FORTY-SECOND REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS

(1987-88)

(EIGHTH LOK SABHA)

BIECCO LAWRIE LIMITED

(MINISTRY OF PETROLEUM AND NATURAL GAS)

सत्यमेव जयते

Presented in Lok Sabha on 19 April, 1988

Laid in Rajya Sabha on 25 April 1988

LOK SABHA SECRETARIAT

NEW DELHI

April, 1988/Chaitra, 1910 (Saka)

Price : Rs. 17.00

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(1987-88)

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2. Shri R. D. Sharma—*Director*
3. Shri Rup Chand—*Senior Financial Committee Officer*

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*Ceased to be a Member of the Committee consequent on his/her retirement from Rajya Sabha on 2-4-1988.

STUDY GROUP III ON OIL AND NATURAL GAS COMMISSION (CONSTRUCTION, FABRICATION OF OILWELLS PLATFORMS AND PROCUREMENT AND UTILISATION OF RIGS); INDIAN OIL CORPORATION LTD; BIECCO LAWRIE LTD; COCHIN REFINERIES LTD; FERTILIZERS AND CHEMICALS (TRAVANCORE) LTD; ROURKELA STEEL PLANT; STEEL AUTHORITY OF INDIA LTD.; IMPORT OF DEFECTIVE BILLETS; BHARAT EARTH MOVERS LTD.; BHARAT GOLD MINES LTD.

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INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Forty-second Report on Biecco Lawrie Limited.

2. The Committee's examination of the working of the Company was mainly based on the Report of the Comptroller and Auditor General of India, 1986, Union Government, (Commercial) Part VI.

3. The Committee took evidence of the representatives of Biecco Lawrie Ltd. on 27 and 28 October, 1987 and also of the representatives of the Ministry of Petroleum and Natural Gas on 21 December, 1987.

4. The Committee considered and adopted the Report at their sitting held on 30 March, 1988.

5. The Committee wish to express their thanks to the Ministry of Petroleum and Natural Gas and Biecco Lawrie Ltd. for placing before them the material and information they wanted in connection with examination of the Company. They also wish to thank in particular the representatives of the Ministry of Petroleum and Natural Gas and the Undertaking who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

6. The Committee also place on record their appreciation of the assistance rendered by the Comptroller & Auditor General of India.

NEW DELHI;
11 *April*, 1988
22 *Chaitra*, 1910 (s)

VAKKOM PURUSHOTHAMAN,
Chairman,
Committee on Public Undertakings.

PART I

BACKGROUND ANALYSIS

CHAPTER I

HISTORICAL BACKGROUND

1.1 The origin of the Company can be traced back to December 1919, when it came into being as British India Electric Construction Company Limited as a subsidiary, of Balmer Lawrie & Company Limited, to undertake electrical repair work. In April 1970, the name of the Company was changed to Biecco Lawrie Limited.

1.2 Consequent upon nationalisation of Indo Burma Petroleum Company Limited, its subsidiary, Balmer Lawrie & Company Limited, became a Government Company on 29th July, 1972. Biecco Lawrie Limited being the subsidiary of Balmer Lawrie Limited also became a Government Company under section 617 of the Companies Act, 1956. At the time of nationalisation, Balmer Lawrie & Company Limited held 60.25 per cent of the paid-up capital of the Company with foreign nationals holding 23.08 per cent of the shares. Fresh equity capital of Rs. 78.07 lakhs was introduced in the Company by the Central Government during 1979-80. As a result, the Government holding exceeded 51 per cent of the paid up capital. Biecco Lawrie Ltd. ceased to be a susidiary of Balmer Lawrie Ltd. and became an independent public sector undertaking.

1.3 During the course of evidence of the representatives of Ministry of Petroleum and Natural Gas, the Committee enquired whether the Government intended to nationalise the Biecco Lawrie Ltd. or was it only a consequence of technicalities of the Company's Act on account of which this Company came within the purview of Government control alongwith Balmer Lawrie Ltd. Secretary, Petroleum and Natural Gas stated as follows:

> "This Biecco Lawrie came to us because of Government's initial interest in Indo-Burmah Petroleum Company which was in the business of marketing petroleum products. M/s. Steel Brothers and Co. Ltd. had majority of foreign holdings of Indo-Burmah Petroleum Co. and in the early 70s, Government as a matter of policy took over

the various foreign oil companies in the business of refining and marketing these products. In 1970, the Indian Oil Corporation which had been set up as a new public sector company for managing the refineries and marketing was asked to buy over the shares of Messers Steel Brothers and Co. Ltd. Their share holding in IBP was about 55.2 per cent and IOC acquired these shares in January, 1970. Subsequently, in 1972, the Government took over IOC share holding in IBP and stepped into the shoes of IOC, IBP then became a Government Co. IBP had Balmer Lawrie as its subsidiary and had 61.2 per cent of its shares. Balmer Lawrie in turn had as a subsidiary Biecco Lawrie Ltd. and this is how initially this company, Biecco Lawrie became a subsidiary of a Government Company, and therefore, a Government Company But subsequently, in the course of rehabilitation of this company, Government had to inject additional capital for promoting Phase I modernisation programme. Government invested additional capital in this Company and thereby Balmer Lawrie's share holding which was about 60 per cent came down to 11 per cent and the Government of India's share holding went up to over 81.6 per cent. It, therefore, became an independent Government Company."

1.4 In this connection, Chairman, Biecco Lawrie Ltd. also stated:—

"Balmer Lawrie happened to be a company which was acquired under Section 617 of the Companies Act. It was a pure accident that Biecco Lawrie which was also under the same section, became a government company. There was no deliberate action on the part of the Government to nationalise this company. This is to say, there were no such reasons as mismanagement etc. It was only because of technicalities of the Companies Act that Biecco Lawrie Ltd. became a government Company."

1.5 The Company commenced manufacture of carbon bruches in 1929 and manufacture of induction motors with technical collaboration of a British Company in 1939. Manufacture of 11 KV bulk oil switchgears was started in 1951 in collaboration with Johnson and Philips Limited U.K. A new factory for manufacture of Switchgears was set up in 1965-66. In the meantime, the Company also started producing other items like fuses, alternators, transformers and fuse elements. The collaboration arrangements were terminated in 1967. The Company has at present three production units viz. switchgear unit, Motor unit and Electric Repairs.

CHAPTER II

OBJECTIVES AND OBLIGATIONS

2.1 Although the Ministry of Finance, Bureau of Public Enterprises issued instructions in November 1970, to all Ministries to initiate action for laying down objectives and obligations—both in financial and economic terms of each public enterprise under their administrative control, such objectives and obligations have not been formulated so far in case of Biecco Lawrie Limited.

2.2 Asked about the reasons for not framing the objectives and obligations of the Company, the Company informed the Audit in March, 1986 as follows:—

> "During the initial period of six years after nationalisation in 1972, four successive General Managers came and went contributing to a measure of instability in top Company Management. The General Manager used to be the functional head reporting to Part-time-Chairman/Managing Director. The tenure of the fifth incumbent who joined at the end of 1978 and continued upto February 1984 as the Managing Director since 1981 conferred the desired stability for the first time. This may possibly explain the management lapse mentioned under this para."

2.3 In this connection, the Ministry of Petroleum & Natural Gas also informed the Audit in November, 1986 as follows:—

> "In the context of the unsatisfactory working of Biecco Lawrie Limited, the future of this Company has been under consideration of the Government for quite sometime and number of options in this regard were being examined."

2.4 During the course of evidence of the representatives of Company the Committee wanted to know whether the Government have examined the options about the future of the Company and conveyed their decision to the Company. Chairman, Biecco Lawrie Ltd. stated as follows:—

> "The options that were under consideration by the Government were total closure of the Company, partial closure

of the Company. No final decision has yet been taken. But the alternative of total closure is not under consideration now. This information was given to us in August 1986 by the Ministry in a communication received by us on 22 August. The decision will be to do something to rehabilitate the Company and we were asked in August 1986 to work towards that direction. This has a background. Earlier, a High Level Technical Committee, the BHEL Committee and a Committee headed by the Chairman of the Rural Electrification Corporation were asked to carry out an investigation into the prospects of the Company, if at all it were to be rehabilitated. Based on these reports, the Government asked us to work towards a plan for rehabilitation and reconstruction of the company which *inter alia* would involve getting into the roots of the problem, getting to know as to what market would be there for the products presently manufactured by the company, what further markets can be generated if the products can be upgraded, how much share this company is expected to acquire in different geographical areas at what price and so on and so forth, and other aspects such as foreign know-how, indigenous know-how etc. Considerable work has been done since August 1986 and in May 1987 we had submitted a very comprehensive rehabilitation plan to the Government."

2.5 The Committee on Public Undertakings in their 38th Report (Sixth Lok Sabha) recommended in 1978-79 that the public sector enterprises should frame and bring out micro objectives in consonance with the micro objectives of the public enterprises as a whole.

2.6 The Company, accordingly, formulated the following micro objectives and forwarded the same in November, 1983, to the administrative Ministry for approval:—

(i) Maximum capacity utilisation.

(ii) Restriction of down time to 5 per cent of the total available time.

(iii) Maximum attention to quality control and after sales service to retain the customers' goodwill.

(iv) Maintenance of high standard of efficiency of all employees by providing due promotional educational and recreational facilities.

(v) Provision of opportunities for career progression of all employees.

(vi) Cost reduction and stringent controls in manpower utilisation.

(vii) Generation of sufficient internal resources to meet non-plan requirements and part financing of capital expenditure of new projects.

(viii) Optimum economy in expenditure.

2.7 Asked whether the Government have approved the micro objectives, the Company replied in a written note as follows:—

> "No. But the Ministry recently asked for a re-statement| revision of micro objectives and the Company sought time till a final decision was conveyed to it for a more realistic statement."

2.8 During the evidence of representatives of the Ministry, the Committee enquired about the reasons for not approving the micro-objectives submitted by the Company in 1983. Secretary, Petroleum and Natural Gas stated as follows:—

> "The micro-objectives of the company were received for the first time in November, 1983. But at that time,. we had several proposals regarding the future of this company under consideration. We had made several efforts at that time to have this company transferred to the Ministry of Heavy Industries or merged with the BHEL or made as a subsidiary of the BHEL.
>
> Therefore, even before the micro-objectives came in November, 1983, the same company had in fact passed a resolution suggesting closure of the company. That was under our consideration. In May, 1983 before micro-objectives came, the Board of Directors of the company said that the whole operation seems to be non-viable and the Government may consider closure of this company. It was under those conditions that we had actively considered various measures to ensure the survival of this company. Therefore, the micro-objectives were not taken up in the Ministry. It is because, they did not have much relevance in a situation where its future was at stake."

2.9 It has been brought out in the Audit Report that by and large, the major micro objectives like increase in capacity utilisation, generation of adequate internal resources and cost reduction are yet to be achieved by the Company.

2.10 The Committee enquired as to what extent the Company has achieved the above objectives. Chairman, Biecco Lawrie Ltd. stated during evidence as follows:—

> "Our assessment is that, we were able to make substantial headway in respect of item number 2, i.e. restriction of down time to 5 per cent of the total available time. Item No. 3—maximum attention to quality control after sales service to retain customers' goodwill. Item No. 6—cost reduction and stringent controls in manpower utilisation.
>
> And Item No. 8—optimal economy in expenditure.
>
> Now comes the maintenance. There is substantial improvement, especially at the switch gear works, where we were able to drastically cut down the down time of machines. As part of the micro objectives, here one experienced sales service engineer was employed."

2.11 Explaining the reasons for not achieving the other objectives, the Company stated in a written note as follows:—

> "Owing to uncertain future of the Company and consistent losses, officers' salary structure was truncated by the Government and certain perquisites were withdrawn. As a result, many young talents left the organisation for better prospects. With a total ban on employment, management structure became weaker with many positions lying vacant. Career progression of middle level officers was stalled resulting in a sense of demoralisation."

CHAPTER III

ORGANISATIONAL STRUCTURE

The management of the affairs of the Company vests in the Board of Directors consisting of the Part time Chairman, a Managing Director and other Directors; the maximum number of the Directors being 12 according to the Articles of Association. The total number of Directors fluctuated between 3 and 10 during the years 1975-76 to 1985-86. The full-time Managing Director had been functioning since 19th February 1981, prior to which there was no post of the Managing Director; the General Manager was then the functional head. On expiry of the tenure of the Managing Director on 18th February 1984, it was not renewed. The General Manager (Operations) was acting as the functional head from 9th March 1984 and reporting to the part-time Chairman who retired on 13th May 1985. The post of the part-time Chairman remained vacant till 26th February 1986 when the new part-time Chairman was appointed.

3.2 During the evidence of the representatives of the Company, the Committee pointed out that there were not only frequent changes in the top management but the top management posts remained vacant for a long time. Asked about its effect on the working of the Company, Chairman Biecco Lawrie Ltd. stated as follows:—

> "I agree this is the most important area of weakness of the Company. Instability in top management necessarily meant delay in decision-making; and down the cadre, it has led to demoralization and a feeling among employees that Government has no time for this company. Apart from Directors, there are so many senior managerial posts which have simultaneously remained vacant for years. After the Managing Director left in February 1984, the General Manager (Operations) was heading the Marketing, Purchase and R&D functions, apart from carrying out functions which were earlier being carried on by the previous Managing Director. This was bound to affect the quality of work in the organisation. All that we have seen is the result of this. This continues even to day."

3.3 The Committee pointed out that as against 25 officers and about 1400 workers at the time of take over of the Company, at present there were 60 officers while the strength of workers had been stagnant. To this Chairman, Biecco Lawrie Ltd. stated as follows:—

"The position is quite critical on the managerial cadre right now; it is contrary to the views that you have expressed. There has been a flight of managerial talent from this Company. In all spheres of contact whether it is financial management, marketing, research and development, there has been a flight of talent. This results in demoralisation of people as they would like to go where they find better prospects elsewhere. Secondly, a specific decision taken by the Government to truncate the terms and conditions of officers and withhold, the Company from offering some facilities has also added to it. These are the reasons why it led to a flight of talent. We just do not have the people to do the work now."

The witness added:

"It is about the need for strengthening the structure of the organisation. I just want to reiterate that the only answer in rehabilitating this company lies in taking stock of the existing situation. There were certain discriminatory orders imposed on the company in the matter of withdrawal of certain facilities. These facilities need to be restored if we have to attract people and even to retain those who are working with us now. We are a part of a group in which the terms and conditions of service are the same. But now, an employee of Balmer Lawrie would not like to go to Biecco Lawrie because he has to suffer certain financial terms. Biecco Lawrie's terms have been truncated by the BPE because it is not doing well. This was the most inappropriate time for bringing about such truncation because at that very point of time our need was to have new staff for further expansion of market, absorption of technology, etc. We needed the best talent. Government had placed restrictions on us at that time. We requested the Government to restore the parity. Otherwise, we mentioned that we would lose even the existing staff since there is no dearth of opportunity in this widely emerging field of new switch-gear technology. There are a few employees who are loyal to the Company and they stayed all these years despite the demoralising effect. If the decision is further delayed, it will be beyond their patience and I am afraid the whole game will be lost and there will be nothing in the company to save."

3.4 When asked whether a full-time M.D. "as not required for efficient functioning of the Company, the witness stated:

"We should have had a full time MD for this company all along. In addition we should have a finance representative on the Board of Directors which we did not have; we did not have any Director for R&D so that he could plan the future of the organisation. Nobody thought of these things."

