

National Textile Corporation Limited—

- (i) Avoidable payment of commission of Rs. 148.80 Lakhs due to appointment of agents for supplies to Defence & other Government Departments; and**
- (ii) Avoidable Unproductive Expenditure of Rs. 1.41 crores due to shut down of Boilers in Ajudhia Textile Mills of N.T.C. (DP&R) Limited.**

(MINISTRY OF TEXTILES)

COMMITTEE ON PUBLIC UNDERTAKINGS 1991-92

TENTH LOK SABHA

**LOK SABHA SECRETARIAT
NEW DELHI**

FOURTH REPORT
COMMITTEE ON PUBLIC UNDERTAKINGS
(1991-92)

(TENTH LOK SABHA)

NATIONAL TEXTILE CORPORATION LIMITED—

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*Presented to Lok Sabha and Laid in
Rajya Sabha on 12th March, 1992*

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Corrigenda to the 4th Report of Committee
on Public Undertakings (1991-92) on
National Textiles Corporation Limited.

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(1991-92)**

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2. **Smt. P.K. Sandhu** — *Deputy Secretary*
3. **Shri T.R. Sharma** — *Under Secretary*

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Fourth Report on National Textile Corporation Ltd.— (i) Avoidable payment of commission of Rs. 148.80 lakhs due to Appointment of Agents for supplies to Defence and other Government Departments; and (ii) Avoidable unproductive expenditure of Rs. 1.41 crores due to shut down of boilers in Ajudhia Textile Mills of NTC (DP&R) Limited.

2. The Committee's examination of the subject was mainly based on Audit Paras 23.1 & 23.2 contained in the Report of the Comptroller & Auditor General of India, Union Government (Commercial) No. 9 of 1989.

3. The Subject was examined by the Committee on Public Undertakings (1990-91). The Committee took evidence of the representatives of the National Textile Corporation Limited on 18 September, 1990 and 28 November, 1990. The Committee also took evidence of the representatives of Ministry of Textiles on 8 February, 1991. The Committee, however, could not finalise their Report due to the dissolution of Ninth Lok Sabha on 13th March, 1991.

4. The Committee on Public Undertakings (1991-92) considered and adopted the Report at their sitting held on 30 December, 1991.

5. The Committee feel obliged to the Members of the Committee on Public Undertakings (1990-91) for the useful work done by them in taking evidence and shifting information which forms the basis of this Report. They would also like to place on record their appreciation for the valuable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

6. The Committee wish to express their thanks to the Ministry of Textiles and National Textile Corporation Ltd. for placing before them the material and information they wanted in connection with examination of the subject. They also wish to thank in particular the representatives of the Ministry of Textiles and National Textile Corporation Ltd. who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

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

NEW DELHI;
10th March, 1992

20th Phalguna, 1913 (Saka)

A.R. ANTULAY,
Chairman,
Committee on Public Undertakings,

PART I

BACKGROUND ANALYSIS

1.1 The Audit Report of the Comptroller & Auditor General of India, Union Government (Commercial) No.9 of 1989 has brought out two audit observations on National Textile Corporation Ltd. namely:

- (i) Avoidable payment of commission of Rs. 148.80 lakhs due to Appointment of Agents for Supplies to Defence & other Government Departments.
 - (ii) Avoidable unproductive expenditure of Rs. 1.41 crores due to shut down of boilers in Ajudhia Textile Mills of NTC/(DP&R) Limited.
- A. Avoidable payment of Commission of Rs. 148.80 Lakhs due to Appointment of Agents for supplies to Defence & other Government Departments.*

1.2 According to instructions issued by Government and circulated by the NTC Limited (Holding Company) in August, 1982, no agents were to be engaged by NTC, in subsidiaries and Mills for the purpose of securing orders & supplies to Defence & other Government Departments either directly or through DGS&D. The Government directive stipulated that agents already engaged should be discontinued immediately except where such arrangements were enforceable against the Corporation in a court of law.

1.3 Audit has stated that these directives of the Government were violated by Shri Bharati Mills, Pondicherry, Shri Swadeshi Cotton Mills, Pondicherry which were under control of NTC (TN&P) Ltd. & Panipat Woollen Mills, Kharar which was under the control of NTC (DP&R) Ltd. and commission of Rs. 148.80 lakhs was paid to the agents by the Mills. The details of these cases are as under:—

- (a) In September, 1984, a consultant located at Pondicherry offered his services for segregation, grading and offering of olive green cloth supplied by the different Mills to the Defence department. His services were availed of by the Bharati Mills (TN&P) in October, 1984 initially upto end of December, 1984. Subsequently his services were extended from time to time upto the end of December, 1986. The consultants were paid by the Mills a total sum of Rs. 26.05 lakhs upto April, 1987 towards their service charges.
- (b) For supplies to DGS&D, the Swadeshi Cotton Mills, Pondicherry had appointed a firm, as service agents, in August, 1978 on a commission of 2% of the value of Sales made to DGS&D. Though the Management dispensed with the services of the agents in September,

1982 they subsequently resumed operating through him and the services were finally terminated in April, 1987 only. The Commission paid to the Agent till April, 1987 was Rs. 57.21 lakhs.

- (c) Panipat Woollen Mills Kharar, a unit of NTC(DPR), Ltd. continued to appoint intermediaries upto January, 1985 to whom payments amounting to Rs. 4.62 lakhs were made during 1982-85. From February, 1985, the Mills appointed pre-inspection contractors. The total amount of pre-inspection charges paid during the period 1984-85 to 1988-89 was Rs. 60.92 lakhs.

1.4 The Committee wanted to know as to what was the rationale behind the decision that no agents would be engaged by NTC(Ltd.) for the purpose of securing orders and supplies to Defence and other Govt. Departments. The CMD, NTC(Ltd.) stated:-

"I have tried to the best of ability to focus on the various thoughts that have motivated the Government for taking the decision. I am sorry we are not able to exactly say what was the reason for this."

