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HINDUSTAN FERTILIZER CORPORATION LIMITED

MINISTRY OF CHEMICALS AND FERTILIZERS (DEPARTMENT OF FERTILIZERS)

COMMITTEE ON PUBLIC UNDERTAKINGS 1991-92

TENTH LOK SABHA

LOK SABHA SECRETARIAT
NEW DELHI

FIFTH REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS (1991-92).

(TENTH LOK SABHA)

HINDUSTAN FERTILIZER CORPORATION LIMITED

(MINISTRY OF CHEMICALS AND FERTILIZERS) (DEPARTMENT OF FERTILIZERS)

Presented to Lok Sabha and Laid in Rajya Sabha on 12 March. 1992

LOK SABHA SECRETARIAT
NEW DELHI

March, 1992 / Phalguna, 1913 (Saka)

361LS-1

C P U No. 690

Price : Rs. 9.00

Published under Rule 382 of the Rules of Procedure and Conduct of Business in Lok Sabha (seventh edition) and Printed by the Manager, Government of India Press, Photolitho Unit, Minto Road, New Delhi.

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INTRODUCTION

1. The Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Report on Hindustan Fertilizer Corporation, Limited.

2. The subject was examined by the Committee on Public Undertakings (1990-91). That Committee took evidence of the representatives of Hindustan Fertilizer Corporation Limited on 5th and 6th February, 1991 and also of the representatives of Ministry of Agriculture (Department of Fertilizer) on 26th and 27th February, 1991. The Committee, however could not finalise their Report due to the dissolution of Ninth Lok Sabha on 13th March, 1991.

3. The Committee on Public Undertakings (1991-92) considered and adopted the Report at their sitting held on 9th December, 1991.

4. 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 sifting 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.

5. The Committee wish to express their thanks to the Ministry of Agriculture (Department of Fertilizer) and Hindustan Fertilizer Corporation Limited 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 Department of Fertilizer and Hindustan Fertilizer Corporation who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

NEW DELHI;
March 10, 1992

A.R. ANTULAY,
Chairman,

Phalguna 20, 1913(S)

Committee on Public Undertakings.

CHAPTER I

OBJECTIVES AND OBLIGATIONS

A. Historical Background

The Hindustan Fertilizer Corporation Limited (HFC) was incorporated on 14.3.1978 as a company under the Companies Act, 1956 consequent on the decision of the Government of India to reorganise the Fertilizer Corporation of India Limited and National Fertilizers Limited. HFC started functioning w.e.f. 1.4.78 and was allocated three running units, viz. Namrup I and II in Assam, Durgapur in West Bengal and Barauni in Bihar and the project at Haldia in West Bengal which was under implementation. Namrup III unit was added in 1987. Eastern Marketing Zone, Fertilizer Promotion and Agricultural Research Division, Purchase and Liaison Office at Calcutta and Agronomy Wing at Sindri also came under the control of HFC. The registered office of the company is located at New Delhi.

B. Objectives of Reorganisation

1.2 The erstwhile Fertilizer Corporation of India Limited was set up in January, 1961 by the merger of Sindri Fertilizer & Chemicals Limited with Hindustan Chemicals and Fertilizers Limited. At that time, there were 2 operating Units, namely, Nangal and Sindri and one Project was under implementation at Trombay. Subsequently, several new projects were given to Fertilizer Corporation of India Limited for implementation. By 1977, the Corporation was responsible for as many as 17 fertilizer projects, 7 of which were in operation and the remaining 10 under various stages of implementation. The authorised share capital of the Company increased from an initial amount of Rs. 75 crores in 1961 to Rs. 600 /- crores in 1977. The annual turn-over of FCI in 1977 was approximately Rs. 280 /- crores. Thus, by 1977, FCI had become one of India's largest multi-unit enterprises controlling as much as 26% of the country's installed nitrogenous capacity.

1.3 Giving the background of bifurcation of Fertilizer Corporation of India and setting up of different units, the Committee were informed *vide* a note that the organisation had become too large and unwieldy and could not be controlled effectively. The speedy growth and various activities of FCI had created problems of organisation, management, coordination and control. It became difficult to pay sufficient attention to the problems of various units both in operation and under implementation. As it was felt that it might not be convenient for one corporation to manage all the units, a Working Group (Fazal Committee), consisting of representatives

of Ministries of Chemicals & Fertilizers, Finance (Expenditure) and Law and Company Affairs, BPE and the Managing Directors of FCI and NFL, was set up to work out the modalities of reorganisation. On the basis of the recommendations of the Working Group,, the Government of India approved the bifurcation and reorganisation of FCI and NFL and allocated the various units as follows:

(i) Namrup, Haldia and Barauni and Durgapur Units were allocated to the newly formed Hindustan Fertilizer Corporation Limited;
(ii) All the Units of Trombay were transferred to the newly formed Rashtriya Chemicals and Fertilizers Limited;
(iii) The Planning and Development Division of FCI was allocated to the newly formed Project & Development (India) Limited;
(iv) Sindri (including Sindri Modernisation and Sindri Rationalisation), Gorakhpur, Ramagundam Talcher and Korba were retained with the Fertilizer Corporation of India Limited;
(v) Nangal Unit was transferred to the existing National Fertilizers Ltd. which already had Bhatinda and Panipat Units.

1.4 During the course of examination of the representatives of the Ministry, the Committee enquired about the criteria adopted for allocation of the Units to various Undertakings at the time of reorganisation. The Secretary, Department of Fertilizers stated as follows:

"An attempt was, therefore, made to see what kind of reorganisation would be best suited taking note of the future requirements of both operating plants and projects that were under various stages of preparation at that time. The broad criteria that were applied were developed inter-ministerially. It was just not decided in the Department of Fertilizers or the then Department of Chemicals. In consultation with various wings of the Government, two or three criteria were thought of for reconstituting this into more compact units. One was obviously the geographical location of these units. The other was the kind of process or technology that was used, the assumption being that if the units are grouped according to the process and technology adopted, there would be better specialisation and they could overcome the teething problems. Taking these factors into account the scheme of restructuring of this rather large and unwieldy Corporation was put forth before the Government. And this was approved."

1.5 Commenting on the propriety of the decision taken by the Government to reorganise and allocate the units to different companies, the witness added:

> "We were previously influenced by the need for management convenience. And getting this all within a framework of identical technology etc. was a very complicated task. The breaking up of this Corporation and then regrouping with reference to the geographical location and technology would make for more efficient and rational management. But it also had a price in terms of breaking up something. There are advantages of a compactness of scale. We will perhaps add to the overheads per unit of production. This also was recognised but apparently the conclusion of that analysis at that point of time was that the balance of advantage lay in going for reorganisation of this kind and if you ask my opinion for what it is worth. I joined only 2 months back-looking at this, I would say that that was a sound decision, but the various events that had happened subsequently were not expected. Now I will come to the role of Government in decision making. There are many complications that arose in the subsequent years which in a way belied the assumption on which the reorganisation had been done. But the Paul Pothen Committee had not said that the decision to bifurcate FCI was not good."

1.6 Incidentally, the Task Force on the working of FCI (Fertilizer Corporation of India) and HFC set up under the Chairmanship of Mr. Paul Pothen in their report submitted to the Government in December, 1986 pointed out that one of the undesirable effects of the reorganisation of erstwhile FCI and the formation of its units into several companies was that HFC was left with employees strength in certain departments which was far beyond their needs. The marketing establishment based in Calcutta intended to be divided and distributed was never so handled with the result that HFC had vastly more people on this job than they needed. Another anomaly was the promotional wing called Fertilizer Promotion and Agricultural Research Division (FP&ARD) with about 1300 employees which was also meant for the entire erstwhile FCI, but was left with HFC in its entirety. The result was a heavy burden of promotion wing which was far beyond the requirements of the Company.

1.7 Referring to the observations made by the Task Force, the Secretary, Department of Fertilizers brought out the genesis of the problem of excess manpower resulting from reorganisation during evidence:

> "Quite frankly, we have tried to look at this once again, in the light of some observations that have been made by the Task Force under Mr. Paul Pothen to which a reference has been made as to whether the division of staff was fair for HFC or whether

they came to be burdened with excess staff, which meant a continuing financial burden on them. I would like to candidly admit that if we were to do the division of staff today, I think we would have done it somewhat differently.

The staff on the marketing side of Eastern Zone (headquarters at Calcutta) were looking after the marketing interests of the entire Fertilizer Corporation in Eastern India which included the present HFC also. But that staff was entirely transferred to the HFC. There is some strength in the argument that entire marketing strength need not have been transferred and that could have been more equitably divided. Similar is the case regarding the staff looking after agricultural extension, etc.. In the bifurcation that took place in the early 1978, the bulk of the staff relating to these research, demonstration and popularisation activities was retained with the Hindustan Fertilizer Corporation. Therefore, here also an argument is put forth that this staff also should have been more equitably distributed among the different constituents of the old Fertilizer Corporation."

The witness further added:

"In extenuation, I would like to submit to the Committee that it so happened that even the other units and particularly the Fertilizer Corporation of India are also over-staffed. Any attempt to shift the surplus staff either on the marketing side or on the demonstration side to the Fertilizer Corporation of India might have reduced the financial burden from the narrow point of view of HFC. But in reality it would have been only groaning under mounting financial losses. It is, therefore not easy for us to pre-emtorily transfer the staff. Also, the staff were used to work in certain areas and it was not very easy to transfer the field staff to completely different cropping practices, etc. That has been the background, while we admit that the initial distribution in this reorganisation was somewhat heavily oriented towards the HFC which had created some financial burden any alternative was itself beset with difficulties."

1.8 The acting CMD, HFC informed the Committee that another major limitation experienced by the Company was lack of senior personnel with requisite qualification and experience. Having been given the option to choose between the Companies at the time of reorganisation, most of the experienced persons in the erstwhile FCI opted for other Companies, creating a sort of vacuum in HFC.

1.9 During examination of HFC the Committee wanted to know how far the objective of streamlining the management and having effective control over various units both in operation and under implementation had

been achieved by the Company in respect of Units entrusted to it. The Acting CMD, HFC replied during evidence:

> "We have been able to achieve the objectives to a certain extent. Our management has been able to concentrate on our units. We have had the opportunity to take some prompt decisions and look to our problems."

1.10 In this context, the Committee sought to know the unitwise total loss/Profit at the time of reorganisation in 1978 and as in 1990 in respect of units entrusted to HFC. The information furnished by the Company is as follows :

(Rs./crores)

Units	Accumulated loss on 1.4.1978	Accumulated loss as on 31.3.1990
Namrup	16.03	279.72
Durgapur	42.65	384.07
Barauni	22.26	313.57
	80.94	977.36
Less cumulative profit of marketing Division		27.66
Net Loss	80.94	949.70

1.11 The Committee further desired to have the assessment of the Government about the extent to which the objectives of reorganisation were achieved by the Company. Replying to the question, the Secretary, Department of Fertilizers stated:

> "One thing that we have to admit very frankly, from the Department, is that we have judged it by the working results of the units. These units that were losing even after reorganisation are continuing to lose. In fact, you will find from the data that we have submitted to the Committee that the losses have mounted. But the units which are running in the north and in the west are doing reasonably well. From the Ministry side, we have not undertaken a formal evaluation of the results of this bifurcation. However, virtually, every quarterly review of performance of the units which have been taken, gives us some insight as to what has been the result, what has been the outcome. I am afraid, the facts show that the result has not been commensurate with the expected performance of the units for which this bifurcation was done".

1.12 On being enquired about the reasons for deterioration in the performance of the units and mounting losses, the Department of Fertilizers informed in a written reply as follows:—

> "The main reasons for not showing any improvement during the last 12 years has been poor capacity utilisation of the Units which is primarily due to frequent power interruptions and shortages, frequent equipment break-down both due to thermal shock resulting from crash shut-down of the plants on account of frequent power interruptions and ageing, interruption in supply of raw-materials, and indifferent work culture among officers and staff prevalent in the Units."

1.13 Asked whether further reorganisation would be desirable in view of the fact that instead of turning the corner, HFC has been incurring mounting losses, the Acting CMD, HFC stated during evidence:

> Further bifurcation of HFC will not be of any help."

1.14 Reacting to the suggestion, the Secretary, Department of Fertilizers pointed out during evidence:

> "Let me confess that at this point, from the Department our aim is somehow to make this more viable. There are many things we have to do and some of these we will do later. But I won't take up reorganisation. If, for running a particular plant, a certain managerial re-structuring is required, I am prepared to do that. Paul Pothen himself had made a recommendation in this regard. Some restructuring of that kind might be in order, but at this point we do not think and we do not contemplate a reconstruction of the entire Corporation on the lines that was done in 1978."

The witness further stated:

> "I do not believe that a reorganisation of this Corporation is the most urgent need. What is necessary is, capital restructuring, workers' strength rationalisation, giving them enough motivation and incentives to make it more effective. The other option is to close the unit, but we do not want to pursue it because this is something which we would like to avoid."

1.15 During evidence, the Committee drew the attention of the Department of Fertilizers to the benefits of clubbing sick units with healthy units. It was pointed out that through this arrangement the sick units could draw from the internal resources surplus generated by the prospering units. In response to the suggestion, the Secretary, Department of Fertilizers deposed before the Committee:

> "The suggestion to club the profit making units with the loss making units and perhaps in the process make available managerial expertise and financial resources from one to the other

is something that we have thought of and in fact it is something that is generally being talked about in the Government also.

Specifically the RCF and one or two other companies were sent to look at the Haldia Plants and see if they can take them over. In fact some pressure was applied on them sometime back to take over at least the management of these units and try and improve the performance based on the expertise that they had developed. But I am afraid the companies concerned backed out. They were unwilling.

"The next best thing that we have tried is to arrange for intercorporate transfers and we have been in recent yeârs arranging to get loans, from the somewhat surplus corporations to the lôss making units particularly because the Budget support for these loss making units has become more and more difficult and unless they get some money the units would come to a stand-still. While we have been arranging for some financial flexibility from the profit making units to the loss making sector, we have not succeeded in our efforts to have complete take over of management, leave alone merger of the loss making units with the profit making units."

C. Micro-Objectives and Long Term Perspective Plan

1.16 The Government of India had in November, 1970 accepted the recommendations of the Administrative Reforms Commission that the Government should, in consultation with the Public Undertakings, make a comprehensive and clear statement of objectives and obligations. Subsequently, in May 1979 the Bureau of Public Enterprises (BPE) issued instructions to all the Ministries to advise the Public Undertakings under their administrative control to frame their micro objectives consistent with the broad objectives spelt out in Government Industrial Policy Statement of 1967 and get them approved by their administrative Ministry to facilitate meanigful evaluation by the Government. The Committee desired to know whether the objectives and obligations of Hindustan Fertilizer Corporation Ltd. have been formulated. HFC in a note informed the Committee that the main objectives and obligations of the Company are:

(i) To produce inorganic fertilizers by making the best use of the installed capacity, to sell the fertilizers produced in accordance with Government regulations in the most cost effective manner and to maximise profits,

(ii) To promote scientific use of fertilizers in sepcified areas to help the farmers particularly the small farmer.

However, specific micro objectives for achieving these main objectives were not formulated by the Company. In reply to a question, HFC informed the Committee:

"Although specific micro objectives have not been framed, the above objectives have been kept in view, at the time

of formulation of the annual budgets of the Corporation which are detailed documents for the achievement of these objectives over a short period of time."

1.18 On being enquired as to how in the absence of clearly laid down long term objectives, the performance in financial and economic terms was being assessed, the Corporation stated in a written note:

"The economic and financial performance of the Company is assessed against the achievement of targets fixed in the annual and five year plans approved by the Government."

1.19 The Committee desired to know as to when it was proposed to undertake the exercise. HFC stated in a written note:

"It is necessary for the future of the Company that the revamping and rehabilitation proposals of the Company are implemented immediately. It will be appreciated that till then it would be difficult to spell out the specific micro-objectives of the Corporation."

1.20 The Committee were also informed that HFC had not framed any perspective or long term plan.

On being asked about the reasons for not framing the micro objectives and long term perspective plan of the Corporation as per BPE guidelines, the Department of Fertilizers conceded in a written note:

"The main concern of the Government has so far been to improve the performance of the Company by providing necessary funds for implementing various schemes of the operating Units and also new projects. Periodic monitoring has also been done regarding implementation of such schemes and projects, and also production, financial performance, sales turnover etc. The long term perspective plan of the Company could not, therefore, be given due attention for the above reasons. It is, however, conceded that specific micro objectives as per BPE guidelines should have been framed by the Company."

1.21 During evidence of the representatives of the Ministry, the Secretary, Department of Fertilizers was candid to state:

"A Corporation of this size and investment should have a long-term perspective plan against which it can operate with short-term annual plan. The reasons like financial constraints etc. are quite different. But unfortunately for HFC, what I have been able to ascertain in this brief period is, there is very much uncertainty about its future. .....Now in the absence of a basic decision from the Government as to the kind of investments required to keep them just functioning, I think, they have found themselves constrained in really thinking concretely of a long-term plan. But in the course of current review in connection with the meeting with

the Committee. I have stressed on the management that notwithstanding these difficulties, notwithstanding some of these uncertainties, it is necessary for them to evolve and formulate a long term plan for the Corporation and submit it to the Government and in a way, to force the Government to look at some of the new proposals within the framework of this long term plan. But this is something recent. The simple answer to your question is, there has been no corporate plan from HFC."

The witness added:

"I would personally like to initiate this process with the Corporation and tell them to go ahead and make the plan as best as they can."

The witness further stated:

"There is a certain uncertainty in the minds of the management because the Government decision on investments are not forthcoming and from that point of view the Department has not been able to put through all the proposals, whether it is for capital restructuring or for setting up new plants or for revamping the existing units, etc. This circle has to be broken. That is why I have now suggested to the Corporation that they make, with whatever they think are the reasonable assumptions, their corporate plan because it will help me to sell their case to the rest of the Government. Then it will strengthen my hands because if I am asking for a captive power plant for the corporation, I can say that it is not an isolated case because it fits into the long-term planning of the Corporation. At least now we can hope to come closer because if we are going to wait for a day when all these uncertainties would be over and all the projects would be cleared, then we would be waiting for ever."

D. *Eighth Plan Prospects*

1.22 In a country like India where agriculture is the mainstay for our economy, fertilizer industry has a very signficant role to play. Given below are the estimated demand and production of Nitrogen during 1990-95 as projected by the Working Group on Fertilizers for the Eighth Plan:

(Million Tonnes)

Year	Demand	Production
1990-91	8.31	7.06
1991-92	8.78	7.15
1992-93	9.26	7.65
1993-94	9.75	8.60
1994-95	10.30	8.90

1.23 Against this, the projections for production by the Company for the Eighth plan period as given by the Department of Fertilizers is as follows:

Capacity utilisation in %

Production in '000' MT (in brackets)

S. No.	Unit	Product	Estimated capacity utilisation and production				
			90-91	91-92	92-93	93-94*	94-95
1.	Barauni	Urea	50	50	50	53	53
			(165.0)	(165.0)	(165.0)	(175.0)	(175.0)
2.	Namrup I	Amn. Sul.	23.8	23.8	23.8	30.2	30.2
			(23.8)	(23.8)	(23.8)	(30.2)	(30.2)
3.	Namrup II	Urea	48.5	50.0	50.0	57.6	57.6
			(160.0)	(165.0)	(165.0)	(190.0)	(190.0)
4.	Namrup III	Urea	71.7	72.7	72.7	72.7	72.7
			(276.0)	(280.0)	(280.0)	(280.0)	(280.0)
5.	Durgapur	Urea	45.5	45.5	45.5	50	50
			(150.0)	(150.0)	(150.0)	(165.0)	(165.0)

*After revamping of the Units.

Note: (1) Assuming zero date for revamping project as 1.4.91 and completion in 24 months.

(2) The capacity utilisation shown above is with respect to rated capacity of the plants. However, Company's proposal to derate the plant capacity, if agreed, will correspondingly improve the capacity utilisation.

(3) The above targets may undergo change in the annual plans, depending upon the condition of the plants and the likely availability of inputs.