3.5 During the evidence of the representatives of the Ministry the Committee enquired as to how the Ministry could not provide organisational structure particularly the Chief Executive to run a sick company like Bieco Lawrie Ltd. The Secretary, Petroleum and Natural Gas then stated as follows:—

"When the future of the Company was itself at stake, and when the Board had asked for the closure of the Company in 1983, it is very difficult to get any competent person to come and join a Company whose future is so uncertain. Recruitment in public sector undertakings at chief executive level at best of times is not easy. It is going to be all the more difficulty when the Government and the Board say that they may close the Company and then they go into the market looking for a managing director. Well, we can get a managing director, but not a competent one who will see the company through. And the objective was to see it through. At that time in 1984, the prospect of the Company was closure. That is why, we wanted to have a clear view of what the future of the Company would be."

He further added:

"The man who has been in charge as the General Manager has 30 years of experience as an engineer in that company. It is not as though it was totally left uncared for."

3.6 The Committee pointed out that the representatives of the Company had brought to the notice of the Committee during their evidence that "instability in the management had an adverse effect on the working of the Company." Asked whether the consequences of vacancies occurring and frequent changes in top managerial posts were not known to the Ministry, the witness stated;

> "The sickness in industrial units arises on account of various factors like poor management, obsolescence of technology, over-manning, industrial unrest, combination of these factors in various proportions. This unit was sick because of over-canning, obsolescence of technology and go-slow tactics by the workers and interruptions in the work. Management alone cannot revive a sick unit if it is sick on account of these factors. We have had a number of sick units which have very good top management and yet they continue to be sick. It is not as if the company does not have the chief executive. It had a chief executive at the level of General Manager and also a Managing Director only for a period of three years. Today the chief executive is the senior General Manager with 30 years of experience in the same company. He knows every aspect of that company."

3.7 Asked about the views of the Ministry in regard to demoralised feeling among employees that Government has no time for this Company, he stated:

> "It would certainly affect the morale of any manager. I would certainly agree to that extent."

3.8 When enquired about flight of managerial personnel and steps taken by Government to stop that trend, the witness stated:

> "Sir there are two reasons for some of the engineers leaving this company. One reason was the uncertain future of the company itself. Many good managers would prefer to work in an environment which is a growing one. The second is that the conditions of service in Biecco Lawrie were inferior to the conditions of service of equivalent people working in companies like IBP or Balmer Lawrie Ltd. We tried to equalise the conditions of service in this company but we did not succeed because it was felt by the various agencies of the Government that Biecco Lawrie was incurring losses. When it has no capacity to pay, how can the conditions of service of the managers be improved which will only lead to losses. This was the logic which was followed. So, it was a combination of relative unattractiveness of the terms and conditions in this company and the uncertain future of the company

that led to some of the good engineers going elsewhere for employment. That is a fact, Even now, I may submit, we are trying to bring their terms and conditions at par with the other sister companies."

3.9 On being pointed out by the Committee that the Company was not having any executive directors, the witness stated:

"This unit at no time had full-time functional directors, except during the three years when it had a managing director."

In reply to a query that the Company had a provision of 12 directors, he stated:

"They are all part time directors—nominees of the various agencies of the Government."

CHAPTER IV

MODERNISATION AND DIVERSIFICATION

A. *Modernisation (Phase I) Programme*

4.1 Although the Company started incurring losses from the first year (1972-73) of nationalisation, it was only in 1976 that the Management identified the following causes for its rapidly deteriorating financial position:

(i) declining productivity of old plant and equipment (in respect of the motor shop);

(ii) poor industrial relations with go-slow conditions and low productivity;

(iii) unprofitable operations on account of low productivity of men and machines;

(iv) worsening debt equity ratio with increase in the quantum of debt and higher rate of interest;

(v) obsolescence of products and inadequate product development and diversification;

(vi) heavy recession in the motor market from 1974-75 leading to unremunerative prices.

4.2 In order to overcome these difficulties, the Company prepared a feasibility report in August 1976 containing the following proposals for Phase-I modernisation and diversification:—

(i) Expansion of Electrical Repair Shop;

(ii) Renovation of the existing Bulk Oil Switch-gear Shop with provision for additional working space;

(iii) Installation of 4 Epoxy Resin Casting Plants for improvement in the quality of the existing Bulk Oil Circuit Breaker Switches;

(iv) Rationalisation of the existing product range and partial modernisation of works.

4.3 The proposal envisaged a total financial support of Rs. 231.40 lakhs by the Government of India through equity participation during 1976-77 to 1979-80. A further plan support of Rs. 17 lakhs during 1980-81 and 1981-82 was also envisaged. Additionally, non-plan financial support from the Government required for meeting cash loss for repayment of short-term loans and for working capital was estimated at Rs. 178.34 lakhs for the four years ending 1979-80. However, in view of the delay in clearance of the scheme the Company revised the proposals in November 1978, according to which the cost was estimated at Rs. 265.20 lakhs as per details below:—

Name of Scheme	Nature of Scheme	Estimated cost (*Rs. in lakhs*)
(i) Switchgear BOCB	Renovation and Diversification .	29.55
(ii) Electric Motors	Rationalisation of range, revnoation and modernisation . .	27.45
(iii) Electrical Repairs .	Expansion . .	39.60
(iv) Carbon Brushes	Renovation and modernisation	0.50
(v) Resin Cast CT/PT Plants	New activity for captive consumption and diversification . . .	38.40
(vi) H.T. Flame Prof Switchgear Project	Diversification.	24.50
(vii) LOCB Project	Diversification .	105.20
		265.20

4.4 The Government sanctioned the first 5 components at a total cost of Rs. 135.50 lakhs on 25th November, 1978. The diversification of H.T. Flame Proof Switchgear Project and LOCB Project was shelved by the Government. The Company also did not proceed with the implementation of the proposal for renovation of Carbon Brush Shop involving investment of Rs. 0.50 lakh as it did not find it economical to continue the manufacture of carbon brush.

4.5 Earlier in November 1976, the Government of India sanctioned Rs. 38.60 lakhs for expansion of the Company's Electrical Repair Shop during 1976-77. In January 1977, the Government sanctioned another loan of Rs. 1.00 lakh for development of the panel of H.T. Flame Proof Switchgear. In addition, the Government released a total equity of Rs. 144.24 lakhs during 1979-80 to 1982-83 for capital expenditure. Out of Rs. 183.84 lakhs thus released for capital expenditure, the Company utilised Rs. 177.92 lakhs diverting the balance of Rs. 5.92 lakhs to meet working capital/requirements.

4.6 The following table shows the component-wise capital expenditure upto 31st March 1986 against the approved cost, and the actual dates of completion against the targets dates of completion:—

	Expenditure approved by Govt. in Nov.. 1970	Actual expenditure upto 31-3-86	Target date of completion	Actual date of completion
	(Rs. in lakhs)			
1. Electrical Repair Shop Expansion . .	39.60	63.63	31-3-1980	31-3-1981
2. Bulk Oil Switchgear Renovation	29.55	55.64	31-3-1981	31-3-1983
3. CTPT Project Plants for manufacturing resin encapsulated current and Potential transformers. . .	38.40	34.38	31-3-1982	31-3-1983
4. Electrical Motors rationalisation of product range and renovation of works . . .	27.45	24.27	31-3-1981	31-10-1983
	135.00	177.92		

4.7 Audit Report has also brought out that the renovation of switchgear shop did not have any effect on improving the capacity of the shop. Even though renovation of the Electric Motor shop has helped the company in switching over from the manufacture of motors of the international frame sizes, the rationalisation of the product range of the motor shop did not have much of a success. The economic viability of the shop has also not improved so far. Similarly the expectations envisaged out of investment made in electric shop did not materialise.

4.8 During oral evidence of the representatives of the Company, the Committee pointed out that even though the Company was incurring losses from the first year (1972-73) of nationalisation, it was only in 1976 that management identified the reasons of deteriorating financial position of the Company. Asked about the reasons for taking the management 4 years in identifying the areas of weaknesses of the Company. Chairman, Biecco Lawrie Ltd. stated as follows:—

"It was because of frequent change of the General Managers. In a period of four years we had four General Managers. As soon as he thought of to concretise the plan and came to logical conclusion, there was a change. Four years in this way were lost unnecessarily."

4.9 The Committee further pointed out that the proposals of the Company submitted in 1976 were approved by the Government in 1978. When asked as to why it took 2 years for the Government for giving their approval for Phase I modernisation programmes Chairman, Biecco Lawrie Ltd. stated that discussions were going on with the Government and on the basis of discussions the Company had to revise their proposals.

Out of the 7 items contained in the proposals the Government approved only 5 items. The Committee enquired that on what consideration the Government shelved two projects *viz.* H.T. Flame Switchgear Project and Low Oil Circuit Breaker (LOCB) Project especially when the customers, according to the management, were getting more and more interested towards the use of minimum oil vaccum circuit breakers and particularly when the proposals of 1978 were framed in consultation with Government. Chairman, Biecco Lawrie Ltd. replied as follows:—

> "The proposals had gone to the Expenditure Finance Committee finally on 25th November, 1978. While clearing part of the proposals, they did not clear some part *viz.*, LOCB Project and also H.T. Flame Proof. The Expenditure Committee said through a Member, Heavy Industry that our assumptions were far too optimistic. They were not realistic. In these three activities they themselves were involved. EFC decided that we go through the other part which they have cleared and this part be left for the time being."

4.10 Asked whether LOCB and H.T. Flame Proof Projects were not needed, the witness stated:

> "With regard to the use of minimum oil/vaccum circuit breaker, we had made the demand but since BHEL was also in this field, we were not allowed to enter this field. That was the main reason. I am putting it very bluntly. But if the company became a part of the BHEL, when this company was brought under one umbrella, the Experts Committee again discussed this particular aspect, the response of the Ministry of Heavy Industry was that they were not interested in taking over this company."

4.11 As regards the reasons for increase in the actual expenditure to the tune of Rs. 177.92 lakhs as against the approved cost estimates of Rs. 135 lakhs, the witness stated:

"The increase has not really been to the extent mentioned there. The amount of Rs. 177.92 lakhs includes an amount of Rs. 31.38 lakhs which was not a part of the original estimate of Rs. 135 lakhs. These were non-plan capital expenditure items, not part of the original plan. If you substract this amount, the increase is only Rs. 11.54 lakhs and in terms of percentage, it works out to 9.4 per cent of the original estimate. So, upto 10 per cent the Board can approve and beyond that the Ministry will have to approve. Since the expenditure was only 9 per cent or so, it was regularised by reporting this matter to the Board."

B. *Modernisation (Phase II) Programme*

4.12 In July 1982, the Company submitted to the Government the second feasibility report embodying the following schemes involving a total investment of Rs. 266 lakhs:—

(i) 11 KV Vaccum Circuit Breaker Project.

(ii) Auxiliary bus ducts for use in Power Stations.

(iii) CTC motors for Calcutta Tramways.

(iv) A.G. 51 Auxiliary Generators of BHEL design suitable for diesel locomotives.

4.13 The above proposals have not been approved by the Government so far.

During evidence, when the Committee enquired about the response of the Ministry with regard to the above schemes and whether the matter was pursued with the Government, the Chairman, Biecco Lawrie Ltd. stated as follows:—

"There is a letter from the Financial Adviser of the Ministry. This has been summed up in that. It says—

(i) The Project for Vaccum Circuit Breaker is definitely not attractive owing to the numerous competitors, difficulties of know-how acquisition and uncertain demand projections.

(ii) The manufacture of auxiliary Bus-Ducts will be attractive (low capital expenditure, minimal man-power requirement) provided by the Company to get know-how, technical and sales support from BHEL.

(iii) Project for C.T.C. motors will be attractive only if its concept is changed from being tied to collect tramways to more diversified customers requirements, mainly Railways with adequate sales support from BHEL.

(iv) The Project for AG 51 DC Generator suitable for Diesel Locomotives is attractive one. However, the Company should try to secure 100 per cent commitment for supply to BHEL instead of only 50 per cent share after successful deployment."

The Chairman of Biecco Lawrie also added:

"This communication from the Government was replied to by the Company answering each and every point. But no reply to this letter has come from the Government."

4.14 As regards the need for going in for vaccum switchgear, the witness stated:

"Had we gone into Vaccum Switch Gear in 1982, five years earlier, we would have been the pioneers today. In 1987 proposal that we have now submitted to the Government we have Vaccum and Gas."

4.15 During evidence of the representatives of Ministry, the Committee pointed out that under modernisation phase I programme Government did not approve H.T. Flame Proof Switchgear Project and LOCB Project even though there was a qualitative change in the market demand because of gradual shift from bulk oil switchgears to minimum oil switchgear. The Government did not also approve the modernisation phase II programme submitted by the Company in July, 1982. Asked about the reasons for not approving the Company's proposals for upgrading its technology, the Secretary, Petroleum and Natural Gas stated as follows:—

"Sir, it is a fact that when proposals were made earlier in 1978, a number of lacunae were found in those proposals. Because those proposals were made by the Company themselves without any external assistance or consultants or foreign collaborators or even Indian collaboration who could transfer technology, that is why when the Expenditure Finance Committee cleared the first phase for Rs. 135 lakhs, they found there was a clear case to invest that amount. Then, they also suggested that a Joint Expert Group consisting of representatives of the Deptt. of Heavy Industry, BHEL and the Department of Petroleum should be appointed to study the matter in greater details and suggest for the steps to be taken. They also suggested that in the first phase, they could take up schemes which would involve diversification of the manufacture of high tension equipment and that the limited oil circuit breaker Switchgear project can be considered after the expert group submitted the report.

The expert group which was set up in pursuance of this recommendation had only one sitting in September 1980. The BHEL representative did not even participate in this group. And nothing really came out of this effort to get the expert group report. In the meanwhile, this Ministry felt that instead of getting an expert group, if you could get specific assistance from BHEL on a company-to-company basis, that would help this Company to rehabilitate with expert assistance of larger public sector units. A team of experts of BHEL visited Biecco Lawrie at the request of the then Secretary, Petroleum Ministry, to formulate proposals for Phase II. This group did not make a very favourable recommendation and I think they also said that the BHEL group made certain suggestions for modifying Phase II and these were modified by Biecco Lawrie Management and submitted later in 1982. And the revised proposals of Biecco Lawrie were considered in September 1982 and these were again not found viable. Arising from this, in May 1983 the Board of Biecco Lawrie suggested that if none of these methods seem to be acceptable or viable, there is no option but to close down the Company itself."

4.16 When enquired about the specific reasons for rejecting 1982 proposals, the witness replied:—

"The proposal was made in two stages. It was made in 1976 and it was this proposal that was found to have been inadequately prepared without adequate market survey. That is the reason why Phase II was not approved, nothing came out of the expert committee which was constituted. Then the BHEL gave them advice and then they made further proposals in 1982 somewhat on the same lines of getting into the higher technology areas for better manufacturing programme. At the same time suggestions had also been made that the surplus labour should be reduced from about 1500 to about a thousand. This group also suggested that there should be a separation of about 500 surplus labour."

4.17 Thereupon, the Committee pointed out that the proposals contained in Phase II modernisation were based on the recommendations of BHEL Expert Group. When asked as to why these proposals were rejected by the Ministry, the Secretary; Petroleum & Natural Gas stated:

> "The expert team made a number of useful recommendations purely from the technical angle. But when the technical recommendations were viewed in the context of financial viability, that is, when we found it difficult to persuade various agencies in the Government, that it was financially viable, the expert team did not come into the economic viability of our proposals. The technical suggestions they had made were useful. In fact, some of them have even now been incorporated in the latest rehabilitation proposals."