1.5 In this connection the Ministry of Textiles informed the Committee in a written note that the system of appointment of Agents by the subsidiaries of NTC was reviewed by the Deptt. of Textiles during the year 1982. On 13 August, 1982 discussions took place in the Chamber of the then Commerce Minister to review the system of appointment of Agents by NTC and a decision was taken that no intermediaries should be engaged in future by NTC and its subsidiaries or mills for purpose of securing orders and supplies to other govt-departments. Agents already engaged should be discontinued except where the contract is enforceable against the Corporation in a Court of Law. However, no formal minutes of the discussions which took place on 13th August, 1982 are on record. When asked to state the position in this regard, the Secretary, Ministry of Textiles stated during evidence:-

"We have nothing on the file. We do not know what was discussed in the meeting. We do not have even the minutes of the meeting. We are not in a position to say anything definite on the subject. It appears that the Minister had received a complaint and it was decided that it was not necessary to have agents because both the parties involved were the Government ones — on the one side the Government Company NTC and on the other side the Defence Ministry."

1.6 When asked to state as to when were the instructions issued by the NTC (Ltd.) and what action was taken by them to implement the instructions given by the Government, the CMD, NTC (Ltd.) stated:-

"As a matter of fact, Govt. of India communicated the decision on 18th August, 1982 and NTC as a holding company issued instructions to various field units on the same date."

1.7 He accepted that "certain lapses might have taken place in due

fulfilment of these directions. But once these directions were given various subsidiaries raised this point in different forums. A correct decision could not be taken because of the delicate nature of the subject”.

1.8 On being asked whether this did not amount to violating the instructions of the Govt., the CMD stated:-

“There was no intention to violate Govt. order. These orders were issued in 1982. At that time many of the CMDs felt that it should be possible to have a rethinking on the matter. They were also raising this matter repeatedly in every forum. In these two years after I took over there were four to six meetings. Some of these meetings were chaired even by the Minister. All along the CMDs have been making this request and it is not as though they are violating the Govt. order with impunity. We did not follow the order in the hope that there would be some kind of change in the thinking.”

While clarifying his stand further on this issue he stated:—

“The Government order said that the existing system of inspection should continue. They took it as if the pre-inspection agents should continue.”

1.9 On being asked as to whether services of agents once terminated were resumed by the Mills and whether the Govt. was apprised and orders were obtained for continuing with their services, NTC (Ltd.) in the written reply to the Committee stated that in the case of Swadeshi Mills there is nothing on record to show that such orders were taken from the Ministry.

1.10 On being asked if NTC (Ltd.) ever enquired into the matter as to why the subsidiaries and the Mills did not follow the orders and fix any responsibility, CMD, NTC (Ltd.) stated, “I most humbly submit that certain lapses and delays have occurred and I will conduct an enquiry.”

1.11 The Secretary, Ministry of Textiles stated in this regard as follows:—

“The agents are of two types—one is the service agent and the other is the pre-inspection contractor. The Ministry was expecting that services agents would be dispensed with because those agents were keeping a watch over tenders and process of the orders, ensure the despatch of orders and also collect payments. This was what the Ministry wanted to be discontinued; but another letter of December, 1983 said you follow the inspection procedure prescribed under DGS&D contract. The DGS&D contract envisages pre-supply inspection. So actually they employed the pre-inspection agents.”

He further clarified that the circular issued by the Ministry of Textiles in December, 1983 said, “that the inspection procedure would be followed and some mills construed that the Ministry was giving them the freedom to appoint pre-inspection contractors and so they went ahead and appointed them. A representative from the Ministry of Textiles further informed the

Committee that in the wake of a newspaper report in April, 1987 alleging that some fraud in the matter of supply of items to defence had taken place, Ministry reported that there should not be employment of any agents. It was at that point of time that they came to know that this was the kind of liberal interpretation given by the subsidiaries of NTC.

1.12 On being asked if the Ministry agreed with the interpretation of the NTC (Ltd.) and its subsidiaries, the Secretary stated:—

“At that point of time the Ministry did not approve of the liberal interpretation. That is why we issued the circular reiterating the point.”

1.13 When asked to state as to why no action was taken to ensure the implementation of these instructions, the Ministry informed the Committee in written reply that on the confirmation by NTC Ltd. that all the subsidiaries had been directed to follow the Ministry's instruction no further references were received by the Ministry to show that these had not been complied with. The witness stated during evidence:—

“The presumption is that they are implemented unless there is something to the contrary.”

1.14 The Committee wanted to know as to when did the cases of non-compliance with the instructions of the Government come to the notice of the Ministry. In a note submitted to the Committee the Ministry informed that in the case of Swadeshi Cotton Mills, Pondicherry it was in April, 1987 through a news-item that they came to know about it. The audit para was received in 1988 and revised draft para was received on 15.10.1989. In case of Sri Bharati Mills, Pondicherry, the draft para was received in 1986 and in the case of NTC (DPR) the audit para was received on 4.10.88 and revised para on 6.10.89. In this context the Committee wanted to know the role of the nominees of the Ministry on Board of Directors.

1.15 The Secretary, Ministry of Textiles stated in this regard as under:—

“The Board of Directors meets once in three months and its meeting may be for a couple of hours. It is not possible to discuss each and every item in the Board Meeting. They will only oversee performance of the Corporation as a whole. They cannot go into each and every item because if they do so they would not be in a position to attend to matters of urgent importance.”

1.16 The Committee wanted to know as to what was the justification and what were the considerations on account of which agents continued to be engaged despite the instructions of the Govt., the CMD NTC (Ltd.) stated:—

“These service agents according to the understanding by the Textile Industry earlier also were performing certain useful functions and to replace them by our own hands would be much more difficult and at the same time not very effective. In fact even today, in the private

sector for the sale of DGS&D goods, these kind of agents are available. Bombay Dyeing and Morarji Mills have also appointed such agents. There is one undertaking in Pondicherry called Anglo French Textiles, which is a State Govt. undertaking. Even today they are continuing to have selling and pre-inspection agents at 4½% commission."

1.17 While explaining the reasons for having continued to engage these agents, CMD (NTC) (Ltd.) further added:

".....One reason why it has been continued is that in the case of some of them, although their services have been terminated, there was a particular agreement covering their contract. Therefore, their agency had to be continued as a legal compulsion. The second point is that because this practice is prevalent everywhere, it was felt *bona-fide* that there should be change in the decision of the Government. This point was continuously agitated. They were also loaded with their various stocks, production programmes etc. which were totally geared to supply to Defence and DGS&D and thirdly they thought that they were protecting the interests of the Corporation in a bonafide way, because if the stocks accumulate the non-moving of the stocks would perhaps have resulted in a greater loss."