1.24 In this context, the Committee desired to know the production targets for the Seventh Five Year Plan and to what extent these were achieved. HFC furnished the information unit-wise as detailed over-leaf:

The targets and achievements of production for the Seventh Plan Period (1985-1990) (in terms of 000 MT Nitrogen)

	Namrup-I & II		Namrup-III		Barauni		Durgapur		Total	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
1985-86	107	75.8	—	—	85	92.8	73	46.2	265	214.8
1986-87	100	95.7	—	—	85	61.6	65	50.8	250	208.1
1987-88	95	91.6	55	64.2	85	76.3	80	58.0	315	290.1
1988-89	96.6	56.7	126.5	90.5	105.8	65.5	96.6	27.4	425.5	240.1
1989-90	78.6	67.2	127.0	117.7	75.9	36.7	68.5	15.8	350.0	237.4
Total	477.2	387.0	308.5	272.4	436.7	332.9	383.1	198.2	1605.5	1190.5

1.25 The Committee wanted to know the total outlay proposed in the Eighth Plan for the fertilizer industry as a whole, HFC's share in it and the projects proposed to be taken up during the Plan period. It was stated that the Department of Fertilizers had proposed to the Planning Commission a total outlay of Rs. 8096.68 crores for the fertilizer companies in public and cooperative sectors. In respect of Hindustan Fertilizer Corporation Limited, the outlay proposed by the Department for the Eighth Plan is Rs. 461.16 crores, out of which Rs. 59.30 crores has been proposed through internal/extra budgetary resources and the balance amount of Rs. 401.86 crores is to be met by way of budgetary support. However, the major provisions in respect of HFC were for revamping of Haldia and standing charges therefor, revamping of operating units, residual expenditure of Namrup III Project, and the renewals and replacements. It was also added that the Eighth Plan proposals were yet to be finalised as in February, 1991.

1.26 Enquired about the prospects of the Company achieving the Plan targets in veiw of the unsatisfactory performance thus far, the Department of Fertilizers stated:

> "The Company has already taken steps to improve power supply by installation of Captive Power Plants at all the operating Units. These Captive Power Plants are under stabilisation at Barauni and Durgapur and steps have also been taken to further improve the performance of the plants by taking remedials steps to overcome the problems experienced during the stabilisation period. Debottlenecking and replacement of some of the problematic equipments in the critical areas are in hand under renewals and replacement programme. Revamping proposals with modest investment put up by the company are already being considered for investment decision. The production planned for 1993-95 takes into consideration the improvement of the stream-days after implementation of the revamp proposals. With the above steps, alongwith efforts being made by the Company to improve the work culture, it is expected that the Company would be able to achieve the targetted production."

1.27 The Hindustan Fertilizer Corporation Limited came into existance in March, 1978 consequent on the decision of the Government of India to reorganise the Fertilizer Corporation of India Limited and the National Fertilizers Limited. It was felt that the erstwhile F.C.I. with as many as 17 Projects, seven in operation and ten under various stages of implementation, had become too large and unwieldy and could not be controlled effectively. On the basis of the recommendations of the Fazal Committee, comprising of

representatives of various Ministries, NFL and FCI, the Government allocated running units, Namrup I and II, Durgapur and Barauni and the Haldia Project, which was under implementation to HFC.

Though the Secretary, Department of Fertilizers maintained that process or technology of the plants was also one of the factors taken into consideration at the time of allocation of the units among HFC, FCI, NFL and RCF, the main criteria which prevailed over the allocation seems to have been their geographical location. The outcome was that HFC was born unhealthy with the units allocated to it being handicapped with a number of technological, design and equipment deficiencies. The Committee are of the view that while grouping together operating plants located in a particular region, they however feel that other factors like operational viability, profitability, and industrial climate of the units should have been given due consideration while deciding the allocation of the units to the different companies. This would have helped the sick units to draw and sustain on the internal resources generated by the healthier units.

1.28 It is regrettable to note that as the undivided FCI's marketing establishment was based in Calcutta it was *ipso facto* forced upon HFC with manpower strength far beyond the Company's requirements. Similarly, the financial burden of promotional wing of the erstwhile FCI, called the Fertilizer Promotion and Agricultural Research Division (EP & ARD), which in its generic sense was not the function of a fertilizer company, was also to be borne by HFC. Yet another anomaly of the reorganisation was the exodus of qualified and experienced personnel at senior levels to the healthier companies by way of exercising their options, leaving a vaccuum in the management cadre of HFC.

1.29 After having examined the working of HFC, the Committee are left with no doubt that allocation and grouping of various units, divisions and personnel at the time of reorganisation was inequitable and incongruous. Although at this stage the Committee can only express their displeasure on this lapse, in their view the Government cannot be exonerated for their omissions and commissions at the time of reorganisation of the erstwhile FCI and allocation of the units to HFC.

1.30 The Committee note with concern that the net loss of the Company which was Rs. 80.94 crores at the time of reorganisation in 1978 sharply rose to Rs. 949.70 crores in 1989-90. The claims of HFC's management that the Company had been able to achieve the objectives of reorganisation to a certain extent are not borne out by tangible results. At least the Secretary, Department of Fertilizers was candid enough to admit: "I am afraid, the facts show that the result has not been commensurate with the expected performance of the units for which this bifurcation was done". According to the Committee the performance of HFC after reorganisation has been to say the least, dismal. Not only that none of the objectives of reorganisation has fructified, but also the Company has gone from bad to worse. The

Committee have gathered an impression that although the Company had inherited many a problem from its parent company at the time of bifurcation, the administrative Ministry have also miserably failed in their responsibility to evince sufficient interest in its working, guide and monitor the production performance and take timely measures to improve the financial health of the fledgling Company. On the other hand, the Company made no conscientious effort to streamline its own working, revitalise the management cadre, improve production and financial performance and make the units viable. The Company has been crippled with lack of guidance and initiative, apathy and indecisiveness throughout. While expressing their displeasure, the Committee urge the Government and HFC that at least from now onwards concerted efforts should be made to find solution to the problems facing the Company, expedite the revamping and rehabilitation projects and improve the working of the Company without any further delay.

1.31 During evidence, the representatives of both the Ministry and the HFC did not favour further reorganisation of the Company. However, the Committee also do not advocate reorganisation of the Company on the lines of what was done in 1978. Yet, they cannot ignore the fact that the most severe anomaly of the reorganisation was the flight of experienced personnel in search of greener pastures, leaving the Company in the lurch. Manpower management is an aspect which has received the least attention of the company. As a result, the affairs of the Company have been poorly managed. The Committee are not hopeful that a still born project like Haldia could be revived without an experienced, efficient and motivated team of management. In view of this, the Committee suggest that intercorporate transfers within the fertilizer industry including induction of qualified and experienced personnel from the private sector into HFC at the senior levels should be resorted to. The Committee desire that as mentioned by the Secretary, Department of Fertilizers during evidence, the desirability of entrusting the management of Haldia Plant to a professionally managed fertilizer Company in the Public Sector with a view to improving its production performance should be examined by the Government.

1.32 In terms of the recommendations of the Administrative Reforms Commission accepted by the Government of India as far back as in 1970 the Public Enterprises were required to formulate a statement of objectives and obligations laying down broad principles for determining their precise financial and economic obligations. However, the Committee are distressed to find that HFC has neither cared to frame its micro objective so far nor have the administrative Ministry considered it necessary to ensure compliance with the guidelines issued by the BPE in this regard, with the result, that the Company has been functioning without any clearly defined objective for the last 13 years. The Committee desire that the matter be enquired into and responsibility fixed and they be appraised of the outcome within three months.

1.33 The Committee are not satisfied with the contention of HFC that its objectives were kept in view at the time of formulation of the annual budgets of the Company. They neither approve the reasons advanced by the Department of Fertilizers for the Company having not formulated its objectives and obligations nor the plea made by HFC that it might be difficult to spell out the micro objectives before the revamping and rehabilitation proposals are implemented. On the other hand, the Committee are of the firm belief that had the Company formulated its micro objectives well in time, its overall performance and profitability would not have been as disappointing as it is today. They need hardly stress that no realistic and meaningful evaluation is possible unless the objectives for which a Company has been established are clearly known. In fact, the Secretary, Department of Fertilizers conceded during evidence that micro objectives should have been framed by HFC. The Committee, therefore, recommend that micro objectives of HFC, which is long overdue, should be formulated as per BPE guidelines and got approved by the Ministry within a period of three months and the Committee informed of the same.

1.34 It is equally astonishing that a large multi-unit fertilizer Company like HFC has been functioning hitherto without a perspective plan. While expressing their displeasure over the lapse, the Committee fail to comprehend how the programmes and activities of the Company were regulated without a long term perspective plan. They hope that as assured by the Secretary, Department of Fertilizers in the course of evidence, Corporate Plan of the Company would be drawn up soon.

1.35 Ours being a basically agrarian economy, a large multi-unit fertilizer enterprise like HFC has a crucial role to play in the perspective of national plans. The Committee note that while the share of capital investment of HFC in the total investment for fertilizer companies in the Public Sector was the highest which accounted for 26.65% in 1988-89, the percentage share of the Company's production in terms of Nitrogen in the country as a whole was only 4.20% during the year.

1.36 It was significant to note that actual production achieved by the Company in the Seventh Plan period was less than satisfactory with the production as less as 74.15% of the share assigned to it. The Committee find that notwithstanding the fact that the operating units of HFC except Namrup III were not expected to maintain even the present effective sustained load capacity, the Government has fixed targets for Durgapur and Barauni 288% and 136% higher respectively for the period 1990-91 to 1992-93 compared to the actual production recorded in the terminal year of the previous plan period without sufficient justification. Similarly, the projections for production for Namrup I and II are also equally unrealistic. Even after taking into consideration the proposed plan outlay and the high claims made by the Ministry about the prospects of the Company achieving the targetted production, the Committee find that the plants are not

amenable to better capacity utilisation without implementing the revamping and rehabilitation proposals as conceded by the Company's management in the succeeding parts of this Report. Although the Committee are not in agreement with the practice of production targets being fixed far below the rated capacity of a plant, they are of the view that projecting utopian targets which cannot be achieved is also equally reprehensible. They are astonished to observe that while marginally higher projections for Namrup I & II, Durgapur and Barauni plants for 1993-94 and 1994-95 are based on the assumption that zero date for the revamping project of these units was 1st April, 1991 with a completion period of 24 months the proposal is still in the embryonic stage. In the circumstances, the Committee wonder whether the Company would be able to achieve even the targets set for the latter part of the plan period. The Committee desire that realistic targets for HFC's plants be drawn up for the Eighth Five Year Plan and the same placed before the Committee within three months.

1.37 Having taken into account the fact that Namrup III is a new generation plant which went into operation as recently as in October, 1987, the Committee fail to comprehend the rationale for setting a tepid target for the plant throughout the Plan period. The Committee also find, to their dismay, that no production target has been set for the Haldia Unit of the Company for which revamping and rehabilitation proposal, already approved in principle, is under consideration of the Government for investment decision. The Committee desire that revamping and rehabilitation proposal should be finally approved and implemented expeditiously. The Committee would urge HFC and the Ministry not to spare any effort to achieve the production targets set out for the Eighth Five Year Plan period.

CHAPTER II

PROJECTS

A. *Haldia Project*

(i) *Delay in Implementation*

2.1 Haldia Project was approved by the Government in November, 1971. The project was envisaged to have the following plants and capacities:

Intermediate	Ammonia	- 600	Te/day
Product Plants	Nitric Acid	- 475	"
	Sulphuric Acid	- 240	"
	Phosphoric Acid	- 100	"
	Ammonium Sulphate	- 400	"
End product plant	Urea	- 500	"
	Nitro-phosphate	-1263	"
	Soda Ash	- 200	"
	Methanol	- 125	"

2.2 The zero date of the Project was 1.9.1972 with a completion period of 42 months. Though as envisaged at the TEFR stage, the scheduled time of commercial production was October, 1976 the project was mechanically completed only in November, 1979. The Committee were informed by HFC in a note that the time taken for different stages of implementation were as follows:

(i)	Release of bulk foreign exchange	9 months
(ii)	Receipt of basic engineering documents and final revised specifications -	15 months
(iii)	Civil works and receipt of major equipments at site -	60 months
(iv)	Installation of river water system as per revised scope	12 months
	Total:	96 months

2.3 Elaborating the factors responsible for the delay of the Project, HFC informed in a written reply as follows:

> "The land development as estimated in the D.P.R. envisaged the raising grade-level of 250 acres of land by 1.5 ft. However, later the gradelevel for the entire factory area had to be raised by 2 ft. to avert the possibility of flood during rain. The original soil consolidation area was about 23000 sq.m. only and while executing the project this had increased to 54,000 Sq. m. 7000

piles were also to be driven to increase the bearing capacity at foundation. This additional job had delayed the project by about 10 months."

2.4 The Committee felt that such aspects should have been taken care of at the time of finalisation of the Project. Responding to the suggestion the Acting CMD, HFC admitted in evidence:

"You are right, Sir. It was not properly taken care of. That is why there was delay."

2.5 Explaining further the delay in civil works and receipt of major equipments at the site, the Committee were informed in a note as follows:

"In pursuance of the Government policy to develop indigenous knowhow for the manufacture of capital equipments, major items like Ammonia & Urea Reactor, Tall Towers like H_2S absorber, CO_2 absorber and water saturator were ordered on indigenous parties, like BHPV, Walchand Nagar Industries, TSL, Binny and L&T. While BHPV could not deliver the Urea Reactor ordered in July, 1973 till 1977, in the interest of project completion the items had to be imported from West Germany for which order was placed in January, 1977 and equipments were received in January, 1978. Tall towers ordered on M/s. Walchandnagar Industries in December, 1973 had to be offloaded to M/s. TSL, Binny and L&T in July, 1974 when the party expressed their inability to assemble the tower at site. M/s. Binny also failed to supply the item ordered on them due to a lockout in their factory. Considerable delay took place in ordering and reordering the items and ultimately the equipments could be received only in February, 1978 and July, 1978. Similar delays took place in case of many other equipments and the major erection work could be completed between 1977 and 1979."

2.6 When the Committee pointed out that the Company is supposed to assess the potential of the manufacturers before placing orders on the firms, the Acting CMD, HFC pleaded:—

"At that time the PDIL was one of the engineering departments which handled all the projects of the erstwhile FCI. All these precautions should have been taken care of by them at the appropriate time."

2.7 Commenting on the delay in implementation of the Project, the Secretary, Department of Fertilizers said during evidence:

> "We took two decisions which, at least, in retrospect have contributed very substantially to the subsequent delays in implementing the project. One was, to the extent possible, let us depend on indigenous technology even if there were no proven experienced suppliers of such equipment. Secondly, the technology and equipment that has to be imported, in any way, we should try to get credit."

2.8 Subsequently, the Department of Fertilizers furnished a note spelling out the reasons for cost and time over-runs in the implementation of the Project. It stated:

> "The cost and time over-runs upto the stage of revised cost estimates mentioned above were partly on account of deficiency in project planning pertaining to soil investigation and firming up of the source of water supply. The major reasons for time and cost over-runs included—difficulties faced in appointing suitable contractors for carrying out various civil works, industrial relations problems faced by the contractors, revision of the basic design of vital sections of the Ammonia Plant by the processes licensor at a late stage, delay in the delivery of indigenous equipment upto 54 months, change of source of supply of critical equipments from indigenous to imported source and vice-versa at a late stage, etc."

(ii) *Cost Over-run*

2.9 The total investment envisaged at TEFR stage was Rs. 88.03 crores (FC Rs. 29.04 crores). The project cost was revised from time to time and the final approved cost estimate as in July, 1981 worked out Rs. 281.96 crores (FC Rs. 42.96 crores). Subsequently, the project cost estimate was revised in the year 1986 and cost updated to Rs. 624.18 crores for which the approval of the Government is still awaited. Although the latest cost estimate approved by the Government was Rs. 281.96 crores, the Company incurred an expenditure of Rs. 608.48 crores till November, 1990. Explaining the reasons for the cost escalation, HFC stated in a written reply:

> "Due to changes in scope and delays beyond the control of the project authorities, the project cost estimates had to be revised on certain occasions. Subsequent to mechanical completion in 1979, the project was bogged down for want of power from WBSEB. WBSEB started restricting its power supply to 6 MVA and even after repeated efforts, the situation could not improve. Consequently, installation of a Captive Power Unit became necessary to commission the project. All these unexpected and prolonged delays necessitated revision of project cost estimates."

2.10 The Committee enquired from the Department of Fertilizers the reasons for the delay in approval of the revised project estimates which were stated to have been revised in 1986 by the company. The Department justified the delay as follows in a written reply:—

> "The revised cost estimates of a project are normally submitted before the competent authority for approval when it is clear that the Project is on its way to completion. In the case of the Haldia Project, repeated effort for commissioning of the Plant did not succeed inspite of the commissioning activities spread over a period of four years. Since the commissioning efforts did not bring any result, Government asked HFC to discontinue the commissioning activities in October, 1986. Under these circumstances the final revised cost estimates with a definite programme for completion of the Project could not be put up to the competent authority for approval."

(iii) *Technological and Design Deficiencies*

2.11 Haldia Project was mechanically completed in November, 1979. HFC stated in a note that due to serious problems experienced in the Oxygen Compressors Ammonia production could be achieved only by July, 1983 and urea was produced in August, 1983. Subsequently, in September, 1983 there was a major break-down of oxygen gas holder; two Oxygen Compressors got damaged in October/November, 1983. Commissioning activities had to be stopped and none of the downstream plants could be commissioned.

2.12 Illustrating it further the Department of Fertilizers informed the Committee in a note as follows:-

> "The commissioning, however, had to be interrupted several times because of repeated breakdown of the Oxygen Compressors (3 nos.) which were imported using French credit. Due to delay in the implementation of the Project, the guarantee/warranty on the compressors expired. When a reference was made to M/s. Linde, the supplier of the Compressors, for explaining the reasons for repeated failure of the equipment, they disclosed that they had only supplied the main frame of the compressors but the auxiliaries, namely the inter-coolers, separators, etc. were not procured from them by the French agency, ENSA with whom FCI entered into contract for supply of a number of imported equipments including the Oxygen Compressors. ENSA had procured the various components of Oxygen Compressors from a number of agencies in Europe and assembled them for despatch to Haldia. It was felt that it was the mismatch of the components supplied by various agencies for these compressors that has been responsible for the repeated failure of the equipment. Since Oxygen Compressors were the most critical equipment for

commissioning and operation of the plant, their repeated failure bogged down the commissioning of the ammonia plant."

2.13 On being pointed out by the Committee that there were Press Reports that the selection and import of various technologies for the Haldia Project were swayed more by economic rather than technical necessities, HFC informed the Committee in a written note that 11 firms were engaged for basic and detailed engineering for the project while major equipments were supplied by as many as 26 companies both from India and abroad.

2.14 The Committee wanted to know to what extent the tied loans were responsible for deficiencies in design fabrication and technology of the Plant. HFC stated in a written reply as follows:

"It is true that there were multiplicity of source from whom credit was drawn for the project. As a result the best available and proven equipment could not be procured direct from the venders. The main credit was through French and Polish Credits and Orders had to be placed for many major items through trading intermediaries like, ENSA and Polimex resulting in mis-match and modified versions."

It was further stated in the reply:

"The process technology selected by FDIL for production of NP is by sulphate recycle process based on know-how from Stamicarbon. Presently there is no single plant operating based on this process anywhere in the world. The only known plant put up on this process at Verna, Bulgaria has been abandoned and subsequently switched over to the production of Ammonium Nitrate presumably due to the failure of the process itself. It is also understood that Stamicarbon have not demonstrated the guarantee performance of this plant. Thus, the process technology selected for Nitro-phosphate production cannot be considered as proven one and this is only an experimental work at Haldia. The design of the sulphuric acid and Nitric Acid Plants also does not take into account the requirements of pollution control and they are of very old technology. The project also suffered due to equipment problems as some of the equipments that were available under the Credit arrangements were not of proven performance and persistent problems were faced due to the same."

