed to Government to suitably restructure the total amount of plan and non-plan loans (with interest thereon) amounting to Rs. 3544.79 lakhs as on 31-3-1981 as under :—

1. Out of the total outstandings as on 31-3-1981, an amount of Rs. 1415.00 lakhs be converted into equity.

2. The remaining loan amount of Rs. 2129.79 lakhs be converted into a single loan having —

(a) —5 years moratorium for repayment and 5 years interest holiday, from 1981-82 to 1985-86,

(b) —an interest rate of 12 per cent per annum, and

(c) —repayment in 10 equal annual instalments from the sixth year onwards.

5.10 During evidence in October, 1982, the Managing Director informed the Committee about submission of this plan restructuring the capital base, whereby it was expected that financial performance would improve. He added :

> "We are making efforts this year itself that we should not make any cash loss and if the restructuring takes place, we will not be required to pay interest. So, this year itself our objective is not to make cash loss, but to generate some surplus. We are confident that we will not make cash loss this year."

5.11 On 28 January, 1983 a representative of the Ministry informed the Committee in this connection as follows :—

> "Orders of Government have been issued. The terms of the Government decision as announced are : The outstanding Government loan of Rs. 35.28 crores as on 31-3-82 is treated as a fresh loan as on 1-4-82 at the rate of 13.3 per cent. All the outstanding loans have been consolidated as one loan. The unpaid interest amount is converted into a loan."

5.12 The Ministry subsequently informed that the proposal, as approved finally, envisaged :

(a) consolidating of the existing loans and interest thereon outstanding as on 1-4-82 into a single loan for Rs. 4402.41 lakhs with a weighted average interest of 13.33%,

(b) a moratorium of 5 years on the repayment of the loan instalments. The loan will be repayable in 10 equal annual instalments after the period of moratorium.

(c) The loan will be given an interest holiday for a period of five years. The interest holiday would involve an annual interest subsidy of Rs. 586.84 lakhs to the company for a period of 5 years.

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

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

B. *Sundry Debtors*

5.15 The following table indicates the value of book debts and sales for the last three years :—

(Rs. in lakhs)

As on	Considered good	Considered doubtful	Total	Sale	Percentage of debts to Sales
31st March, 1980 .	410·90	4·74	415·64	1718·54	23·9
31st March, 1981 .	762·90	5·34	768·24	2026·88	37·9
31st March, 1982 .	1229.80	16.78	1246.58	2788.43	44·7

5.16 The sundry debtors represented 5.4 months turnover during 1981-82 as against 4.5 months turnover during 1980-1981 and 2.9 months turnover in 1979-80.

5.17 The need to reduce increasing sundry debts by following definite programme was stressed by Board on the basis of Internal Audit Report for 1979-80.

5.18 The Company informed the Committee in a note that higher sales outstandings at the close of the year were due to increased volume of institutional sales as well as selective sales of bulk drugs towards the end of the financial year on credit. Procedural delays in recovery of outstandings from the Government departments was another reason for the outstandings being high. Non-availability of funds with major debtors (State Governments) has also been a constraint in realisation of payments.

5.19 The Managing Director informed the Committee that the management of the Company was seized of this problem and that they were streamlining their account procedure in the Marketing Division. As a result of measures taken by the Company the outstandings had come down to Rs. 9.9 crores as on 30 September, 1982.

5.20 On an enquiry, the Company informed in a note the details of steps taken for recovery of the outstandings, which are as follows :—

"1. ABC analysis of the entire outstanding was done and Senior Officers were involved for chasing major customers where the outstanding was over Rs. 10 lakhs each.

2. Chasing of customers having an outstanding of above Rs. 1 lakh individually, were chased by Branch Managers and other headquarter officers.

3. Vigorous chasing of B & C customers where the outstanding was less than Rs. 1 lakh was done by concerned Medical representatives.

As a result of above efforts, the Company has been able to collect approx. Rs. 16 crores in first eight months of 1982-83 which is Rs. 1.5 crores more than the sales achieved during this period, thereby bringing about an improvement in outstanding position."

5.21 The Company also informed in a note that in view of delay in realisation of payment from various State Governments, the Company had approached the Ministry of Chemicals & Fertilizers, for requesting consideration of 90% payment on proof of despatch as it was often done by certain Central Purchasing Agencies of the Government of India. The Ministry took up the matter with the State Governments. Two State Governments viz. Government of Karnataka and Government of Tamil Nadu have issued instructions for payment of 90% of the cost of drugs and medicines purchased by the State Government medical institutions. The assistance of Ministry was also obtained in realising and arranging barter system of stocks with Public Undertakings like Indian Drugs & Pharmaceuticals Ltd. by which some outstandings could be cleared.

5.22 The Secretary of the Ministry informed the Committee in this connection as follows :—

> "They (Government organisations) take medicines but funds are not released. Most of the heavy lifting takes place by the hospitals. We are suggesting to the State Governments through the Minister to see that the delays in payment should be reduced and at least 80-90 per cent should be paid against the despatch; 10 per cent can be paid later on."

5.23 On an enquiry of the Committee whether the Company had considered the question of charging interest on the amount overdue, the Company furnished the following note :—

> "The question of charging interest, though an attractive proposition, could not be considered for the Government parties since they do not entertain any such claims. In the case of Private parties, the transport documents are normally negotiated through nationalised Banks and if the documents are not retired by the parties within seven days of presentation, an overdue interest @ 10% per annum is collected for the default period. This is a standard practice adopted by the Company since 1980-81 period. Interest has been charged for late payment for sales of Streptomycin Sulphate to a private party during 1981 and 1982, and the interest amount was realised."