While further justifying the engagement of the agents, he stated:

"As a matter of fact, the so called loss of Rs. 113.08 lakhs* is not a loss at all. In fact, it is more valuable payment for us to receive substantial return from various things. I do not want to say that it is an illegal thing. I would like to mention here as to what was the order placed when these agents were there and the despatches made and value of goods that were sold in various years in respect of Bharati Mills and Swadeshi Mills. In respect of Bharati Mills, its defence supply was 964 lakh meters in 1985-86, it dropped to 727 lakh metres in 1986-87; it further dropped to 257 lakhs meters in 1987-88 because these agents were removed and it stands at 5 lakh meters in 1989-90."

1.18 The Committee wanted to know if the reduction in the sales made to DGS&D and Government was only due to the discontinuation of Agents, CMD, NTC (Ltd.) stated that it was the main reason at that point of time and added it was on account of the discontinuation of agents that "Today the entire defence supplies which were done by NTC have been taken over by the private sector. We have the only satisfaction that we have not paid any commission."

1.19 Yet another reason advanced by the CMD, NTC (Ltd.) for continuing with the system of agents was that it was the statutory

* 148.80 lakhs upto March, 1989.

requirement of DGS&D who wanted a series of pre-inspections to be carried out. While elaborating on this issue, CMD, NTC (Ltd) stated:

“....In the DGS&D we enter into an agreement that pre-inspection agency is mandatory. Either DGS&D does it on its own or they ask us to appoint a pre-inspection agent so that they will perform some of the things which the DGS&D would itself have to perform. They have got a series of inspections which the DGS&D wants to be performed.”

1.20 On being asked if DGS&D insist on the appointment of agents, CMD stated:

“DGS&D does not force us to appoint agents. But they say that till we meet this kind of requirement we should have them or they will have their own people appointed to do this particular job and they will charge us @ 5%.”

1.21 On being further asked by the Committee if the NTC (Ltd.) informed the Government and explained the different reasons on account of which they felt that the agents should not be discontinued, CMD, NTC (Ltd.) stated:

“This is a very important question. Because of extreme sensitiveness of this question the feed back that we have been getting being not very satisfactory we were not in a position to go to the Government to make a representation and it would not be proper to go to the Government.”

1.22 The Committee wanted to know that if at that point of time it was considered necessary to carry on with the earlier arrangement what prevented them from going to the Government and taking permission for continuation of agents as a special case and was it not incumbent upon them to have approached the Government, the Chairman, NTC (Ltd.) stated:

“I entirely agree with the Committee that we could have cut the Guardian Knot and say that these are the defects and whatever be the sensibilities, whatever be the effects on the subject these are the possibilities; that we could have done.”

He further added, “I concede we have not done that. It is a lapse.”

1.23 The Committee wanted to know from the Ministry their opinion about the justification keeping in view different reasons advanced by NTC (Ltd.) for continuing with the services of agents.

The Secretary, Ministry of Textiles stated:

“My submission is that the agents perform a useful functionEven today in the private sector they are employing agents. They have been in the Textile business for decades.”

While elaborating further he added:

"In the Review Meetings, the Chief Executives of NTC were representing that the rejection rate was going up and the sales were coming down. The private sector mills had an edge over them. So they have been requesting that these agents should be allowed to be appointed in order to look after their interests."

1.24 The Committee wanted to know as to what extent the absence of agents was responsible for decline in the sales and has any relative study been conducted by the Ministry to ascertain as to what extent other factors are also attributable for decline in Sales, the Secretary, Ministry of Textiles stated:

"The agent, was only one of the factors. Modernisation of machines, training of the workmen are also relevant."

On being asked if any assessment was made in this regard, the Secretary, Ministry of Textiles stated:

"We have not so far made any assessment."

1.25 According to Audit the management of NTC (TN&P) Ltd. stated (Jan., 1986) in the case of Sri Bharatri Mills that the Consultants engaged were not connected with the procurement of orders or despatch or in collection of the amount and that they had not violated the Government order. The Management of NTC (DP&R) Ltd. stated (Aug. 1987) that according to the terms and conditions laid down in the order of DGS&D the supplies were required to be pre-inspected before they were tendered for inspection which involved a careful grading of the material piece by piece/metre by metre to remove the defective stores, segregation, proper stacking to see that the stores were as per specifications and helping inspection authorities to take out random samples from the various lots of inspections, handling the items at the time of bulk inspection etc. The management also stated that the work was not of regular and continuous nature and if this was done by the Mills, it would involve recruitment of large number of skilled labour/staff who would become permanent employees of the unit leading to extra wages, salaries and other benefits. Copies of the contracts/agreements entered into by the Management with the pre-inspection contractors from 1984-85 onwards called for from the Company in May, 1988 were not, however, made available to Audit despite reminders.

1.26 The Committee enquired as to why such functions of careful grading and proper stacking etc. which were being performed by the agents could not be performed by the surplus staff of NTC (Ltd.) and its different subsidiaries and the Mills. In reply, the Chairman NTC (Ltd.) stated during evidence:

"It is a good question. Definitely we have surplus staff. But the areas in which we have surplus staff are totally irrelevant to the type of

duties which these agents have to perform. I think we have surplus staff in the weaving section. Let us say we have 2000 surplus weavers in all the subsidiaries. I cannot ask them to take this delicate and difficult job of going to various places, delivering the materials, looking to the complaints and grievances, coming back to our own mill and rectifying these defects. These are very valuable duties. Further our staff work between 10 AM to 5 PM. Suppose I ask my staff to go to Kanpur and deliver the material. He will go to Kanpur. If the defence authority points out a mistake, he will only write a letter to Chairman and then from Chairman it goes to GM, Weaving Master, Spinning Master and so on. By the time the defect is located and rectified, we would have lost our valuable customer and valuable time."

He further stated in this context that:

"We could have performed that work provided we recruited more people. The existing staff was not adequate at that point of time."

1.27 On being asked if they have a sound quality control department, the CMD (NTC) (Ltd.) stated:

"...I must admit that we have a very sound quality control system. We are also proud of our quality. In the matter of quality NTC need not feel bad in comparison to the private sector."