2.15 Many major deficiences were found in the Haldia Project by the foreign consultants appointed by the Government. In their reports M/s. Toyo Engineering Corporation, Japan, consultants appointed to carry out end-to-end survey for ammonia, urea and methanol plants in Haldia, pointed out that Ammonia Plant had a lot of problems in design, fabrication, maintenance, operation, etc. As a result many equipments and materials were required to be replaced, added or modified including

replacement of Oxygen Compressor. The following units in the Ammonia plant were found to be having 50% or more defects, many of which were due to manufacturer's workmanship:—

Package Unit	80%
Compressor	83%
Furnaces	50%
Pumps	56%
Reactor	100%

2.16 Similarly the survey conducted by M/s. Uhde, West Germany for Nitro-phosphate group of plants also revealed that the level of workmanship for erection and general level of maintenance of all the plants were found to be of very low order.

2.17 In the course of evidence of the representatives of the Department of Fertilizers, the Secretary pointed out:

> "We were at that time gaining experience in setting up fertilizer plants and had to virtually learn most of the intricacies relating to the process, installation of equipment and operation of the equipment, partly also, at that time Government had taken a decision that to the extent foreign credit was available, it should be utilised in full, which means some compromise in regard to the best equipment and best technology that could have been adopted if we had plenty of foreign exchange at our disposal. And finally, we ended up buying equipment from number of sources depending on the credit that was available and assembling them with the help of unproven and somewhat inexperienced suppliers of indigenous equipment. After completion of installation, we ran into the problems of incompatibility or the lack of matching between one equipment and the other."

2.18 However, on being asked to explain the deficiences in selection of technology and mismatch of equipment the Department of Fertilizers subsequently tried to justify the selection of technology in a written reply:

> "The failure to commission the Haldia Project was not so much due to deficiencies in selection of technology or design engineering as to a host of problems referred to earlier, particularly unreliability of equipment. The process licensors who were associated with this Project namely, Lurgi, Technimont, Haldor Topsoe, and Stamicarbon were reputed in their respective fields and their technology was the best available at that time."

2.19 Enquired about the role played by the Government and erstwhile FCI in taking the decision to engage the various firms for basic design, detailed engineering, etc., the Department of Fertilizers replied in a note:

> "The decision to engage these firms specifying the role to be played by erstwhile FCI, P&D Division/PDIL was taken at the level of FCI Board of Directors and later approved by the Government."

2.20 The Committee wanted to know about the system of Project management that existed in the company at the time of setting up of Haldia Project. A representative of HFC stated during evidence:-

> "When we see the history of FCI, their projects were being executed by PDIL which was a part of the FCI at that time. IDPL used to prepare the techno-economic feasibility report and after the Government approval the preliminary designs and other things used to be started. The project implementation group at site was not consisting of people who were qualified in the design engineering or any examination of the drawings. That part used to be taken care of by PDIL."

2.21 When the Committee enquired as to what explanation HFC had for the deficiencies in the implementation of the project. The Acting CMD, HFC was candid in admission:-

> "You are right, it is because of the inefficiency."

2.22 In this connection, the Secretary, Department of Fertilizers admitted in evidence:—

> "In a way, it does reflect on the project planning that for a chemical plant where all items have to mesh and function together, items purchased from different sources, different mix were put together to produce one fertilizer unit and different parts of it were not matching to each other. This problem has continued to plague us in all our attempts in the last ten years."

2.23 Enquired whether action was taken to fix responsibility on anybody for the failure, the witness conceded.

> "To be frank, no action was taken."

2.24 Asked about the reasons for not fixing responsibility he stated:—

> "Because one of the departments of the Corporation was looking after all this."

The witness, however, admitted:

> "I personally feel that action should have been taken against the people responsible."

2.25 The Committee sought to know whether the matter was brought to the notice of the Ministry. The witness clarified:—

> "These things were definitely brought to the notice of the Government from time to time. For revision of costs it goes to the Ministry."

2.26 The Committee sought to know from the Department of Fertilizers whether any enquiry was suggested or initiated by Government with a view to ascertain the causes for several technological, engineering and fabrication deficiencies found in the Project and fixing responsibility. In a written reply the Department of Fertilizers stated as follows:—

> "Equipment mis-match and deficiences in some of the equipments were largely responsible for failure of commissioning efforts of the project. While deficiencies were pointed out by the Consultants, no enquiry was ordered."

2.27 HFC stated in a note that an amount of Rs. 553.77 lakhs was spent on repairs undertaken during the period of commissioning. In reply to a question as to why were these repairs/replacements not undertaken by the collaborators free of cost under the warranty of performance, the Company stated in a written reply:—

> "Since warranty/guarantee had expired, the repairs/modifications, as above, were not done free of cost."

Elaborating further, it was stated in the note:—

> "The Company had taken up with suppliers of different equipments for extending their period of warranty. But in view of the abnormal delay in commissioning the equipments, they did not agree for the same. Subsequently in some of the critical areas, we have taken their help after paying them necessary charges."

(iv) *Non-availability of Power*

2.28 The Company stated in a note that a Memorandum of Agreement was signed between WBSEB and HFC on 30.5.1978 for the supply of power to Haldia Project. As per the Agreement, the power supply to HFC was to be 6000 KVA, and 20,000 KVA in the first and second years and 56000 KVA from the third year onwards. The contract was valid for a period of 5 years initially and subsequently after expiry of 5th year the contract gets automatically renewed for 5 years. The power supply as per this agreement started from 30.6.1978. However, in the beginning HFC was allowed restricted drawl of power to the tune of 3 MVA against the contractual demand of 6 MVA. From January, 1979 onwards HFC was permitted to draw power upto a maximum of 5 MVA. Only in December, 1985 WBSEB lifted the power restriction and HFC was allowed to draw power as per the contract demand. Because of power restrictions as mentioned above, HFC was allowed to import and instal a 20 MW Gas

Turbine which was commissioned in February, 1982 at a cost of Rs. 691 lakhs.

2.29 HFC further stated that due to non-availability of power committed by WBSEB, the commissioning in full swing could be started only after power from the gas turbine was available.

2.30 Explaining the impact of shortage of power supply on the commissioning of the Project, the Secretary, Department of Fertilizers stated:

> "It so happens the State Governments and the State Electricity Boards in their eagerness to get the project sanctioned generally say that they will supply power keeping in view the fact that a project takes nearly three to four years for completion and within that time they will also increase their generating capacity and make the power available. Haldia project also was planned on that basis. But unfortunately, the West Bengal State Electricity Board was unable to fulfil the commitment. This was in 1979-80. And this resulted in further delays in the project being provided with captive power plants, etc."

(v) *Stoppage of Production/Commissioning*

2.31 Although the project was mechanically completed in 1979, persistent problems were being faced on various equipments and stabilised operation of the plant could not be achieved. Production of Ammonia, Urea and Methanol could be commenced only in 1983. The production in the different plants from 1983-84 to August, 1986 was as follows:—

(In tonnes)

Products	1983-84	1984-85	1985-86	1986 April-August
Ammonia	1132	1861	13499	8655
Methanol	841	1998	1231	1880
Urea	49	—	10255	13889

2.32 Production had to be stopped due to a major break-down of oxygen gas holder and subsequent damage to two oxygen compressors. As a result of this, commissioning activities had to be stopped and none of the downstream plants could be commissioned. Narrating the sequence of developments HFC stated in a written note as follows:

> "Due to major breakdowns on 2 Oxygen Compressors in October/ November, 1983 the plants had to be stopped. Immediate

steps were taken for repairs of these compressors and one of the compressors was made ready by September, 1984 and the plants were restarted. Ammonia Plant was in operation from November, 84 to February, 85 and November, 85 to August, 86. The other 2 compressors were also made ready by October/December, 1985. When the repair of Oxygen compressor was being attended to, the down-stream plants were started. Nitric Acid was produced in October, 1983 and Nitrophosphate plant was run on a modified DAP route with NP production in January, 1984. Sulphuric Acid was also produced in January, 1985. Thus start up and production activities in different plants were continuing till August, 1986."

2.33 On 16.10.1986 the Department of Fertilizers informed the Company that until further advice, no expenditure should be incurred on the commissioning of Haldia Project except meeting expenses on wages and similar standing charges. Subsequently, all commissioning activities in Haldia were suspended.

2.34 The Committee wanted to know the considerations which weighed with the Government to take a decision to stop production/commissioning activities in Haldia. The Department of Fertilizers replied in a written note:

"Persistent problems were being faced with various equipments and the plants could not be operated on sustained basis. Besides, the expenses on testing and commissioning of the plants were increasing. For these reasons, it was considered necessary to stop commissioning activities and get the problems reassessed by experts and to take remedial measures."

2.35 In reply to a question as to what efforts were made to rectify and restart the Project during the period from 1983 to 1986, the Secretary, Department of Fertilizers pointed out during evidence:

"I have got a list regarding the attempts made from 18.1.83 until 21.10.86 when Government directed that further attempts of commissioning activities may be stopped..... Every attempt was sought to be made in order to repair them by bringing in either foreign technicians or suppliers of equipment. This attempt was made during 1985-86. It was only by 1986, the Government came to the conclusion that these attempts were leading us nowhere."

2.36 The Government constituted a Technical Committee under the Chairmanship of Shri Duleep Singh in June, 1987 in order to assess the additional requirement of funds for the Haldia Project. In their Report, the Committee felt that Haldia be allowed to resume commissioning in a phased manner. The Report stated:

"The Committee, therefore, recommends that Haldia be allowed to resume the commissioning operation, the first step of which

will be to prove the reliability of the Oxygen Compressors to the extent that at least one gasifier can be run continuously representing 45% of the ammonia plant capacity. It is suggested that only after the Oxygen compressors had such a reliable run with oxygen for a period of 45 days that further commissioning of the plant will be proceeded with. The fund requirement for reliability run of the oxygen compressors will be about Rs. 350 lakhs. Once the reliability run of the oxygen compressor has been established, the commissioning can be taken up for which a sum of Rs. 421 lakhs will be needed to procure the input requirement of the plant for commissioning."

2.37 On being asked whether the Ministry considered the feasibility of resuming production/commissioning activities in Haldia as suggested by the Technical Committee, the Department of Fertilizers stated in a written reply as follows:

"The Duleep Singh Committee (Technical Committee) was set up by Government in June, 1987 to make an on the spot study to determine the minimum expenditure that would be required for preservation of the Plant when it was in idle condition, so as to avoid corrosion, etc., the requirement of the spares and other inputs for demonstration running of the plants should the same may be required by the Consultants, etc. However, in its report, the Technical Committee recommend commissioning of the Haldia Project involving an expenditure of Rs. 14.74 crores. In view of the repeated failure of commissioning attempts, the Government was not convinced that commissioning, as suggested by the Committee, would bear any fruits. Therefore, the recommendations of the Technical Committee were not accepted and a decision was taken to await the report of the consultants, who had been, in the meantime, appointed in July, 1987 to carry out end-to-end survey of the various plants of Haldia Project."

2.38 HFC informed the Committee that it incurred a loss of Rs. 321.64 crores upto 31.3.1990 on account of non-commissioning of the Haldia Project since its mechanical completion in November, 1979.

(vi) Engaging of Consultants

2.39 The Government appointed two consultants in July, 1987, *viz.* M/s. Toyo Engineering Corporation, Japan to conduct end-to-end survey of Ammonia, Urea and Methanol Plants and M/s. Unde Gmbh, West Germany for Nitro-phosphate group of plants including off-sites and utilities in Haldia. The Committee pointed out that although the project was mechanically completed in November, 1979 and production of Ammonia, Urea and Macthanol was commenced in 1983, the plants could not be operated on a sustained basis due to persistent problems. Asked about the reasons for the inordinately long time taken by the Government

in taking a decision to appoint the Consultants to look into the problems faced by the plant, the Secretary, Department of Fertilizers stated in evidence:

> "Till October, 1986, attempt was made to repair and re-construct the plant as originally formed. So, the need for completely bringing in a new consultant and seeing how it should be completely revamped did not arise. The final decision of the Government was taken in 1986 October. The question of bringing in consultants for taking a completely different look at it arose only thereafter."

2.40 The Committee wanted to know whether HFC at any point of time did make a request to the Ministry to appoint consultants to study the problems in view of the fact that Haldia Plant suffered from various dificiencies and equipment failures. In the reply furnished to the Committee, the Company admitted:

> " In view of the fact that PDIL was made responsible for the commissioning of the plant, HFC did not make any separate recommendation to the Government."

The note further stated:

> "As some of the major plants were not producing as per the norms, the matter was reviewed in the Ministry from time to time."

2.41 The Consultants submitted their reports in July, 1988. The Company reportedly forwarded the reports to the Ministry for investment decision in the same month. The expenditure incurred on consultants was Rs. 2.90 crores.

(a) M/s. Toyo Engineering Corporation, Japan

2.42 M/s. Toyo Engineering Corporation, Japan submitted a proposal for an additional investment of Rs. 299.18 crores for revamping of Ammonia, Urea and Methanol Plants in Haldia. The completion period was 36 months. When the Committee enquired about the latest position of the investment proposal, HFC stated in a written reply:

> "In view of the high investment required for revamping, the front-end plants, *i.e.* Ammonia, Urea and Methanol Plants, the proposal was not found economically viable. A final decision on the proposal is also awaited from the Government."

2.43 The Committee enquired about the action taken by the Government on the revamping proposal submitted by the consultant. The Department of Fertilizers stated in the post-evidence reply:

> "The reports of the consultant were examined by Government and it was found that it may not be feasible to revamp the plants as suggested by the consultant due to resource constraints and the high retention price and the recurrent subsidy involved.

There are no proposals under consideration of the Government at present for revamping the Ammonia, Urea and Methanol Plants."

(b) M/s Uhde, GMBH, West Germany

2.44 M/s Uhde submitted proposals for an additional investment of Rs. 123.88 crores for Phase I and Rs. 75.29 crores for Phase II for revamping the Nitro phosphate Group of Plants. The completion period was 32 months. In this regard HFC informed the Committee in a note as follows:

"In July, 1989 Government cleared in principle, Phase I proposal of M/s. Uhde for a DPR costing Rs. 123.88 crores to produce 1100 MT per day of Nitrophosphate (24.7:24.7:O) with imported Ammonia and Phosphoric Acid as raw materials."

2.45 The Committee were informed that the Government advised the Corporation to submit the DPR for implementation of the same. Accordingly, a DPR was submitted in October, 1989 and by then the cost escalated to Rs. 156.74 crores for Phase I. Subsequently pre-PIB meetings were held in the month of December, 1989 and May, 1990 and September, 1990. During these pre-PIB meetings it was proposed that revamping of Sulphuric Acid and Phose-Acid Plants may also be considered alongwith Phase I revamping of Nitrophosphate Plants in view of marginal investment required. Later the Corporation updated the project cost in the lines of the suggestions made in pre-PIB meeting and estimated cost was Rs. 200.95 crores.

2.46 For comparison purpose a Project with 600 t.p.d. and 1200 t.p.d. Di-Ammonium-Phosphate with a fresh investment of Rs. 67.20 crores and Rs. 97.20 crores respectively (based on a budgetary offer) was also considered for economic and financial analysis.

2.47 HFC further stated that it was concluded in this meeting that a new grass root DAP plant of 600 te/day capacity utilising the existing infrastructural facilities and the equipments to the maximum extent with indigenous technology would be a better proposition from the point of view of fresh investment required, subsidy outgo and the time required for the rehabilitation of old Nitrophosphate Plants. Accordingly the Ministry prepared a note for the PIB on the above lines to get the first stage clearance for the preparation of DPR for 600 t.p.d. new grassroot DAP Plant based on imported phosphoric Acid and Ammonia.

2.48 Explaining the constraints owing to which the revamping proposal as submitted by the consultant was not found feasible, the Department of Fertilizers stated in a written reply:

"The reports of the consultants were examined by Government and it was decided that a complete revamp of the Plants involving an additional investment of Rs. 502 crores, as suggested by the consultants, may not be feasible due to resource constraints

and unviability. The retention price with additional investment of Rs. 502 crores was estimated as Rs. 10741 tonnes for urea and Rs. 8534 tonnes for Nitrophosphate.

Against this, the retention price of urea for the recently implemented gas based fertilizer projects is Rs. 4200 per tonne and the estimated retention price for nitrophosphate is little over Rs. 5000 per tonne in case of a nitrophosphate plant now under commissioning. The subsidy burden on a continuing basis would thus have been very high."

2.49 During evidence, the Secretary, Department of Fertilizers added:

"Hopefully it will make a difference. The proposal that came out of these two consultants could not be accepted by the Government for the reasons I mentioned, because the additional capital cost involved was considered very high. The additional recurring cost was also considered very high. Therefore, in 1988 we were directed to look for a less costly alternative."

2.50 However, during evidence, the representatives of HFC favoured setting up of an NPK Plant in Haldia in place of the proposed DAP Plant. Enquired whether the company was convinced that it would be better if they were allowed to produce NPK in place of DAP, the Acting CMD, HFC replied in the affirmative. He pleaded before the Committee : "The NPK Plant is the only alternative." Asked as to what were the considerations which weighed with the Government to favour a DAP Plant, the witness stated:

"Firstly, the investment will be less in this case, *i.e.* Rs. 67 crores, on the other hand, in that case, it would be Rs. 200 crores. For our phosphate plants, we have to import acids from foreign countries. We thought if we invest in our own plant for acids Rs. 14 crores, we will be able to meet our 30 per cent requirements within the factory instead of importing it from foreign countries. Government had agreed to this, in the PIB meeting, the second thing is regarding P_2O_5. They will get the same commodity even if we invest less amount. Thirdly, the subsidies they have to pay will be more."

2.51 It was stated in written reply that in case of an NPK Plant existing facilities to the extent of Rs. 56.94 crores could be utilised and in case of a DAP Plant, the extent of utilisation would be worth Rs. 28.20 crores. Asked about the difference in the cost of production between DAP and NPK after revamping the witness stated:

There is not much difference in both the things. In one case, it is Rs. 6,100/-; in the other case, it is Rs. 5,900/- approximately. If we double it, then it comes to Rs. 5005/-.

2.52 The Committee sought to know the considerations which weighed with the Government for favouring a DAP Plant in Haldia in place of the NPK Plant. The Department of Fertilizers stated in a written reply as under:

> "The following considerations weighed in favour of the proposal to set up a DAP Plant as against revamping of nitrophosphate plant:
>
> (a) The investment requirement of DAP Plant is Rs. 42.4 crores as against Rs. 186.75 crores required for the revamping of nitrophosphate plant.
>
> (b) Subsidy outgo in case of DAP Plant will be Rs. 4787/- per tonne of P_2O_5, as against Rs. 15889 per tonne of P_2O_5 in case of revamping of nitrophosphate plant."

2.53 In this context, the Secretary, Department of Fertilizers added during evidence:

> "Now the proposal for making Diammonium Phosphate rather than Nitrophosphate arises from this kind of consideration because the investment that was required to produce Diammonium Phosphate, even though it would have been based initially on imported Ammonia and imported Phosphoric Acid, was less than 50 per cent. But thereby we would have started making some sale and thus would have generated some revenue. The subsidy per tonne on P_2O_5 in making and selling the Diammonium Phosphate compared to Nitrophosphate was hardly one-third. So, we would have saved on the capital cost, new investment that was required and also on the per tonne recurring cost on subsidy. This was a specific option."

2.54 The Committee pointed out that the proposal for the DAP Plant was based on imported Phosphoric Acid and Ammonia whereas it had come to the notice of the Committee that Paradeep Phosphates Limited and Madras Fertilizers Ltd. were facing shortage of imported Phosphoric Acid. The Government had reportedly suspended import of Phosphoric Acid on the ground that import of finished phosphate fertilizers like DAP was cheaper than making phosphates indigenously with imported Acid. Responding to the observation of the Committee, the Acting CMD, HFC admitted:

> "You have assessed the total position correctly. The question is that all the companies are having some facilities of their own to manufacture it. In the case of NPK, we are having 30 per cent of the requirement of assets from our own factory."