5.24 In this connection the Ministry submitted the following note :—

> "The credit policy of the company is to be formulated by the management and approved by the Board of Directors of the Company. However, the level of outstandings has been reviewed in the quarterly review meetings. Since most of the sales of the company are to Govt. institutions which are slow in making payments, the company has been advised to organise itself for continuing contact with the Govt. agencies to expedite the payments. The Minister for Chemicals & Fertilizers had also written to the Chief Ministers of the States urging them to release 90% of the payment on proof of despatch and the balance 10% on receipt of the goods and to clear all outstandings as early as possible.

The amount outstanding against Government Departments, age-wise are given as on 30-11-1982

Age	Amount (Rs. in lakhs)
Less than 45 days	284
45—90 days	217
90—180 days	148
180—360 days	98
TOTAL	864

5·25 The Committee observe that the Company's Sundry Debts have gone up from Rs. 415.64 lakhs in 1979-80 to Rs.1246.58 lakhs in 1981-82 nearly three times. On the basis of Internal Audit Report for 1979-80 the Board had stressed that a definite programme should be followed to reduce increasing sundry debts. The Committee are surprised that instead of improving the position it had been allowed to deteriorate as the percentage of debts to Company's sale had gone up from 23·9 in 1979-80 to 44·7 in 1981-82. By the end of 1982, Rs. 864 lakhs were outstanding against Government Departments ranging from a period of 45 days to 360 days. The Company and the Ministry are now seized of the problem. The Committee hope that vigorous efforts will be made to recover the dues and in future such a huge amount will not be allowed to be blocked as debts.

C. *Inventory Control*

5.26 The following table indicates the comparative position of the inventory and its distribution at the close of the last three years :—

(Rs. in lakhs

	1979-80	1980-81	1981-82
(i) Raw materials and materials under processing	382·03	514·87	384·38
(ii) General stores and spare parts including tools	184·01	206·31	207·05
(iii) Work-in-progress	166·84	229·45	210·76
(iv) Finished Stock	531·82	712·03	646·17
	1264·70	1662·66	1448·36

5.27 The stock of inventory in terms of number of months' consumption was 3.1 months' as on 31 March 1980, 3.5 months' as on 31 March, 1981 and 2.5 months' as on 31 March, 1982.

5.28 It has been stated that the inventory of spare parts and general stores was high on account of spares ordered along with the equipment for replacement and renewal and expansion and diversification programme as also on account of a sizeable number of obsolete non-moving spares maintained in stock over years although some of the equipment are no longer in productive use and/or replaced. The internal auditors have pointed out instance of purchase of unsuitable materials, their over-provisioning as well

as delays in replacement of rejected materials. The present inventory of general stores and spares include a portion of obsolete and non moving items pertaining to a period as far back as 1970-71 to 1974-75, when the Committee on Public Undertakings last examined this issue. The Company has stated in a note that efforts were being made to bring down the inventory of general stores and spares further, since all future requirements of general stores and spares were being provisioned after careful scrutiny of stock, consumption, age of equipment, etc. To that end, Inventory Control Cell has been set up to avoid over-provisioning of general stores and spares amongst others.

5.29 The value of obsolete and non-moving stores and spares as on 31st March, 1982 was Rs. 14.68 lakhs. Besides this, stock of Insurance spares was estimated at Rs. 49 lakhs. Most of these items have been lying in stock for the past five years. The Company has informed that as the non-moving and obsolete items of spares were special items pertaining to particular equipment, it had not been possible to locate proper buyers for them in spite of repeated efforts and they continue to inflate the inventory figures. In this connection the Company has in a subsequent note stated :

> "An Inventory Control Cell has been created within Materials Management Department to continuously review the existing stocks, orders in hand and safety stocks required to fulfil production programmes in order to keep inventories of major items within reasonable norms.
>
> In spite of major expansions and diversification programmes as well as Renewal & Replacement Programmes under implementation, inventory of stores and spares could be maintained at the same levels as in the previous year."

5·30 The Company which is not sound financially has been carrying a huge inventory costing Rs. 1448·36 lakhs (at the end of 1981-82). The Committee need hardly point out that a huge working capital is locked up in inventories with the attendant interest liability. Though the Committee had been assured in 1976 in reply to their recommendation (Sl. No. 72) contained in 80th Report (5th Lok Sabha) that the Company and the Board were keeping a constant vigil over the inventories and Government also propose to keep a watch on the situation, they regret that neither the Company nor the Ministry had a meaningful control, with the result a huge stock of inventory was allowed to accumulate. They hope Company's Inventory Control system will be streamlined and also concerted efforts will be made to bring down the inventory to a reasonable level .

D. *Internal Audit*

5.31 a system of internal audit is existing in the Company. The internal Audit staff regularly oversees the working of the Company Pertinent observations made by them are given due importance and necessary measures are taken depending upon the merits of such observations. Depending upon area where audit has been conducted, individual Audit Reports are issued from time to time. There is no system of submission of consolidated reports to the Board of Directors.

5.32 During evidence, the General Manager (Finance and Administration) of HAL concurred with the Committee that a consolidated report should be submitted to the Board of Directors in future.