4.18 When asked whether it was not the responsibility of the Government to help the company in upgradation of technology of a sick unit like Biecco Lawrie Ltd., the witness stated:

> "In 1976 the Company had prepared a SWOT analysis. This SWOT analysis had been made in 1976 as part of normal management function. And it is arising from this analysis that in 1976 they made a proposal for the rehabilitation and modernisation and it is arising from this the first phase of modernisation that Rs. 135 lakhs were sanctioned by the Government. The second phase did not get through and we now have a somewhat modified rehabilitation programme taking note of the latest technology available and the changes occurred since 1978 were taken into account, new studies have been made, now collaboration arrangements have been worked out to implement the rest of the revised modernisation programme. The strength of the company now has been identified in Switchgear Unit, the weaknesses of the Company have been identified in its outdated technology. The

threats are from the other competitors in the shrinking market for existing technology of Switchgear. The opportunities are that if it is modernised on the lines we have proposed, it can become a viable company which can repay the investment of about Rs. 4 crores in a few years and begin to make profits. These are the opportunities available to the Company."

He added:

"Because of the vicitudes in regard to the future of the Company we had an expert group only in 1984 which gave a report in 1985. We made it more concrete by asking the Company to give its market survey report and an actual collaboration agreement for transfer of technology from one of the internationally well-known companies in this field. We have moved forward from a vague, uncertain proposal which we had in 1978 to a concrete proposal we have now in 1987."

C. *Rehabilitation Plan*

4.19 The Committee were informed that pending decision on the modernisation schemes Phase-II, a study was commissioned to assess the feasibility of diversification of switchgear covering VCB and SF-6 and after considering the feasibility report, the company submitted a comprehensive rehabilitation plan to Government in May, 1987. This plan provides for writing off of all the past loans and for a fresh Government equity of Rs. 4.03 crores. Total financial implications of the rehabilitation plan would be Rs. 42.65 crores.

4.20 Explaining the salient features of the rehabilitation plan, the Chairman, Biecco Lawrie Ltd. stated during evidence as follows:

"The salient features of the rehabilitation plan are:

(a) immediate induction of foreign technical know-how in vaccum and SF-6 gas circuit breakers.

(b) the entire debt burden upto March, 1988 to be written off for rehabilitation to be economically viable.

(c) discontinuation of operation at motor works.

(d) surfeit manpower to be separated voluntarily through an attractive scheme;

(e) investment of fresh equity capital of Rs. 4.03 crores for diversification in switchgear activity only.

(f) the projected installed capacity and capacity utilisation upto the year 1993-94 will be—

	Installed Capacity	*Percentage utilisation*
1988-89	1400	73%
1989-90	1400	81%

In 1990-91 when the capacity would be increased from 1400 to 1900; the utilisation drops to 68 per cent. Then, it picks up in 1991-92, 1992-93 and 1993-94 to 74 per cent, 86 per cent and 87 per cent respectively. In the first two years, i.e. in 1988-89 and 1989-90, there would be loss. In 1990-91 there will be a break-even point and thereafter, there will be a profit of Rs. 120 lakhs in 1991-92 to Rs. 380 lakhs in 1993-94.

This is with an investment of Rs. 4 crores plus writing off of all the past loans and surplus labour being redeployed. We shall require only Rs. 237 lakhs for the purpose of working capital by way of non-Plan support in the first two years only and not after that. And the most important recommendation is that immediately a full-time dynamic and knowledgeable Managing Director should be appointed in the company."

4.21 Asked about the Government response to rehabilitation plan, he stated:

"The reaction, as formally communicated by our Ministry is very positive. It is a very very comprehensive plan. The proposal is based on a very firm market data compiled by an external consultant. It is also based on independent assessment of the capacity. So, they feel that it is a viable proposition and they have already received the comments from BPE, from the Ministry of Labour. They are expecting in the next two or three days the comments from the Expenditure Secretary's office. Thereafter, this proposal is almost ready for submission to the Cabinet for approval."

4.22 During evidence of representatives of the Ministry, the Committee wanted to know the latest position in regard to approval of rehabilitation programme submitted by the Company in May 1987. Secretary, Petroleum and Natural Gas stated as follows:

> "The latest rehabilitation programme has been worked out thoroughly on the basis of report given by Kirloskar Consultants. Based on that, the Company management have also inter-acted with Westing House of U.S.A. and drawn up technical collaboration agreement. Technical collaboration agreement for transfer of technology for the latest vaccum and SF 6 circuit breaker is also part of the rehabilitation programme.
>
> The rehabilitation programme has 3 components. One is the approval of the technical agreement with Westing House. That is, the additional capital investment goes to Rs. 4 crores. Second component is writing off of the accumulated loans with interest thereon. As part of capital restructuring Rs. 30 crores is proposed to be written off. The third component is the separation of about 450 workmen of the company. This entire proposal is now before Government and is awaiting Government decision."

4.23 In reply to a query of the Committee witness also informed that this rehabilitation programme concerns only to switchgear and motor and repair units have not been considered.

CHAPTER V

PRODUCTION PERFORMANCE

A. *Overall Capacity Utilisation*

5.1 The main activities of the Company comprise manufacture of switchgears, electric motors and electric repairs. Switchgear constitutes the main stay of the Company followed by electric motors where value of production, according to audit, is fluctuating from year to year. Manufacture of products like Carbon brushes, alternators, transformers, 'D' fuse elements etc. were discontinued from time to time during 1967 to 1983 on acount of severe competition, unrenumerative prices, obsolete design etc. On the basis of the capacity of assembly and sub-assembly shops, the installed capacity of switchgears in terms of panels would be somewhere between 1958 and 2054 panels per annum. Assuming 80 per cent availability and efficiency, the achievable capacity of switchgear works would be around 1600 panels per annum even though the installed capacity has been fixed as 1375 panels per annum.

5.2 The following table shows the capacity utilisation of switchgears unit:—

Switchgears—Installed Capacity—1,375 panels:

Year	Orders in hand at the beginning	Original targets	Revised targets	Actual production	Percentage of capacity utilisation
1977-78	N.A.	1,232	944	681	49.53
1978-79	N.A.	1,000	1,000	856	62.25
1979-80	1,311	1,140	757	856	62.25
1980-81	2,153	1,100	950	860	62.55
1981-82	1,794	1,060	1,001	913	66.40
1982-83	1,224	1,060	960	880	64.00
1983-84	1,007	1,150	830	801	58.26
1984-85	945	968	930	881	64.07
1985-86	456	1,085	946	882	64.15

Capacity utilisation of the motor unit during the corresponding period was as follows:—

Electric Motors :	Installed Capacity (upto 1982-83)	1,00.800(HP) 75,600(KW)
	Revised from 1983-84 to	64,500(HP) 48,375(KW)

Year	Original Targets		Revised Targets		Actual Production		Percentage of capacity utilisation (in terms of H.P.)
	HP	No.	HP	No.	HP	No.	
1977-78 . .	44,552	4,659	49,000	5,125	27,815	2,911	27.59
1978-79 . .	46,779	2,236	40,000	1,907	20,192	963	20.03
1979-80 . .	32,935	1,313	20,745	827	22,561	947	22.38
1980-81 . .	34,490	1,188	27,000	971	17,655	459	17.51
1981-82 . .	25,343	895	10,444	368	6,344	244	6.29
1982-83 . .	32,700	1,187	26,529	963	27,135	985	26.92
1983-84 . .	45,000	1,619	16,000	571	18,650	586	28.91
1984-85 . .	30,000	993	32,000	1,058	21,586	742	33.47
1985-86 . .	36,500	1,200	25,200	840	18,512	755	29.70

The following features emerge from the above:

(i) The capacity utilisation of the switchgear shop more or less remained stagnant, while that of the electric motors has been showing a fluctuating trend;

(ii) The production planning in the form of targets did not keep pace with the order book position of switchgears during 1979-80 to 1982-83 when the planned production was much below the available capacity in spite of adequate orders in hand;

(iii) From 1980-81 the order book position of the switchgears has been showing a declining trend.

(iv) Capacity utilisation in Motor Works was generally about 1/4th of the installed capacity.

5.3 Besides the low utilisation of capacity in main units, the productivity index of the machine shop, fabrication shop and assembly and sub-assembly shop of the switchgears works during

1981-82 to 1985-86 ranged between 36 and 42 per cent even though the capacity utilisation in terms of number of panels indicates inflated utilisation of 58 per cent to 66 per cent of the capacity.:

	1981-82	1982-83	1983-84	1984-85	1985-86
Machine Shop	34%	32%	29%	35%	31%
Fabrication Shop . . .	41%	38%	36%	42%	35%
Assembly & Sub-assembly Shop	45%	43%	39%	45%	43%
Overall Shop utilisation . .	41%	39%	36%	42%	38%
Capacity utilisation in terms of panels	66.40%	64%	58.26%	64.07%	64.15%

5.4 The productvity analysis of the three shops of the switchgear works indicates that there is imbalance between the capacity of different shops, the divergence between the machine shop and the assembly shop being very pronounced.

5.5 During the course of examination of the Company the Committee enquired about the main factors responsible for under-utilisation of capacity and whether these could not be anticipated by the Company. The Company replied in a written note as follows:—

"There were 3 major factors that were immediately responsible for under-utilisation of capacity viz.

1. Substantial decline in productivity of men and machines and bouts of labour unrest, manifest in go-slow conditions.

2. Erosion in management structure with key positions lying unfilled.

3. General sense of demoralisation prevading the organisation over uncertainties in the future of the Company.

The Company was indeed fully alive to the situation but short of most drastic action involving declaration of lock-outs, no other remedies were good enough to correct the situation. Time and again, labour went on go-slow and valuable working time was lost before the situation could be somewhat redeemed through long drawn-out negotiations."

5.6 Asked about the steps taken to solve the above problems to make the Company a viable unit, the Company stated in a written note that:

"Making the Company financially viable was ingrained in our proposals in July 1982, followed by latest ones submitted in May, 1987 which are now under consideration by the Government."

5.7 In the same context, Chairman, Biecco Lawrie Ltd. stated during his oral evidence that:

"The main factor for under-utilisation of capacity was that there was a substantial decline in the productivity of the machine and the man. It had been there for the last 15 years now."

5.8 The Committee also wanted to know the estimated capacity utilisation after implementation of Rehabilitation Plan. Chairman, Biecco Lawrie Ltd. stated as follows:—

"On the basis of the comprehensive plan for which we are awaiting approval from the Government, we have projected certain capacity utilisation figures. In 1988-89 based on 1400 capacity, we can reach 73 per cent utilisation capacity. In 1989-90 we can reach 81 per cent capacity utilisation. In 1990-91, the capacity increases from 1400 to 1900 per annum. The utilisation in the first year of expanded capacity falls to 68 per cent. Then it goes on rising. These are the projections given in our comprehensive scheme based on industrial engineering studies."

5.9 The Committee further pointed out that the Company never produced at any time even 1000 panel even though according to admission of the management, the Company should have been able to produce 1260 panels per annum. Asked as to why no industrial engineering study was done to assess the capacity of the Company for manufacturing switchgears, the Chairman, Biecco Lawrie Ltd. stated:

"There was no separate assignment for a scientific study of the installed capacity as such in switchgear works. Balmer Lawrie which was then the holding company and which is now a minority shareholder in the company, had a band of industrial engineers. We had given the assignment to them to confirm whether the installed capacity to which we were committed was correct or not. They carried out the industrial engineering study in 1986, based on which they have reported, they have verified, that the capacity is 1400 panels per annum. This is the basis of our recommendation to the Government as part of the rehabilitation plan."

5.10 When pointed out that the actual production was even much less than 1400 panels, the witness stated:

"The term 'capacity utilisation' has been expressed on a notional determination of producing close to 1600 nos. But we have never crossed even 1000 nos. in any year. Even now at this stage; the maximum achievable is 1260 nos. in a year. This computation of capacity utilisation has been done on the basis of what notionally could have been achieved if all the operating stations were balanced. It is not the case even today. The capacity as per CAG is 1900-2000. We don't think that is correct. The capacity today is no more than 1260. The licensed capacity is only 1375. If we get the fullest cooperation from the workmen as also from others who are able to provide all the raw-materials and the financial inputs, at best we can produce 1260 nos. in a year."

5.11 During evidence of the representatives of the Ministry, the Committee wanted to know the reasons for low capacity utilisation in the Company. Secretary, Petroleum and Natural Gas stated as follows:

"The available productive capacity of the company is not of the latest technology. The switchgears that we are making are not preferred by the customers. The market for the kind of switchgear they make, is shrinking and getting smaller and smaller. More and more customers are asking for vaccum circuit breakers and circuit breakers which the company is not able to make. Therefore, they are not selling the kind of switchgear that they have the capability to make at present. That is why, there is under-utilisation of capacity.

In regard to motors also, their cost is high. Technology for the motors is not uptodate and there is very intensive competition in the market. That is why, they are not able to utilise their capacity. Their cost is high because of high labour cost and they are not able to compete in the market."

5.12 When asked whether the Ministry ever reviewed the production performance of the Company for taking remedial action, he stated:

"There were a number of reviews by the Ministry which analysed reasons for the poor performance of the company. Ministry was aware of the technological incompetence and absoloscence of the products of this company. That is why, all these steps have been taken from time to time. The Ministry is also aware of the surplus labour in the company and it has been making budget provisions year after year to take care of the cash losses of the company and we were also aware of the current loans and the interest payable on the loans. Various measures have been taken from t'me to time which has led to the final proposal which has been submitted for approval of the Government."

5.13 The Committee further pointed out that even the targets of the production were less than the declared capacity. To this the witness replied:

"Yes. Because they could not sell the products in the market which is a competitive market. If the products are not competitively priced, they lose orders."

5.14 When further enquired whether the Ministry ever monitored the implementation of their directions issued to the Company and if so how would they explain the deteriorating production performance of the Company the Secretary; Petroleum and Natural Gas then stated:

"When we knew as to what the structural problems were; merely to issue a directive that they should produce more sell more and get out of the financial problems was not a practical solution. We knew what were the problems and the obstacles. We would only sit with the Management and discuss what best they could do under the circumstances to minimise the loss. In such a situation, we encouraged them to go out and get as many orders as possible for switch-gear etc. they did get the orders. But the market demand itself is shrinking. So, all that the Ministry could do was to merely offer temporary palliatives and try to seek long term solutions."

B. *Delayed execution of orders*

5.15 Audit has pointed out that the Company did not produce at any time even 1000 panels although it had adequate orders in hand during 1979-80 to 1981-82. The Company booked orders for switchgears on fixed price basis far in excess of the capacity, while the targets for annual production were always far below the declared capacity. The agreements with the customers did not provide for escalation in prices. The result was that the jobs were delayed and cost went up for which there was no compensation in the form of escalation. The loss on account of selling at fixed prices amounted to Rs. 202.92 lakhs. The inability of the company to keep up the delivery schedules resulted in declining order book position from the end of 1982-83. In a number of cases, delays in execution not only resulted in cost escalation but also attracted liquidated damages. There was clear lack of coordination between the marketing and production side leading to higher ultimate losses.

5.16 During evidence of the representatives of the Company, the Committee enquired as to why the Company booked orders far in excess of the Company's capacity. A representative of the Company stated as follows:

"Sir, actually it so happened that during that period a large number of bulk tenders came out from the State Electricity Boards and the Company had to make offers. In fact, the Company made offers depending on the delivery schedules attached to each tender. The price had to be held firm. There was no knowing as to which of the tenders would mature in favour of the Company. It so happened that three or four large tenders matured in favour of the Company and as a result of which there was a huge chunk of orders that came suddenly to the Company. Certain delivery times happened to coincide and as a result of which all these things became beyond the capacity at that time. The Company could not help it. It was not a matter of choice."