2.55 Responding to the views of the Committee, the Secretary, Department of Fertilizers conceded:

> "The import of phosphoric acid is proving difficult for a variety of reasons. Currently, 9 or 10 plants are shut down for about two months now, for lack of this raw material."

However, the witness added:

> "The nitrophosphate proposal was also in Phase I, to be based on imported ammonia, imported rock-phosphate and imported phosphoric acid. The DAP proposal also is being currently examined. There has been no final decision in favour of DAP or nitrophosphate. We are putting up both the proposals to the Cabinet for a final decision. The DAP proposal is also based on imported ammonia and imported phosphoric acid."

2.56 Subsequently, the Department of Fertilizers advanced the following contentions in a note to justify setting up of a DAP Plant based on imported raw materials:

> "For meeting the requirements of phosphatic fertilizers, India is dependent on imports either in the form of raw materials, intermediates or finished fertilizers. Over-dependence on any of these options would lead to non-availability or hike in prices of that item. Government has, therefore, decided to follow a judicious mix of these options for meeting the requirement of phosphatics. It has been estimated that import of about 15.5 lakh tonnes of Phosphoric Acid (in terms of P_2O_5) would be needed for indigenous phosphatic industry. The import of this much quantity of Phosphoric Acid is not likely to pose any problem. To prevent cartelisation, Government has decided to diversify sources of supply of Phosphoric Acid. Government is also examining the possibility of expanding the capacity of Phosphoric Acid in the country.
>
> Import of the other raw-material *i.e.* Ammonia, should not normally pose any problem except the temporary dislocation caused by the Gulf War. For these reasons, it would not be difficult to set up a DAP Plant based on imported Phosphoric Acid and Ammonia."

2.57 At the time of evidence, the Secretary, Department of Fertilizers added:

> "What we have not lost sight is the fact that in Haldia we have the facilities for making ammonia and for making phosphoric acid. It may not be in perfect condition but the basic facilities are there. Our aim is that once some production starts even based on imported raw material and some resources are generated, then it becomes a little more self-reliant. So, over a period of time, may

be starting with DAP, if some resources are generated, then it may be possible step-by-step to make use of the other facilities."

2.58 Advancing another reason for the Company not favouring the proposal for setting up the DAP Plant, the Acting CMD, HFC stated:

"We made clear our feelings to the Government that the DAP plant in respect of urea may be useful to our organisation because the Hindustan Levera is already having a latest plant in Haldia. The capacity is 1.5 lakh tonnes which is equivalent almost to the requirement of the West Bengal. Even if we go in for this, it will take two years. When we come out with the product, at that time, we will be having a competition also in that very location."

He added:

"Obviously we have to carry that material to the other States; may be West Bengal; may be U.P. If we cannot sell it in the State of Bihar, we have to take it out and send it to the other States."

2.59 In this connection, the Committee wanted to know the projected demand in the 8th Plan period and capacity for production of NPK fertilizers. The Department of Fertilizers explained the projections as follows:

"The projected demand of fertilizer nutrients for the terminal year of the 8th Plan (1994-95) has been assessed at 165.0 lakh tonnes, comprising of 103.0 lakh tonnes of nitrogen(N), 45.5 lakh tonnes of phosphatics(P) and 16.5 lakh tonnes of potash(K).

The indigenous phosphatic capacity in the country as on 31.3.90 was 27.50 lakh tonnes of P_2O_5 A number of schemes relating to retrofitting of existing plants, expansion of the existing capacities and creation of new capacities of phosphatic fertilizers have been proposed by the Department in its 8th Plan proposals. If all these proposals are accepted and implemented by the end of the 8th Five Year Plan, the production of Phosphatic fertilizers in the country by that time would be about 33.00 lakh tonnes of P_2O_5 leaving a gap of 12.50 lakh tonnes, which will be met through imports. However, the 8th Plan proposals are yet to be finalised."

Drawing home the point, the Secretary, Department of Fertilizers added during evidence:

"We always agree that requirement based on imported raw material has to be protected; like wise a million tonne of P_2O_5 may have to be imported per year in another two or three years. In other words, we are going to be perpetually short of phosphatic fertiliser in this country. The Department of Fertilizers has been taking special steps to import it to improve the

production and availability of phosphatic fertilizer in all parts of the country. In Haldia, we have already provided a DAP plant. But the eastern region and the country are short of P_2O_5"

Economic viability of the Project

2.60 The Committee desired to know what was the Internal Rate of Return (IRR) estimated at the time of approval of the Project and what is the estimated IRR on the basis of the latest revised estimates. HFC stated in a written reply:

"At the time of approval of project with 88.03 crores the following rate of the return was envisaged.

Return of total Capital—16.13%

Return of equity Capital—25.82.%

Subsequent to this the increase in the project cost estimate was mainly due to departmental charges, financing charges and testing and commissioning. These had occured due to slippage in commissioning schedule which may not be allowed as part of project cost as per FICC guidelines. Based on this guidelines the IRR at Rs. 520.90 crores (for which these have been worked out) is negative. If the entire cost is allowed for FICC pricing, then the IRR works out to 1.40%

2.61 Replying to the question as to whether the project would be financially viable even if it is commissioned, the Company stated in a written reply:—

"Considering the actual expenditure incurred in the project till November, 1990 and huge investment required for Revamping & Rehabilitation of the Project as suggested by the Consultants, the Project may not be financially viable even if it is commissioned."

2.62 On being asked as to whether the Government was serious about taking a final decision and revamping the project, the witness asserted:—

"That is something, I can give a straight answer. There is no attempt on the part of the Government to avoid taking the final decision on the future investment of the Company."

2.63 Enquired as to how quickly the revamping proposal was expected to be cleared, the Secretary, Department of Fertilizers stated in evidence:—

"We have got PIB Committee clearance on 18-2-1991 for making the Project Report. We will go to the Cabinet Committee. I am afraid, I cannot say how long will the Cabinet take to give a decision."

2.64 However, subsequently, the witness held out an assurance before the Committee:—

> "But I assure you that we will take special steps to expedite it not only within our Department but also in other Departments or Committees or Bodies of appraisal agencies or Boards or whatever it is."

B. Project Implemented

2.65 HFC completed and commissioned the following four projects during 1985—90:—

1. Namrup Expansion project III-with the facility of 600 MT per day of ammonia and 1167 MT per day of urea;
2. 16 MW coal based captive power plant at Barauni;
3. 15 MW coal based captive power plant at Durgapur; and
4. Atmospheric Ammonia Storage Tank at Haldia, Durgapur and Barauni to agument urea production.

2.66 The details of these projects viz. the original approved cost and expenditure actually incurred as on 31.3.1990 and originally scheduled and actual dates of completion as furnished by the Company are as follows:—

(Rs. in crores)

Sl. No.	Name of the project	Original time schedule	Actual time taken	Original approved cost	Actual expenditure incurred upto 31.3.91
1.	Namrup Expansion Project-III	66 months	101 months	168.43	282.24
2.	Captive Power Plant, Barauni	45 months	99 months	29.68	41.37
3.	Captive Power Plant, Durgapur	43 months	107 months	12.69	17.65
4.	Atmospheric Ammonia Storage tanks—Haldia, Durgapur Barauni	24 months 24 months 24 months	68 months 133 months 87 months	9.997	10.27

2.67 It is seen that there was considerable delay and cost everrun in respect of all the projects. The cost and time overrun were largely attributed to delay in civil works and delivery of equipments by suppliers, change in scope etc.

2.68 The Committee were informed by the Company that to considerable extent the slippages in respect of the projects occured due to non-adherence of schedule by suppliers, which were mostly public sector undertakings. Notably some of these equipments were manufactured by these Companies for the first time as a result of which there were delays in delivery and some of the equipments also suffered from defects thus

adversely affecting the performance. HFC management reportedly conveyed their reservation to the Ministry against placing order for boilers for the Barauni Captive Power Plant with BHPV, who manufactured it for the first time on the basis of knowhow offered by BHEL. Explaining this, Acting CMD, HFC stated in evidence:—

> "In some of the cases, they have tried this equipment for the first time in the country. Obviously, at the time of making experiment there are bound to be some problems; especially in the case of BHPV, they have produced the equipment for the first time in the country. We were not allowed to purchase it from outside."

A representative of HFC added:—

> "At that time, our Board of Directors considered it and we have expressed our reservation about the capability of BHPV because they were making it for the first time. Then it was referred to the Ministry. The Ministry called a meeting between BHPV, BHEL and HFC. Then, with the back-up of BHEL it was decided that the order can be placed with BHPV."

2.69 The Committee felt that notwithstanding the government policy to develop indigenous knowhow for the manufacture of capital equipments, it was the responsibility of the Government to ensure that these Public Sector Companies had the capacity, expertise and experience to manufacture the equipments before HFC was directed to place orders on these companies. Responding to this, the Department of Fertilizers stated in a written reply as follows:—

> "Government had satisfied itself about the capacity, expertise and experience of the indigenous capital goods manufacturers to manufacture equipments before the Public Undertakings were directed to place orders on these concerns. Initially, there were teething problems of the suppliers, as it happens with any new venture but these have been over-come by technical collaboration with experienced foreign capital goods manufacturers wherever necessary and by their own experience."

2.70 The Company stated that the delay was mainly due to non-adherence of schedule by Government companies like BHEL, BHPV and others. In this context HFC stated in a written reply:

> "Continous efforts were made to analyse the basic causes for delay in the implementation of the project and the concerned authorities were approached from time to time to take corrective action."

2.71 Asked about the corrective steps taken by the Company, the Acting CMD, HFC pointed out:

> "We used to talk to the Ministry. We requested them to intervene. They use to call a joint meeting. The Ministry was also trying

to impress the people concerned to expedite things. Things were not coming up to our expectations. We used to refer the matter to the Ministry."

2.72 Explaining the existing set up in the company to monitor implementation of Projects, it was stated in a written reply as follows:

"The present set-up is to appoint a Project Manager for each of the Projects under whom a group of engineers like Civil, Mechanical, Electrical, Instrumentation and Materials Management are attached. Besides, Planning Scheduling and Monitoring Cell under the Technical Services Wing is coordinating and monitoring the execution of the project. For programme scheduling and monitoring, PERT network technique is adopted. Monthly Review Meetings are conducted with Consultants for identifying bottlenecks and taking corrective measures for expeditious execution of the Project. In case of abnormal delays in the supply of major equipment, the critical situation is brought to the notice of the concerned Ministries and is followed up by arranging meetings with the concerned authorities."

2.73 In reply to a question as to what extent the delays were attributable to internal and external factors, the Company stated that most of the delays were due to external factors.

2.74 Enquired as to whether there was any inbuilt deficiency in the system of monitoring and implementation of the projects, the acting CMD, HFC concended:

"About the inbuilt deficiency, I would say that the people may not be efficient. So far as the Company, as a whole is concerned, the Management has been following it up and see that monitoring is being done. There are some exceptions which are beyond our control. Had they done the job in time, the problems would not have arisen. Of course, the Company could have taken alternative course of action to see that the projects are implemented in time. Unfortunately, that has not been done."

2.75 Asked whether increase in capital cost on account of delay in completion of projects is taken into account for the purpose of calculation of fertilizer subsidy, the Department of Fertilizers stated in a post-evidence reply as follows:

"As per the present policy, the increase in the capital cost due to time overrun is not recognised for the purpose of calculating the retention price and subsidy except in special circumstances."

2.76 Haldia Project, which was under implementation at the time of inception of HFC, has not been commissioned as yet. Although the zero date of the project was 1 September, 1972 with a completion period of 42 months and scheduled time for commercial production was September, 1976 as

envisaged at the TEFR stage, the project was mechanically completed only in November, 1979, i.e. after a delay of 45 months. The reasons for the delay were stated to have been on account of inordinate time taken in release of foreign exchange, receipt of basic engineering documents, civil works, receipt of major equipments at site and installation of river water system. In addition, the Committee observe that much of the actual delay was due to defective project planning, revision of the basic design of vital sections of the Ammonia plant at late stages, frequent changes in the source of supply of critical equipments and delay in delivery of equipments by suppliers. It is distressing to note that even minor aspects of project planning like land development was not correctly evaluated in the DPR which led to considerable delay in implemenation of the project. The Committee were informed that decisions taken to go in for indigenous technology to the extent possible and avail of credit facility for the technology and equipments which were required to be imported were two major contributing factors for the delays.

2.77 While a host of other factors were responsible for the enormous delay in mechanical completion of the project, the Committee cannot absolve the Ministry, erstwhile FCI and its P & D Division (now PDIL) for the serious lapses in project planning, execution and monitoring. The Committee are of the view that at the time of placing orders on indigenous firms with a view to encouraging development of indigenous technology and foreign firms with an eye on credit facility, the Government and the Company should have satisfied themselves about the competitiveness and reliability of such firms. They feel that with proper planning and effective monitoring much of the delays in implementation of the project could have been avoided.

2.78 The tardy implementation of the project and change in scope were responsible for revision of the project cost on a number of occasions and its escalation from Rs. 88.03 crores at TEFR stage to Rs. 624.18 crores, for which the approval of the Government is still awaited. The Committee deprecate such heavy cost over-run in 709% higher than the envisaged cost at the FR stage, which made the project unviable. Another disturbing aspect is that although an expenditure of Rs. 608.48 crores was incurred on the project, the latest cost estimate approved by Government was Rs. 281.96 crores. In this connection, the Committee would invite attention to the BPE guidelines issued in 1981 that wherever the revised cost based on DPR exceeds by more than 20% of the original amount/sanctioned by Government, the case has to be brought up for approval again at the appropriate forum. The Committee are not convinced with the justification given by Government for the lapse that revised cost estimates are normally submitted before the competent authority for approval when the project is on its way to completion. The Committee cannot but express their displeasure over such neglect on the part of the Government in complying with the guidelines and they desire that responsibility be fixed for the lapse

and the Committee be apprised in this regard at the earliest. They also desire that revised cost estimate of the plant should be got approved by the competent authority at the earliest opportunity.

2.79 The Committee are distressed to note that the project suffered from a number of technological and design dificiencies on account of which the plants could not be operated on a sustained basis and production and commissioning activities had to be stopped. Serious problems were experienced in the oxygen compressors, the most critical equipment in the fertilizer plant, and three compressors were damaged. The Committee were informed that ENSA, the French Agency, with whom order was placed for the supply of number of equipments including Oxygen Compressors, had procured various components of the equipments from different agencies and got them assembled. It was surprising to learn that there were as many as 11 firms engaged for basic and detailed engineering for the project while equipments were supplied by as many as 26 companies from India and abroad. The Committee were also given to understand that the selection and import of various technologies were aswayed more by economic, rather than technical considerations. Orders for major items were placed on French and Polish firms who arranged major part of the credit. The tied loans resulted in mismatch and repeated failure of equipments. What further dismays the Committee is the selection of an uproven process technology for the Nitro-Phosphate Plant in Haldia was based on know-how from Stamicarban, Holland. Significantly, the only plant other than Haldia set up on the basis of this technology in Bulgaria had been abandoned. Similarly, the process technology selected for Sulphuric Acid and Nitric Acid Plants were reportedly very old. M/s. Toyo Engineering Corporation, Japan and M/s. Uhde, West Germany who were engaged consultants to carry out end-to-end survey of the Plants in Haldia also found a lot of deficiencies in design and fabrication which in some cases ranged between 50% to 100% due to manufacturers' workmanship.

2.80 The Committee were informed that the P&D Division of erstwhile FCI (new PDIL) was responsible for the detailed engineering of the Haldia Project. The Project was transferred to HFC in 1978 after reorganisation of erstwhile FCI. What further dismays the Committee is the fact that neither was any enquiry conducted into the failure of the project nor was any action taken against those who were responsible for planning and implementation of the Project. They recommend that at least now a detailed enquiry be conducted with a view to fixing responsibility for all the lapses in the execution and monitoring of the project and the Committee be informed of the outcome within a period of three months.

2.81 Due to non-availability of power committed by WBSEB, the commissioning activities could be resumed only after a 20 MW Gas Turbine was imported and commissioned in 1982 at a cost of Rs. 691

lakhs. The Committee desire that the proposal for the rehabilitation of Haldia Project should invariably include provision for stabilising power generation from the existing Gas Turbine. Since the supply of power from the grid is unpredictable the practibility of augmenting the existing power generation capacity in the Plant in keeping with the requirements should also be considered.

2.82 The Committee note that Government took a decision to stop all production and commissioning activities in Haldia w.e.f. 16.10.1986. The Committee were informed that although some production could be achieved in Ammonia, Methanol and Urea plants between 1983 and 1986, the decision was taken as stablised operation of the plant could not be achieved due to presistent problems faced by the various equipments. Besides this expenses on testing and commissioning of the Plants were also reportedly on the increase. A Technical Committee set up to assess the additional requirement of funds for the Project, in fact, had recommended that Haldia should be allowed to resume commissioning in a phased manner with an investment of Rs. 14.74 crores. The Committee are at a loss to understand as to what considerations weighed with the Government to take a sudden decision to close down the Plant all together without having obtained the advice of any expert body or agency. The Committee have reasons to doubt the wisdom of this decision. They are of the view that since the different plants in Haldia were facing presistent problems, a consultant should have been engaged to undertake a detailed study for improving their efficiency and in the meantime the plants could have been kept in operation. The Committee also note that the recommendation made by the Technical Committee that operation of the plants should be allowed to be resumed was not given due consideration by Government. They further note that HFC incurred a loss of Rs. 321.64 crores upto March, 1990 on account of non-commissioning of Haldia Project.

2.83 M/s. Toyo Engineering Corporation, Japan engaged to carry out end-to-end survey of Ammonia, Urea and Methanol Plants in their report submitted in July, 1988 proposed additional invesetment of Rs. 299.18 crores for revamping of the plants. The Committee are affirmed that there was no proposal before the Government to revamp the plants on account of high investment required. They are distressed to find that no efforts have been made by the Company or the Government to rehabilitate these plants since their closure in 1986. The Committee recommend that soon after a decision on the proposed DAP/NPK Plant in Haldia is taken the viability of rehabilitating the Ammonia, Urea and Methanol Plants should be examined by Government.

2.84 The Committee note that M/s. Uhde Gmbh, West Germany submitted a proposal for an additional investment of Rs. 199.17 crores in two phases for revamping and rehabilitation of the Nitro-Phosphate Group of Plants. Although Phase I proposed at a cost of Rs. 123.88 crores to produce 1100 tpd of NP was cleared in principle by the Government in

July, 1989 and a DPR prepared thereafter, it was subsequently concluded that a new grass root DAP Plant of 600 tpd with indigenous technology based on imported Phosphoric Acid and Ammonia would be better. Resource constraints and unviability were stated to have been the main reasons for not pursuing the proposal submitted by the consultant. The Committee were informed that if investment was made as per the consultant's proposal, the retention price would have increased to the extent of Rs. 10741 per tonne Urea against the normal rate of Rs. 4200 and Rs. 8534 per tonne for NP against normal rate of Rs. 5000, thereby increasing the subsidy burden on Government.

2.85 The Committee find that HFC and the Government have advanced diametrically opposite views on the question of setting up a new grass root plant at Haldia utilising the existing infrastructural facilities and equipments to the maximum limit. Where as HFC favoured an NPK Plant, the Department of Fertilizers vehemently advocated in favour of a DAP Plant. Diverging views were also expressed on the investment requirements, cost of production and viability in case of each proposal. However, the Committee have not gone into the merits and demerits of both the proposals. Nonetheless, they note that the subsidy outgo in case of DAP Plant would be Rs. 4787 per tonnes as against Rs. 15889 in case of NPK Plant. Whereas the proposal for the DAP Plant was based on imported Phosphoric Acid, the Committee were given to understand that Paradeep Phosphates Limited and Madras Fertilizers Ltd. were facing shortage of imported Phosphoric Acid due to suspension of its import by Government. While conceding that there was shortage of the raw material in the country, the Secretary, Department of Fertilizers informed the Committee during evidence that the Government proposed to expand the capacity of Phosphoric Acid in the country and even the facility for its production in Haldia could be made use of in the long run. The Committee are further informed that PIB clearance for making the Project Report for a grass root plant in Haldia was received on 15th February, 1991 and that proposals for both DAP and NPK Plants would be submitted for a final decision. However, the Company felt that with the expenditure actually incurred and further investment required for rehabilitation, the Project might not become viable even if it is commissioned.