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

E. *Performance Review*

5.34 The Committee were informed that as a result of the quarterly performance review meeting held by the Ministry of Chemicals & Fertilizers on 10-8-82 HAL was asked to submit an action plan for the year 1982-83 for improving production, marketing and profitability. The Committee desired to know the improvements brought about with the implementation of the action plan. The Secretary of the Ministry explained the position as follows:

> "One of the things indicated to HAL was the need for taking corrective action specially in the context of the losses that they have incurred and various other problems which HAL was facing, to identify areas where the mangement had to lay more stress and try to ginger up their own people to see that both on the production front as well as the marketing and sales front, the things improve, so that they could achieve certain standard of financial operating results and adopt a plan of action which they could implement in six months and continue it.
>
> It was in this context that they evolved a plan of action which concerns not only HAL but other also so that we could monitor it in coordination. It is very difficult to straightway quantify what exactly in financial terms has been the effect of this in the succeeding quarter, namely, October to December. This review was for a period ending July.
>
> What the management has been able to do is that in certain areas they have taken action to particularly cut down the losses. The production definitely got stepped up as compared to the previous quarter of this year. They have almost achieved 40 per cent of the cumulative performance of the three quarters. Actually, one of the suggestions made was to improve marketing also and to cut down inventories as far as possible. As compared to the first two quarters, the total value of production was Rs. 523 lakhs in the first quarter and Rs. 791 lakhs in the second quarter. In September-December, it has gone upto Rs. 840 lakhs showing a jump of about Rs. 50 lakhs. The percentage of production in the last quarter has been much more than what it was in the first quarter.
>
> In the matter of outstandings also, there has been an improvement, as on 31-12-82. Earlier it was 5.3 months value and now it has come down to 4.8 months value.

As regards the finished stocks, they are at a level now compared to that on 31-12-81. In regard to collections, there were 35 per cent of the total collections during the last three quarters. The actual consumption of raw materials have shown a decline during this period. There is a little improvement in the percentage of rejections that took place in respect of vialled antibiotics.

After the action plan was initiated, the management has been more purposeful and more action-oriented in trying to identify the problem areas, both internal and external, and to the extent we can help HAL, we have done so and, on their side also, there has been an improvement in production."

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

VI

GENERAL

A. *Industrial Relations*

There was an agitation by workers for 61 days from 16th January, 1980 followed by 46 days strike from 18th March, 1980 to 2nd May, 1980 affecting the production and other activities of the Company. On an enquiry of the Committee the Company submitted the following note:

> "The Union (The Hindustan Antibiotics Mazdoor Sangh) had submitted a Charter of Demands for wage revision and other fringe benefits in January 1978. The Government guidelines in regard to wage revision included acceptance of Industrial D.A. formula i.e. D.A. at Rs. 1.30 per point rise in index. Since the prevailing DA rate for HAL workers is between Rs. 1.50 and Rs. 2.67 per point, the Union did not accept the guidelines. The Union representatives were taken to Delhi two times in the year 1979 for discussion with official in the Ministry of Petroleum, Chemicals & Fertilizers as well as the Minister. The Union then made a demand for interim relief of Rs. 100/- per month, per workman. Agitation was launched from 16th January 1980 followed by 46 days long strike from 18th March 1980. As the strike was resorted to during pendency of conciliation proceedings, it was declared illegal on 30th April 1980 by the Labour Court. Strike, having been declared illegal, the Union withdrew the strike. The main dispute i.e. wage revision and settlement of Charter of Demands pending since 1978 however still remains unresolved."

6.2 In another note it was stated:

> "The labour mangement relations in general can be stated to be normal. In fact there is no major problem existing except wage revision. Recently, i.e. in July, 1982 the Union representatives along with Union President, called on the then Hon'ble Minister for Petroleum, Chemicals and also Hon'ble Minister of State and other officials of the Ministry in regard to wage revision. Government policy viz. that wage revision can take place, only on acceptance of Industrial DA formula by the Union was reiterated. Barring very minor instances, during the past 2½ years, there has not been any agitation or dispute as such.
>
> Although Industrial Relations can be considered as normal yet these could be improved if an agreement on wage revision could be arrived at. Due to the Union's refusal to accept Govt. guidelines, particularly in regard to DA formula, settlement of Charter of Demands is not in sight. However, the management has taken a number of steps to improve the relations by solving individual grievances and also by taking up other general

issues like removing stagnation of employees on the maximum of pay scales, pursuing scheme of Productivity-linked-bonus in lieu of annual Bonus, etc."

6.3 During evidence the Committee enquired from the Secretary of the Ministry of Chemical & Fertilizers the reasons for the wage revision dispute still remaining unresolved. The Secretary explained the position as follows:

"There is a problem about neutralising the D.A. structure of the HAL which has been following its own D.A. formula which varies from Rs. 1.50 to Rs. 2.67 based on the cost of living index. There are other public sector undertakings which are not following this formula; they have their own D.A. formula. Quite a large number of public undertakings have accepted the government's stand and come over to the 1.30 formula; and suitable compensation could be made while revising the pay scale so that whatever differentials exist are neutralised, so that they come on par and then later on move together. Attempts were made so far to make them agree on the basis Rs. 1.30 formula. Recently, there was an indication that this formula may get reviewed; there was some discussion. There is an indication that there may be a change. If that happens, of course, the problem, to some extent, will be solved on the basis of what ever decision the government takes on the new D.A. formula."

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

B. *Research and Development*

6.5 The Company has a R&D Centre which was established in 1955. It has been stated that the R&D centre has to its credit the discovery of two antibiotics in India viz. Hamycin and Aurofungin. The process for Hamycin has been standardised at pilot plant level and sufficient quantities of Hamycin produced to meet the market demand. The process for Aurofungin has also been standardised in pilot plant and scale up experiments are in progress.