5.17 In this connection, Chairman, Biecco Lawrie Ltd. also stated: "I would like to say that faced with the situation; we too approached some State Electricity Boards for deferment of delivery or cancellation of orders. In fact, we obtained certain deferment. Orissa State Electricity Board was one such customer whose orders we wanted to have them cancelled. It would have meant greater loss to the organisation. There is one more example of Tamilnadu. We did get them cancelled when it was absolutely beyond our capacity."

5.18 The Committee further enquired as to why there was no escalation clause added in agreements with State Electricity Boards for supplying the switchgears. The witness stated:

> "The main customers are the State Electricity Boards. They are the bulk customers in the country. Under the EMA regulations, escalation is just not permissible. None of the State Electricity Boards allowed any escalation in price. If we sent an offer providing for an escalation formula, they demand withdrawal of the escalation formula and if we don't accept it, they will not give the order. Any provision of escalation would render our quotation totally invalid."

5.19 When pointed out by the Committee that in the absence of escalation clause, the Company should have got approved a reasonable time-frame for supply, he stated:

> "I accept that. If we were supplying regularly during each year, this national loss would not have been reflected even."

5.20 The Committee also wanted to know as to why there was lack of coordination between marketing and production divisions. Chairman, Biecco Lawrie replied as follows:

> "In the fluid state in which the Company was operating at that time, on the one hand the marketing Deptt. of the Company had been asked to book as much work as possible and on the other hand we were going through the process of discussions and negotiations with the units on the incentive scheme."

He also added:

> "The loss could not be only due to lack of coordination. But there may be lack of coordination between production and sales. This aspect was also analysed during C&AG's annual appraisal."

Market demand of switchgears

5.21 The table below indicates the Company's share in the country's total production of switchgears upto 11 KV during 1980-81 to 1986-87:

	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87
All India production .	6,701	7,025	6,830	4,693	4,653	4,730	4,515
Company's production (Nos.)	860	913	880	801	881	882	814
Company's share in the total production as a percentage	12.8	12.9	12.8	17.1	18.9	18.6	18

5.22 As regards the declining demand of switchgears in the country, the Company informed the Audit that fall in all India production in 1983-84 onwards has been due to the slump in the all India demand for both bulk oil and minimum oil switchgears. The Management also informed the Audit that minimum oil switchgear has started losing ground to vaccum circuit breakers and SF 6 gears. Nine manufacturers had also entered into foreign collaboration for manufacture of vaccum circuit breakers. The Company, however, had been manufacturing old range bulk oil switchgears for which demand was falling.

5.23 When enquired whether project reports for manufacturing of vaccum circuit breakers and SF6 had been included in Rehabilitation Plan submitted by the Company in May 1987, the Company stated in a written reply that:

> "Yes indeed. Besides, SF6 gas breakers have also been included along with a special design of vaccum breakers suitable to meet REC specifications for rural use."

5.24 In this connection, the Chairman, Biecco Lawrie Ltd. also explained in his oral evidence that:

> "Our latest rehabilitation plan has been submitted to the Government. In between the original plan and the plan now submitted, a long period of nine years has elapsed. The market scenario has completely changed. We are no longer interested in going in for flame proof gear. Neither, we are interested in making of low oil circuit breakers

which have become the first generation product. We have given something which is for today and for the future. So the plan that we have submitted in 1987, consists of technology which is the on-going technology today and it will not become an obsolescent, at least for 25 years."

C. *Motor Unit*

5.25 The capacity utilisation of motor unit ranged between 6.29 per cent to 33.47 per cent as mentioned earlier in his chapter during 1977-78 to 1985-86 and it was generally about one-fourth of the installed capacity. On the basis of present capacity utilisation of the Motor Works, the cost of idle capacity of the motor works came to Rs. 85.41 lakhs in 1982-83, Rs. 89.14 lakhs in 1983-84, Rs. 104.79 lakhs in 1984-85 and Rs. 124.41 lakhs in 1985-86.

5.26 Audit has pointed out that the demand for the Company motors is declining gradually and the Company's share in the country's production is negligible as will be evident from the following data:

	1973-74	1979-80	1982-83	1983-84	1984-85	1985-86	1986-87
All India Production (Nos.)	568155	613521	587639	568017	722115	N.A.	N.A.
Comapny's production (Nos.)	893	947	985	586	742	775	490
Company's share in terms of percentage on total production . . .	0.157%	0.154%	0.168%	0.103%	0.103%	N.A.	N.A.

In regard to Company's negligible share as compared to all India production the Management informed the Audit that "the Company has opted out of 90 per cent of the market only as a matter of deliberated policy of discontinuing manufacture of motors for agricultural uses and also restricting motor to about 10HP capacity for stock sale. This restriction does not however, apply to our comprehensive range of crane duty motor.

5.27 According to Audit the production of motors came to a very low level in the year 1981-82 (224 Nos.) which was followed by increased production during 1982-83 after which production again came down. Out of the increased production during 1982-83, 142 motors (cost Rs. 20.06 lakhs) were lying in stock as on 31.3.1983, 48 of them (cost Rs. 7.12 lakhs) remained undisposed of even on 31.3.1986. In addition, out of the increased production of 586 motors during 1983-84, 30 motors (cost Rs. 5.50 lakhs) remained unsold even on

31.3.1986. Besides, out of the production of 742 motors during 1984-85, 50 motors (cost Rs. 10.56 lakhs) were also lying in stock as on 31.3.1983. 48 of them (cost Rs. 7.12 lakhs) were produced against any specific orders. As the market price has gone down, the value of these 128 motors was reduced to Rs. 13.97 lakhs as on 31.3.1986.

5.28 In this connection, the Ministry informed the audit in November, 1986 that "marketing constraints was a subsequent development resulting from change in specifications in the market requirements. Such things are part of normal business hazards". Audit has also pointed out that with the introduction of a modified incentive scheme from Ist April, 1982, in the motor shop there was a spurt in production of motors for which there was no demand. The incentive paid in the motor shop during 1982-83, 1983-84, 1984-85 and 1985-86 amounted to Rs. 3.74 lakhs, Rs. 2.87 lakhs, Rs. 2.77 lakhs and Rs. 2.60 lakhs respectively. According to the Management Report given in November 1982 "Production of motors was entirely limited by the availability of orders for execution as well as of the raw materials that could be procured for the purpose. Productivity of motors works could be considered higher than what it is if orders could be procured at reasonably satisfactory prices and proper raw material planning could be done with a lead time of three months, which for instance, is necessary in the case of rotor ánd stator liminations".

5.29 During the evidence of the representatives of the Company the Committee enquired as to why the production of motors was taken up by paying incentives when there was no demand in the market. Chairman, Biecco Lawrie Ltd. stated as follows:

> "This phenomenon of our giving incentive when there were no orders for electrical motors on hand was the result of a certain set of circumstances. After a very long and protracted period of negotiations, we arrived at a settlement at the tripartite level between the workmen, the management and the State Government, on 25th March, 1982. For the Motors Division a revised scheme was agreed to. The revised incentive scheme was based on measurement of standard time for the first time. Earlier it was overtime based incentive scheme. The management felt that it was a great achievement that, from purely volumetric, we were coming to measurement of productivity for the first time. The revised scheme resulted in significant increase in production. Unfortunately, during this long-drawn out process of negotiation, there was a very severe slump in

the motor market in the year 1982-83. The company was faced with honouring the new settlement which had just been completed with the unions. The orders booked had been severely depleted or were to face a situation by just shutting the work and losing the credibility with the workmen. The management which took an anticipative decision of certain enquiries which had been floated orders against which were likely to materialise particularly for the crane duty motors and for shop floor loading. It is true that the incentive was paid for these motors which went into stock but subsequently these motors were disposed of. Of course, at that time when we were paying incentives, orders were not in hand. Likewise, a decision was taken to convert some raw materials which were in stock into either semi-processed or assembling in anticipation of orders coming. Some of these materials were imported. They were incurring very heavy interest burden. This was the judgement exercised by the management in anticipation of the business materilising which was prior to the settlement which had been arrived at after a long time."

5.30 The Committee also enquired about the steps taken to sell the unsold motors which were manufactured in 1982-83. The Company explained in a written note that:

"Out of 985 motors produced in 1982-83 at an average manufacturing cost (excluding interest) of Rs. 16,404 per motor, the Company was holding only 48 motors in stock as at 31st March 1986 as mentioned in CAG's Report (Page 10). Of these 48 motors, the Company sold 23 motors since during the last 18 months (1.4.86 to 30.9.87) at an average price of Rs. 18,185 per motor. The Company is now holding only 25 motors which are expected to be disposed off in the next few months by necessary modification to suit individual orders or by straight sale where possible."

5.31 During the visit of the Committee on Public Undertakings to motor manufacture unit in Calcutta, the Committee observed that this unit occupies a large portion of land and has big shed etc. The Committee enquired during oral evidence of representatives of Biecco Lawrie whether the Company ever thought of closing motor unit and disposing of the vast area of land, sheds etc. under occupation of this unit to mitigate a part of the losses and generate internal resources for revitalisation of the Company, Chairman, Biecco Lawrie Ltd. stated as follows:

"We had made specific recommendations to the Government asking for the approval of our Secretary and the Minister in-charge to take such a step and denotifying the whole thing. But such a decision never came and it was left to the local management to face the music."

Explaining it further, he stated:

"The main reason which pre-empted any specific action on the part of the management was what to do with the surplus labour. There were very large number of employees in that unit and unless an alternative to redeployment or earlier retirement scheme was thought of, just a closure by declaration of a lock-out on account of the loss would have been a situation which we were not able to enforce in the state under the rules."

5.32 When pointed out that the unit was running into losses from the very beginning and the Company should have thought of rehabilitating the workers, the witness then stated:

"The thought was always there. It was manifested in the number of proposals we have put up to the Government. It was always there as to what to do with the surplus manpower."

5.33 During evidence of the representatives of the Ministry, the Committee enquired whether the Ministry ever thought of closing the motor unit in view of its incurring continuous losses. The Secretary, Petroleum and Natural Gas stated:

"We had successive reports which pointed to the non-viability of the motor unit. But whatever decision we took on the motor unit had a very large impact on the labour component. Also a piecemeal decision on the motor unit alone would not have been acceptable to the workers of the unit unless it was also coupled with an assurance that the switch gear unit would be modernised and continued. That is why, the current proposal provides for the closure of the motor unit. It also takes into account the land that is available to the company where the motor unit is now situated. Credit is being taken for the value that could be realised from the land on which the motor unit has been located.

D. *Electric Repairs Unit*

5.34 According to Audit, the rated capacity of the Electrical Repairs Shop has not been fixed. However, in the Feasibility Report for expansion, it was envisaged that the Electrical Repairs Shop would increase the annual capacity from the output value of Rs. 40 lakhs in 1976-77 to Rs. 115 lakhs in 1982-83 at the then prevailing price level. The actual value of the output in the various years from 1976-77 at the current prices during the respective years fell far short of the expectation as would be evident from the following data:

Year	Sale value of outt (Rs. in lakhs)
1976-77	40.84
1977-7 8	39.70
1978-79	44.29
1979-80	42.64
1980-81	46.16
1981-82	49.85
1982-83	46.97
1983-84	74.57
1984-85	54.83
1985-86	63.77

5.35 On the basis of the actual sale value of output *vis-a-vis* the expected sale value, the cost of idle capacity of the Electrical Repairs Shop works out by audit to Rs. 40.56 lakhs in 1982-83, Rs. 36.97 lakhs in 1983-84, Rs. 39.85 lakhs in 1984-85 and Rs. 39.26 lakhs in 1985-86.

5.36 In February, 1985, the Management attributed the abnormal low productivity in the shops to low productivity in the machine shop leading to low productivity in the switchgear works as a whole; go-slow techniques and lack of motivation on the part of the employees of the motor works. By and large, most of the factors mentioned above would seem to fall within the ambit of the management for control.

5.37 The Committee have also observed from the Audit Report that electrical repair shop expansion was completed on 31.3.81 at a cost of Rs. 63.63 lakhs. The investment decision envisaged that the Company will be able to capture repair of Railway traction motors. However, this expectation did not materialise due to:

(i) late investment decision;

(ii) delayed implementation; and

(iii) consequent higher price.

5.38 When the Committee enquired the reasons for delayed implementation of the expansion of electric repair shop, the Company stated in a written note as follows:—

> "Construction work which was entrusted to Bridge & Roof Co. Ltd., a sister concern then in the Group, was substantially delayed as plan sanctions through various agencies including the Municipal Corporation were obtained after great deal of effort, over-riding objections to factory expansion in the existing site in the midst of residential area in the heart of the city. Besides, procurement of steel at controlled rates in a scarce market also introduced an element of delay. It is difficult to pinpoint accountability on any one person or persons but it may be mentioned that the then General Manager who was subsequently made the Managing Director was at the helm of affairs during the period, but he left the organisation in February, 1984, when his tenure was not renewed."

5.39 As regards the delay in investment decision, Chairman, Biecco Lawrie Ltd. stated during evidence:

> "This was part of the 1976 proposals which were later revised in 1978 after a series of discussions."

5.40 The Committee pointed out that railways have developed additional facilities for repair of traction motors at Vijayawada, Baroda, Bulsar, Kanpur, Kanchrapara (Howrah) and Nasik. Asked whether the company consulted the railways before taking the investment decision, a representative of the Company stated as follows:—

> "We did have informal discussions and specially after the expansion was put through. I paid a visit to Varanasi to get the rate contract with the Railways for diesel traction repairs."

5.41 When asked specifically whether the Company approached the railways before the expansion or after the expansion, the witness stated:

> "It was after expansion."

5.42 The Committee further pointed out that the Company should have consulted the railways before making the investment in the electric repair shop. The representative of the Company stated:

"The discussions might have taken place at the higher level. The Chairman of the Company was in the Railways before and he might have spoken to them. But at our level we did not have any discussions before the expansion."

5.43 The Committee also pointed out that the railways were getting their repairs through private contractors and enquired whether the Company could not compete with the private contractors. A representative of the Company then stated:

"We did compete and had orders for traction coils and repairs. Some of these orders got stuck because we could not get the inspection done properly. The other factor was that the prices were very low and we could not cheat on quality."

5.44 The Committee then enquired that if the things were such, that why did the Company at all go in for expansion, the witness stated:

"When we went in for the project all these things were not known to us. We learnt the hard way. So we had to withdraw from the railway business."

5.45 The Committee also enquired whether the Company was aware that railways were developing their own workshops for repairs. The witness then replied:—

"When we went in for this project the Railways never thought of going in for such kind of expansions. It came much later. The Railways were expanding their Kancharapara workshop but at other places, these came much later when they did not get sufficient response."

5.46 Asked whether any responsibility has been fixed for wrong investment decision, Chairman, Biecoo Lawrie stated as follows:—

"The top Management post remained vacant for a long time. Developments were taking place at the level of Chairman who was an ex-railways man in consultation with the Government. He was an ex-railway man who had come to the Ministry and from the Ministry to the public sector. Then he became a part-time Chairman. At this stage, it is very difficult to point out responsibilty on any one or number of individuals. The survey was done prior to going ahead with the implementation. We had made attempts to obtain business for electrical winding work from the customers. I can say that at the relevant period, we had a General Manager, who was subsequently made the Managing Director of the Company and stayed on the position till February 1984 when his tenure was not renewed, I cannot answer your question."