2.86 While urging the Government to expedite a final decision on the proposal for the rehabilitation of Haldia Project, which has been hanging fire over several years, the Committee desire that a decision on the product should be taken after careful evaluation of all the aspects of the proposals including availability of raw material and viability of the Plant. The Committee would like to be apprised of the final decision in the matter.

2.87 The Committee find that in the four projects completed and commissioned by HFC during the period 1985-90, there were delays ranging between 35 to 109 months and cost escalation ranging from 103% to 412%. The Committee were informed that while factors like delay in civil works,

change in scope, etc. were responsible for considerable delay in cost overrun, the major contributory factor was non-adherence of schedule by suppliers of equipments and machinery, most of which were public enterprises. Some of the equipments were manufactured for the first time by these companies resulting in slippages and defects in the equipments. Commenting on monitoring the execution of Projects by HFC's management, the Acting CMD was candid in admission that "had they done the job in time, the problems would not have arisen." The Committee are perturbed about the enormous delays and cost escalations in the execution of the Project which admittedly, were due to lack of management control and monitoring by the Company. In this context, it is also significant to note that the retention price formula does not reckon cost escalation in the implementation of projects for the purpose of calculation of fertilizer subsidty and the Company had to bear the brunt of cost overrun. They would also stress that although the Committee are in favour of encouraging indigenous knowhow for the manufacture of capital equipments, the Government should have ensured that the companies had the capacity and expertise to manufacture the items before public undertakings were directed to place orders on these Companies. The Committee trust that HFC and the Ministry would ensure in future that schedules fixed for implementation of projects would be adhered to religiously.

CHAPTER III

PRODUCTION PERFORMANCE AND REVAMP

A. *Production Performance*

3.1 Total production of Nitrogen by HFC's units was as follows during the last three years:

(Lakh tonnes)

Year	Total Quantity of Nitrogen Produced
1987-88	2.90
1988-89	2.40
1989-90	2.37

3.2 The Committee noted that the overall production has registered a declining trend during the period 1987-88 to 1989-90 inspite of the fact that Namrup III with an installed capacity of 385110 MT of Urea and 177150 MT of Nitrogen was commissioned in the intervening period and commercial production was started in October, 1987. HFC advanced the following reasons for the abysmally low capacity utilisation and the declining trend in production:

(i) Frequent break-down in the machinery due to ageing of the plants which require major repairs and replacements of problematic equipments;

(ii) Bottlenecks in the regular supply of Natural Gas due to various agitations and bandhs;

(iii) Power tripping restrictions especially in Durgapur and Barauni;

(iv) Durgapur Unit had also lost considerable production in 1988-89 and 1989-90 due to labour problems.

3.3 Pointing out other factors which were responsible for the decline in overall performance although Namrup III commenced production in 1987. HFC stated in a written reply:

> "Other contributing factor is the extension of the annual shutdown and other maintenance jobs in respect of Durgapur and Barauni which has further substantially decreased the capacity utilisation in the last two years. As such, although the production of Namrup III has increased after the

commissioning from October, 1987, but the overall capacity utilisation of the Company as a whole is decreasing."

B. *Production Constraints*

3.4 The number of stream days achieved by the operating units of HFC during the last three years was as follows:

Unit	Stream days available	1987-88 Amm.	Urea	1988-89 Amm.	Urea	1989-90 Amm.	Urea
Namrup I		203	-	169	-	132	
Namrup II	365	242	258	158	152	225	200
Namrup III	365 183 days in 1987-1988	117	114	211	202	282	266
Durgapur	365	201	159	97	74	66	42
Barauni	365	239	207	201	188	130	104

3.5 According to the Company technological and design deficiency, power shortage, problems with equipments and shortage of raw materials, etc. were some of the main factors besides annual turnaround which were responsible for the number of stream days achieved by the Units being very low.

(i) *Technological and Design Deficiency*

3.6 According to the Company one of the reasons for low production, poor quality product and frequent shut downs was technological and design deficiency of the plant. The operating plants at Durgapur, Barauni and Namrup are based on Montecatini technology imported and engineered by the then P&D Division of FCI as a single stream all centrifugal 600 tpd of ammonia and matching urea plant for the first time in the country. The design of ammonia plant was not proven as Montecatini designed such ammonia plant for the first time using synthesis loop which had not been used commercially earlier.

3.7 The Committee wanted to know as to what were the considerations which weighed with the Government to go in for Montecatini technology which was not commercially used earlier. The Department of Fertilizers explained as follows with particular reference to Urea Plant:

> "At the time (mid-60s) the implementation of Durgapur, Barauni and Namrup projects was taken up, there was severe foreign exchange crunch. M/s Montecatini (Italy) offered to finance foreign exchange component of these projects on Suppliers' Credit basis. The country was anxious to build up self-reliance in the

implementation of fertilizer projects. Only M/s Montecatini agreed to finance these projects on the basis that PDIL will do the detailed engineering, procurement, construction and commissioning. M/s Montecatini were already in the field of design, construction and operation of fertilizer plants. They had the process know-how for the urea plant which was in successful operation in some plants at the time they were selected as consultants."

3.8 Regarding the technology for Ammonia Plants the note stated:

"With regard to Ammonia, although they had know-how for design and construction of plants of smaller size, that was the first time they designed a modern ammonia plant of 600 TPD capacity using centrifugal compressors for various services. The ammonia plant at Cochin is also based on the same technology. This plant, however, has given better performance as compared to HFC plants mainly because of the fact that this plant had a captive power plant from the very beginning."

3.9 Replying to the question as to whether other proved technologies were not available, the Department of Fertilizers pointed out that for Ammonia Plant technology Kellogg (USA), ICI (UK), TOPSOE (Denmark) and CF Braun (USA) were reputed firms and for Urea Stamicarbon (Holland), TEC (Japan) Inventa (Switzerland) and Snam (Italy) were proven technologies.

3.10 The Committee was given to understand that due to deficiency in technology the quality of Urea prills produced by HFC was inferior in quality leading to complaints from consumers. Commenting on this, the Company stated in a written note:

"The major reason for poor quality of urea prills is due to deficiency in the design of Prilling Tower and its vacuum system. This results in higher moisture contents in the prills resulting in lump formation and higher percentage of fines in the product. Because of the inherent design deficiency in the prilling system the Consultants recommended installation of a new Prilling Tower at Durgapur and provision of Pre-concentrators at Barauni, Durgapur and Namrup Plants. The above suggestions involve considerable investment."

(ii) *Equipment Breakdown*

3.11 Another factor responsible for the number of being low stream days was equipment breakdown as may be seen from the following table:

Unit	1987-1988		1988-1989		1989-1990	
	Amm.	Urea	Amm.	Urea	Amm.	Urea
Namrup II	52	5	97	8	72	37
Namrup III	63	65	121	35	52	45
Durgapur	77	15.5	56.5	4.5	116	13
Barauni	65	18	103	7	114	31.5

3.12 It is observed that the number of days lost is very much on the higher side especially in the case of Ammonia Plants. The Urea Plant in Namrup I was closed down and only Ammonium sulphate is being produced in small quantity. HFC informed the Committee that Durgapur Plant was shut down from 23 March to 31 August, 1989 due to breakdown of equipment.

In this context, HFC stated in a note as follows:

> "Due to unproven equipment and unreliable power all the plants were subjected to crash shutdown number of times right from the startup of these plants. These crash shutdowns had an adverse effect on the various equipments and machinery which resulted in further stoppages of Plants."

3.13 The capacity utilisation in Namrup III in the second year of commercial operation was only 66.5%. It was stated that the Plant suffered mainly due to repeated problems in equipments like RG Boiler and Process Air Compressor in Ammonia Plant and Second Carbamate Recyle Pump in Urea Plant. Enunciating the corrective measures taken the Department of Fertilizers pointed out in a note:

> "The Company has already taken action to have more reliable Carbamate Pump which has since been received at site and is under installation. The problem of Process Air Compressor has since been solved. The reasons for failure of RG Boiler have been identified and strict control is being maintained on the operating parameters. Spare tube bundles have been ordered to act as a stand-by so that minimum time is lost in the event of failure of RG Boiler and restart of the plant."

3.14 In this, context, the Acting CMD, HFC stated during evidence:

> "We have taken action to rectify all these things. We have sent a team to the plant site. Plant people are careless in taking action quickly. That committee is reporting to the Head Office what are the deficiencies in the plant which can create problems; what are the bottlenecks. We have taken action on that also. Then

we have geared up the Technical Department to see that we should not depend upon the unit. Then we have sent another team to find out what are the deficiencies to take corrective action. We are having a dialogue with the unit also."

3.15 On being enquired as to what extent the company has been able to overcome the constraints in production in various units, it was stated in a written reply:

"Efforts have been made from time to time by the Management to rectify the equipments giving trouble. But due to the ageing of the plants some of the problematic equipments are standing in the way of maintaining the continuity in production. To overcome these constraints, HFC has already submitted revamping and rehabilitation proposals to the Government for investment decision which is under the consideration of the Government."

3.16 It was brought to the notice of the Committee that HFC's plants are having dacentralised maintenance system for each plant wherein it is difficult to shift personnel from one plant to another whereas some of the other Companies have centralised maintenance work to carry out major maintenance jobs. Often there was resistance from the staff of the Units if the staff from the other units are taken for maintenance jobs.

3.17 Moreover, it was stated that there is no inbuilt NDT (Non Destructive Test) system and services of outside agencies are taken to help diagnose the deficiencies. The Company had to depend on external and private agencies for compressor overhauling, refractory lining of special equipment, fabrication, insulation and painting, piping work, labour intensive jobs during annual shutdown, special investigative studies by expert consultancy firms, etc. An expenditure of Rs. 355.43 lakhs, Rs. 385.16 lakhs and Rs. 446.55 lakhs were spent each year from 1987-88 to 1989-90 towards engaging private agencies for maintenance jobs.

3.18 The Company suggested in a note the following measures to improve the maintenance system:

(i) Identification of problem equipments in advance by systematic condition monitoring.
(ii) Scheduled replacement of old and problem giving equipments in systematic way to improve stream days.
(iii) Following religiously a schedule of annual maintenance and advance planning for the same.
(iv) Improve the quality of maintenance staff by taking experienced and qualified staff at different levels.

3.19 Mentioning the steps being taken by the Company in this regard, it was stated in a note as follows:—

"Steps are already in hand to systematise conditions monitoring & scheduling of maintenance. We have been taking up

replacement of problem equipments under Renewals & Replacements. Efforts are also under way to utilise staff from different units and to recruit qualified personnel at intake level to improve quality of maintenance."

(iii) **Power Shortage**

3.20 The operating Units of the Corporation faced serious power problems adversely affecting production. The number of interruptions and days lost on account of unstable power supply in each Unit during the last five years was as follows:—

Year	Barauni		Durgapur		Namrup		
	No of interruptions	Days lost	No of interruptions	Days lost	No of Interruptions	Days lost	
						Namrup I	Namrup II
1985-86	14	7.5	20	25	50	28.2	22.86
1986-87	27	12	22	14.5	58	41.31	51.60
1987-88	14	8	9	7.5	58	42.01	6.27
1988-89	13	20	6	4.5	41	9.62	3.64
1989-90	13	21.5	8	20.5	71	59.47	4.65

3.21 In this context, HFC brought out the impact of such interruptions and stated:

> "In a continuous Process Industry even though the Power interruption is for a few minutes, the entire plants trip and it takes about 2-3 days for the production to restart. Such crash shutdown also affected the sensitive refractories, catalysts, packing, and other items in the plants."

3.22 The Committee sought to know as to what were the arrangements made for power supply to HFC's plants and how did the concerned agencies fail to supply the committed power. HFC replied in a written note as follows:

> "At the appropriate stage before commissioning of the plants regular power supply agreements were signed with the Bihar State Electricity Board for the Barauni Plant, with Assam State Electricity Board for Namrup Plant and with the Durgapur Projects Limited for Durgapur Plant. The Power agreements for the above plants were signed during the early seventies and subsequently with rapid industrialisation in the States demand for power went up considerably with a deficit in power generation. As such, the grids became unstable and the power supply to the Fertilizer Units also became erratic."

3.23 Enquired as to whether the issue relating to continuous power shortage/interruptions was taken up with the Electricity Boards or State Governments concerned, the Company stated in a written reply as follows:

"The issue regarding unstable power resulting in voltage dips, power failure and frequent variations was taken up with concerned Electricity Boards and other Government agencies from time to time. Even though some modifications/improvements were made in the distribution system by the Electricity Boards, however, the system continued to be unstable due to problems in the power stations and distribution system of State Electricity Boards as well as due to wide gap between the demand and generation of power."

3.24 The Committee enquired whether captive Power Plants were not included in the project. A representative of HFC stated in evidence:

"It has not been included. I would further like to say that the general policy is that the grid will be stable and so the companies were not allowed to set up captive power plants. Later, when this problem came up we though of having the captive power plant."

3.25 In this context, the Secretary, Department of Fertilizers commented more pragmatically:

"A reading of the performance of HFC's units shows that the project planning did not provide sufficient captive power. But I would also like to add that a unit of this kind which is a continuous processing industry, cannot be dependent always on the grid power. The nature, and extent of captive power which is of course, costly, is determined by the project authorities after consulting the State Electricity Board."

He went on further and said:

"To some extent, one can say that it was faulty planning but it is not only faulty planning on the part of this project but also perhaps in demand-supply management and planning of power in the grid also. So, very often the kind of power commitment that has been made by the Electricity Board was not realised and the project authority had no go except to think of captive power plant, even though it meant additional investment of high magnitude because the cost of power per unit had gone high. So, this is the position with regard to power."

3.26 However, as a major step to solve the problem of power shortage, captive power plants were installed in Namrup in August, 1986 and December, 1987 Durgapur in November, 1986 and Barauni in February,

1990. The power requirements and captive power facilities of HFC's Units were as follows:—

Unit	Total Power requirement (MW)	Captive Power Facilities existing (MW)
Barauni	21	16
Durgapur	21	15
Namrup	34	30

3.27 It is seen that even after the Captive Power Plants were set up, the units were facing considerable power shortage. Enquired about the reasons for unabated power shortage being experienced by the units even after the CPPs were commissioned, the Department of Fertilizers stated in a written reply:

> "It may be clarified that the Captive Power Plants are not meant for meeting the full requirement of power for all the Plants (except for Namrup-III), but are meant only for meeting the requirement of Ammonia Plant and other essential services to sustain the Ammonia Plant. The entire Namrup-I Pant is also dependent on grid supply."

3.28 While the Company was able to stabilise the power generation at Namrup, the CPPs at Durgapur and Barauni were facing a number of problems. Durgapur Plant has not been performing reliably due to poor quality of coal supplied by the colleries. Whereas the boilers require consistent Gr. 'C' quality coal, the supply is of inferior quality corresponding to Gr. 'D' and 'E' having considerable fines which cannot be fed to stoker fired boilers. Use of this coal results in severe break-downs of stoker and other equipments of the boilers.

Barauni Captive Power Unit has faced a number of problems on TG generator like high vibrations of the rotor, defective AVR and AFR system, bearing problems in Condensate extraction pumps etc. M/s. BHEL have rectified these problems and the plant is running normal for the last one month. With stabilisation of the power from CPP, incidence of power interruption will be vastly reduced and on-stream efficiency of the plant is expected to improve. Barauni Plant is still facing problems with poor quality of coal.

3.29 On being asked as to how the Company proposed to cope with the future power requirements, HFC stated in a written reply as follows:—

> "In the case of Namrup-II Plant with the satisfactory performance of the Gas Turbine Sets, no major problem is expected to be experienced. In the case of Durgapur Plant the performance of

Captive Power Plant is extremely poor due to the poor quality of coal. Action is in hand to replace coal feeders with the improved design and also to make certain modifications in the boiler and coal handling system so that better stability of the Plant could be achieved. Efforts are also being made to enter into an agreement with Coal India for supply of required quality of coal. With these measures the Captive Power Plant of our Durgapur Unit also is expected to stabilise. In case of Barauni Unit even though the Captive Power Plant had some teething troubles the performance is now stabilised and the stability of power in the Barauni Unit from Captive Power Plant is expected to improve."

3.30 The Committee wanted to know whether there was any proposal to engage agencies like BHEL or NTPC for running the CPPs on a consultancy basis. In response, the Acting CMD, HFC stated:—

"We have got a local party by name ABL. We have contacted them. They have made a recommendation to further invest Rs. 3 crores in it and this can be rectified. The work pertaining to Durgapur Captive Power Plant was awarded to them."

(iv) *Insufficient Supply of Raw materials*

3.31 Following were the number of streamdays lost in the units during the last three years:—

Unit	1987-1988		1988-1989		1989-1990	
	Amm.	Urea	Amm.	Urea	Amm.	Urea
Namrup II	35	70	37	129	49	104.5
Namrup III	3	3	7	6	12	10
Durgapur	—	77	—	56	—	107
Barauni	8	102	5	138	—	109.5

3.32 In the third year of commercial operation Namrup-III achieved only 66.5% capacity utilisation. Besides repeated problems in equipment, a major constraint was shortage of gas supply. The Namrup complex consisting of Namrup-I, II and III and the two units of CPPs presently require about 79 MMSCFD of natural gas. The present supply by ONGC and Oil India Ltd. was to the extent of 70% of the total requirement. Highlighting the problem, a representative of HFC, stated during evidence:

"When all the plants are running and the full gas is drawn, our gas pressure gets affected .....Our plants are not running together now at the full capacity utilisation. Hence they are flaring some gas. When our plants are stabilised and we are able to run on full load, then the shortage comes. Unless the total quantity improves, the pressure will be affected."

However, the Acting CMD, HFC added:—

"If all the three plants are running at the optimum capacity, then there is a shortage of gas. Due to some problems, we are not able to run all the plants together at full capacity. At the moment, there is not much of a problem."

3.33 Explaining the constraints experienced in the regular supply of Gas the acting CMD, HFC narrated as follows:—

"For about 45 days, there was no gas at all. Both the plants were not working at that time. Secondly, there was some problem with the pump in one of the plants. It was supplied by the Bharat Pumps and Compressors Limited, Allahabad. We were not allowed to import. This pump, which is very important for the urea plant, is giving problem right from the beginning. It has gone out of order. Some water from the river has gone to the boiler and the boiler broke down. We had to arrange for the replacement of the machinery and it took a lot of time. This year production in Namrup III was very bad."

The witness went on and stated further:—

"Oil India and ONGC are the two sources and the supply to the factory is done by the Assam Gas Company. There were two lines but one of the lines got burst and there was fire. Only one line was carrying the gas and the total requirement could not be met with one line alone. Secondly, there were certain problems due to Assam Bandhs and Agitations. Because of this, we have to face some difficulty even at the gas generating sources also. The full requirement of the three plants could not be met because of these fluctuations."

3.34 In addition, the gas supplies were affected by frequent Assam 'Bandhs'. Besides these, the pressure of gas was affected with Assam Gas Company giving outlets to different tea gardens and the failure of OIL to commission compressors to boost the pressure of gas supply due to their internal problems. Due to high methane content in the gas supplied by OIL the consumption is also higher. However, the Committee were informed that the compressors have since been commissioned and the Company has taken up with OIL the question of augmenting the gas supplies.

3.35 Commenting on the steps taken by the Department of Fertilizers in this regard, the Secretary, Department of Fertilizers stated during evidence:

"What I found was that one of the problems was the availability of gas also. The gas availability was little uncertain and it was difficult for them to operate all their plants fully. I had detailed discussions with the gas company people. They had their own

problems. The net result is that they have promised to stabilise the gas supply."

3.36 Expressing satisfaction over the latest position in gas supply to Namrup, the witness added:

"The gas availability has in fact stabilised in the last one month and I was just talking yesterday about it and right now they are operating at 86 per cent at Namrup-III and I hope they can maintain at that level and the local management is taking some steps to set right things that were not working fully and if it works at that kind of level, in the coming months that unit by itself will break even."