6.6 R&D has been actively engaged in the process packing/improvement of 6-APA and other semi-synthetic Penicillins like Amoxycillin as well as process development of Ampicillin Trihydrate. R&D has been analysing process problems for improvement in process efficiencies. It is also engaged in regular strain development work, in respect of various Antibiotics. So far, 60 new Formulations have been developed in Product Development Unit of R&D of which 40 have been marketed.

6.7 R&D expenditure as a percentage of total sales during the years 1978-79 to 1980-81 has been as follows :—

(Rs. in lakhs)

Sl. No.	Year	Expenditure			Company's sales turnover	percentage of R&D expenditure to sales
		Capital	Revenue	Total		
1.	1978-79	18·65	51·67	70·32	1616·35	4·35
2.	1979-80	25·93	68·32	94·25	1713·51	5·50
3.	1980-81	26·23	58·81	85·04	2026·88	4·20

6.8 In connection with the production of Hamycin and Aurofungin the Committee on Public Undertakings (1975-76) had observed that on account of various problems, the production of Hamycin was discontinued from December, 1974 with the result that entire expenditure of Rs. 65 lakhs incurred in setting up the plant for its production has proved to be infrauctuous. Similarly in regard to Aurofungin, the Committee were informed that the market did not respond to this product developed by the R&D Unit and it was decided to discontinue the production of this item, resulting in a total loss of Rs. 24.85 lakhs.

6.9 On an enquiry by the Committee as to what further developments have taken place since then the Company stated in a note as follows:

"The Hamycin production was discontinued because the stability of Bulk and Formulations was less then one year and the bulk was required to be stored at temperature between (–)5°C and (–)20°C and Formulations under refrigeration. Thereafter, stability studies were done and the reasons for less stability were indentified and stabilizers were introduced in Formulations. Improved production processes also yielded more stable bulk, whereby stability of both formulations and Bulk increased to 18 months and 24 months respectively as against 12 months or less. The bulk can now be stored at refrigeration temperature (+5°C) and formulations at room temperature.

Subsequent to this, the process package of Hamycin has been developed and scaled up in the Pilot Plant. During the year 1980-81 and 1981-82, 21.67 kgs. of Hamycin has been produced in the Pilot Plant and formulated. The quality of the product is superior in appearance and stability. A number of formulations of Hamycin have been introduced in the market and initial response is quite encouraging.

Earlier, the cost of production of Aureofungin was high, which resulted in poor off-take of the product. In order to bring down the production cost, the Company's R&D developed new strains. Process package for Aureofungin was developed and scaled up in the Pilot Plant, which has resulted in bringing down the production cost of both bulk and formulations. The item is currently being produced using the facilities available in Vitamin C Plant and 178 kgs. of Aureofungin have been produced during the last 2 years, as per the details given below:

Years	Production (Kgs.)
1980-81	46·5
1981-82	131·5
	178·0

In order to improve the sales of Aureofungin, the marketing efforts are being strengthened and a number of Agricultural Representatives have been recruited to promote Aureofungin along with Streptocycline, on a much wider scale in the country."

6.10 "The Report of the Comptroller and Auditor General of India Union Government (Commercial), 1981, Part XII, Paragraph VIII—Miscellaneous Topics of Interest" brings out the following facts about the Neomycin Sulphate Plant.

6.11 On the basis of a process developed by its own Research and Development (R&D) unit, the Board of Directors of the Company sanctioned, in February 1966, a Project for establishing facilities for the manufacture of Neomycin Sulphate at an estimated cost of Rs. 21 lakhs (increased to Rs. 27 lakhs in November, 1966). The Project was to be completed in two stages, the first stage envisaged establishment of facilities for an annual production of 500 Kgs. of Neomycin Sulphate, to be increased to 2000 kgs. annually in second stage. It was also decided to establish the production facilities for the product as an adjunct to the existing Hamycin Plant which was lying idle. Even before production was established in pilot plant, the Company applied for an industrial licence, in March 1966, for the manufacture of 2000 Kgs. of Neomycin Sulphate annually. In October, 1966, Government granted the industrial licence with a stipulation that the proejct should be implemented within a period of 12 months from the date of issue of licence. Due to difficulties in setting up a pilot plant for the manufacture of Neomycin Sulphate on semi-commercial scale, the Company requested Government to extend the validity of the licence initially upto April, 1970 and later upto December, 1970. Only in December, 1970 the trial production commenced with an expectation to start regular production in April, 1977.

6.12 In April 1971, the Company informed Government that although erection was completed and pre-commissioning tests were started in December, 1970, production trials were held up due to non-receipt of special type of ion-exchange resin known as 'Dowex' but it hoped regular production at the installed capacity of 500 Kgs. per annum initially, to be ultimately increased to 2000 Kgs. per annum as soon as the demand for the product increased. In September 1972 the Company further wrote to Government stating that the technological problems had since been resolved, facilities for the manufacture of 500 Kgs. of Neomycin Sulphates per annum had been commissioned and arrangements were being made to instal the balance facilities for the manufacture of 2000 Kgs. of Neomycin Sulphate annually.