1.28 The Committee wanted to find out from the Ministry their views on the training and deployment of the surplus staff for discharging the functions of the agents. They also wanted to know that when agents were working and they were making available all their inputs and expertise, why could not NTC (Ltd.) and their Mills acquire the desired expertise from them over a period of time. In reply Secretary, Ministry of Textiles stated as follows:

"The point is that we can develop these expertise in house. But it will mean employing additional people. This is a professional job. The inspection will not be a full time job. It may be done just one day in a month and those professional people will have to lie idle for the rest 29 days of a month. So what is the point in keeping some people just for a part time job."

1.29 While explaining the problems for deployment of surplus staff, he further added:

"They are all workmen governed by Industrial Disputes Act. We had industrial relation problems when we were asked to shift them from one machine to another machine. They say we are working on this machine, we cannot be shifted to another machine. This was the case in the same trade. We cannot think in terms of shifting workmen to the job of another nature. It will create industrial relations problem. There is no question of shifting the workmen governed under the Industrial Disputes Act, from one trade to totally different type of

work. Most of the surplus staff are in the Weaving Section. This is a section which has become unviable, if I use that word. People in the Weaving Section cannot be transferred to Inspection Section, there is the question of training them, orienting them apart from the industrial relation problem. So, this is not a workable proposition."

When asked if any assessment was made in this regard, he stated:

"There is no need to assess it."

1.30 The Committee wanted to know as to what were the detailed terms and conditions laid down for appointing consultants, intermediaries and pre-inspection contractors and whether, the agreement was enforceable in the Court of Law, NTC (Ltd.) stated in a written reply that written agreements with the pre-inspection contractors were not entered into as the requirement of the work was more than clarified in DGS&D contract and the agreements were not enforceable in the Court of Law.

1.31 The Committee also wanted to know as to what alternative arrangements were made after termination of the services of the agents; the CMD of the NTC Ltd. informed the Committee during evidence that after discontinuing agents they were getting less orders from DGS&D and therefore as conscious policy decision they were moving away from the supplies to DGS&D and were trying to penetrate into the open market.

1.32 The Committee desired to have the views of Government regarding the engagement of the agents. The Secretary, Ministry of Textiles stated in this connection:

"The Ministry has not taken a view. I personally feel that the matter should be re-examined. The Defence Ministry received the Audit Para about the purchases. They were told that what they were paying to NTC was above market rate. The Defence Ministry examined the para and went to the Cabinet. They have now done away with the system of single tenders. In March 1990, it was decided that single tender system would be given up."

He further stated:—

"After discontinuation of single tender system, if you have to run a race with the private sector mills, we should have somebody to promote our interest."

1.33 On a query as to what would be the parameters for re-examining the whole issue, the Secretary Ministry of Textiles stated:

".....We will examine all the options whether to agree for having no agents at all and we will also examine about the past experience about whether there was any problem in selling. We will examine all these things from 1982—89 on the basis of the information so collected, we will take a view."

1.34 According to Audit as regards the supplies made to DGS&D, the NTC (TN&P) stated (July, 1988) that it appeared from the records that mills faced serious problems in supplies after the agents services were dispensed with in Sept., 1982, and hence his agency was resumed after the Mills Management discussed the matter with the officials of the Holding Company. As regards the steps taken by NTC (TN&P) Ltd., after April 1986, they stated (July 1988) that the existence of the agent for the Mills came to notice sometime in August, 1986, and that the Chief Executive Officer of the Mills, who was then instructed to discuss the matter with the officials of the Holding Company resigned and left the services of the Mills without pursuing the matter and that only in April, 1987 the Agency was terminated.

1.35 The Committee wanted to know whether it was proper for any mills to deal directly with the Holding Company without taking the concerned subsidiary into confidence. In a written note furnished to the Committee, NTC (Ltd) informed that as per the procedures and practices in vogue, the Chief Executive Officer of the Swadeshi Cotton Mills Pondicherry was reporting directly to the Holding Company. In fact the subsidiary was not involved in any decision making process of Swadeshi Cotton Mills, Pondicherry till the Nationalisation of the unit was announced in June 1986. When the management of the Swadeshi Cotton Mills, Pondicherry was taken over by the Government of India with effect from 13.4.1978, the then Chairman-cum-Managing Director was appointed as the Chief Executive Officer of the Swadeshi Cotton Mills. He was Shri P.N. Vedanarayanan, I.A.S. Shri J. Anandraj who was working as the Chief Executive Officer was then appointed as General Manager. This arrangement went on till Shri Vedanarayanan, I.A.S. continued as Chairman-cum-Managing Director of the subsidiary corporation. When Shri P.K. Doraiswamy, IAS was appointed as CMD w.e.f. 1.8.78 Shri J. Anandraj was appointed as Chief Executive Officer and Shri P.K. Doraiswamy was appointed as Administrator of Swadeshi Cotton Mills. Shri Doraiswamy sought clarification from the Holding Company regarding the role of the Administrator and he was informed *vide* letter dated 29.8.1978 by Secretary, NTC (Ltd.) that the Administrator had to oversee the work of the Chief Executive Officer. *Vide* letter dated 19.8.1985 the then CMD NTC (Ltd.) issued directions to CMD (TN&P) Ltd. that since there was no control from the Office of Administrator on the working of Swadeshi Cotton Mills he should take interest and monitor the affairs of the Mills from the subsidiary level. It has further been stated by NTC (Ltd.) that the subsidiary corporation was not kept informed of the decision taken by the CEO on the working of the Mills and the subsidiary was also not reviewing the performance of the Swadeshi Cotton Mills periodically. The decision of continuing with the services of the agent is stated to have been taken at the level of the then Chief Executive Officer, Shri J. Anandraj in consultation with the officials of the Holding

Company. The matter came to the notice of the Subsidiary Corporation in August, 1984, and action to discontinue with the services was not taken at that time because the Mills were facing serious labour problems and marketing problems and a sudden switch over in the product mix at that time was not considered to be feasible.

1.36 The Committee also wanted to know if any responsibility had been fixed in this regard by the management, NTC (Ltd.) informed the Committee in a written reply that as the agency was revived on the orders of the Chief Executive Officer who appeared to have discussed the matter with the Officials of the Holding Company, no separate report was sought. The CEO, however, also retired on 8.9.86 on attaining the age of superannuation.