3.37 Namrup Unit also faced some problems due to the quality of river water which was being used. Elaborating the steps taken by the Government in this regard, the Secretary, Department of Fertilizers stated during evidence as follows:—

"Other problems they have are about water. They take water from nearby river. There are some problems of the quality of water and I took the Government Commissioner with me to the plant from Guwahati to discuss the problem because action has to be taken by them. Basically the water is getting affected due to quarrying on the river bank and we were able to convince them that this was creating a lot of problems for us and affecting our continuous operation and I have been assured by the senior officers that they will review it and see how it can be stopped."

3.38 The Committee were informed that since the liquidity position was very precarious, the Company experienced difficulties in arranging necessary funds for the procurement of input materials like Naphtha and Coal for which advance payments were required to be made.

3.39 Another problem was poor quality of coal supplied by the collieries of Coal India Ltd. for the power and steam generation plants of HFC's units. Highlighting it, the Company pointed out in a written note as follows:

"Even though our power & steam generation plants are designed to operate on 'B' grade coal at the least, the supply has been invariably 'D' grade coal at most of the times resulting in heavy breakdowns and limitation at the operating end. This in turn has affected the morale of the staff, more intensive maintenance at very much high cost and lower production and efficiency."

3.40 At Barauni and Durgapur the heavy maintenance and breakdown of the equipment was also due to poor quality of coal. Due to very high ash content all the equipments right from the Coal handling section to the pressure parts of the boiler, economisers, superheaters and ID fans

were subjected to heavy erosion, causing frequent shutdowns. About the steps taken in this regard, a note furnished by the Company stated:

> "The problem of poor quality of coal was taken up repeatedly with M/s. Coal India. Efforts are also being made to get a proper Agreement signed by Coal India to supply proper quality of coal."

3.41 The Department of Fertilizers also informed the Committee that instructions were given to the Company during the Performance Review Meeting that steps should be taken to depute some experienced officers at the collieries for monitoring the quality and despatch of coal. However, it could not be implemented without having an agreement with the coal supplying agency and Coal India Limited.

C. Capacity Utilisation

3.42 Plant-wise installed capacity, production performance and capacity utilisation for Barauni, Durgapur and Namrup Plants for the last three years were as given in the following table:—

Name of Unit	Installed Capacity Annual	Date of starting Commercial Production	Production % Capacity utilisation for the last three years					
			1987-88 Production	% Cap. Uti.	1988-89 Prodn.	% Cap. Uti.	1989-90 Production	% Capacity Utilisation
BARAUNI								
Urea	330000	1.11.76	165938	50.3	142368	43.1	79837	24.2
N	151800		76331.48	50.3	65489.28	43.1	36725.02	24.2
DURGAPUR								
Urea	330000	1.10.74	126082	38.5	59642	18.1	34213	10.4
N	151800		57997.7	38.5	27435.3	18.1	15737.9	10.4
NAMRUP-I								
Urea	55000	1.1.69	Nil		Nil		Nil	
A/So 4	100000		21840	21.8	19455	12.4	11175	11.2
N	45000		4586.4	—	4085.5	—	2346.7	—
NAMRUP-II								
Urea	330000	1.10.76	189250	57.3	114440	34.7	141020	42.7
N	151800		87055	57.3	52642.4	34.7	64869.2	42.7
NAMRUP-III								
Urea	385110	1.10.87	105906	27.5	196806	51.1	255959	66.5
N	177150		48716.7	27.5	20530.7	51.1	117741.1	66.5

3.43 It is seen from the table that capacity utilisation in Barauni, Durgapur and Namrup I and II which has been declining during the last three years, was abysmally low. Commenting on the poor capacity utilisation in HFC's plants, the Secretary, Department of Fertilizers observed during evidence:—

> "Sir, it is true that the capacity utilisation in almost all the plants has been poor including Namrup-III, which is of particular concern because it is a fairly new plant and also gas-based, whereas elsewhere in the country, even public sector plants or

cooperative sector plants are operating at very high levels, some of them even at more than 100%."

3.44 The average capacity utilisation in the urea plants of other Public/ Cooperative Sector Companies in the year 1989-90 was as follows:

Name of Company	Capacity Utilisation(%)
Fertilizer & Chemicals Travancore Limited (FACT)	50
Fertilizer Corporation of India (FCI)	43
IFFCO	106
KRIBHCO	115
National Fertilizers Limited (NFL)	97
Madras Fertilizers Limited (MFL)	40
Neyveli Lignite Cooperative	94
Rashtriya Chemicals & Fertilizers Limited (RCF)	81

3.45 HFC stated that a proposal was submitted to the Government for derating the capacity of its plants. Favouring derating of old generation plants, the Secretary, Department of Fertilizers stated during evidence:

"The problem is in regard to the older units, Durgapur, Barauni and the earlier Namrup units where capacity utilisation had been low....I am afraid in Durgapur and to some extent in Barauni also, it has in recent years been coming down. But I would like to submit, Sir, for the information of the Committee that this percentage utilisation is somewhat misleading because it is based on capacity that was initially given, the normal capacity of the plant at the time of the installation, and it is no longer really an achievable capacity. So we have done some exercise to see what would be after some minor repairs and maintenance are done. Our presumption is of course we will have to go into this and formalise it, most of the plants may have to be revised, the rated capacity may be about 2/3rd of its original capacity. But I think it is no longer realistic to go in terms of some original paper capacity of this plant and judge whether it is the realizable capacity, these plants are not doing all that badly as it appears from a reading of the capacity utilisation figures. However, we are not satisfied that even with reference to the revised or a derated capacity its performance in recent years is optimum or is all that can be achieved."

3.46 Recounting the advantages of derating installed capacity of these plants, the witness went on to say:

> "I can give you the details by way of example. Now, the capacity of the Durgapur Urea Plant is about 3,30,000 tonnes per year and after partial revamping, we are hoping that we can produce somewhere around two lakh tonnes. If we fix that as the achievable capacity, then capacity utilisation will be fairly good and we will be able to re-fix the retention price also. Our expectation is that with the revision of rated capacity, with this modest capacity taking advantage of the captive power plants and restructuring of the capital, these units can be turned around. They may not generate big profits, but atleast they will cease to be a burden on the Government. They will start contributing much more to the fertilizer production of the country than they are doing now."

3.47 The Committee also noted press reports about the move by Government to substantially derate the installed capacity of the ageing plants of sick fertilizer companies including those of HFC. Enquired whether Government had taken any decision to derate the capacity of the plants of HFC, the Department of Fertilizers pointed out in the post evidence replies as follows:—

> "Government has not taken any decision on the proposal of HFC to derate the capacity of their operating units. Presently, the retention price of HFC units is based on 100% of the nameplate capacity and assuming 80% normative capacity utilisation of pricing. If the nameplate capacity is reduced from 100 to, say, 80% then the entire fixed cost and conversion cost which were earlier distributed on 80% of the 100% capacity will now be distributed over 80% of 80% capacity which would mean that the retention price of the units will undergo upward revision and HFC would be allowed higher subsidy per tonne of their product."

D. Cost of Production

3.48 The cost of production of Urea in all the operating units of HFC has been much higher than the selling price as well as the retention price

fixed by the Government as may be seen from the information relating to 1987-88 to 1989-90 furnished below:—

(Rs./Te)

Unit	Selling Price w.e.f. 31.1.86	Average Retention Price	Cost of Production (Excluding interest)
1987-88			
Namrup-II (Urea)	2220	2462	3000
Durgapur	2220	3716	4850
Barauni	2220	3738	4657
1988-89			
Namrup-II (Urea)	2220	2294	3992
Durgapur	2220	3685	7398
Barauni	2220	3853	5198
1989-90			
Namrup II (Urea)	2220	2294	2933
Durgapur	2220	3701	11737
Barauni	2220	3866	8138

3.49 Enquired about the direct and indirect cost in the cost of production, the Company furnished the following information:—

(Rs./Te)

Year	Unit	Direct cost (variable cost)	Indirect cost (Fixed cost excl. Int.)	Total
1	2	3	4	5
1987-88	Namrup-II	1544	1456	3000
	Durgapur	3300	1550	4850
	Barauni	2954	1703	4657

1	2	3	4	5
1988-89	Namrup-II	2013	1979	3992
	Durgapur	4484	2914	7398
	Barauni	3411	1787	5198
1989-90	Namrup-II	1848	1085	2933
	Durgapur	5733	6004	11737
	Barauni	4975	3163	8138

3.50 There was steep increase in the cost of production from Rs. 7398 per tone in 1988-89 to Rs. 11737 in 1989-90 in Durgapur Unit and from Rs. 5198 per tonne in 1988-89 to Rs. 8138 in 1989-90 in Barauni Unit. HFC advanced the following reasons for the increase in the cost of production in all its units:

(i) Very low capacity utilisation by the units due to frequent breakdown of equipments and machinery, interruptions in power supply, disturbed industrial relations, etc.

(ii) Higher rate of consumption of raw material due to increased number of shut-down and start-ups, ageing of equipments, etc.

3.51 The Committee were informed that the consumption of raw material was higher than the norms on an average in all the Units. Explaining this phenomenon, the Acting CMD, HFC stated in evidence:

> "After I ran the plant for four days, again it had to be closed for another four to five days. When the plant is closed, whatever material has gone inside the plant that goes waste. We cannot convert it into fertilizer. Secondly, we have to pay the electricity bill. So overheads have to be borne by the Corporation even though there was no production."

3.52 Asked about the steps taken to keep the cost of production to the minimum level, the Company enumerated in a written reply as follows:

> "The Company has taken a number of steps to increase on stream efficiencies of the plants by stabilisation of Captive Power Plants and maintenance of critical equipments and machines which are repeatedly giving problems. Condition monitoring teams have been set up in all the Units to predict failures of the machines so that corrective action is taken in time to minimise the production loss. In addition to above, steps are taken to reduce start-up and shutdown times and to avoid idle running of machines than necessary. With implementation of machines, it is expected that capacity utilisation and on stream efficiency of the plants will increase resulting in lower cost of production in the plants."

E. Revamping and Rehabilitation

3.53 With a view to revamp and rehabilitate Namrup I and II, Durgapur and Barauni Plants, the Government approved in 1987 the appointment of foreign consultant, M/s. Haldor Topsoe, Denmark for carrying out End-to-End Survey of the operating units.

3.54 The Committee wanted to know as to why did the Government not appoint a consultant to carry out end-to-end survey before 1987 in view of the fact that the performance of these plants had not been satisfactory since long. The Department of Fertilizers stated that with a view to improve the performance of these Units, captive power plants were sanctioned to ensure sustained power supply. When production did not improve in spite of this, Government appointed Paul Pothen Committee in 1986 to look into the working of the Units. One of the recommendations of this Committee, which submitted its report in December, 1986, was to have an end-to-end survey of the operating units by an experienced consultant. Accordingly, Government approved appointment of the consultant.

3.55 The Report submitted by the consultant in April, 1988 was forwarded to the Government for investment decision by the Company in July, 1988. Enquired as to what were the reasons for the delay of about three years in taking a final decision on the report of the consultant, HFC stated in a written reply as follows:—

> "The Consultant M/s. Haldor Topsoe submitted their Report in April, 1988 which envisaged an investment of Rs. 486.30 crores for the Operating Units at Barauni, Durgapur and Namrup I & II. The same was forwarded to the Government for an investment decision in July, 1988. Since the proposal required a detailed study and analysis in view of the massive investment, more than normal time was taken to study the various aspects."

3.56 In their report, M/s. Haldor Topsoe has opined that it is unrealistic to expect that these plants will be able to maintain even the present effective sustained load capacity without revamping and rehabilitation since the plants are between 12 to 15 years old. They recommended that the plants are amenable to revamp with an additional investment of Rs. 486.39 crores which has been updated to Rs. 604.24 crores by PDIL in February, 1990 to achieve 100% production capacity after second stage of the revamp and daily capacity of the Ammonia Plant was expected to be augmented to 110% after the last stage of revamp. With this the plants were expected to sustain for the next 10 to 12 years and generate sufficient resources in the future. The consultants were also of the view that rehabilitation of the Plants would be more economical than setting up of new plants, since the cost of a new plant with a nominal capacity of 1710 MTPD Urea would be at least Rs. 600 crores. The Company felt that after the revamping proposals as suggested by the consultant is carried out the Company could earn a profit in the order of Rs. 9595 lakhs per year.

3.57 However, HFC stated in a note that the ultimate analysis had shown that it would be more economical to go in for grassroot plants at the three sites. The Pre-PIB meeting held in May, 1990 concluded that HFC should examine this possibility of going in for minimum expenditure on the existing plants to keep them in operation for 4-5 years. In the meantime fresh proposals for grassroot plants are to be initiated. Accordingly an alternative study was got done by PDIL and the minimum investment worked out to Rs. 97.84 crores.

3.58 Advocating partial revamping with the modest investment, the Secretary, Department of Fertilizers explained the main consideration which weighed with Government for favouring it as follows:—

> "Ideally, we would prefer full-fledged revamping which was expected to cost at that time around Rs. 480 crores and today not less than Rs. 600 crores and perhaps more. However, it is not going to be possible for us to get the money of this magnitude because this will be in addition to writing off the loss which is existing above Rs. 800 crores. This partial revamping has got a good chance of improving the viability of the company based on which we can think of new plants that we feel more feasible and saleable probably. When we did propose, alongwith other agencies the possibilities of making that kind of an investment which was originally above Rs. 400 crores and by now Rs. 600 crores, the reaction of the Government was negative. I see little prospect of that original full-flegded comprehensive proposal of that magnitude. Our hope is that we can atleast put through this partial revamping proposal. It is true that it will not give a permanent solution. Some of the equipments that we will be bringing in may be able to serve for ten years or so. Some of the equipments which we use may not last for long. We were told that this partial revamping will take care of the factories for four to five years, which will generate resources and depending on the performance, one can take a decision as to whether completely new plants will have to be planned or not."

3.59 Asked about the latest stage of the proposal for revamping and rehabilitation, HFC stated in a written reply as follows:—

> "During the course of pre-PIB meeting held in the month of May, 1990, it was decided to review the modest investment proposal of Rs. 123 crores suggested by us and to prepare a list of problematic equipments requiring immediate replacement in consultation with Advisor (Fertilizer). Accordingly a list of such problematic equipment was prepared involving a modest investment of Rs. 97.84 crores. The proposal has been submitted alongwith the profitability analysis after taking into account derating of the plants and capital restructuring."

3.60 In this context, the Department of Fertilizers stated in a written reply:

"The proposal for modest investment is at the final stage of consultation with the appraisal agencies in the Government and is expected to be put up to the competent authority shortly."

3.61 Giving unit-wise estimates of the proposal for partial revamping, the Acting CMD, HFC, stated during evidence:

"In the case of Durgapur it is Rs. 35.65 crores, for Barauni it is Rs. 26.70 crores, for Namrup I it is Rs. 8.94 crores and for Namrup II it is Rs. 26.55 crores — total is about Rs, 98 crores. It is basically based on the foreign consultant's report."

3.62 The Committee sought to know as to whether the Government had analysed the economics of both the proposals, viz. revamping the plants as suggested by the consultant and the alternatives proposal for modest investment. The Department of Fertilizers furnished the following analysis in a written reply:

"Government has analysed the relative merits of both the proposals, namely, complete revamping of the plants, as suggested by the consultants, and the alternative proposal for modest investment. The cost of complete revamping of the Units as per the recommendation of the consultants was Rs. 486.39 crores, which has now been estimated at about Rs. 604.24 crores. Further, the estimate proposed by the consultants was without health study of the plants and the consultants study itself was under taken three years back. No detailed health study of the plants has been made so far and only after a health study, it will be established whether the life of the plants and equipments not to be revamped will match with that of the revamped plants. For these reasons, there is no guarantee that the cost estimate of Rs. 604.24 crores is firm, that 100% capacity utilisation will be achieved and that the life of the revamped plants will extend to 15 years. In addition, since the existing technology involving high energy consumption will not be upgraded during revamping, the energy inefficient operations will continue. On the other hand, the alternative proposal entails much lower investment of Rs. 98 crores which will enable carrying operation for about 4 to 5 years at 50 to 60 per cent of the capacity. The subsidy outgo is not going to be significantly higher as compared to the case of complete revamp as per the recommendations of the consultants."

3.63 According to the Company the modest investment proposal is based on the following presumptions:

(1) Installed capacity of the plants will be derated to 60% and retention price will be calculated at derated capacity.

(2) Capital restructuring of HFC by writing off the accumulated cash

losses of these Units totalling to Rs. 739.87 crores as on 31.3.1990 and converting the outstanding loans to equity (except for CPP at Barauni).

(3) Plants will operate for 4 to 5 years and new grassroot plants will be sanctioned to the Company at these sites.

3.64 HFC also favoured the modest investment proposal subject to above presumptions and setting up of new grass root plants. It was stated in a written reply as follows:

"In case of HTAS proposals although investment is high but the plant will sustain itself for next 10 to 12 years and will generate sufficient investment in the future, whereas modest investment proposal on its own, i.e. without derating the plant capacity and capital restructuring will entail losses to the company due to lower capacity utilisation. It is only viable when the above stated presumption are taken into account. It is a stop-gap arrangement to sustain the production for next 4 to 5 years when new modern energy plants will be installed which will generate sufficient profit to the Company. In the long run the proposal with modest investment and setting up of new grass root plants will be more advantageous."

3.65 Asked about the response of the Ministry to the concessions sought by HFC without which the modest investment would not be viable, the Department of Fertilizers stated:

"The request of HFC for financial restructuring, derating of the plant capacity etc. are under consideration of the Government alongwith modest investment decision."

3.66 The Committee then enquired about the latest estimated cost of the three new grassroot plants and whether it would be possible to find resources and set up the new plants in the next 4-5 years as the existing plants could be kept in operation only upto that time even with the additional modest investment. The Department of Fertilizers replied in a note as follows:

"The cost of the replacement plants at Barauni, Durgapur and Namrup has not been estimated recently. Estimates done in 1986 showed an investment requirement of about Rs. 1069 crores. It is not possible to indicate at this stage whether resources will be available for replacement of plants. It will depend on the availability of resources and viability on updated costs. For the present, the Government is concentrating on revamp of the existing plants. It may further be pointed out that the resources position for various sectors in the 8th Plan have not yet been finalised."

3.67 To a specific question as to when did the Government propose to set up the new grass-root plants at these sites and what were the

steps being taken in this regard, the Department of Fertilizers replied in a written reply as follows:

"For the present, the Government is concentrating on revamp of the existing plants. After the revamped plant operation is seen, the Government would consider proposals for the setting up of the replacement plants in a phased manner depending upon the availability of resources and viability of the projects."

3.68 Enquired as to whether going by the past performance of these plants the Government was convinced that with the modest investment the plants would be able to achieve better capacity utlisation and sustain till the new grassroot plants are set up, the Department of Fertilizers stated in a written reply:

"The Government expect that with an investment of Rs. 98 crores on a partial revamping, alongwith other measures like financial restructuring, derating of capacity of the plants and success of the efforts being made by the Company to improve the work culture, the plants would achieve better capacity utlisation and become viable."

3.69 Asked as to how soon a final decision was expected to be taken on the investment proposal, the Department of Fertilizers pointed out:

"It is, however, not possible to indicate a firm date when the decision will be taken. In matters of investment decision involving heavy amounts, particularly with reference to HFC Units, where performance has not been satisfactory for a long time inspite of sizeable capital injection, examination by appraisal agencies takes a little longer time, and hence delay. However, in so far as the Department of Fertilizer is concerned, no efforts would be spared for expediting the processing of the proposal."

3.70 The Committee were informed by HFC that if no decision was taken regarding investment on these plants, the Company would incur an average loss of Rs. 182.4 crores annually. Highlighting the consequences of further delay in investment, the Acting CMD, HFC pleaded before the Committee:

"But our worry is any delay will escalate the cost. Secondly, with the passage of time the condition of the plants will further deteriorate. That is the only point which is worrying us."