6.13 In September 1975, however, the Company informed the Committee on Public Undertakings (with reference to para 4.01 (iv) of the Report of Comptroller & Auditor General of India—Union Government (Commercial) for the year 1970-71) the Neomycin Sulphate was still under trial production as against 30 batches seeded during December, 1970 to October, 1972 only 13 batches could be harvested while the remaining 17 batches were drained out due to heavy contamination and the final product (118.891 Kgs.) obtained could not be sold due to low potency, etc. The Ministry informed in February 1978 that one more batch was harvested in June, 1974 and the total quantity harvested in 14 batches amounted to 129.81 Kgs. Thereafter, the Research and Development unit took up the programme of strain and media selection to improve the production capacity, reduce impurities and Neomycin C content and totally eliminate the coloured pigments. It was finally claimed that these efforts yielded results and the trial of 8 batches during January—March, 1978 disclosed that 6 batches were conforming to IP specifications.

6.14 The Ministry stated in February, 1978 that the oil price hike had affected the basic viability of the project and a crash programme of further Research and Development activity had to be undertaken to attain better strains, which alone could make the project viable in the changed circumstances. The Company, however, decided to discontinue the porject from November 1979. The total expenditure incurred on the Project upto the date of closure was Rs. 10.51 lakhs (Rs. 3.78 lakhs towards capital and Rs. 6.73 lakhs towards revenue).

6.15 Again Company informed Audit in March, 1981 that Neomycin would not have much market as it was useful only for topical purposes and the Company had undertaken the production of Gentamycin which was more effective and could also be injected.

6.16 In this connection it may be mentioned that the Company made a bulk provisioning for 1996 Kgs. of an imported material (Do wex Resin) in March, 1972 in anticipation of Neomycin operation picking up. Of this only 200 Kgs. were consumed in 1978. The remaining 1796 Kgs. of the material (value Rs. 4.53 lakhs) were lying in stock for more than 8 years awaiting disposal. The highest offer for the surplus material received so far was Rs. 8980 only.

6.17 Out of the equipment of the value of Rs. 3.78 lakhs rendered surplus, alternative use was found for only M.S. vessels (value Rs. 1.50 lakhs) for penicillin operations. Equipment worth Rs. 2.28 lakhs was still awaiting alternative utilisation or disposal (September, 1982).

6.18 There is no indigenous manufacturer of Neomycin Sulphate and the requirements of the country are met by imports. The following quantities have been imported since 1978-79:

Year	quantity imported (Kgs.)
1978-79	10,453
1979-80	6,234
1980-81	5,465
1981-82	8,760

6.19 On an enquiry of the Committee it has been stated that strain revival work in respect of Neomycin has once again been undertaken on trial basis in R&D from May 1982. This has been done as the latest thinking in advanced countries *viz.* USA is "that the use of Gentamycin is to be avoided for skin infections etc. to minimise the risk of emergence of Gentamycin resistence bacteria which may not respond to Gentamycin treatment in emergency." Accordingly demand for Neomycin was likely to increase in this country in case Drug Authorities of this country consider taking similar steps of not allowing Gentamycin for topical use in this country also.

6.20 When the attention of the Secretary of the Ministry was drawn to this statement, he stated as follows:

> "We have consulted the Drug Controller of India. We are told that there was no proposal to ban Gentamycin under the consideration of the Health Ministry. The general question of restricting the use of antibiotics topically in order to avoid development of sensitivity in individuals is a controversial issue. While in the case of penicillin this type of application is banned, in the case of Gentamycin even in the developed countries this type of application has not been banned. The major use of Gentamycin is systemic. So, even if a restriction is put on this type of application, it would not affect the plant capacity utilisation as the demand for systemic application is expected to increase considerably."

6.21 The Committee on Drugs & Pharmaceuticals Industry (Hathi Committee) had recommended that there should be no secret between the Hindustan Antiboitics Ltd. and the Indian Durgs & Pharmaceuticals Ltd. in matter of any improvement in the process or a planned development in the R&D laboratories. The Committee on Public Undertakings (1975-76) had also recommended that there should be a system of coordination between the two public sector units so that one could benefit from the achievements of other in larger national interest. In this connection the Managing Director of HAL observed during evidence :

> "Historically in 1962 IDPL was started. The entire staff including the previous Managing Director Dr. Bahl were trained in HAL. Streptomycin strain and technology was made available to IDPL in 1978 by HA free of charges. Their people came to our plant. They wanted to study the plant. So drawings, know-how and all that were made available to them. IDPL had a certain strain. . . ."

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

imported material worth Rs. 2·28 lakhs and Rs. 4·53 lakhs respectively are lying idle. The Company has not been able to dispose them of or utilise them.

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

6.23 The Committee need hardly emphasise the neccassity for closed coordination in the R & D activities of not only the Hindustan Antibiotics Ltd. and the Indiam Drugs & Pharmaceuticals Ltd. but also of all the drugs and pharmaceuticals manufacturing companies in the public sector.

NEW DELHI,

MADHUSUDAN VAIRALE,
Chairman,
Committee on Public Undertakings.

April 16, 1983

Chaitra 26, 1905(S)

APPENDIX

STATEMENT 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	1.20	According to the statement of objectives and obligations drawn up by HAL, the Company was expected to "attain the Commanding heights in the drugs field and specially in the antibiotics field". It was clarified in evidence before the Committee that what was envisaged was only a pioneering and leadership role. The Committee desire that the basic role should be defined in concrete terms.
2	1.21	The Committee note that in 1980-81 and 1981-82 HAL's share in the production of antibiotics was 22.1 per cent and 22.3 per cent in bulk products and 5.5 per cent and 7.2 per cent in formulations, respectively. It is expected that Company's growth will be accelerated with the completion of expansion projects. It is nevertheless disappointing to the Committee that the Company's contribution to the drug field was insignificant even 28 years after its setting up. They hope, as stated by the representatives of the Ministry, the Company will be able to consolidate its resources in the coming years and thus achieve a significant place in the country's drug production.
3	1.22	The Committee are surprised that the Company has not yet formulated its corporate plan. It is only recently that the Company has been advised by the Ministry to formulate such a Plan. The Committee desire that the Corporate Plan should be formulated soon. In the absence of a Corporate Plan it is difficult to have a clear direction for the Company's growth consistent with its objectives and obligations and the national plans.