1.37 When asked to state their views about the propriety of the Mill dealing directly with the Holding Company, the Ministry of Textiles informed the Committee in a written note that generally speaking it does not seem proper for any mill to deal directly with NTC Holding Company, however, Swadeshi Cotton Mills, Pondicherry which was nationalised during 1986 used to enjoy a special status and the Chief Executive Officer of the said mill used to correspond with NTC Holding Company directly and according to NTC (TN&P) they were not involved in any decision making process of the Swadeshi Cotton Mills, Pondicherry till nationalisation of the unit which was announced in June 1986.

1.38 The Committee wanted to know the basis on which there was a CBI raid on Swadeshi Cotton Mills in April 1987 in connection with the supply of substandard material to Defence Department. In reply, the Secretary, Ministry of Textiles stated as under:-

"The Indian Express had carried a report in April 1987 that there was a lot of corruption. Then the Ministry decided to hold a CBI enquiry."

1.39 The Committee also wanted to know as to when did the CBI raid take place and what were the charges against the Chief Executive.

In this connection, Secretary, Ministry of Textiles stated as under:-

"They have said in the FIR that Kumar Textile Agency was appointed as an Agent... They have made an allegation. The allegation was that Swadeshi Cotton Mills had appointed M/s. Kumar Agency during 1979 as an Agent. This was ordered to be discontinued by the Ministry in August, 1982 but despite instructions, the Swadeshi Cotton Textile Mills continued to have the agent"...

1.40 The Committee wanted to know the full details of the case. A note

was submitted by the Ministry in this regard after the evidence according to which on 14.3.1987, joint surprise check was carried out by the officials of the CBI Madras and the Vigilance Officer NTC (TN&P) Ltd., Coimbatore during which records pertaining to the supply of cloth to the Defence and DGS&D etc. were seized and an FIR was filed by CBI on 3.4.1987. Thereafter on 8.4.87 the CBI Madras raided the residence premises of 4 officers of Swadeshi Cotton Mills, Pondicherry.

One Shri J. Anandraj was the Chief Executive Officer of the Swadeshi Cotton Mills from 1979 to September 1986. According to CBI report it is alleged that Shri Anandraj was responsible for resorting to crooked and foul means to create a document, styling it as the minutes of a meeting giving extension to M/s. Kumar Textile Agency. Thus, despite the instructions of the Ministry of Commerce in August, 1982 to discontinue agents for supplies made to Government Departments, the agency of M/s. Kumar Textile Agency was continued till the surprise check by CBI in March/April, 1987. This continuance of the agency caused an expenditure of about Rs. 45 lakhs to the National Textile Corporation in the process. It is concluded that Shri J. Anandraj conspired with the partners of M/s. Kumar Textile Agency and cheated M/s. Swadeshi Cotton Mills, Pondicherry to the tune of more than Rs. 45 lakhs, being the agency commission paid to M/s. Kumar Textile Agency, by creating a false record and making the Finance Department of Swadeshi Cotton Mills to believe that the fabricated minutes of the meeting were genuine ones.

1.41 On being asked as to when the report was received by the Ministry from CBI and what action has been initiated against the defaulting officials, the Secretary Ministry of Textiles stated as follows:

"...The report was received in May, 1989. We referred it to the Chief Vigilance Commissioner. He sent certain comments in October 1989. Later on he again sent comments in February, 1990."

He further added:

"We are going through the papers."

1.42 The Committee expressed concern over the fact that though more than a year has elapsed and no action has been taken by the Ministry. When asked about the reasons for the same, the Secretary, Ministry of Textiles stated:-

"Actually, we had to consult the Chief Vigilance Commissioner. His comments came in 1989. In February again we had represented to the CVC for reconsideration. I assure that quick decision is taken in the matter."

He further added:

"We have again written to CVC. Once his comments come, it may be finalized. We have been in correspondence with him. The letter had gone to him asking him to reconsider certain conclusions which he

had arrived at. Within the next three months, we will see that the decision is taken."

(B) *Avoidable unproductive expenditure of Rs. 1.41 crores due to shut down of boilers.*

1.43 Ajudhia Textile Mills, a composite mill under NTC(DP&R) Limited had three boilers which were more than 50 years old in 1982.

In the replacement programme in the case of 3 boilers the Mills initiated action in October 1983, by making a provision of Rs. 10.85 lakhs in the revised 'Action Plan' preferring procurement of one water tube boiler of higher (3 tons) capacity with heat recovery. But the Board of Directors of NTC(DP&R) Limited decided (January 1984) that in view of the then existing labour situation in the Mills, only patchwork should be undertaken. Subsequently during the period June 1984 to September 1985, efforts were made by the Mills and NTC(DP&R) to obtain approval of NTC (Holding Company) for procurement of the boiler but the procurement was not approved mainly for want of funds.

In June 1984, the holding company was intimated that notice was issued by the Boiler Inspector for renovation of the old boilers. But since the cost of renovation was heavy, procurement of a new boiler was preferred. The Holding Company finally sanctioned the boiler of Ajudhia Mills in September 1985 and it was communicated to the subsidiary in October 1985. In December 1985 the Delhi Administration ordered shutdown of the boilers in the Mills.

The Committee desired to know the reasons for changing decision to replace the Boiler with a new one. The CMD of NTC Ltd. stated during evidence as under:-

"This has got two issues—one is the finance aspect, namely, Rs. 1.41 crores. The second is the administrative aspect as to why the Administration has not taken immediate decision to replace the boilers. First, I will take the financial issue—the loss of Rs. 1.41 crores. This loss is estimated as the salary paid to the workers. Approximately 500 to 600 Workers were kept idle during December, 1985 to November, 1987 when this was completely shut down, that is estimated to be the actual loss. It is very well known that weaving and processing activity today is a totally losing activity. Some subsidiaries are clearly in profit and some subsidiaries are in loss. If you look at the subsidiaries which are making profits, they are predominantly spinning activities. So it has been our experience that in all the composite mills it has been recognised by the private sector that they are a losing proposition. The private sector has shut the activities of weaving to the decentralised sectors. Ajudhia Mills is one of those mills which was losing. In the profit making mills if the weaving activity could be completely cut off they could make even more profit. The Ajudhia Mills has incurred a loss of Rs. 1.41 crores.