3.71 The Committee view with concern the abysmally low capacity utilisation and the declining trend in production in HFC's operating Units, Barauni, Durgapur and Namrup I & II. The Committee were also given to understand that production and capacity utilisation in respect of Urea was the lowest in HFC comparing to other plants producing the fertilizer in the public as well as Cooperative sectors. Whereas average capacity utilisation in the Company's plants in 1989-90 was 36% fertilizer companies in the cooperative sector. KRIBHCO and IFFCO recorded 114.8% and 106%

capacity utilisation respectively and public sector companies like NFL and RCF, 97% and 81% respectively. It is also distressing to note that the total production of Nitrogen by the Company has declined from 2.89 lakh tonnes in 1987-88 to 2.40 lakh tonnes in 1988-89 and 2.37 lakh tonnes in 1989-90, inspite of the fact that Namrup III with an installed capacity of 177150 MT Nitrogen commenced production in 1987. The actual production by all the units of HFC fell short of the targets throughout the Seventh Plan period, which the Committee have gone into in the earlier part of this Report. They are particularly concerned about the level of capacity utilisation which was 66.5% in 1989-90 in Namrup III, a gas based new generation plant commissioned in 1987 even after its gestation period was over, whereas similar plants in the country were operating at 100% or more of their capacity. The Committee are unhappy to find that no serious efforts had been made either by the Company or the Ministry to improve the production performance by the units.

3.72 The shortfall in production was attributed to a variety of factors like technological and design deficiencies, equipment breakdown, power shortage, insufficient supply of raw material, etc. These constraints, besides annual turn around, were responsible for the number of streamdays achieved by the Units of HFC being low, the lowest being 42 days for the Urea Plant in Durgapur in 1989-90. The technological and design deficiency in the Montecatini technology on which the Plants of the Company were based was stated to be predominant hurdle in improving the production performance and quality of Urea prills. Although other proven technologies were available at the time of its selection in 1960s, the decision in favour of it appears to have been swayed more by economic rather than technological considerations since M/s Montecantini, Itlay offered to finance the foreign exchange component of the project on supplier's credit basis. The Committee find that whereas the process knowhow for the Urea Plant was proven one, Ammonia plant of 600 TPD capacity with centrifugal compressors was designed by the consultant for the first time. While expressing their displeasure over selection of an unproven technology for the Ammonia Plant, the Committee feel that notwithstanding the economic considerations, the provenness of technology and design of the knowhow selected should have been given precedence over all other considerations, especially in view of the heavy investment involved in a fertilizer plant.

3.73 Another production constraint was frequent breakdown of equipment resulting in considerable loss of streamdays in the units. The Committee find that whereas the Urea Plant in Namrup I was closed down, the equipment failures in Durgapur, Barauni and in a relatively new plant like Namrup III had increased to disturbing proportions in 1989-90 with the number of streamdays lost in the Ammonia Plants having been 116 in Durgapur, 114 in Barauni and 52 in Namrup III and in the Urea Plant in Namrup III the same was 45 days. The frequent breakdown of equipments were reportedly due to unproven equipments and unreliable supply of

power. Admittedly, the maintenance system in the Company was left with much to be desired. Although the Acting CMD, HFC was candid in admission during evidence that "the plant people are careless in taking action quickly", the Committee are surprised to find that there is no centralised maintenance system in the Company. The Units had to heavily depend on outside agencies even for routine maintenance work which led to an expenditure of Rs. 446.55 lakhs in 1989-90. The Committee are not satisfied by the steps already taken by the Company in this regard. They recommend that the Technical Department should be further toned up with an effective Centralised Maintenance System functioning under the Corporate Office for attending to all major maintenance jobs in the Plants gradually reducing dependence on external help. In view of the frequent unscheduled shutdowns, the Committe would also underscore the need for improving prevention maintenance in the plants.

3.74 The Committee note that power shortage was yet another contributing factor adversely affecting production. Although agreements were signed with the concerned agencies before commissioning of the Plants, the Power Supply from the grids became erratic due to growth in demand. The Committee are not convinced with the reasons advanced by the Company for not having included Captive Power Plants in the Original Project itself and having relied solely on grid power especially for fertilizer plants which are continuous process industries. The Committee were given to understand that a similar Ammonia Plant based on Montecatini technology set up in Cochin had given better performance as compared to HFC's plants because a CPP was commissioned there in the very beginning. At this stage they would only like to comment that commissioning the plants totally relying on grid power was a clear case of bad project planning. What further dismays the Committee is the fact that inspite of setting up captive Power Plants in all the Units with the passage of time with capacity to meet power requirements to a considerable extent, the Units continued to experience unabated power shortage due to the unsatisfactory performance of CPPs on account of equipment problems and poor quality of coal. The Committee are not able to comprehend the argument advanced by HFC that the CPPs were meant only to meet the requirement of Ammonia Plants. They suggest that the desirability of enhancing the existing captive power generation capacity of the operating units should be examined by Government and suitable action taken with a view to minimise dependence on grid power. It is a matter of concern to the Committee that although the Company had succeeded in stabilising power generation at Namrup, the CPPs at Durgapur and Barauni were still facing a number of teething troubles. While the Committee note that a private agency has been engaged for running the CPP at Durgapur, they suggest that if need be, the services of an expert agency might be engaged for the power Plant in Barauni also for improving its performance. At the same time the Committee desire that the Central Government should use their good offices and impress upon the

State Government/Electricity Boards to ensure regular and uninterrupted power supply to the plants situated in the respective States.

3.75 The number of streamdays lost on account of shortage of raw material in the Urea Plants were 109.5 in Barauni, 107 in Durgapur and 104.5 in Namrup II in 1989-90. There was shortage in the supply of natural gas by ONGC and Oil India Limited to the extent of 30% in Namrup Group of Plants. As a result, all the plants could not be operated together at the optimum capacity. Moreover, due to high Methane content in the gas supplied by OIL the consumption was also higher. The Committee are happy to learn that the problem has since been sorted out with the personal intervention of the Secretary, Department of Fertilizers and the gas companies have promised to improve the gas supply. They also note that that problem with the quality of river water for the Namrup Plants was also expected to be overcome as a result of intervention by the Government. The Committee trust that with these measures, production would improve in the Namrup group of Plants. Due to higher ash content in the coal supplied by the collieries of Coal India Limited for the power and steam generation plants there were heavy breakdown and evasion of equipments. The Committee have been informed that efforts were being made to get an agreement signed with Coal India Limited for regulating the quality of coal supplied to the Units. The Committee find that although during the Performance Review Meeting, the Ministry had suggested that HFC should consider deputing some experienced officers at the collieries for monitoring the quality and despatches of coal, it could not be implemented in the absence of an agreement to that effect. The Committee desire that steps should be taken to finalise the agreement expeditiously with Coal India Limited for supply of coal including that for deputing officers of HFC at the collieries for monitoring the quality of coal. The Committee are also informed that the Company experienced difficulties in arranging necessary funds for the procurement of input materials like Naphtha and Coal due to liquidity problems. What dismays the Committee is that while on one hand the Company experience shortage of raw material on account of liquidity problems, on the other hand the Company was carrying heavy inventory which represented 24.62 months' consumption as in the end of March, 1990. They cannot resist commenting that the purchase of raw materials was not carefully regulated and did not commensurate with the actual requirement of each raw material.

3.76 The Committee are also unhappy to note that capacity utilisation which has been declining over the years in Barauni, Durgapur and Namrup-I was abysmally low in 1989-90, i.e. 10.4% in Durgapur, 11.2% in Namrup-I and 24.2% in Barauni, Namrup-II 66.5% in the year. The Committee are informed that a proposal was submitted by the Company to the Government for derating the capacity of old generation plants. The Secretary, Department of Fertilizers favoured derating the capacity of these plants during evidence on the ground that the rated capacities were no more

CHAPTER IV

FINANCIAL PERFORMANCE

A. Capital Structure

4.1 The total investment made in HFC as on 31-3-90 source-wise was as under:—

	(Rs. in lakhs)
(i) Paid up Capital	64522.18
(ii) Central Government Loans (including non-plan loan)	76482.55
(iii) Other Loans: (Rashtriya Chemical & Fertilizers Ltd.)	1300.00
	142304.73

4.2 The Committee were informed that the anticipated rate of return on capital employed was 12% after tax as per FICC pricing policy at the time of formation of the Company. Enquired about the factors responsible for non-realization of the projections, the Company advanced the following reasons:

(i) Design deficiency in the equipment;

(ii) Frequent breakdown of equipment resulting in more shut down and start up;

(iii) Power supply problem;

(iv) Assam agitation;

(v) Ageing of the Plants;

(vi) Actual consumption of in-puts are higher than the norms fixed by FICC due to above mentioned reasons;

(vii) Indiscipline, indifferent work culture and low productivity of employees;

(viii) Overall average capacity utilisation of our operation Plants since the formation of the Company was around 40% whereas as per FICC pricing formula the retention price has been fixed at 80-90% capacity utilisation.

4.3 The Company submitted a proposal for capital restructuring to the Government on 31-3-1988. The salient features of the proposal are as follows:—

(i) Equity base should be increased by Rs. 45.28 crores which was reduced at the time of formation of HFC. The revised equity base should be recognised by FICC for the purpose of fixation of retention price.

(ii) Plan loans should be converted into equity share which should be recognised by FICC for retention price.

(iii) Till the revamping of the old plants are completed, the retention price be fixed by FICC at 70% normative capacity.

(iv) The accumulated interest on GOI loans should be waived.

(v) The non-plan loans may be granted interest holiday for 5 years.

(vi) Moratorium on repayment of residual loans should be granted for 5 years and thereafter to be repaid in 5 equal instalments.

According to the Company the projections for future performance of the Company after implementing the capital restructuring proposal are as follows:—

Year	Net Profit/Rs. Crores
1992-93	28.58
1993-94	27.38
1994-95	27.40
1995-96	26.15
1996-97	26.95

4.5 When the Committee sought to know the latest stage of the capital restructuring proposal, the Department of Fertilizers stated in a written reply as follows:—

> "It is a fact that the Company had submitted proposal for capital restructuring in May, 1988. However any proposal for financial restructuring cannot be considered in isolation and the same has to be accompanied by technical and managerial improvement according to the guidelines of the Government for consideration of financial restructuring. The Company in the meantime submitted proposal for partial revamping of the plants and has also taken certain action for revamping of the plants Management. The Company was, therefore, advised to update their proposal for financial restructuring taking into account the proposal for partial revamping and also the action taken on

the Government from time to time. The Department of Fertilizers furnished the following written reply:

"Yes Sir, the Government have analysed the reasons for poor financial performance of the company year after year. The following remedial measures have been implemented during the last few years—

(i) Installation of Captive Power Plant at the Units;

(ii) Revamping of the Sulphuric Plant at Namrup;

(iii) Closure of the un-economic urea plant in Namrup-I;

(iv) Replacement and renewals;

(v) Appointment of a Task Force to look into the working of the company and suggest remedial measures for improving the performance;

(vi) Appointment of a consultant for carrying out an end-to-end survey of the operating units;

(vii) Providing non-plan support to ease liquidity problems;

(viii) Allocation of a new gas based project at Namrup (Namrup-III).

4.12 Government is considering Partial revamp of the operating units and also the proposal of de-rating and financial restructuring of the company which, when implemented, is expected to improve its viability."

4.13 Asked as to whether the Board of the Company regularly reviewed the working results of the Company and what were the major decisions taken to improve the financial health of the Company, HFC stated in a written note:

"The Board regularly reviews the working results of the Company and issues appropriate direction, such as, revamping of operating units, restart of Haldia and improvement in industrial relations."

In this context, the Department of Fertilizers added in a written reply as follows:—

"The Board of Directors, where there are two Government Directors, analyse the performance of the Company on a monthly basis and advise the Company in areas where improvement and corrective actions are required to be carried out. The main thrust of the discussions in the Board Meetings is on improvement of productivity of various units, particularly with respect to Namrup-III."

4.14 Enquired as to whether the issue relating to continuous heavy losses incurred by the Company figured in the Performance Review

Meetings held with the Ministry and what were the directions/guidelines, if any, issued by the Ministry in this regard, HFC stated:

> "The issue of heavy losses incurred by the Company figures regularly in the performance review meetings held with the Ministry. The directions of the Ministry in this regard are generally to increase production and sales and minimise expenditure."

4.15 Responding to a question whether there was any possibility of the Company becoming viable in the near furture since the financial position of HFC was in a very bad shape, HFC replied in a written note as follows:

> "Certain proposals for making the Company viable were submitted to the Government. These proposals include (i) Financial Restructuring, (ii) Derating the capacity of plants, and (iii) modest investment for replacing the problematic equipments and for improving the performance of the plants. When all the three above mentioned proposals are implemented together, the Company is expected to become viable."

4.16 Sharing the views of the Company the Department of Fertilizers added:

> "The Company has submitted proposals for revamping of the operating units on a modest scale and also derating of the plant capacity, financial restructuring etc. These are under consideration of the Government. Government expects that, if these measures are implemented, the Company would become viable."

4.17 Detailing the steps taken to bring the Company back on the rails, HFC stated in a written note:

> "The Company has also taken steps to curtail expenditure on such items as overtime allowances, reduction in staff by the introduction of Voluntary Retirement Scheme and reduction of interest on working capital by borrowing from alternative sources of finance."

4.18 Responding to another question as to whether the Government expected the Company to become viable even if the proposals submitted by the Company were implemented since the financial health of HFC was very precarious, the Department of Fertilizers stated in a written Reply:

> "Government expects that with the implementation of the partial revamping proposal and derating of capacity, financial restructuring etc. as proposed by the Company, the financial health of the Company will improve."

4.19 The Committee were also informed that the sundry debts of the Company as on 31.3.1990 were Rs. 3298.59 lakhs which worked out to 15.99% of total sales. The break-up of the sundry debtors was as follows:—

	(Rs. in Lakhs)
1. Government Departments	1034.02
2. Public Sector Undertakings	1432.14
3. Private Parties	832.43*
	3298.59

* A sum of Rs. 765 lakhs recovered by 31.12.1990.

4.20 Out of the total outstandings, Rs. 1407.85 lakhs were outstanding for more than one year. The following were the reasons given by the Company for the heavy outstandings.

(i) Increase in volume of credit sales due to glut situation.

(ii) Delay in realisation against sales to State Governments and institutional agencies in North-eastern States due to paucity of fund.

(iii) Credit sales made to Cooperative Societies in other States resulting in tardy realisation of outstanding dues.

4.21 HFC also stated that an agency by name, BISCOMAUN in Bihar which was supplied 67,000 tonnes of fertilizers has not been making payment. They have sold out only 20% of the nutrients and the rest of the stock is lying in their godowns. The Company was not even able to get back the unsold stock of material lying with the agency. Inspite of personal intervention of the Union Minister of State, an amount of Rs. 12 crores was yet to be recovered from BISCOMAUN.

C. *Inventory*

4.22 The total value of inventories at the end of the year 1989-90 was Rs. 203.04 crores. The norms for keeping raw materials, stores, spares, etc. and finished goods and actuals relating to the period between 1987-88 and 1989-90 are given below:—

	Norms	Actual no. of months' consumption		
		1989-90	1988-89	1987-88
Raw materials, stores and spares, loose tools etc.	12.00	24.62	19.80	14.40
Finished Goods	0.75	4.27	3.97	7.12

4.23 The annual inventory carrying cost was Rs. 7.20 crores.

The Committee wanted to know what were the reasons for high inventories of raw materials, stores, spares, etc. inspite of low production activity in the Company. HFC advanced the following reasons:—

(i) Locational disadvantages in setting up the plants like Namrup;

(ii) Inventory of insurance spares to meet emergent needs of the plants so as to avoid longer shut-downs;

(iii) A longer lead time involved in the import of spares;

(iv) Obsolescence of spares requiring replacement of items with improved latest design;

(v) Due to ageing of plants requiring frequent shut-downs and replacement, it is necessary to stock more spares;

(iv) Inflation in the cost of spares and materials.

4.24 Explaining the reasons for high level of finished goods inventory, HFC stated that in 1988-89 and 1989-90 the selling price of urea was substantially lower than the selling price fixed by the Government which was mainly due to abundance of urea in the market. As such, HFC did not sell the product at such low price. The Corporation had expectations that the situation would substantially improve at the end of 'Kharif' 1990 and the level of inventory of finished goods would correspond to the demand for the fertilizer.

4.25 However, the Committee were informed that indigenous production of Nitrogen has been less than the overall demand (consumption) for the nutrient. The information relating to last three years is given below :

(000 te)

Year	Total Production	Overall Demand
1987-88	5465.6	5716.8
1988-89	6712.4	7246.1
1989-90	6747.4	7396.0

4.26 The Committee also took note of the fact that the actual sales of the Company was less than the budgetted sales as may be seen from the sales performance relating to the last five years furnished below :

(Lakhs/MT)

Year	Budgetted Sales	Actual
1985-86	9.17	7.03
1986-87	8.67	7.01
1987-88	6.41	5.83
1988-89	9.47	7.73
1989-90	7.27	6.25

4.27 In reply to a question, the Company stated that the Fertilizer Promotion Wing was geared up to help in the disposal of fertilizers and a special campaign was started for increasing the sale with a view to reducing finished goods inventory.

4.28 The mounting losses of HFC since its inception is a source of deep concern to the Committee. The Committee are distressed to find that the Company which had occupied the second position among the top loss making public sector enterprises in the country in 1988-89 catapulted to the top in the list in the year 1989-90 accounting for 8.67% of the total loss incurred by the public sector in the year. At the time of formation of the Company the anticipated rate of return on capital employed was 12% after tax as per FICC pricing policy. However, against the paid up capital of Rs. 645.22 crores, the accumulated loss as at the end of 1989-90 had reached a staggering figure of Rs. 949.69 crores, thus wiping out the whole paid up capital. In addition, the Company had loans and interest thereon outstanding for repayment due to liquidity problems. Besides the progressive rise in net losses year after year from Rs. 104.84 crores in 1987-88 to Rs. 156.38 crores in 1988-89 and Rs. 169.97 crores in 1989-90, another disturbing feature was the actual losses incurred being constantly higher than the budgetted figures since 1986-87, viz, the actual loss which was 111% of the budgetted figures in 1986-87 rose to 116% in 1987-88, 119% in 1988-89 and 125% in 1989-90, pushing the Company more and more into the red. Against a budgetted loss of Rs. 175.18 crores for the year 1990-91, the provisional loss incurred upto December, 1990 was Rs. 187.97 crores. It is significant that the sharp rise in losses were despite the fact that Government had paid subsidy to the Company aggregating to Rs. 296.92 crores during the last five years from 1985-86 onwards as retention price subsidy and freight subsidy under the Retention Price Scheme.

4.29 The Company's dismal financial performance has been attributed to variety of reasons. Some of the predominant factors like high consumption of raw material, low capacity utilisation, high cost of production, interruption in gas supply to Namrup, etc. have already been dealt with in

the preceding chapter of this Report. However, it is hardly believable that a new generation plant like Namrup III has been incurring losses over since its commissioning in 1987. The losses were to the tune of Rs. 857, Rs. 1795 and Rs. 555 lakhs from 1987-88 to 1989-90 respectively, with figures higher than budgetted in 1987-88 and 1988-89. The Committee note that both the Ministry and HFC are confident that the Company could become viable once these measures are implemented. The Committee have, however, reasons to believe that just by implementing the proposals for financial restructuring, derating the capacity of the plants and partial revamp, the plants might not become financially viable. The capital restructuring proposal was submitted to the Government almost three years back. Since the Company is facing serious financial constraints, the Committee desire that this alongwith other proposals which are still pending with the Government should be expedited and implemented without further loss of time.

4.30 Going by the burgeoning losses of the Company it is difficult for the Committee to believe that there had been effective monitoring of its performance by the Board of Directors and the Ministry from time to time. They are left with a feeling that whereas HFC had not taken adequate steps to overcome the constraints facing it since inception, the Government only aggravated the situation by simply ignoring it. The Committee would urge that HFC and the Ministry should constantly review the performance of the plants more effectively and make all possible efforts to see that the Company achieves break even point. The Committee would await steps taken in this regard.