(1)	(2)	(3)
4	1·29	There is considerable force in the argument that two public sector units manufacturing same type of product should be brought under the control of one management even though the technology adopted by them may be different. The Committee hope that the question of merger of Rishikesh Unit of the Indian Drugs and Pharmaceutical Ltd. with the Hindustan Antibiotics Ltd. will be considered by Government in depth and if it is found economical and beneficial necessary steps will be taken in this direction.
5	2·20	In January, 1974 HAL submitted proposals to Government for expansion of its Penicillin, Streptomycin, Semi-synthetic penicillin and Gentamycin Plants. Government sanction was, however, given in February, 1977. Thus there has been inordinate delay in clearance of the project proposal. It has been stated that delay in sanctioning Penicillin Plant took place as the initial proposal submitted by HAL was returned by the Ministry, as in that proposal capacity build up assumed was thought to be unrealistic and it also did not contain some of the essential provisions. The Company was therefore asked to recast its proposal within the framework of physical limitations and financial constraints. This shows that the machinery for reliable project formulation in the HAL is weak. This deficiency should be remedied soon. The Committee would also like to draw attention of the Ministry of Chemicals and Fertilisers to the Finance Ministry (Plan Finance Division) instructions issued in March, 1982 in pursuance of the recommendatin of the Committee on Public Undertakings made in their 47th Report (1981-82) where in all Ministries have been asked to ensure that clearance of a project does not normally take more than six months.
6	2.21	The committee note that there have been heavy slippages ranging from 19 to 22 months in the construction and commissioning of expansion

(1)	(2)	(3)
		plants. These delays have led to huge cost over-runs. Total cost over-runs due to late commissioning of various projects have been stated to be Rs. 709·39 lakhs and the percentage of increase in cost with reference to original estimate was 115·4 in the case of Streptomycin and 87·9 in the case of Semi-synthetic Expansion Plant. It is distressing that delays at various stages have proved very costly and the national exchequer has been burdened with an additional sum of Rs. 709·39 lakhs. The Committee are inclined to attribute this to lack of effective management control and proper monitoring system to apply on course correction promptly both at the Corporate and Ministry level.
7	2·22	Except Penicillin Plant no other plant has been commissioned so far. Dates of commissioning of these plants have been revised thrice. The Committee hope that the dates now fixed will be adhered to. They need hardly point out that delays add to the cost of project which is ultimately reflected in the cost of production.
8	2·30	The Committee note that the Company has undertaken a renewal and replacement programme during 1980—85 involving an expenditure of Rs. 1298·13 lakhs, to weed out old and out-dated inefficient equipments. They hope that all efforts will be made to implement the programme as scheduled and the physical and financial progress in respect of each component thereof meticulously monitored to avoid any cost and time over-run. The Committee would like to emphasise that the programme of replacement and renewals should be implemented in such a manner that the loss of production is minimised during its implementation.
9	2·49	The Committee find that the production of major products viz. Penicillin, Streptomycin, Ampicillin has been more than the installed capacity in the years 1979-80, 1980-81 and 1981-82. However, the production has been less than the targets

(1)	(2)	(3)
		fixed by the Company except in the year 1980-81. The Committee were informed that by careful control and maintenance of strain, by proper loading and scheduling of fermentation and by reducing the down-time, the Company has been able to achieve production in excess of the installed capacity. The committee, are therefore not in a position to compare the production with the achieveable capacity. It is time that the installed capacities are reassessed in the light of technology and other Improvements in production. Thereafter realistic targets should be laid down for assessing the performance thereagainst.
10	2·50	One of the reasons advanced by the Company for not achieving the present targets was non-availbility of raw materials. The Committee are surprised that HAL, which has been in the market for such a long time, has not been able to establish its regular and dependable source of supply. Ministry should look into this and take appropriate action so that the problem could be minimised, if not altogether eliminated.
11	2·51	Another reason for shortfall in actual production has been stated to be the 'problem of contamination'. The Managing Director, in evidence, tried to explain the causes for contamination and efforts being made by the Company to overcome them. Contamination is caused mainly by human failure as well as uncertainty of power supply. As far as human factor is concerned. The Managing Director stated that courses on contamination control in fermentation technology with a duration of 3-4 days have been/are being arranged. The power shortage and fluctuation, he said, has accentuated the problem. On account of power failure, fermentors come to zero pressure and this results in contamination. It is, however, heartening to know that Maharashtra State Electricity Board have realised the gravity of the problem and have assured the Company of an uninterrupted power supply. Since contamination of drugs could endanger human life, the Committee hope that the