5.47 During evidence of the representatives of the Ministry, the Committee pointed out that the repair expansion programme was part of Phase I programme which was approved by the Ministry in 1978. Asked whether the Ministry consulted the railways before sanctioning the project, Secretary, Petroleum and Natural Gas stated:

"There is nothing on record that the Company got any firm commitment from the Railways. The Railways did use these facilities for a short time and discontinued these facilities for repair and testing, after a while. However, the investments that were made were not intended solely for the railways and, in fact, have been used for other purposes even after the railways stopped using these facilities."

E. *Production of 'D' Fuse elements*

5.48 At the end of 1977-78, the Company had a closing stock of 55,595 units of 'D' Fuse elements which was almost equivalent to the sales of that year. Even then the Company went on producing 'D' Fuse elements resulting in accumulation of 2,35,256 units at the end of 1983-84. The total sales during 1978-79 to 1983-84. was only 1,68,379 units. The closing stock was, thus much more than the sales of six years. The Company sustained loss on production of this product in all the years from 1978-79 onwards. Ultimately the production was discontinued from November 1983. It was noticed that even incentive of Rs. 0.42 lakh was paid during 1981-82, 1982-83 and 1983-84 to encourage production of 'D' Fuse elements for which there was no market.

5.49 The Management informed the Audit in March 1986 that "by the end of March 1986, the earlier stock of 2,35,000 elements will have come down to around 75,000 Nos".

F. *Product Profitability and Contribution Analysis*

5.50 The following table brings out the loss suffered by the major products of the company during 1979-80 to 1985-86:—

(Rs. in lakhs)

Year	Switchgears	Motors	Elect. Repairs
1979-80	99.86	41.21	5.99
1980-81	58.06	81.74	21.68
1981-82	17.73	114.11	15.10
1982-83	74.08	52.49	35.93
1983-84	121.76	103.43	34.53
1984-85	161.76	115.75	39.44
1985-86	258.20	24.59	46.44

5.51 From the detailed analysis of the profitability analysis of each product, as given in Appendix I, the following features are discernible:

(a) During 1980-81 to 1982-83 the contribution from switchgears was adequate to meet all expenditure including depreciation but was inadequate to meet the interest charges.

(b) Best performance for switchgears in financial terms was in the year 1981-82 when the production was also maximum. Then began a declining trend and for the first time during 1983-84, the contribution was inadequate to meet depreciation and interest charges. During 1984-85 and 1985-86, it was inadequate to cover even other expenses. Upgradation of a large number of workmen also led to increase in the employees cost.

(c) In the case of motors although the level of production was, by and large, the same during 1979-80 and 1980-81, there was a sudden spurt in the employees cost during 1980-81 when the additional incidence was over Rs. 26 lakhs making the contribution inadequate to meet even the employees cost. This was due to increase in the strength of workmen as well as upgradation and increase in salaries. Similar situation existed in the subsequent years excepting 1982-83 when there was higher production. However, out of the production of 1982-83, 1983-84, 1984-85 and 1985-86 a part continued to remain as unsold stock and adjustment thereof would alter the results.

(d) In electrical repairs the contribution was adequate to meet all expenses including depreciation but not interest during 1979-80 and during 1981-82. In 1980-81., loss even before charging interest, was sustained. During 1982-83 to 1985-86 the contribution could not meet even the employees cost.

(e) Since all expenditure other than the consumption of materials is, by and large, fixed and profitability of the undertaking would depend upon the maximum utilisation of the capacity. The analysis clearly brings out that when the production and capacity utilisation were somewhat better, it was possible to meet all expenditure other than interest a part of which has been a burden on account of past losses.

5.52 The audit has also pointed out that with larger volume of production and better utilisation of capacity, it would have been possible for the Company to show better results in the switchgear shop.

5.53 When asked as to why no attempt was made by the Company to concentrate on larger production in the Switchgear Shop to reduce its overall loss, the Company replied in a written note as follows:—

"The Company did make consistent efforts to increase Switchgear production backed by production planning for higher levels of output, but the efforts were nullified time and again through periodic bouts of labour unrest resulting in 15 to 20 per cent shortfall from target set."

G. *Cost-Vis-a-vis Selling Price*

(i) *Switchgears*

5.54. The following table shows the average selling price *via-a-vis* cost price per switchgear, the main product of the Company:

Year	Average selling price per unit	Average cost (before charging interest per unit)
	(Rs.)	(Rs.)
1979-80	27,416	33,670
1980-81	35,790	36,595
1981-82	45,493	40,047
1982-83	45,585	45,220
1983-84	48,544	50,789
1984-85	48,000	53,690
1985-86	44,432	53,207
1986-87	42,456	62,186

5.55 It would be seen from the above that from 1983-84 onwards while the average selling price of switchgear per unit started decreasing, the cost per unit was increasing heavily. Asked about the reasons for increase in cost and decrease in selling price, Chairman Biecco Lawrie Ltd. stated during evidence as follows:—

"So far as increase in cost are concerned on an average it is at the rate of 10 per cent per annum-increase in salary and wages, increase in raw materials increase in power and fuel and various other elements....There was also lack of coordination between the marketing and production side leading to higher ultimate losses. The demands for the customers for bulk oil have been reduced as a result. Those companies who had equipped themselves with the new products were in a better position. There has been a shift in demand and vacuum circuit breakers and SF-6 have come into the market reducing the demand for bulk oil switchgears. We were in a very very difficult situation with the total market shrinking. The only question which may be asked is that why did we not withdraw completely from the field. There is a certain base load that we had now for the switchgear plant which can absorb certain amount of overheads and we consider labour as fixed overheads. If the raw materials and labour are there, we consider ourselves fortunate in anything—whatever business we can take. So, prices have been coming down because of these factors, in the wake of shrinking demand for these types of switchgears."

5.56 In the post evidence replies furnished to the Committee, the Company has further explained that:

"Cost of production per unit rose inexorably over the years for one single reason viz. that the volume of production failed to keep pace with the ever-increasing cost of inputs. Various factors contributing to this state of affairs may be further analysed as below:

(a) Poor industrial relations with go-slow conditions prevailing from time to time resulting in under-utilization of capacity through sub-optimal productivity.

(b) Gradual erosion in management structure with loss of competent and talented officers leaving the organisation and crucial managerial positions lying vacant.

(c) Demoralisation among the rank and file at all levels of officers and men, arising out of continued uncertainty about the future of the Company in an atmosphere of zero-growth stagnation.

(d) Continuous increase in employees' cost over which the Company had no control viz.

(i) general rise in consumer Price Index.

(ii) various statutory increases in contributory funds, bonus entitlements ESI benefits, gratuity provisions, insurance schemes etc.

(iii) revision in pay scales through industrywise settlements, other bipartite agreements under BPE norms etc.

(e) Relentless inflationary trends pushing up the cost of raw materials and other expenses.

(f) Shortages of raw materials and bought-out components owing to various reasons viz. inability to pay suppliers on time for paucity of funds, production constraints at suppliers premises on account of power shortage, scarcity of raw materials, etc."

5.57 As regards the declining selling price, the Company stated:

"Had it been possible to maintain the earlier trend in higher realisation of unit selling prices (from 1979/80 upto 1983/84 vide Para 7.9 of CAG's report), the deleterious effects of rising cost of production could have been offset to some extent. Unfortunately, average price realisation started on the decline from 1984|85 onwards owing to cut throat competition for the following reasons:

(a) State Electricity Boards and other sophisticated buyers opting in increasing quantities for the more advanced designs of circuit breakers viz. Vacuum and SF6, being offered by major competitors, despite much higher prices, resulting in diminution of bulk oil Switchgear demand.

(b) A large number of competitors continue to grab business in bulk oil gear available in lesser volume now, to cater to their existing capacities, even at the cost of lesser prices which could be amply set-off by much higher realisation in VCB/SF 6 business.

(c) The Company had no other alternative but to match competition to obtain business, as no price preference was being allowed by Government customers.

That the market has been shrinking is not a recent phenomenon which was predicted by us in 1976 and again confirmed in 1982 in our project report."

5.58 The Committee enquired whether all these problems would be solved if rehabilitation plan was approved. The witness then stated:—

"We certainly feel that we could do it. It will not be our intention to scrape this line overnight. We feel that this will continue to provide the mainstay for the next 2 to 3 years if not slightly more. We are trying to go into the fields of Vacuum and gas gear with a blend that we have planned. We have planned a decreasing volume of bulk oil and slightly increasing volume of vacuum and later on by a gas switch culminating in a peak in 1992-93 when bulk oil switch gear is more or less getting extinct. We will concentrate on vacuum."

5.59 Asked whether the Company would be able to compete in the market, he stated:—

"We have collaboration with United States of America and France also. Our studies have revealed that this gas and vacuum switch gear will be in demand at least for another 20 years. This is the assessment we have made. In any case over collaboration agreement provide certain clauses which say that any further development of these products will be passed on to us as a part of the agreement. Of course we would like to avoid it by establishing our own Research and Development Wing, which will interact with other companies to keep us informed."

5.60 It also came out during evidence that if the interest is to be taken into account the cost of production of bulk oil conventional switchgears will be 50 per cent higher. The Committee asked whether production of lastest types of Switchgears would be profitable, the Chairman, Biecco Lawrie Ltd. stated:

"Our assessment is that the celling price of vacuum switchgears is three times on an average of than our conventional one. So, there is scope for us if we can contain our costs and have a better utilisation of capacity to face the competition. This certainly is possible. Average unit prices are Rs. 1.17,000 which is very high."

About the cost, he stated:—

"In our feasibility report we have assessed the total cost ultimately going up to 80 per cent of selling price. We have even provided for further 10 per cent escalation. This is our prime need and we want a green signal from the Government to get on with the job."

5.61 Asked about the steps taken to make the switchgear unit viable, the company replied in a written note as follows:—

"The only way this situation could be adequately countered was for the Company to compete in tenders for Vacuum and SF 6 gear where the going prices were almost 3 times as much per unit with a handsome profit margin. Unfortunately, the Company would be able to do so only after its Switchgear diversification with foreign know-how was approved. This situation would not have arisen had the Company's proposals been approved in 1982, which would have made the Company pioneers today in this line of manufacture."

5.62 During evidence of the representatives of the Ministry the Committee pointed out that the selling price per unit of switchgear was decreasing whereas the cost per unit was increasing. Asked whether the Ministry ever analysed the reasons for it, Secretary Petroleum and Natural Gas stated as follows:—

"There were separate reasons for increase in the cost and also for reduction in the selling price. The reasons for increase in cost were in a way related to the volume of sales because the production went down, because the volume of sales was less and they were not able to use their capacity. They are employing more people. Second is, there is a continuous increase in wages and salaries because of the various wage negotiations. They engaged a large number of people with increased wages and salaries but getting less and less orders. Therefore, the cost went up. Then they had material shortages and there were industrial relations problem, go-slow etc. which also got reduced the production and with the result, they had to increase the selling cost. At the time of price realisation also, there was a stiff competition in the market. Sales realisation went down because of shrinking market, and they were not able to change their technology."

5.63 Asked about the remedial measures taken for taking corrective measures, he stated:—

"The remedial measures are to upgrade the technology, to give them a larger market of Switchgear by enabling them to upgrade the technology so that they can meet the increasing demand of vaccum switchgear. Second is to reduce the cost. The proposal is to shed some of the excess labour from the surplus manpower separation. The third is to reduce the financial burden and accumulated loans of interest which will reduce the financial burden on them. As a result of these measures we expect that they will be able to compete in a larger market. Then there will be reduction in the cost of production by reducing the surplus manpower."

(ii) *Motors*

5.64 The following table shows the cost vis-a-vis selling price per motor during the last 5 years:—

Year	Cost (before changing interest) (Rs.)	Selling Price (Rs.)
1982-83	16,404	14,949
1983-84	24,611	16,140
1984-85	22,481	15,735
1985-86	22,046	16,925
1986-87	32,137	19,878

5.65 As mentioned earlier in the report the main reason for high cost of production in the motor unit has been due to the fact that the capacity utilisation has been around one-fourth of the available capacity.

CHAPTER VI

MANPOWER ANALYSIS

6.1 The total Man-Power strength in the Company during the last 7 years was as follows:—

Year	Staff Strength
1979-80	1,427
1980-81	1,443
1981-82	1,427
1982-83	1,417
1983-84	1,439
1984-85	1,389
1985-86	1,397
1986-87	1,359

6.2 According to Audit, the Company has not made any scientific study of the manpower requirement so far. According to the assessment of the team of experts sent from Bharat Heavy Electricals Limited in January 1982 at the instance of the Secretary, Petroleum, the manpower strength of the Company should be reduced to about 1,000 or 1,100 (as against the existing strength of over 1,390). Salaries and wages of the manpower employed in excess of 1,100 persons worked out to Rs. 57 lakhs, approximately per annum. The Ministry informed the Audit in November, 1986 that "while implementing the rehabilitation scheme care will be taken to ensure that manpower retained is, as far as practicable, in conformity with the properly assessed staffing norms."

6.3 During evidence of the representatives of the Company, the Committee enquired as to why the Company did not have the scientific study made for its manpower requirements and how the Company proposed to utilise the surplus manpower. Chairman of Biecco Lawrie stated as follows:—

> "It is true, Sir, that we are suffering from the surplus manpower for the various reasons. We had to find out some way of substantially increasing our turn over. The one way of doing it was through the introduction of new pro-

ducts since the existing production lines were getting obsolete and shrink in market was stark. We felt that this could only be done by the proper study of manpower. Eventually we did ask the Balmer Lawrie that for rehabilitation of the company they should engage, as part of the investigating team, qualified engineers who should study the work load at each working station. They identified for us the stations which were imbalanced; the stations with the excess capacity and those with the less capacity. All this is given in the report. It is quite certain that if the equipment is obsolete the productivity is bound to be low when compared with the much better latest computer controlled quality based equipment which are available at a competitive prices. All these ideas we have incorporated in the scheme that we have submitted."

6.4 When asked about the proposals submitted to the Government regarding the surplus labour, he replied:—

"What we have envisaged is that, we have suggested to the Government through our Ministry two options—one is a harder option and the second is a softer option. We felt that the implementation of a harder option will bring us to a confrontation with the unions and perhaps with the State Government also. We have, therefore, suggested a softer option which takes care of the redeployment of the surplus manpower. We felt that we should not pick and choose the labour only in the motors division. We should identify the surpluses in the company as a whole—whether they are in the Switch-gear division or in the motors division."

6.5 When asked whether some labour working in motor unit could be transferred to Switchgear unit, the witness then stated:

"There are certain skills that after training and retraining it should be possible to transfer those who are receptive to such training to the other unit and offer an early retirement facility not only to the motors division, but even to the switch--gear division, so that some inter-divisional transfers would take place and there would be some balance of man-power."

6.6 When enquired about the reaction of the Company to the proposal of close down the motor unit and retrenchment of workers therefrom, the Chairman, Biecco Lawrie stated:

"The Company is situated in West Bengal, in the heart of industrial belt and we could not have recommended to the Government unless we have done some exercise. We have indeed talked to the local labour union leaders who are our own employees and we shared our concern with them. We have told them, if you want this Company to be shut down, it is a simple decision. But if you want this company to continue to exist and continue to provide employment opportunities to at least 2/3rd of you, then, some sacrifice will have to be made by some of you. Then, the question came at what cost. How golden is the golden hand shake? Depending upon how exactly we can make for these men to go along, it is my conviction that it should be possible to arrive at an amicable settlement and, as to the discussion with the top labour leaders, our Union President is Mr. Somnath Chatterjee, M.P. and in my own personal capacity, I have had discussions with him."