If we take the real profit and loss including for this period if I can give that particular figure, you will see that there has not been any noticeable change in the profit and loss position. Today the amount which we spend on spinning plus weaving activity and processing, which adds to the spinning activity for producing cloth, we will not ultimately recover the extra amount incurred. Therefore, the weaving activity has not predominantly contributed to anything at all. The 600 workers who are predominantly weavers have been completely kept away. So, the weaving activity itself is a losing proposition. This is so far as the financial aspect is concerned."

The witness further stated:-

"Sir, as far as the administrative lapse is concerned about 5 years before certain NTC Mills have been identified as heavily losing mills. Originally they sanctioned for replacement of boilers and subsequently they said, 'All right, you repair it'. This has happened. The fact is, whether it is worthwhile to spend lot of money on a mill which can slowly be weaned away."

In this connection Secretary, Ministry of Textiles stated during evidence as under:—

"....The NTC felt that they did not have resources at that time. It was forced on them to replace the boilers as there was some leakage which took place in one of the Mills."

1.45 The Committee wanted to know that when the Board had approved patch work in January, 1984, why subsequently during the period June, 1984 to September, 1985 efforts were made by the Mills and NTC (DP&R) to obtain approval for the new boiler. In reply, the witness stated as under:—

"The decision of the management to have patch work was an over all investment proposal of Rs. 485.44 lakhs, wherein there was also a provision for replacing one boiler. The technology of filling machinery was poor and it was coupled with poor quality and low productivity and it did not encourage the management to invest in this Mill. The problem of labour which the management has been facing is that this mill had 13 unions and these unions are continuing their inter-union rivalry, and intra-union rivalry and have been resorting to violence and gheraos etc. and they are pressurizing the management to take decision in their favour."

He further added:—

"In addition to this, the workers had been demanding Bombay wages. There was also a strike from 28th May, 1986 to 25 July, 1986. That was the reason that we did not say that we have to change the boiler. At a later stage, there was no spinning.

Productivity was very low. We are having heavy losses. We thought it better to change the boiler."

1.46 Audit had stated that in view of the shut down of boilers, it was decided by NTC (DP&R) Ltd. in December, 1985 that a boiler ordered on firm 'X' in June, 1985 for another Mill be diverted to Ajudhia Mills. But this could not be done because of the holding company's policy decision in August, 1986 that all the earlier orders for boilers to be cancelled and accordingly order on firm 'X' was cancelled and a letter of intent was placed on firm 'Y' in December, 1986. This letter of intent was also cancelled in January, 1987 and an order was placed on firm 'Z' which was the selling agent of firm 'X'.

1.47 When asked to state as to why no order was placed till January, 1987 after the earlier order placed in June, 1985 was cancelled in October, 1986, the General Manager (Technical), NTC stated during evidence:

"Since the decision on boiler was taken, the management of NTC (holding company) appointed the committee for the fixation of prices of the boiler which was done by the committee in 1985. It was pointed out that proper procedure was not followed earlier. So, the officers were instructed to invite fresh tenders, competitive bids through newspapers to arrive at the most competitive cost effective equipment. About the procedure, I may say, at that time, proper quotations through newspapers were not invited. When the tenders have been invited through newspapers as compared to the prices which were finalised by the Committee in 1985, it was noticed that the prices were subsequently 20% higher than the prices in 1985."

He further added:

"That the order was ultimately placed on the price which was finalised by the Committee."

1.48 The Committee wanted to find out from the Ministry as to why quotations through newspapers were not invited earlier. In reply, the representative from the Ministry of Textiles stated as follows:

"From the procedural point of view, NTC was following the practice of approaching all the reputed manufacturers of various items and on the basis of the quotations received they used to place the order on one of the suppliers as per their list. This was the system being followed for so many years. But the acting Managing Director felt that instead of following this procedure we should go in for the open advertisement, not only approaching the individual suppliers whose list was available but also advertising in the press. That is how it was changed."

1.49 In this context the Committee observed that because of the change in procedure, delay took place which in turn resulted in causing substantial loss to NTC. They desired to know as to how far this changed procedure

could be said to be justified. The representative of the Ministry of Textiles, stated as under:

"When it was a question of purchase of machinery at this high price, his perception was that it was better to go through the set procedure. He was more concerned with the financial aspect and the purchase procedure involved. He had in mind a long term view of this problem because such requirements would arise from time to time. So he thought of streamlining the procedure."

1.50 When asked as to why the letter of intent placed on firm 'Y' was cancelled subsequently, the Ministry in the written replies informed the Committee that in view of the fact that the advance was already paid to firm 'X' at the time of the placement of order, it was decided to revive the order with firm 'X' and cancel the same with firm 'Y'

1.51 During the oral evidence of NTC Ltd., the Committee enquired as to why the order was placed on the selling agent of the manufacturer. The General Manager (Technical), NTC Ltd. stated in reply:—

"I think they are the two arms of the same body. They do not have any distinction. As a result of that, the NTC never paid anything extra. NTC was not subject to loss."

1.52 Audit has further pointed out that the boiler was finally received in July, 1987 and commissioned in November, 1987 though erection of the boiler was to be done within 15 days of delivery as per the order placed. The total cost of procurement and commissioning was Rs. 16.70 lakhs as against the cost of Rs. 13.50 lakhs estimated in August, 1984. The Committee wanted to know if there was any lapse on the part of supplier, the witness stated as under:—

"There was delay on his part because he had got orders for 7-8 boilers from the different subsidiaries of NTC. We finalised the matter with him. We wanted to revive the unit. He wanted the payment to be made first because the company had some financial problems. The Company had some balance of payments problem. Our stand was that being a Government company we would never pay him in advance. We told him that unless he supplies the boiler first, the payment would not be made. We have further stated that he has to protect our loss in this regard. For example NTC Gujarat had to recover Rs. 2.61 lakhs from him. That became the point of contention. That was not agreeable to him. The matter was taken to our then CMD. That party was called from Hyderabad and he was made to agree. Further negotiations went on. That took sometime. Bringing the boiler is also a problem. They have to get the permission to take the boiler. Ultimately it was brought to the Ajudhia Mill Gate. At that time he wanted us to make the payment. So these factors caused delay."