(1)	(2)	(3)
		Maharashtra State Electricity authorities will keep up the assurance. On its part, the Company should take every step and make every effort to see that pure and uncontaminated drugs reach the consumers.
12	2·61	The plant for the manufacture of Vitamin C based on the technology from National Chemical Laboratory, Pune, with a licenced capacity of 125 tons per annum was set up in 1973. Performance of the plant was, however not satisfactory and Government appointed a task force in 1974 to look into the difficulties. On the recommendations of the task force, technical assistance of M/s, Roche Products Ltd. was obtained free of charge in 1977. Modifications to the plant were carried out and trial runs were taken but the production was still not found satisfactory. The production of Vitamin C has since been suspended and economic alternative uses for the plant are being explored. The Ministry has, in its recent note to the Committee, stated that "the lay out of Vitamin 'C', Plant, by and large, does not conform to accepted principles of scientific lay out." The Committee have also been informed that the matter has again been referred to M/s. Roche in 1982 for rehabilitating the plant. As stated by the Ministry M/s. Roche Products Ltd. are looking into the matter. The Committee regret that the Vitamin 'C' plant has been limping from 1973 and the apprehension of shortcomings in the basic technology and the lay-out of the plant still persists. The Committee appreciate the efforts for indigenisation, but they feel that before making investments the indigenous technology should have been proved fully for mass production. At this stage, they can only express the hope that M/s. Roche Products Ltd. will be able to rehabilitate the plant and the Company will drive the full benefit of the investment in it. If it is decided to abandon the Vitamin 'C' Plant altogether the Committee expect that alternative use of the plant will be explored immediately and the facilities available put to full use:

(1)	(2)	(3)
13	2·67	In March 1976 in their 80th Report (5th Lok Sabha) the Committee had suggested that "the public sector should also have appropriate blend of bulk and formulations so as not to make losses, but generate adequate margins on capital invested to make it self-reliant and growth oriented". The Committee regret that prompt action on this suggestion had not been initiated and that the question of economic viability of the Company has come to force only recently. They however, welcome the decision of the Company to diversify to other formulations which have scope for a high mark-up. They would, at the same time, like to invite Company's attention to one of its own objectives of reducing cost and making life saving drugs increasingly available to the consumers at reasonable price. The Committee hope that the Company, while diversifying its product range, will ensure that drugs are made available to the consumers at reasonable prices in a manner that would regulate the prices of drugs in the market in larger public interest.
14	2·73	The Committee note that the Company has a Medical Services Department and a Quality Assurance Cell which investigate complaints regarding quality of drugs and also monitor norms necessary for good manufacturing practices. The Committee would like to emphasise that quality of a product, particularly in the drug field, makes or mars the image of a Company. They would, therefore, urge the Company to exercise stricter quality control and ensure that drugs marketed by it are the quality drugs.
15	2·79	The Committee note that only a partial system of standard costing had been introduced in HAL in 1981-82 after the Technical Services Department laid down target norms of operational efficiency and consumption of material. The norms for consumption of services and other fixed expenses were stated to be still under examination by the Technical Services Department. The Committee need hardly stres s

(1)	(2)	(3)
		the need for an effective cost control. In this context introduction of standard costing techniques and scientific analysis of variations between the standard costs and actual costs to enable stricter cost control assumes urgency. The Committee, therefore, desire that an efficient cost control system should be introduced as soon as stabilisation in different disciplines of production is achieved.
16	3·16	Fixation of prices of bulk drugs and formulations is governed by the orders issued from time to time under the Drugs (Price Control) Order. The prices are fixed on the basis of cost studies conducted by the Bureau of Industrial Costs and Prices (BICP), after taking into account the cost data presented by the manufacturers. The BICP takes 4 to 5 months for its study and thereafter Government take 6 months to come to a decision. Therefore, there is a considerable time lag between the escalation in the prices of different inputs and the revision of the prices of the finished drug products. HAL has been put to a considerable financial strain on account of delay in the revision of prices. The Committee note that the Ministry is alive to this problem and is examining a few suggestions in this regard including introduction of escalation formula through an index. The Committee hope that Government will be able to evolve a pricing system soon for the drugs produced in the country which will not only provide for a fair return to the industry but will also ensure availability of medicines to the common man at a reasonable price.
17	4·25	The Committee regret that HAL does not have a fully organised Marketing Division. An Inter-Ministerial Committee, constituted by Bureau of Public Enterprises had made comprehensive recommendation in 1971 to build up a marketing organisation of the Company. The Board of Directors examined various possibilities and decided in 1976 to strengthen the marketing organisation of the Company in a phased manner. In evidence before the Committee in January, 1983 Ministry's representatives have stated that during the last 1½ year

(1)	(2)	(3)
		the emphasis has been on marketing and admitted that there had not been proper integrated plan in the area of expansion and marketing. It is surprising that when the inter-Ministerial Committee had suggested as far back as 1971 the building up of Company's Marketing Organisation, Government and the Company have merely discussed the issue at their review meetings and have not taken any concrete steps to strengthen the Company's marketing organisation. It was perhaps due to the absence of an organised marketing division that the Company has been carrying huge stock of finished goods which valued at Rs. 431·82 lakhs in 1979-80. Rs. 712.03 lakhs in 1980-81 and Rs. 646·17 lakhs in 1981-82. The Committee feel that the present market which is highly competitive can be effectively influenced only through aggressive marketing strategy. They hope that final decision on this vital wing of the Company—Marketing Division—will be expedited.
18	4·26	The Committee hope that the Ministry will be able to pursuade all the State Governments to give preference to the public sector undertakings while making purchases of medicines for use in the States.
19	4·39	The Committee note that no decision has been taken on the recommendation made by them in March 1976 that there should be a Central Marketing Organisation both for HAL and IDPL. It was held by the Committee then that such an organisation would not only be economical but would also lead to greater coordination, evolution of effective sales strategies and development of expertise in the field of sales management. The Committee gathered an impression during the present discussions that though the Managing Director of HAL was in favour of such an organisation, he was not enthusiastic about the proposal, as it involved a number of administrative problems. The Secretary of the Ministry was of the opinion that a common marketing organisation was feasible in regard to institutional sales but for trade sales it may not be