6.7 When the Committee enquired from the representatives of the Ministry as to why the scientific study of manpower requirements of the Company was not made, the Secretary Petroleum and Natural Gas stated in evidence that:

"Studies about the manpower requirements were made on two-three occasions. When the BHEL expert committee visited them in 1982, they recommended that the optimal level of employment should not exceed one thousand whereas the company had fifteen hundred people. In 1985 the Company offered a voluntary separation scheme but there was very poor response. More recently in the present rehabilitation scheme the assessment of manpower requirement has been made and that is how the surplus manpower is derived as 465."

6.8 When asked about the steps taken to solve the problem of surplus man-power in the Company, he stated:

"There are two objectives. One is to make the unit viable, if possible. The Plan objective is to create employment wherever it is possible in a viable manner. If the motor unit is given up and switchgear unit modernised and labour component reduced by 465 the study shows it would be possible to make the unit viable and give employment to thousand people. The new investment on rendering it viable is Rs. 4 crores and if an additional thousand people are to be retrenched then the total expenditure on retrenchment alone will work out to more than Rs. 14 crores."

6.9 The Committee further wanted to know as to whether the Company will be viable if the labour is reduced by 465. The witness replied:

"After rehabilitation with the retrenchment of surplus labour of 465 from 1991-92 onwards it will make a profit of Rs. 128 lakhs. In 1990-91 the loss will come down from the present Rs. 270 lakhs to Rs. 5 lakhs. By the year 1993-94 the projection shows a profit of Rs. 380 lakhs."

CHAPTER VII

WORKING RESULTS AND FUTURE OF THE COMPANY

A. *Working Results*

7.1 At the time of take over of the Company in 1972 it had a positive net worth showing a surplus of about Rs. 17.35 lakhs. However, the Company incurred losses continuously since then. The cumulative losses were Rs. 2567.02 lakhs at the end of March, 1987 against its paid up capital of Rs. 176.74 lakhs and Government loans of Rs. 1715.73 lakhs. The following Table shows the losses suffered by the Company during 1980-81 to 1986-87.

	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87
				(Rs. in lakhs)			
Loss before interest	54.33	12.34	19.15	75.52	78.30	117.07	215.35
Interest	100.83	137.57	142.49	179.96	227.70	303.26	365.54
Net loss	155.16	149.91	161.64	255.48	306.00	420.3	580.89

B. *Future of the Company*

7.2 Explaining the revamping operations and future prospects of the Company, the Ministry informed the Audit in November, 1986 that—

> "In January, 1982 an expert team of BHEL recommended certain measures for revamping operations of the Company at a cost of Rs. 2.06 crores. However, a preliminary scrutiny of it revealed that most of the suggested proposals would not be economically viable. As the activities of Biecco Lawrie Limited were totally unrelated to the activities of Ministry of Petroleum & Natural Gas (it had become an adjunct of this Ministry due to historical reasons, as a subsidiary of Balmer Lawrie) and as it had to depend heavily on BHEL for its rehabilitation, it was

suggested to the Department of Heavy Industry in 1979 to take over the Company and integrate its operations with BHEL. That Department did not accept the proposal. The matter was placed before the Secretaries Committee in December, 1983. The Committee recommended closure of the Company. Earlier, Ministry of Petroleum & Natural Gas had set up a Committee under the Chairmanship of CMD, Rural Electrification Corporation to advise on the limited, question of whether in the light of past performance and present technological trands, Biecco Lawrie Limited was worth preserving and, if so, how it should be done. The Committee in its report submitted in January, 1985 recommended that Biecco Lawrie Limited should be merged with BHEL or Andrew Yule & Company Ltd. It also recommended that Motor man facturing and Repair Units might be wound up. The Committee felt that the switchgear unit was viable. A Committee appointed by Government to go into the future of uneconomic public sector undertakings went into the operations of this Company also. In the context of its recommendations, a reorientation of the activities of Biecco Lawrie Limited is proposed. As part of this exercise, the rehabilitation of the switchgear unit through upgradation of technology and additional requisite investment based on a study being worked by consultants specially commissioned for the same, is presently under contemplation."

7.3 Explaining it further Secretary, Petroleum during evidence *inter alia* as follows:

"The activities of Biecco Lawrie were wholly unconnected with the activities of the Petroleum Ministry because of these historical reasons, when Biecco Lawrie came to be an independent Government Company, it was placed under the administrative charge of the Ministry of Petroleum. This is the only unit of this kind under the Ministry whose activities are wholly unconnected with the petroleum sector. For several years we have tried to point out this rather anomalous situation of the Petroleum Ministry being asked to handle the affairs of this company.

Our Ministry did not have the necessary expertise or technical assistance to deal with the problems and because of the reluctance of the concerned organisations to take it over, we have been having the continuous problem of dealing with the steadily deteriorating situation in this Company. Even so, efforts were made in the Ministry for several years from time to time to see if there could be a rehabilitation of this company under the aegis of this Ministry."

7.4 Emphasising the need for transfering the Company from Ministry of Petroleum to Ministry of Industry, Chairman, Biecco Lawrie Ltd. also stated as follows:

"It has been our misfortune that we have been in an industry which has very little in common with the mainstream of activities of our Ministry. Attempts made to put this company under the Industry Ministry concerned directly have failed. Had it been under the Ministry of Heavy Industries it would have received a better attention and treatment."

7.5 As the activities of Riecco Lawrie Ltd. were totally unrelated to the activities of Ministry of Petroleum and Natural Gas and it had to depend heavily on BHEL for its rehabilitation, it was suggested to the Ministry of Industry in 1979 to take over this Company and integrate its operations with BHEL. That did not accept the proposal. The Committee wanted to know the reasons advanced by the Ministry of Industry for not taking over this Company by merging its operations with BHEL or Andrew Yule Ltd. The Secretary, Petroleum and Natural Gas stated as follows:—

"After a number of meetings were held to persuade the Department of Heavy Industry to take over this unit, they said that they had given the matter a careful consideration. And they felt that Biecco Lawrie was not economically viable. It is likely to continue even if financial restructuring is attempted. They also said that the then existing product range was obsolete. Therefore, with that obsolete product range, they did not find it viable for them to take over. In other words, they were not prepared to take over a sick unit They only said that the unit is now sick. Therefore, even financial restructuring may not make it viable. These were the reasons given by them."

7.6 The Committee appointed under the Chairmanship of CMD, Rural Electrification recommended that motor and repairs units should be closed and switchgear unit was found to be viable. The Committee also recommended that it should be merged with BHEL, Burn Standard or Andrew Yule Company which were under the Ministry of Industry. The Committee appointed by the Government to go into future of uneconomic Public Sector Undertakings also recommended the closure of the Company and if it was not possible to close it down, it should be taken over by Department of Heavy Industry. In view of these recommendations the Committee wanted to know from the Ministry of Industry as to why it has not been possible for them to integrate the operations of Biecco Lawrie Ltd. with BHEL or Andrew Yule Co. Ltd. In a written note, the Ministry of Industry have advanced the following reasons for not taking over this Company:—

1. "It has been incurring losses since 1972-73 and the cumulative loss as on 31-3-1987 is Rs. 25.67 crores on a paid up capital of Rs. 1.77 crores. Several studies have been made with regard to the future of the Company. BHEL was requested by the Ministry of Petroleum to make a study on the working of Biecco Lawrie in 1982. BHEL gave several suggestions for improvement of the unit which included reduction in manpower, further investments in development of new products, etc. A scrutiny of these proposals by the Ministry of Petroleum showed that even after implementation of the recommendations regarding manpower reduction, further investments, etc., the company would not become economically viable and would continue to be a losing concern. Department of Petroleum did not, therefore, pursue the proposals.

2. Department of Petroleum made a proposal to transfer the unit to the Ministry of Industry. Department of Petroleum suggested that the Industry Ministry might consider either merging Biecco Lawrie with one of the existing units engaged in the production of electrical engineering equipment such as BHEL or Andrew Yule, or reviving it with technical help from those units.

3. The matter was examined in Ministry of Industry and it was not found desirable for BHEL to take over Biecco Lawrie because the viability of the unit is itself questionable. The Board of Directors of Biecco Lawrie had taken a view as early as February 1980 that it was not possible to run the Company profitably and that the operations should be discontinued. Department of Petroleum placed a proposal for closure before the Committee of Secretaries. The Committee of Secretaries, who consi-

dered the above proposal in December, 1983, came to the conclusion that was no option but to close the company.

4. When the viability of the unit is not there and the only alternative is to close down the unit, there can be no point in shifting the unit from one Ministry to another. On account of its association with IBP, a petroleum company and Balmer Lawrie, Biecco Lawrie has been continued with Ministry of Petroleum ever since it became a Government Co. in 1972. Ministry of Petroleum is aware of the background and the problems of the Company. Mere transfer of a unit from one wing of the Government to another without solving the basic problems of the unit would not be desirable. In fact, companies like Balmer Lawrie and IBP, which have substantial non-petroleum activities are also being continued in the Ministry of Petroleum and Natural Gas.

5. The question of future of Biecco Lawrie has been discussed at various forums in the Government including Committee of Secretaries and in a meeting of the Group of Ministries who felt that the closure of Biecco Lawrie is the only economic option. Ministry of Petroleum and Natural Gas are taking action for winding up of the uneconomic portions of the company and for revival and rehabilitation of a part of the company which is reported to be viable. The product range of Biecco Lawrie in respect of motors, switchgears, etc. are such that they are being manufactured by a number of private companies and it may not be feasible for a public sector company to be viable in this lime even after substantial investments are made.

6. For these reasons integration of the operations of Biecco Lawrie with BHEL or Andrew Yule is not possible or desirable. As already stated, transfer of the unit from the Ministry of Petroleum and Natural Gas to the Ministry of Industry without solving the recognised basic problems of the unit would not be desirable."

7.7 During evidence of the representatives of the Ministry of Petroleum the Committee wanted to know the options other than taking over by the Ministry of Industry. The Secretary, Petroleum and Natural Gas then stated:

"We have no options but to continue to manage it on our own. When it becomes viable, others may show interest."

7.8 The Committee further pointed out that when the attempt of Ministry of Petroleum failed in 1979 to transfer the control of the Company to Ministry of Industry the matter was placed before the Secretaries Committee in December, 1983 and enquired as to why did the Ministry take four years in placing the matter before the Secretaries Committee. The Secretary, Petroleum and Natural Gas stated as follows:

> "The initial rejection came in 1979. A number of attempts were made subsequent to that and meetings were held trying to persuade Heavy Industry on 23rd January, 1979, 18th December, 1979, 3rd December, 1980. In addition, the Director General of BPE was invited to inspect the factory which he did in June, 1981. The proposal was taken to the Chairman, PSEB on 1st February, 1982 for appointment of Chairman of BHEL as part-time Chairman of Biecco Lawrie. But none of these efforts yielded results. The efforts continued to be made. When no results were achieved even till 1983, that is, when the company said: Close the unit, the Ministry was also inclined to support that view in the absence of any support either for rehabilitation or for taking over by any other organisation."

7.9 As stated by the Ministry earlier, a Committee under the Chairmanship of CMD, Rural Electrification Corporation to advise on the limited question of whether (Biecco Lawrie Ltd.) the Company was worth preserving and if so, how it should be done. The Committee in its report, report submitted in January 1985, recommended that Biecco Lawrie Ltd. should be merged with BHEL or Andrew Yule and Company Ltd. It also recommended that Motor manufacturing and Repair Units might be wound up. According to this Committee the Switchgear unit was viable. The Committee enquired about the action taken by the Government on the recommendations of this Committee. The Secretary, Petroleum and Natural Gas replied as follows:

> "These recommendations were considered further and it was taken to higher levels in the Government and that was in 1985 when we had the report of Sen Gupta Committee on all sick industries. The entire Government policy on sick industries was reviewed and because of the review of the policy on sick industries, action on this unit was dependent on the decisions arising out of the policy considerations."

He further stated:—

"The recommendations of this Committee was considered at higher level and the rehabilitation plan which is now worked out by us is in pursuance of these directives and suggestions made at higher levels."

7.10 The Committee further enquired as to why the Ministry have not been able to take a final decision in regard to future of the Company. The Secretary, Petroleum stated as follows:—

"The Ministry had at all given times two options, *viz.* either to revive or close it down. In 1978 we attempted a revival, Rs. 175 lakhs were spent on revival. And a partial revival was made to prevent a further slide-down for a short period; but that was inadequate revival. So, again the option came to us whether we wanted a complete revival, or a closure. When it came to a complete revival, it was clear from several reports that we could not revive the motor unit. Only the switchgear unit could be revived. So, there was the problem of surplus labour from the motor unit. The option was to revive the switchgear unit, and retrench 400-odd workers, or close it down completely. This option was also considered, and a proposal was taken up in 1984 for the complete closure of the unit. There was a rethinking on the subject at that time, and the question was whether the entire 1400 workers should really be thrown out of employment, or whether we could project the employment of about 1000 workers and retrench only 400. A Committee was set up in 1984 to study this. They also said that only the switchgear unit could be revived. We could not proceed further on it because Government's general policy on sick units was being reviewed during the whole of 1985. Moreover, the closure decision was not to be taken only by the Ministry, but by the whole Government. We were seeking that decision. Our preference has always been not to take the easy way-out of closure of the unit, but to protect the employees, by partial closure. We told the management that we did not yet have a viable proposal for partial closure. M/s. Kirloskar Consultant did the market review for the technology of the switchgears. Its report came in 1987."

Regarding the latest position, he stated:—

"Government's policy on retrenchment is made in consultation with several organisations including the Ministry of Labour and BPE. We did not have such a policy on retrenchment, *viz.* whether three months or one month per year of service were to be allowed. We had to fit in with the Government's overall policy. Since we got the 1987 report, we have been trying to make our final proposal *i.e.* going in for retrenching only 400 and odd people by separation and by writing off of the accumulated loan and interest on it to the extent of Rs. 30 crores and by undertaking an additional capital investment of Rs. 4 crores. The result shows that with these steps, the unit can be made more viable. We are pursuing this for the last four months. This also is the Government's porposal. There are four agencies—Ministries of Finance and Labour, BPE and then going in for a final Government decision. We hope that the decision will come soon, but we do not know what that decision will be."

7.11 It also came out during the evidence of the representatives of the Company that whatever proposals were submitted by the Company there were delayed response from the Government side which adversely affected the working of the Company. Asked about the reaction of the Ministry in this regard, Secretary, Petroleum and Natural Gas stated as follows:

"Sir, it is a fact that what the company wanted in 1983 was the closure of the entire unit. But no final decision was taken to close the unit. The Expert Committee was appointed in 1984 and it gave the report in 1985. After that we have Sen Gupta Committee Report. Then we asked the Company once again not to think of closure but to work out a rehabilitation plan for the revival of the unit. Then the Management had to appoint the consultants and they had to carry out a market survey. Management had to negotiate with the foreign collaborators for transfer of technology. So, the management itself took some time in preparing these proposals. After these rehabilitation proposals came to us, we had to process them through a number of governmental agencies. In fact around August—September of this year, Government was still in the process of working out a formula for retrenchment compensation. That question was under consideration for over two months and till that retrenchment formula policy was approved, we had no base to fit in our retrenchment formula. When that decision became clear some time in September, we had to recast our proposals in line with the suggestions that had been made by the Ministry of Labour, Bureau of Public Enterprises. After having recasted it on those lines it is now circulated to all other ministries including the Finance for their concurrence. So, these processes in Government take time and the company naturally does not follow the internal process of Government. When they send proposals to the Ministry they expect that the Ministry will take a view on its own, on behalf of the Government. The Ministry by itself cannot take a view in a complicated matter like this without referring it to other agencies in Government. That is the reason for the delayed response to the company's proposals."