1.53 When asked to state how could he justify the escalation in the cost

of boilers from Rs. 13.50 lakhs to Rs. 16.70 lakhs on account of the delay, the witness stated:

"A lot of time elapsed in between, when the boilers should have been installed and when the boiler was actually installed. As a result of that there is escalation. Then there are the other factors like excise, sales tax, freight and insurance, installation and all those things. All the factors cannot remain the same."

1.54 The Committee wanted to know from the Ministry if there was any lapse on the part of management in taking decision for replacement or renovation of the boilers. In reply, the Secretary, Ministry of Textiles stated:—

"It is a fact that there was delay. But we have also to view the situation in the context of resource constraint. At that time they told us that they did not have the resources."

1.55 The Committee enquired if the matter could be further examined and responsibility fixed, the Secretary, Ministry of Textiles stated as under:

"There is no difficulty. So many people were involved in the decision making process. These decisions were taken collectively at the board level so it is difficult to say."

1.56 To a query whether other Mills are also having old boilers and were also ordered to shut down these boilers, the CMD of NTC Ltd. replied during evidence:—

"Yes, Sir. Almost all the boilers are very old ones. During the course of inspection of course various deficiencies have been pointed out and they have been got rectified. Now the boilers are under operation."

1.57 The Committee desired to know whether the replacement of boilers in various mills has not been included in the Modernisation Schemes of NTC Ltd. The Secretary, Ministry of Textiles stated during evidence as under:—

"It is a part of the modernisation programme. We had taken the whole mill as a unit and not boilers separately. We have sent proposals to IDBI. In this case the Ministry concerned give only 20% of the funds and the remaining 80% is provided by IDBI. We have given the programme to them and they have to give us the advance. Whereas we require Rs. 1000 crores for modernisation they have given only Rs. 350 crores."

1.58 The Committee further wanted to know the number of sick mills under NTC Ltd. and what steps are being taken by the Ministry to improve their financial performance. The Secretary, Ministry of Textiles stated as follows:—

"If you go by the strict definition of sickness, all of them are sick. This is the definition given by the BIFR and other Acts of

Parliament. We have been saying that the mills should be modernised. As I said, we have also been saying that some of the mills can generate their own resources for modernisation. But the surplus generated by good mills are adjusted towards the losses of indifferent or bad mills. In that way even the good mills over a period of time become sick. We have been telling the Ministry of Finance to separate these mills and whichever mill generates surplus allow it to invest in modernisation. But this point of view is yet to be accepted by the Ministry of Finance.

1.59 In a subsequent note submitted to the Committee the Ministry informed that at present there are a total number of 124 sick mills under NTC Ltd. Due to lack of capital investment before nationalisation of these mills in 1974 and absence of maintenance and modernisation of their machinery, they turned sick. As on 31st March, 1990 NTC had spent Rs. 356 crores on the renovation and modernisation of the mills with the assistance provided by the Government and the financial institutions. During the period of the 7th plan, the Ministry had released an amount of Rs. 83 crores to NTC as margin money for the modernisation of its mills, and this year a provision of Rs. 67 crores has been made in the plan funds for the modernisation of sick units of NTC. They have further informed that till December, 1990 modernisation proposals have been cleared by the financial institutions in respect of 24 NTC mills envisaging a capital outlay of Rs. 110.19 crores. The schemes are under various stages of implementation. In respect of 16 more NTC units, proposals have been submitted to the financial institutions envisaging an investment of Rs. 211.29 crores and the same are being processed by them.

PART II

RECOMMENDATIONS/CONCLUSIONS OF THE COMMITTEE

2.1 According to the instructions issued on 13 August, 1982 by the Government and circulated to the National Textile Corporation Limited no intermediaries/agents were to be engaged by National Textile Corporation's subsidiaries and Mills for the purpose of securing orders and supplies to Defence and other Government Departments either directly or through DGS&D. The Government directive further stipulated that agents already engaged should be discontinued immediately except where such agreements were enforceable against the Corporation in a Court of law. Surprisingly, neither the Ministry of Textiles nor the N.T.C. were aware of the rationale behind the issue of these orders which were stated to have been issued as a result of some discussions which took place in the chamber of the then Commerce Minister. According to the Secretary, Ministry of Textiles although there was nothing on record as to what was discussed in the meeting, the rationale behind the Government's decision was perhaps to remove the middle men between the two Government agencies i.e. N.T.C. on the one side and DGS&D/Defence on the other.

2.2 The Committee regret to note that these instructions were flouted with impunity by Bharati Mills, Pondicherry and Swadeshi Cotton Mills, Pondicherry both under the control of N.T.C. (Tamil Nadu & Pondicherry) Limited and Panipat Woollen Mills, Kharar which was under the control of N.T.C. (DP&R) Ltd. by continuing to employ agents in violation of the instructions for long and an expenditure of Rs. 148.80 lakhs was incurred by way of commission to these agents. They are further dismayed by the fact that N.T.C. Ltd. has tried to defend the engagement of the agents by stating that a liberal interpretation was given to the Government guidelines and these were construed to mean that pre-inspection agents could continue to be employed. The continuance of the agents was also sought to be justified on the ground that the sales made to DGS&D and Defence suffered a drastic downfall on dispensing with their services. The Secretary, Ministry of Textiles, however, admitted during evidence that discontinuation of the agents was one factor and reduction in sales could also be attributed to other factors like obsolescence of machinery and lack of proper training of workers, etc. He also conceded that no analysis had been made in this regard. The Committee are, therefore, not satisfied with the arguments advanced by N.T.C. for not following the instructions issued by the Ministry. If it was felt by the Corporation that the sales suffered after discontinuation of the agents, nothing prevented it from approaching the Ministry and impressing upon them the utility of the services rendered by

the agents. The very fact that at no point of time permission or any clarification was sought by N.T.C. from the administrative Ministry for continuing with the agency system leads the Committee to the conclusion that there was definitely an attitude of defiance on the part of N.T.C. with regard to implementation of the instructions issued by Government. They, therefore, recommend that, as assured by the Chairman-cum-Managing Director of N.T.C. Ltd. during the course of evidence, the matter should be thoroughly enquired into and responsibility fixed on defaulting officials and that the money so wasted should be recovered from those who have defaulted. They also desire to be informed of the action taken in this behalf within a period of 3 months.