(1)	(2)	(3)
		desirable. Stating that it was a very difficult proposal to implement because of the complexities involved in it, the Secretary informed that Government will take a decision on this shortly. The Committee regret that the matter has been kept pending for long. They would therefore urge for an early decision in this regard.
20	5·13 and 5·14	The Committee note that the Company had been doing financially well till 1972-73. However, after that year the Company had started incurring losses and at the end of 1981-82 its accumulated loss amounted to Rs. 24·60 crores as against its paid up capital of Rs. 21·55 crores. The Company has thus wiped out its entire capital. According to the Company major factor for its losses was delay in the approval of fair selling price of it products since 1970 when the DPCO came into force. Another reason was its product-mix. The Company has been mostly producing drugs under category I for which price control was stated to be very rigid and scope for mark-up was very little. The Company's capital structure and high interest liability were stated to be the other reasons for its adverse financial results. The Committee hope, Government having agreed to look into the pricing aspect and also deciding to re-structure the Company's capital base and to gran a moratorium of five years on the repayment of loans and interest holiday for a period of five years, the Company will be able to improve its financial performance. The Committee would, however, like caution the Company that all these concessions and facilities will be of no avail unless it is able to gear up its production and cost control and improve sales managements.
21	5·25	The Committee observe that the Company's Sundry Debts have gone up from Rs. 415·64 lakhs in 1979-80 to Rs. 1246·58 lakhs in 1981-82, nearly three times. On the basis of Internal Audit Report for 1979-80 the Board has stressed that a definite

(1)	(2)	(3)
		programme should be followed to reduce increasing sundry debts. The Committee are surprised that instead of improving the position it had been allowed to deteriorate as the percentage of debts to Company's sale had gone up from 23·9 in 1979-80 to 44·7 in 1981-82. By the end of 1982, Rs. 864 lakhs were outstanding against Government Departments ranging from a period of 45 days to 360 days. The Company and the Ministry are now seized of the problem. The Committee hope that vigorous efforts will be made to recover the dues and in future such a huge amount will not be allowed to be blocked as debts.
22	5·30	The Company which is not sound financially has been carrying a huge inventory costing Rs. 1448.36 lakhs (at the end of 1981-82). The Committee need hardly point out that a huge working capital is locked up in inventories with the attendant interest liability. Though the Committee had been assured in 1976 in reply to their recommendation (Sl. No. 72) contained in 80th Report (5th Lok Sabha) that the Company and the Board were keeping a constant vigil over the inventories and Government also proposed to keep a watch on the situation, they regret that neither the Company nor the Ministry had a meaningful control with the result a huge stock of inventory was allowed to accumulate. They hope Company's Inventory Control System will soon be streamlined and also concerted efforts will be made to bring down the inventory to a reasonable level.
23	5·33	The Committee are surprised to note that in HAL there is no system of submitting a consolidated Internal Audit Report to the Board of Directors and that only individual Audit Reports are issued from time to time. Internal Audit is an important instrument of self-assessment. The Committee recommend that a consolidated Internal Audit Report containing the highlights of internal audit should be brought out yearly and placed before the Board of Directors with action taken thereon by the management.

(1)	(2)	(3)
24	5·35	The Committee expect the Ministry to have regular and comprehensive performance reviews of the activities of the Company so that the Company is constantly kept on its toes and is adequately guided to improve its physical and financial position.
25	6·4	The Committee note that dispute between the Management and the Workers has been pending since January 1978. They hope that the differences will be resolved amicably soon.
26	6·22	The Committee note that the Company has a Research and Development Centre, which was established in 1955. Though it has to its credit discovery of two antibiotics in India, the manufacture of these antibiotics—Hamycin and Aureofungin, has however not yet become commercially viable for one reason or the other. Similarly manufacture of another product Neomycin Sulphate, based on the process developed by the R & D Unit is uncertain. In case of all the three products the production is meagre and still on an experimental stage. The Committee have already commented upon Hamycin and Aureofungin in their last Report in 1975-76. Since then much to the regret of the Committee, there has not been any marked improvement. In case of Neomycin Sulphate efforts to make the project successful had been sporadic and after twelve years when the Research & Development Unit could establish a few batches conforming to Indian Pharmacopoeia specifications, it was found that there was no demand for this product in the market. The presumption of the Company that with a ban on the topical use of Gentamycin, demand for Neomycin Sulphate would pick up does not appear to be correct as such a ban is not under consideration. Not only this, equipment and imported material worth Rs. 2·28 lakhs and Rs. 4·53 lakhs respectively are lying idle. The Company has not been able to dispose them of or utilise them.

(1)	(2)	(3)
		The Committee are disappointed that the Research and development efforts of HAL have not borne any fruit. The strains developed or being developed are either commercially non-viable or have no market demand. The R & D centre therefore requires qualitative strengthening.
27	6·23	The Committee need hardly emphasise the necessity for close coordination in the R & D activities of not only the Hindustan Antibiotics Ltd. and the Indian Drugs & Pharmaceuticals Ltd. but also of all the drugs and pharmaceuticals manufacturing companies in the public sector.

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