C. *Review by the Ministry*

7.12 As per guidelines issued by Bureau of Public Enterprises in 1969, 1975 and 1980, the Ministry should hold performance review meetings in respect of all undertakings under their administrative control every quarter associating the representatives of BPE and the Planning Commission.

When the Committee enquired as to how many such quarterly reviews were held in respect of Biecco Lawrie Ltd. during the years 1982-83 to 1986-87, the Secretary, Petroleum and Natural Gas stated in evidence:—

> "We had held meetings on 9 occasions. They invariably attend our meetings. BPE and the Planning Commission were regular invitees during his period."

7.13 As regards the role assigned to Government nominees on the Board of the Company, the witness informed the Committee that—

> "The Government directors on the Board attend the Board meetings and wherever possible they make their own constructive suggestions for improvement in the performance of the Company. They also report back to the Ministry about the progress or lack of progress in the Company in terms of financial results. They are also aware of the various rehabilitation measures under consideration in the Ministry which they convey to the Board of Directors when they attend the Board meetings. They do participate in the discussions and make their own suggestions."

7.14 When asked the action taken by Ministry on the suggestions given by the Government directors particularly in view of the fact that position of the Company has been deteriorating year after the year, the witness stated as follows:—

"The Board of Directors have, in fact, been asked to undertake market survey and the feasibility study. The Chairman of the Company and the Directors regularly meet the Secretary and senior officers in the Ministry. We have had a series of 8-9 meetings in the last few years, apart from other numerous meetings that are held, specifically to discuss the rehabilitation scheme. So, we are in constant touch with the top management of the company and with the Board. But the main point here is, they are looking for some clear-cut decision of the Government. Until that decision comes, they have to manage as best as they can in a difficult situation, a situation where they are incurring losses. Even in this situation, Government Directors give them suggestions on how to get more orders, about productivity, on how to reduce costs under the existing constraints."

7.15 Enquired whether as a result of review by the Ministry has any responsibility been fixed for the dismal performance of the Company, the witness stated:—

"Review of the performance of the undertaking showed that it was not just management that was responsible for the present state of financial bankruptcy, if I may say so, of this undertaking. It was due to various factors which were not entirely within the control of the management. We were trying to rectify those factors. We were also trying to get the management to do the best that was possible under the circumstances. Given all the problems and handicaps of the undertaking, the management was encouraged to do the best under the circumstances. But the best was not adequate to keep them away from cash losses for various other reasons."

In reply to a specific question put again by the Committee for fixing responsibility for bringing the Company to the point of financial bankruptcy, the Secretary, Petroleum and Natural Gas admitted that no responsibility has been fixed in this regard.

D. Capital Structure

7.16 At the time of take-over in July 1972, the authorised capital of the Company was Rs. 50 lakhs and the paid up capital Rs. 32.50

lakhs. As on 31st March 1987, the authorised capital and paid up capital of the Company were Rs. 250.00 lakhs and Rs. 176.74 respectively. In addition to share capital, Government of India sanctioned non-plan loan every year since 1976-77 aggregating Rs. 1676.13 lakhs mainly for meeting the cash losses. In addition, a plan loan of Rs. 39.60 lakhs was granted during 1976-77, taking the total Government of India loan to the Company to Rs. 1715.73 lakhs (including conversion of interest of Rs. 521.03 lakhs into loan) upto 1986-87.

7.17 In spite of the fresh equity capital input by the Government of India, the debt equity ratio continued to be adverse mainly because of persistent losses sustained by the Company, for which the Government of India had to extent non-plan assistance. The total interest on the loans upto 31st March 1987 was Rs. 1452.10 lakhs, out of which interest accrued and due but not paid was Rs. 875.54 lakhs. The Company also became liable to pay penal interest of Rs. 434.65 lakhs upto 31st March 1987 on account of its failure to repay the instalments of the principal and to pay the interest in time.

7.18 The debt equity ratio of the Company during the last 4 years was as follows:—

Year	Debt equity ratio
1983-84	6.40 : 1
1984-85	7.81 : 1
1985-86	8.61 : 1
1986-87	9.71 : 1

7.19 In order to set right the adverse debt equity ratio the Company submitted a composite proposal to the Government of India in July 1982 for fresh capital investment on diversification and also for restructuring of its capital to bring the debt equity ratio to 2 : 1.

7.20 During the course of evidence of the representatives of the Company, the Committee enquired whether the Government had taken any decision on the proposals of the Company submitted in July 1982, Chairman of the Company stated:

> "No. Sir. The earlier proposal of July 1982 which involved some transfer of loan capital to equity ratio could be achieved, did not find favour with the Government."

7.21 **Asked** whether the matter was pursued with the Ministry, the witness stated as follows:

"Yes, Sir. I have discussed it in the Ministry. The only remission we got was from having to pay interest on the loans which had already accrued because payment of that interest would have involved Government giving further non-plan assistance to enable us to pay back the loan to the Government. So, that is the only concession, the Government has given. That is the reason that Rs. 2½ crores loan has accumulated."

7.22 During evidence of the representatives of the Ministry, the Committee wanted to know the latest position in regard to capital restructuring of the company, Secretary, petroleum and Natural Gas stated as follows:—

"Over the years Government have been giving loans. The company has not been able to repay the loans. The company has not been able to pay the interest on the loans. The accumulated loans are over Rs. 17 crores today and the accumulated interest is over Rs. 13 crores. Therefore, with the total liability of Rs. 30 crores and odd this company has no future unless an overall restructuring of the capital of this company is done and accumulated arrears of loans and interest on loans are also dealt with and some additional injection of capital is made for modernisation. We have proposals for injecting only about Rs. 4 crores and odd for modernising in the switch gear unit and by evolving a mutual satisfactory scheme of separation of manpower which could be offered to the surplus employees which would also call for substantial funds of the order of Rs. 5 crores or more, we believe that the switch gear unit can be put back as a viable unit with modern technology. The Company was asked to get the feasibility report done last year which they get done from Kirloskar Consultants and the report also shows that with this injection of capital and re-structuring of the arrears this company can pay back to the new investment in a very short period and begin to earn surplus.

These proposals are at an advanced stage before they are being taken for a final decision of the Government. We expect very soon Government will be in a position to take a final decision one way of the other."

PART-II

CONCLUSIONS/RECOMMENDATIONS OF THE COMMITTEE

1. The Committee have observed that Biecco Lawrie Limited came under the administrative control of Government in July, 1972 consequent on nationalisation of its holding Company, the Balmer Lawrie and Company Limited. In 1979-80, the Government holdings in the Company exceeded 51 per cent of its capital and as such Biecco Lawrie ceased to be a subsidiary of Balmer Lawrie and became an independent public sector undertaking. But ever since it was taken over by the Government, Biecco Lawrie has been incurring losses. Its cumulative loss stood at Rs. 2567.02 lakhs at the end of March, 1987 against its paid up capital of Rs. 176.74 lakhs.

The Committee's examination of its working has revealed several disquieting features. The Committee's findings and their recommendations are set out in the succeeding paragraphs.

2. In spite of BPE's instructions issued as back as November, 1970 asking all the public undertakings to make a comprehensive statement on the objectives and obligations (financial and economic) and have it approved from their administrative Ministries, such objectives and obligations of Biecco Lawrie Ltd. have not been specified so far.

Again in 1979 and 1983 in pursuance of Committee on Public Undertakings recommendations contained in their 38th Report (Sixth Lok Sabha), BPE issued further instructions to all Ministries to advise their public undertaking to formulate micro objective consistent with broad objectives spelt out in Industrial Policy Statement of December, 1977. In pursuance of this directive the Company is reported to have formulated certain micro objectives and sent them for approval to the Ministry in November, 1983. The Committee are distressed to observe that the micro objectives submitted by the Company in November, 1983 have not yet been approved by the Ministry so far. Although it looks incredible yet it is true that the Company has been functioning for the last more than 15 years without any specific goal set for itself.

3. The main reason advanced by the Ministry for not approving the micro objectives is the continuing uncertainty about the future of the Company. While the Committee do agree that in a situation where the survival of the Company was at stake the macro or micro objectives could not be formulated on a realistic basis. However, the Committee do not approve the delay on the part of the Government in not deciding about the future of the Company. The Committee strongly recommend that decision about the future of the Company should be taken by the Government without any further delay. In case the Government decides to rehabilitate and run this sick unit then the micro and macro objectives should be got framed and approved by the Ministry so that the areas of operation are clearly known and the Company is able to draw up its programmes and take action to execute them in a time-bound schedule.

4. Although it was expected from the Ministry to provide an efficient management to run this sick unit under its administrative control but the Committee are pained to observe that the Ministry have totally failed to properly guide the affairs of the Company. As a result, there were not only frequent changes in the top management but the top management posts remained vacant for a long periods causing demoralisation amongst the functionaries and delay in decision making. The full time Managing Director had been functioning since 19th February, 1981 and prior to that there was no post of Managing Director and the General Manager was the functional head. On expiry of the tenure of the Managing Director on 18th February, 1984, it was not renewed. The General Manager (Operations) was acting as the functional head from 9th March, 1984 and reporting to the part-time Chairman who also retired on 13th May, 1985. The post of the part-time Chairman also remained vacant till 26th February 1986 when the present part-time Chairman was appointed. This instability in top management was also admitted by the Chairman of Biecco Lawrie during his evidence before the Committee when he stated "......I agree this is the most important area of weakness of the Company. Instability in top management necessarily meant delay in decision making; and down the cadre it has led to demoralisation."

5. Besides vacancies in the top management posts, there has been flight of managerial talent of the Company in all fields causing number of vacancies in the managerial cadre. A situation has been created where the serving officers do not want to remain in the Company and outside talent is not enthused to join a sinking ship. All this has adversely affected the working of the Company. The

Committee, therefore, desire that the work culture should be improved, continuity in top management ensured and all the vacant senior positions filled up without delay.

6. The Committee find that at present the Company is headed by the part-time Chairman and there are no full-time Executive Directors. Further, the present part-time Chairman is also full-time Chairman and Managing Director of Indo-Burma Petroleum Company and a part-time Chairman of Balmer Lawrie & Co. Ltd. The Committee recommend that the Government should appoint an efficient and dynamic executive as a full time Managing Director or Chairman-cum-Managing Director who could devote full-time and attention to the affairs of the company. Government may also consider the feasibility of appointing 2 full-time Executive Directors, one for finance and the other for production and research.

7. In August, 1976 the Company is reported to have prepared a feasibility report embodying various proposals for phase I of modernisation programme. The proposals envisaged a total financial support of Rs. 231.40 lakhs by Government of India through equity participation during 1976-77 to 1979-80. However, due to delay in clearance the Company revised the proposals in November, 1978 whereby the estimated cost was also revised to Rs. 265.20 lakhs. Out of 7 items included in revised plan, Government sanctioned on 25 November, 1978 only 5 items at a cost of Rs. 135.50 lakhs. The revised plan besides providing for modernisation and diversification schemes also included setting up a new plant for manufacture of Low Oil Circuit Breakers (LOCB) while continuing with conventional product line of Switchgear with Bulk Oil Circuit Breakers. It also provided for rationalisation of motor shop. While sanctioning this scheme in November, 1978, the Government shelved LOCB project although by that time the market preference was in favour of LOCB switchgears. Further, as against the approved cost estimates of Rs. 135.50 lakhs the Company is reported to have invested Rs. 177.92 lakhs on Phase I of modernisation programme, comprising expansion of the electric repair shop, renovation of the bulk oil switchgear shop, rationalisation of product range and renovation of works at the motor shop and Current Transformer and Power Transformer (CTPT) project. The renovation of the switchgear shop did not have any effect on augmenting the capacity, while rationalisation of the product range of the motor shop did not have much of a success. On the other hand, the benefit expected from the expansion of the electric repair shop also did not materialise as the sale value more or less remained at the same level as was the case before expansion. None of the expectations from the investment has thus fructified.

8. Again in July, 1982 the Company tried in vain to upgrade its technology while submitting Phase-II of modernisation scheme involving a total investment of Rs. 266 lakhs mainly for setting up facility for VCB type switchgears. Even though the proposals were based on recommendations of a BHEL study team, these were not approved by the Government, as these were not found economically viable. Emphasising the importance of having vacuum switchgears in 1982, the Chairman, Biecco Lawrie Ltd. admitted during his evidence that "had we gone into vaccum switchgear in 1982 five years earlier, we would have been the pioneers today." The Committee do not see any justification on the part of Government for not approving the Phase-II modernisation programme when the demand of switchgears was fast changing in favour of vacuum switchgears. The Committee are of the view that had the Ministry been sensitive to the market demand of switchgears and approved Phase-II of modernisation scheme, the financial position of the Company would not have deteriorated to the level of bankruptcy as it is today.

9. The Committee find that in order to revive sick Biecco Lawrie the management submitted to Government a Rehabilitation Plan in May, 1987. The Plan provides for a fresh Government equity of Rs. 4.03 crores while writing off all the past loans. Total financial implications of rehabilitation plan were estimated to be Rs. 42.65 crores. The plan provides for diversification of switchgear covering VCB and SF 6 which have a great demand in the market. This Rehabilitation plan, which awaits approval of the Government envisages that the Company would reach the break even point by 1990-91 and would start earning profits thereafter. However, motor manufacturing and electric repair units have not been included within the ambit of Rehabilitation Plan.

10. In order to have first hand knowledge about the working of the Company, the Committee also visited the production units of the Company at Calcutta in June, 1987. After the evidence of the representatives of the Company and the Ministry, the Committee have come to the conclusion that since the Company has good infrastructure facilities to manufacture switchgears, it has undoubtedly the potentialities for revival. The Committee, therefore, recommend that the Government should finalise the rehabilitation plan without further loss of time. The implementation of the plan and the results achieved should also be monitored regularly by the Ministry.

11. Production performance of the Company also presents a dismal picture. The main activities of the Company comprise manufacture of switchgears, electric motors and repairs. In fact, the switchgears is the main stay of the Company followed by electric motors whose value of production is fluctuating from year to year. On the basis of capacity of assembly and sub-assembly shops the installed capacity in terms of panels of switchgears should be between 1958 and 2054 panels per annum. According to Audit, assuming 80 per cent availability and efficiency, the achievable capacity of switchgears should be around 1600 panels per annum even though the installed capacity has been fixed at 1375 panels per annum. In this connection, the study conducted by Engineers of Balmer Lawrie in 1986 also revealed that the capacity switchgear should be around 1400 panels per annum. However, according to Management, even if they get full cooperation from the workmen etc. the maximum achievable capacity would at best be 1260 nos. in a year. The Management has also informed that the Company has never crossed 1000 nos. in any year and the percentage of capacity utilisation ranged between 50 to 66 per cent during 1977-78 to 1985-86.

12. The Committee are distressed to note that the production targets were always fixed far below the installed capacity and the targets fixed were further lowered substantially and even these revised targets could not be achieved by the Company. Besides the low capacity utilisation of the main units, the productivity index of machine shop, fabrication shop, assembly and sub-assembly shops was utterly low. It ranged between 36 per cent and 42 per cent during the year from 1981-82 to 1985-86.

13. The Committee are unhappy to note that the capacity utilisation of motor unit ranged between 6.29 per cent and 33.47 per cent during 1977-78 to 1985-86 and it was generally about one-fourth of the installed capacity. On the basis of present capacity utilisation of Motor Works, the cost of idle capacity of motor works came to Rs. 85.41 lakhs in 1982-83, Rs. 89.14 lakhs in 1983-84, Rs. 104.79 lakhs in 1984-85 and Rs. 124.41 lakhs in 1985-86.