[Recommendation S. No. 1, Paragraphs 2.1 & 2.2]

2.3 The Committee are surprised to find that the Government also after having issued the instructions, did precious little to ensure their implementation and presumed that the same had been implemented. The cases of non-compliance came to the notice of the Ministry through a news item in 1987 in respect of Swadeshi Cotton Mills and on receipt of audit paragraphs in 1986 and 1988 in the case of Bharati Mills and Panipat Woollen Mills respectively. The fact that liberal interpretation was being given by N.T.C. to the Government instructions was also reported to have come to the notice of the Ministry for the first time in 1987 through a news item and it was only then that the Ministry reiterated their earlier instructions by issuing fresh ones. The Committee fail to understand as to how in the absence of the proper feed back, the Ministry satisfied themselves with regard to the compliance of the instructions. This leaves the Committee with the feeling that there is definitely something amiss both at the Ministry/Undertaking level in the present system of monitoring the functioning of the public undertakings and the matter needs to be reviewed to bring about the desired improvement.

[Recommendation S. No. 2, Paragraph 2.3]

2.4 The Committee also find that as against the normal practice which requires that the mills should work under the direct administrative control of the subsidiary corporation, a special status was accorded to the then Chief Executive Officer of the Swadeshi Cotton Mills, Pondicherry who was allowed to report directly to N.T.C. Holding Company and subsidiary Corporation was not involved in any manner with the decision making process of the mills. The decision to continue with the services of the agents was stated to have been taken at the level of the then Chief Executive Officer of the Mills in consultation with officials of the Holding Company. Thus, the N.T.C. is to be squarely blamed for not having placed the mills under the control of the subsidiary corporation and for allowing resumption of agents in clear violation of the Government instructions. The Committee desire that circumstances which led to granting a special status to the Mills

be examined and steps taken to ensure that such lapses are not allowed to recur.

[Recommendation S. No. 3, Paragraph 2.4]

2.5 The Committee find that CBI in their report had levelled serious allegations against the then Chief Executive Officer of Swadeshi Cotton Mills who is alleged to have caused wrongful loss of Rs. 45 lakhs to N.T.C. by continuing with the services of M/s. Kumar Textiles against the Government instructions till the surprise check was conducted by CBI in April, 1987. The Committee take a serious view of the fact that although the Report of the CBI recommending criminal prosecution against the Chief Executive Officer of Swadeshi Cotton Mills was received by the Ministry in May, 1989 and period of more than 2 years has elapsed since then no conclusive action has been taken by the Ministry on the report of CBI and the matter was reported to be still under correspondence with Central Vigilance Commission.

The Committee desire that the matter should no longer be delayed further and prompt action should be taken to bring the guilty to book. They would like to be apprised of the action taken in this regard at the earliest.

[Recommendation S.No 4, Paragraph 2.5]

2.6 The Committee were informed that with effect from March, 1990 it has been decided by the Ministry of Defence to do away with the single tender system and N.T.C. will now have to compete with the private sector for supplies to Defence. It was, therefore, essential that N.T.C. should have somebody to protect and promote their interests. The question of engaging the agents will, therefore, need to be re-examined. The Committee desire the Government to make a thorough study of the reasons for fall in the orders from DGS&D and Defence to N.T.C., after dispensing with the services of agents and suggest suitable measures to enable N.T.C. to compete with the private sector in the changed circumstances.

[Recommendation S.No. 5, Paragraph 2.6]

2.7 The Committee regret to find the failure of N.T.C. to take timely action for replacement of an old boiler at Ajudhia Textile Mill, a composite Mill under NTC (DP&R) Ltd. resulted in an unproductive expenditure of Rs. 1.41 crores on idle wages during the period December, 1985 to November, 1987 and the cost of the boiler also increased by Rs. 3.20 lakhs because of delay in procurement. The delay in procurement of the new boiler was mainly attributable to a series of administrative decisions which were altered from time to time. For instance, though the mills initiated action for the procurement of new boiler in the year 1983 but a decision was taken by the Board of Directors of NTC (DP&R) Ltd. that in view of the labour situation only patch work should be undertaken. In June, 1984 on receipt of the notice of shutdown of boiler from the boiler inspector, efforts were made to take the approval from the NTC (Holding Company) for purchase of a new boiler which was refused due to paucity of funds. Thereafter the Holding Company granted approval for procurement of a

new boiler in September, 1985 which was communicated to the subsidiary in October, 1985. In view of the fact that in December, 1985 the Delhi Administration ordered shutdown of the boilers in the Ajudhia Textile Mills, it was decided that a boiler ordered on Firm 'X' for another Mill in June, 1985 be diverted to this Mill.

This, however, did not materialise in view of the fresh instructions issued by Holding Company in August, 1986 that proper procedure of inviting quotations through the newspapers should be followed and all earlier orders be cancelled. The company went ahead and placed letter of indent on Firm 'Y' in December, 1986 but since advance was outstanding against Firm 'X' the same was also cancelled in January, 1987 and it was decided to place the order on Firm 'Z' which was the selling agent of firm 'X'. The boiler was finally received in July, 1987 and Commissioned in November 1987 at a total cost of Rs. 16.70 lakhs as against the cost of Rs. 13.50 lakhs estimated in August, 1984, besides idle wages of Rs. 1.41 crores during the period of shut down.

The Committee deprecate the manner in which the entire issue has been dealt with. It is a typical case where the failure on the part of the management of a public undertaking to act judiciously and to take timely decision resulted in avoidable substantial financial as well as production loss. They expect that in future atleast more care and caution shall be exercised by NTC with a view to avoid such cases of infructuous expenditure.

[Recommendation S.No. 6, Paragraph 2.7]

2.8 The Committee are concerned to note that there are about 124 sick Textile Mills under NTC Ltd. They are not happy with the slow pace of modernisation of these mills. What is really disturbing is that while many of these mills are in a position to generate their own resources for modernisation they are not being allowed to do so and their profits are being adjusted against the losses earned by other units with the result that even these units are likely to go into red over a period of time. The Committee desire that the entire position be reviewed so as to speed up the modernisation programme of NTC mills.

[Recommendation S.No. 7, Paragraph 2.8]

NEW DELHI;
10th March, 1992

A.R. ANTULAY
Chairman,
Committee on Public Undertakings.

20th Phalgun, 1913 (Saka)