14. The demand for motors produced by the Company is also reported to be declining gradually and the Company's share in the country's production was negligible and it came down from 0.157 per cent in 1973-74 to 0.103 per cent in 1984-85. The Committee have noticed that from 1982-83 onwards, the selling price of motors manufactured by the Company has been far below their cost of production. In 1986-87, the production cost of Motors was Rs. 32,137 per

motor (excluding interest portion) whereas the selling price was only Rs. 19,878. If interest charges are added, the cost will be 50 per cent higher. Thus, the selling price did not cover even the direct expenses i.e. material and labour cost in some of the years. The motors produced by the Company could not be sold out and company was having a good number of unsold motors in its stock.

15. Keeping in view the operations of the motor unit as also the opinion expressed by the various committees appointed by Government from time to time, the Committee have come to an unescapable conclusion that it is not possible to revive the motor plant. It is totally a junk and should be wound up. The Committee are also of the view that the vast area of land, sheds etc. presently occupied by motor unit should be disposed of after closing the motor unit. It will go a long way in mitigating part of the company losses and will also help in generating internal resources to revitablise the Company. This view has also been shared by the Secretary, Ministry of Petroleum & Natural Gas during his evidence.

16. Apart from the switchgear and motor units, the performance of the Electric repair shop is also far from satisfactory. According to audit, the rated capacity of electric repair shop has not been fixed at all. However, in the feasibility report for expansion, it was envisaged that the electric repair shop would increase the annual capacity from the output value of Rs. 40 lakhs in 1976-77 to Rs. 115 lakhs in 1982-83 at the then prevailing price level. However, the actual value of the output of this unit fell short of the expectations and was only Rs. 63.77 lakhs in 1985-86. However, on the basis of the actual sale value of output vis-a-vis the expected sale value the cost of idle capacity of electric repair shop worked out to Rs. 40.50 lakhs in 1982-83, Rs. 36.97 lakhs in 1983-84 and Rs. 39.85 lakhs in 1984-85 and Rs. 39.26 lakhs in 1985-86. The dismal production performance of the electric repair shop was attributed by management in 1985 to low productivity in machine shop leading to low productivity in switchgear works as a whole, go slow tactics and lack of motivation on the part of the employees of the motor unit. In Committee's view all the factors responsible for the low productivity fell within the ambit of the management.

17. The Committee's examination of the company has also revealed that expansion of the electric repair shop was completed in March, 1981 at a cost of Rs. 63.60 lakhs. The investment decision then envisaged that the Company would be able to capture repair

of railway traction motors. However, this expectation did not materialise due to late investment decision; delayed implementation and consequent higher prices. It appears that before taking investment decision neither the Ministry nor the Company approached the railways for getting firm commitments of orders for repairs of railway traction. On the other hand, the railways utilised the services of the Company only for 2 years and thereafter did not give any orders as the company could not compete with private parties. The railways also developed repair facilities at its own workshops. Thus the company spent about Rs. 64 lakhs for the expansion of railway repair unit for which there was no return. This in Committee's view is a clear case of bad planning and lack of foresight. As a result, the Company suffered mounting losses which increased from Rs. 5.99 lakhs in 1979-80 to Rs. 46.46 lakhs in 1985-86. The unit could not recover even its employees cost during the year 1982-83 to 1985-86. The Committee do not see any future for this unit. They, therefore, recommend that as proposed in the Rehabilitation Plan submitted to Government by the Company, the electric repair unit should also be closed.

18. As regards manufacture of switchgears, the Committee have noticed that even though the Company had enough orders in hand during 1979-80 to 1982-83 the Company did not produce even 1000 panels at any time. In fact the Company could not manufacture switchgears acording to its installed capacity. The Committee are also dismayed to find that the Company booked orders for switchgears on fixed price basis, far in excess of the capacity, while the targets for annual production were far below the declared capacity. The agreement with the customers, mainly the State Electricity Boards, did not provide cost escalation clause. The result was that jobs were delayed and cost went up for which no compensation in the form of escalation could be claimed. The loss on account of selling at fixed prices amounted to Rs. 202.92 lakhs. In a number of cases, the delay in execution of orders resulted not only in cost escalation but also attracted liquidated damages. The Committee feel that in view of the Company's financial position, the Company should not have ventured for unmatched orders. The Committee also feel that while accepting the large orders the Company should have got agreed from buyers a reasonable time frame for execution of orders. Further, as cost escalation provision is allowed in almost all the trading activities, the Company should have incorporated this proviso in their sale agreements. The Committee desire that this aspect should be kept in view while negotiating future agreements.

19. Admittedly, there has been lack of coordination between marketing and production divisions of the company. The marketing division booked more orders than the production capacity of the Company. The inability of the Company to keep up the delivery schedule resulted in declining order book position from the end of 1982-83. There were orders of 2153 panels at the beginning of 1980-81. As against this the orders at beginning of 1985-86 were only 456 panels. The Committee, therefore, desire that the Company should ensure perfect coordination between its marketing and production divisions. The Committee hope that as assured by the representative of the Company, with the latest production of SF6 and VCB switchgears in near future for which there is a good demand in the market, the Company should be able to compete in the switchgear market in the country. The Committee would, however, like to stress the need for an aggressive marketing strategy and for this purpose the marketing department should be qualitatively strengthened.

20. The Committee note that the manpower strength in the company at the end of March, 1987 was 1359. The Company has not made any scientific study of the manpower requirements so far. According to the assessment of the team of experts sent from BHEL in January 1982, at the instance of Secretary, Petroleum, the manpower strength of the Company should have been reduced to about 1000 or 1100, as against the then existing strength of 1390. Salaries and wages of the manpower employed in excess of 1100 persons worked out to Rs. 57 lakhs approximately per annum. A recent study undertaken in connection with rehabilitation plan of company also showed that in case motor and electric repair units are closed down and switchgear unit made viable, 465 persons would become surplus. The Committee recommend that as far as possible the persons working in motor and electric units should be adequately trained so that they can be absorbed in diversified switchgear unit. As for those employees who can not be absorbed in the switchgear unit, the company should offer them attractive terminal benefits so that they themselves opt for voluntary retirement.

21. Apart from surplus manpower, the productivity of the labour is also reported to have gone down because of go slow and non-cooperation tactics. Inspite of the fact that there has been surplus manpower in the company, payments of incentives and overtime were made even though there was no urgency of work. Incentives were paid even for production of motors when there was no demand

and good number of motors was lying unsold in stock. Similarly, even though there was huge stock of 'D' Fuse elements equivalent to 6 years sales, incentives were paid to workers to produce this product. Such a situation has arisen mainly on account of poor manpower management in the Company. The Committee regret to point out that this vital aspect of manpower management has not received the attention of the Company as well as the Ministry. They hope that immediate steps should be taken to make full use of the existing strength. They would also urge that effective steps should be taken to increase the productivity of labour and to reduce unjustified overtime and incentive payments.

22. The Committee are distressed to note that the Company has been incurring heavy losses since its nationalisation. In 1972, the Company had a positive net worth showing a surplus of about Rs. 17.36 lakhs. But its accumulated losses at the end of March 1987 had reached a staggering figure of Rs. 2567.02 lakhs against the paid up capital of Rs. 176.74 lakhs and Government lo[illegible] of Rs. 1715.73 lakhs. The annual loss has also gone up from R[illegible] lakhs in 1980-81 to Rs. 580.89 lakhs in 1986-87. Poor productivi surplus manpower, low out turn of labour, erosion in manageria structure, old and obsolete product range are stated to be the main factors responsible for this state of affairs. The loans taken to meet the deficit on account of heavy losses have made the debt equity ratio of the Company unsound. It was 9.71:1 as against the normal ratio of 1:1 according to the Bureau of Public Enterprises guidelines. The resultant heavy interest charges on the loans have pushed the Company into the red more and more. The total interest liability on the loans upto end of March 1987 was Rs. 1452.10 lakhs. The Committee feel that whereas the Company had been facing serious financial constraint ever since its nationalisation, the Government did not take timely corrective measures for improving the financial health of the Company. The capital restructuring proposal submitted by the Company in July 1982 did not find favour with the Government. A rehabilitation plan which includes capital restructuring submitted by the Company in September 1987 is still awaiting approval of Government. The Committee hope that the Ministry would soon take a final decision on the Rehabilitation plan.

23. As per BPE guidelines issued in 1969, 1975 and 1980, the Ministries should hold performance review meetings in respect of Undertakings under their administrative control every quarter associating representatives of Bureau of Public Enterprises and Planning Commission. The Committee have however found that the

Ministry of Petroleum & Natural Gas held only 9 meetings during 5 years from 1982-83 to 1986-87. This clearly shows that the Ministry did not evince keen interest in the working of the Biecco Lawrie Limited. While expressing their displeasure, the Committee hope that at least from now onwards the administrative Ministry would activate this mechanism and provide timely guidance to the Company to get over the constraints faced by it.

24. The Secretary, Petroleum and Natural Gas informed the Committee during his evidence that the Biecco Lawrie Ltd. came under their Ministry alongwith Balmer Lawrie due to historical reasons and the activities of the Biecco Lawrie were totally unconnected with Petroleum Ministry. He frankly admitted that his Ministry did not have the necessary expertise to deal with the problems of the Company. Chairman, Bieco Lawrie Ltd. also pleaded before the Committee that "had it been under the Ministry of Heavy Industries it would have received a better attention and treatment". As the Company had to depend heavily on BHEL for its rehabilitation it was suggested to Ministry of Industry as early as in 1979 to take over this company and integrate its operations with BHEL. However, the Ministry of Industry did not accept the proposal mainly on account of uneconomic operations and uncertainty about its future. In December, 1983, the matter was also considered by the Secretaries Committee which recommended closure of the Company. Again, another Committee under the Chairmanship of CMD, Rural Electrification Corporation which submitted its report in January, 1985 also recommended that the Biecco Lawrie should be merged with BHEL or Andrew Yule Co. Ltd. It also recommended that motor manufacturing and electric repair units might be wound up. Similarly, a Committee appointed by Government to go into future of uneconomic public sector undertakings recommended that the Company should be taken over by Ministry of Industry. The Committee are distressed to note that inspite of the specific recommendations made by the various Committees appointed by Government from time to time the Government did not decide to bring this Company under the administrative control of the Ministry of Industry. The Committee fail to understand as to why this Company has been allowed to remain under the control of the Ministry of Petroleum and Natural Gas with whom its activities are totally unconnected. The Committee are not convinced with the plea taken by the Ministry of Industry for not taking over the Company. The Committee deprecate such compartmentalised functioning of the Government as the Government is indivisible and any loss incurred by a Company is a loss to the nation

as a whole. The Committee, therefore, strongly recommend that the Biecco Lawrie Ltd. should be taken over by the Ministry of Industry and its operations (excluding the motor manufacturing and electric repair units) should be integrated with BHEL. If necessary, the matter should be placed before the Cabinet for final decision so as to put an end to the problem which is hanging fire for over a decade.

25. After examining the working of the Biecco Lawrie Ltd., the Committee have come to an inescapable conclusion that it is a case of utter neglect, indecisiveness and apathy both on the part of the Undertaking as well as the Government. As a result the Company has been incurring heavy losses year after year. Their cumulative losses are now Rs. 25.67 crores as against their paid up capital of Rs. 1.77 crores. Had appropriate action been taken at an appropriate time the Company would not have come to such a bankruptcy level. The Committee would strongly recommend that the matter should be considered at highest levels in the Government and whosoever is found responsible—either in the Government or in Company—should be held responsible and necessary action taken against him. The Committee also feel that there is no appropriate system or mechanism existing in the Government whereby responsibility could be fixed for such mismanagement or poor performance in a public sector enterprise. The Committee, therefore, recommend that a system/mechanism should be evolved to evaluate the performance of public sector enterprise at the highest level in the Government and responsibility fixed on persons found responsible for mismanagement, poor performance and indecisiveness.

NEW DELHI;
11 *April*, 1988
22 *Chaitra*, 1910 (*S*)

VAKKOM PURUSHOTHAMAN,
Chairman,
Committee on Public Undertakings.

APPENDIX I

(Ref. Para 5.51 of Chapter V of the Report)

Statement showing Profitability Analysis of main products of the Company

	1979-80			1980-81			1981-82		
	Switch-gears	Motors	Elec. Repairs	Switch-gears	Motors	Elec. Repairs	Switch-gears	Motos	Elec. Repairs
1	2	3	4	5	6	7	8	9	10
				(Rs. in lakhs)					
Value of Production	257.64	92.48	45.18	349.12	92.50	44.85	451.58	35.77	72.63
Less—Consumption of materials	143.96	58 08	9.80	173.71	65.85	11.93	196.10	22.74	22.22
Contribution	113.68	34.40	35.38	175.41	26.65	32.92	255.48	13.03	50.41
Less—Employees' cost	120.59	31.06	27.41	115.79	57.37	27.32	123.76	63.72	29.96
	(—)6.91	3.34	7.97	59.62	(—)30.72	5.60	131.72	(—)50.69	20.45
Less—other Expenses excluding depreciation and interest	42.34	14.33	7.14	48.44	26.56	8.61	60.33	25.27	13.59
Results of working before charging depreciation and interest	(—)49 25	(—)10 99	0 83	11.18	(—)57.28	3.01	71.30	(—)75.96	6.86
Less—depreciation	4.06	1.32	0.76	5.94	2.00	3.60	7.33	1.83	5.07
	(—) 53.31	(—)12.31	0.07	5.24	(—)59.28	(—)6.61	64.06	(—)77.79	1.79
Less—Interest	46.55	28.90	6 06	63 30	22.46	15 07	81.79	36.32	16 89
	(—)99.86	(—)41 21	(—)5 99	(—)58 06	(—)81.74	(—)21.68	(—)17.73	(—)114.11	(—)15.10

1982-83			1983-84			1984-85			1985-86		
Switch-gears	Motors	Elec-Repairs	Switch-gears	Motors	Elec-Repairs	Switch-gears	Motors	Elec. Repairs	Switch-gears	Motors	Elec. Repairs
11	12	13	14	15	16	17	18	19	20	21	22
424.74	147.25	56.35	432.60	94.58	59.15	461.94	116.75	58.81	439.35	127.78	61.26
192.36	78.01	19.66	194.78	71.23	26 23	211 01	83.76	18.73	212.19	76 25	16.49
232.38	69.24	36.69	237.82	23.55	32.82	250.93	32.99	40 08	227.16	51.33	44 87
143.88	56 94	38 36	176.54	47.00	40 09	203.69	53.69	42.62	225.32	60.00	46 04
88.50	12 30	(—)1.67	61.28	(—)23.65	(—)7.27	47.24	(—)20.70	2.54	1.84	(—)8.47	(—)1.17
68.88	25.47	12.57	58.53	22.82	7.16	61.50	23.50	7.50	65.58	26.56	10.59
19.62	(—)13.17	(—)14.24	2.75	(—)46.47	(—)14 43	14.26	(—)44 20	(—)10.04	(—)63.74	35.03	(—)11.76
7.56	1.16	5.51	12.48	3.17	7.02	10 85	5 86	3.54	10 30	3.64	1.52
12 06	(—)14.33	(—)19.75	(—)9.73	(—)49.64	(—)21.45	(—)25.11	(—)50 06	(—)13 58	(—)74.04	(—)38 67	(—)13 28
86.14	38.16	16.18	112.03	53.79	13.08	136.15	65.69	25.86	184 16	85.92	33 18
(—)74.08	(—)52 49	(—)35.93	(—)121.76	(—)103.43	(—)34 53	(—)161.26	(—)115.75	(—)39 44	(—)258.20	(—)24.59	(—)46 46