4.31 The outstandings of the Company as on 31st March, 1990 were Rs. 3295.59 lakhs equivalent to 15.99% of total sales out of which Rs. 1407.85 lakhs were more than one year old. The Committee are unhappy to note that BISCOMAUN in Bihar has not settled debts amounting to Rs. 12 crores owed to the Company despite intervention of the Government at the higher level. They are of the view that HFC must have stopped further supply of fertilizers to the cooperative society. The Committee stress that effective steps should be taken by the Company and the Ministry especially for recovery of debts outstanding for long from the Government Departments and Public Enterprises.

4.32 The Committee find that the Company has been carrying heavy inventory, much in excess of the norms. The total value of inventories as at the end of 1989-90 was Rs. 203.04 crores. The position was particularly bad in regard to the level of inventory of raw materials, stores and spares etc. which represented 14.40 months' consumption in 1987-88 against the norm of 12 months and consistently increased to 19.80 and 24.62 months' in 1988-89 and 1989-90 respectively. Although the level of inventory of finished goods, which represented 7.12 months' sale in 1987-88 was scaled down to 4.27 months' in 1989-90, it was still high against the norm of 0.75 months' sale. It is surprising to the Committee that while on the one hand HFC was

carrying excess inventory of finished goods, on the other hand indigenous production of Nitrogenous fertilizers had been less than the overall demand in the country and the Company's sales have been below the targets during the last five years even with a marketing set up beyond its requirements. It hardly needs mention that heavy inventory represents avoidable blocked up capital as also entails inventory carrying cost which was as high as Rs. 7.20 crores in HFC annually. The Committee would underline the need for adopting an aggressive marketing policy to avoid piling up of finished goods and measures to check unnecessary accumulation of process stock.

CHAPTER V

MANPOWER AND INDUSTRIAL RELATIONS

A. Manpower Planning

(i) Surplus Manpower

5.1 The total manpower employed by HFC as in 1989-90 was 10,594. In this connection Paul Pothen Committee had pointed out that at the time of reorganisation HFC was left with employees strength in certain departments which was far beyond its needs. The Task Force had recommended that the imbalance thus created should be corrected to lessen the burden on the Company.

5.2 The Committee wanted to know whether justification for the level of manpower and expenditure thereon was examined with reference to volume to work. The Company stated in a written note :

> "With a view to assess the realistic requirement of manpower in the different Units the Corporation appointed National Institute for Training in Industrial Engineering for its Barauni Unit. They have recommended that the realistic manpower required for the present level of production would be 1450 against the existing strength of 1715 and sanctioned strength of 1958. Thus, there is a surplus manpower of 265. Similar exercise is yet to be done for Durgapur and Namrup Complex."

5.3 When the Committee enquired about the reasons for not undertaking study of manpower requirements of other Units and Divisions of the Company, HFC pointed out in a written reply :

> "The manpower study of Barauni Unit was undertaken in accordance with the agreement with the recognised Unions. The question of undertaking similar studies for the remaining Units and Divisions has engaged the attention of the Corporation. With a view to ensuring uniform application of standards in the manpower study, it has now been decided to appoint a Committee to study the manpower requirements of all the Units including Barauni."

5.4 Commissioning and production activities in Haldia Project was stopped in October, 1986. In spite of it there was a work force consisting 1819 persons deployed in Haldia as on 31.3.1990. The Company incurred an expenditure of Rs. 36.64 crores towards payment of salary and allowances to these employees since the closure of the plant in October, 1986 upto December, 1990.

5.5 The Committee were also informed by HFC that the Company

recruited 912 persons during the period 1986—90. Mainly for the new project of Namrup-III and to fill up the quota of SC/ST, Ex-Servicemen, and Physically handicapped persons. When enquired whether any effort was made by the Company to redeploy the work-force and utilise their services in other units, Acting CMD, HFC, referring to a Committee which has been appointed by the Company to study the manpower requirements of the Company, stated during evidence :

> "That Committee will identify this thing. Then we will have a deployment of manpower."

5.6 Referring to Haldia Project, the Company explained in a written note as follows :

> "In view of the resistance of the employees to go on transfer to other units and also these transfers are objected to by the Unions of transfer Units, it is difficult to re-deploy the work-force. However, in the case of officers, some of them have been deployed to other units. A few officers have also been sent on deputation."

5.7 In reply to a question, HFC informed the Committee that 334 employees had availed of the Voluntary Retirement Scheme introduced by the Company in March, 1989 in accordance with BPE Guidelines.

5.8 The Task Force also pointed out that "one of the major issues that have come up during the discussions is the high incidence of overtime in most of the units visited". The amount of overtime allowance paid by the Company during the last three years were as under:

1987-88	—	454.87 lakhs
1988-89	—	468.76 lakhs
1989-90	—	456.80 lakhs

5.9 HFC stated that the main reasons for the high incidence of overtime even though there had been surplus manpower were increase in the number of breakdowns due to ageing of the plants, shift centres and absenteism. Further illustrating the point, a representative of HFC stated during evidence:

> "I will give a slight clarification. In the shift, it is a continuous process of 24 hours. We have divided it into three shifts. In each shift, certain number of people will be manning the machinery. When his shift is over and the next shift man is absent, the earlier shift man does not leave that point unmanned. If the reliever does not come, then this man has to be kept on over-time. That means, he will be paid double the wages as over-time."

5.10 Pointing out that a major factor for increase in losses in Durgapur Unit was the high incidence of over-time, the Acting CMD, HFC confided:

> "Secondly, overtime amount was very high. The shut down was to carry out certain repairs in the plant. People were working for block overtime. This overtime problem was very acute in HFC and as a matter of fact this was the crux of the matter. Even if there is a shut down they wanted overtime to be paid. The Hon. Labour Minister of West Bengal got an agreement signed by them to the effect that the management would pay reasonable amount of overtime. With great difficulty, we could settle the issue."

5.11 In this context, the Department of Fertilizers stated in a written note as follows:—

> "Company has been advised to have stricter control on overtime and this is being monitored on quarterly basis. The Company has reported that overtime expenditure has come down in some of the Units."

5.12 The labour productivity in terms of production of urea in the operating units of HFC for the last three years has been as given below:

(T/employees)

	1987-88	1988-89	1989-90
Namrup	94.93	99.95	129.94
Barauni	93.80	81.25	46.55
Durgapur	66.46	31.74	18.72

(ii) Manpower Requirements

5.13 There is dearth of qualified and experienced personnel in HFC at senior and middle levels. Drawing the attention of the Committee to this aspect, the Acting CMD, HFC narrated:

> "Most of the experienced people opted for other organisations and we are left with people who do not have the requisite experience. If there is a technical problem, earlier we had the facility of consulting the experts in that particular area even if they were in other units. Now this facility is not available. The problem has become more complicated after the Assam agitation. I should say that some sort of a vaccum is created. We have even tried to bring people from other organisations also But due to continuous losses and other things, people were not coming forward to join our organisation."

5.14 The Committee wanted to know the Company's requirement of trained and experienced personnel for being inducted at the higher, middle and intermediate levels. HFC suggested the following measures:

(i) *Senior Levels*

(a) The Chairman and Managing Director should be assisted by at least two functional Directors in the areas of Finance and Technical. The level of Head of Departments in the Corporate Office, in the areas of Personnel, Commercial and Production should be at the level of Executive Directors which should be higher than that of General Managers in the Units. Strengthening of these disciplines will help in improving the managerial and operational efficiency of the Company.

(b) Presently, executives at the level of Heads of Departments—Chief Engineers and Deputy General Managers level are almost in the same age groups of 50—55 years, who have borne the brunt of the problems like disturbed industrial relations climate and frequent equipment failures. Hence, there is a need to induct fresh blood having requisite qualifications and experience in different areas to improve the working of the Corporation. The Company has already taken steps in this direction.

(ii) *Intermediate and Junior Officers' level:*

The Company had laid down guidelines for filling up of 50 per cent of the vacancies from the qualified persons and balance by way of departmental promotions. Due to pressure from Unions and Officers' Association the local Managements had to promote employees from within the Organisation. For example, in the grade of Junior Engineers 77% are non-degree holders while only 23% have the requisite qualifications.

In order to improve the situation, the Management has already taken steps to recruit management Trainees to fill up the quota of the qualified persons but the incumbents are not showing inclination to join the Corporation due to better prospects available to them elsewhere in other companies. In 1989-90 against 69 vacancies only 26 persons were found suitable for the post, out of which only seventeen persons joined but two left during the training period.

(iii) *Workers:*

With regard to induction of qualified persons at the workers' level, the Corporation could not recruit qualified persons within the existing parameters, which *inter-alia* provides recruitment at the lowest intake level *i.e.* mazdoors and their promotions to the level of senior operators regardless of their technical qualifications. Although, the management has taken steps to recruit Apprentices under the Apprenticeship Act but this will not substantially improve the situation due to existing imbalance.

5.15 When enquired about the corrective steps suggested by the Government in this regard, the Department of Fertilizers stated in a note:

"HFC had been advised to induct qualified and experienced people at different levels. The Company has started implementing this advice."

5.16 The Committee suggested that it was desirable that those who are promoted departmentally be put on suitable training. Responding to the suggestion, the acting CMD, HFC stated during evidence:

"Some of the people are middle level employees. It is very difficult to spare them for training."

5.17 On being pointed out by the Committee that manpower training was of utmost importance for the successful operation of any company, the witness pleaded:

"We are grateful to you for these suggestions. I would submit that firstly, we are not recruiting direct trainees and training them in big institutions like IIM, Calcutta. For our in service people also, we invite consultants to give them training."

5.18 Detailing the steps taken by the Company as part of an integrated human resources development approach, HFC subsequently stated in a post-evidence reply as under:

"Review of existing recruitment and promotion rules including job specifications of various posts with main focus on merit besides reviewing existing performance appraisal system so as to make it more result-oriented rather than activity-oriented with the following in-built components:

— Target-setting with mutual consent,

— Evaluation of performance against set-targets,

— Potential review and career development plan;

— In-house training on performance appraisal and employee counselling at all levels to make the system more effective.

Identification of training needs at all levels to achieve desired attitudinal change and relevant skills to improve job performance

of the employees besides involvement of managers in the career development of their subordinates and making it one of their major responsibilities. Tailor-made training programmes will be designed to meet specific training needs of the employees by exposing them to residential and outside training programmes. Making job rotation compulsory once in 2/3 years as a matter of policy for job enrichment and job enlargement of the employees including cross-functional exposures.

Preparation of manpower inventory and also list of employees/ officers who have been stagnating more than 10 years in a particular scale for lack of promotional evenues for evolving a well-knit career/succession plan for appropriate managerial actions, namely, training, re-training and re-deployment to provide them growth opportunities so that optimum utilisation of the available manpower is made."

B. Industrial Relations

5.19 At the time of restructuring of erstwhile Fertilizer Corporation of India Limited, the employees working in the Units/Divisions/Offices were transferred to HFC alongwith Units. The Committee were informed by the Company that the industrial relations climate in the Units of HFC had been difficult right from the beginning. Total mandays lost on account of strikes alone during each of the three years from 1987 to 1989 was as follows:

1987	—	1250
1988	—	23481
1989	—	5365

5.20 The following are some of the main factors which are discernible from the information furnished to the Committee:

(i) There has been an atmosphere of indiscipline in the Units of HFC which adversely affected the performance of the plants. There were many instances of intimidation of managers.

(ii) There have been many instances of gherao of officers on one pretext or the other for pressurising them to yield to Unions/ Workers' demands.

(iii) There have also been instances where major equipments acquired and installed at considerable cost could not be put into operation due to non-cooperation by the Union. The atmospheric storage facilities at Durgapur (cost Rs. 4.33 crore) which were mechanically completed and were ready for commissioning in July, 1984, could not be commissioned for nearly six years due to the Union's attitude and finally it was commissioned only in February, 1990. The commissioning of CPP, Durgapur on which Rs. 17.65 crores were spent, was also delayed by 2 years due to non-cooperation by the Union.

(iv) Contractors are employed by the Corporation for various maintenance and operational jobs. The Industrial relations problems created by the contractors' labour has been a major factor responsible for the bad performance of HFC's plants.

(v) The morale of officers and managers in the Units is very low due to the general atmosphere of indiscipline. The time taken by the law and order enforcing agencies to come to the help of managers is another factor which has contributed to the demoralisation of the managerial cadre.

(vi) HFC has entered into a number of agreements with workers which adversely affect productivity; these relate to promotions without consideration of technical qualifications, unfair practice like block overtime not related to actual work, indefinite number of occasions on which leave is granted, etc.

(vii) The demand for payment of unjustified overtime allowance has been a major irritant in the industrial relations position in the HFC units. The demand for block overtime without any relation to actual work done and the delaying tactics adopted with a view to earning more overtime allowance has been a major factor contributing to poor performance and prolonged shutdowns of the plants.

(viii) In each Unit there are a number of Unions, some recognised and others unrecognised. Inter-Union rivalries, sometimes even on small issues, has adversely affected discipline and productivity.

5.21 Commenting on the industrial relations in HFC's Units, Paul Pothen Committee in its report came to the conclusion that the industrial relations climate and social environment was not congenial for high productivity. The Committee felt that the management appeared to be helpless in maintaining discipline. In this context, the Company stated in a note:

> "Durgapur plant was shut-down for several months in 1988 and 1989 mostly due to industrial relations problems. The plant was shutdown in mid-July 1988 for taking annual turnaround, but

the annual turnaround got inordinately escalated due to labour problems. A final settlement was reached with the intervention of the Honourable Labour Minister of West Bengal on 02-01-1989 and the production was started from 20th February, 1989. Thus for about 7 months the plant was shutdown due to labour problems."

5.22 Trying to trace the roots of the problem, the Company added in the post evidence replies as follows:

"H.F.C. on its formation has inherited various rules and regulations applicable to erstwhile FCI. We could not make any changes due to past practice and conventions and strong resistance from the Unions and Officers' Associations."

5.23 Commenting on these agreements during evidence, the Acting CMD, HFC stated:

"The General Managers were under pressure. They have signed it. Now we are trying to rectify it."

5.24 The Committee pointed out that normally bipartite agreements were effective for three to five years. On being enquired about the period for which these agreements were valid, the witness stated:

"It is an old agreement which is continuing. In some of the agreements even the validity date is not given."

5.25 On being asked as to whether the agreements were uniform in all the plants, the witness added:

"No sir, many agreements were signed. We have to review those agreements. We have now issued instructions to the General Managers asking them not to sign any agreement till it is approved by the Corporate Office."

HFC stated in a note as follows:

"HFC Management has already started reviewing these agreements and before any further investments are undertaken, the review of these agreements would be completed, and steps taken for their modification."

5.26 The Company felt that the situation has been rendered more difficult by the prevalence of multiplicity and inter-union rivalries which had made it difficult to solve the various problems facing it. According to them promotion of a single union commanding wide-spread support could improve the work culture, discipline and productivity.

5.27 Commenting on the industrial relations climate in HFC, the Secretary, Department of Fertilizers confessed during evidence as follows:

"I would like to be can did in my assessment. Industrial relations in respect of HFC has been a major factor. This is documented by our records and it is documented by the Reports of this

Committee (Task Force). We were unable to operate the Ammonia storage facility that was created in Durgapur for over four years. It was because the Unions said that unless the number of people they want are put in operation, they will not allow that investment to be put into operation. I can understand some difference of opinion. But if the attitude for manning a system in a new facility is obstructive and if the repair-maintenance crews are not even allowed to enter the place until some block overtime is initially agreed to, this may go beyond the normal industrial disputes to a climate where the management over a period of time loses all incentives, confidence and so on and take the line of least resistance."

5.28 Disturbed industrial relations was a major stumbling block in the way of completion of the Haldia Project. Illustrating the point, the Secretary, Department of Fertilizers pointed out:

"There are number of instances where even small disputes held up the erection of equipment and even small disputes endangered safety of equipment. In fact, there are instances where a very valuable oxygen compressor equipment was very severely damaged because the workers and staff abandoned the equipment, left the premises because of some disappointment with the canteen people about the supply of refreshment and food in time."

The witness further stated categorically:

"Unless the basic climate changes, there is very little prospect of the HFC as a whole coming out of the red. Now, this is an issue that we have to pursue with our own worker's unions with the State Governments and so on. This is something which we have to recognise and we cannot sweep it under the carpet. Given the kind of things that have happened in the past in Durgapur, if that continued to be the general attitude and level of discipline I am afraid, even the Rs. 97 crores of investment that we are talking about is not going to make a difference."

5.29 Clarifying it further, the Secretary, Department of Fertilizers divulged:

"I would only like to read from what Mr. Pothen had stated: 'While technical problems are amenable to solution by suitable revamping and rehabilitation, it is felt that unless the discipline and industrial relations climate improves in these units, there is no assurance that these units will make profit even after solving all the technical problems.' It is in this context that I was submitting to this Committee that we are going with a package for improving the operations and find out all these plans through a series of proposals including some new investments, writing off loans, captive plants etc., and assurance in regard to raw materials

supplies from the gas suppling authorities, I do not think it would be possible to proceed actually with these investment without a clear understanding in regard to industrial relations with the workers and supervisors."

C. Production Incentive Scheme

5.30 HFC stated that a major problem in the Company was low morale and indifferent work culture both among managers and workers. This was reportedly due to the fact that the plants were not performing well inspite of best efforts on the part of the employees at the initial stages. With a view to improve the morale of the employees and to improve production a Production Incentive Scheme was introduced for the first time in the year 1984-85 based on the guidelines issued by the Government with the following sailent features:

(i) The threshold point for payment of incentive was 70% of rated capacity utilisation.
(ii) For workmen, the calculation, for incentive payment was to be on daily basis.
(iii) The incentive paymnet in case of Officers was to be on monthly capacity utilisation basis.

5.31 The Government accorded approval for one year for this Scheme. While Namrup and Durgapur Units did not accept the scheme, Barauni Unions accepted and it was implemented on trial basis. However, Government did not grant permission for further extention of the scheme. According to the Company the scheme failed to produce the desired results due to the following lacunae:

(a) Though the daily production entitled the empoyees to get bonus, it was disproportionate to monthly capacity utilisation.

(b) In most of the Units, the capacity utilisation was below 70%. Therefore, this scheme failed to motivate the employees.

5.32 HFC further stated in a post-evidence reply as follows:

"Hence, a necessity was felt to suitably revise the Scheme which may be more attractive and motivates emplyees to improve production and productivity. Accordingly, taking into consideration the achievable capacity of the plants, the Management preferred Incentive Scheme linked with production. Subsequently the new scheme has been circulated to the Units for obtaining the views of the Representatives of Unions and Officers' Associations.

5.33 The salient features of the proposed scheme are as follows:

(i) The threshold point has been reduced from 70% capacity utilisation to 50%.

(ii) The payment of incentive shall be based on monthly capacity utilisation.

(iii) The scheme will try to reduce production cost, improve material efficiency, improve production and productivity.

(iv) Reduction/elimination of overtime.

(v) The scheme shall be applicable to all employees including GMs. The Board approved the introduction of the above scheme after the stoppage of overtime which otherwise would increase the financial burden of the Corporation."

5.34 In this context, the Acting CMD, HFC stated in evidence:

"We have already taken a decision to introduce a incentive bonus linked with production. We are involving all the concerned. Right from the General manager to the lower rank people, they will get the money. The productivity is bound to go up. In every fertilizer group of companies they are coming out with such schemes."

5.35 The Committee note that the manpower strength in HFC at the end of March, 1990 was 10,594. Although it was quite obvious that the Company was allocated manpower far beyond its requirements in many of the departments at the time of reorganisation, no study was conducted to assesss to overall manpower requirements. Significantly, a study conducted for Barauni Unit revealed that the actual requirement of manpower was only 1450 against existing strength of 1715 and sanctioned strength of 1958. Surprisingly, the Company recruited 912 persons during hte last five years whereas the number of employees who availed of the Voluntary Retirement Scheme introduced by the Company was only 334. A work force consisting of 1819 persons were still deployed in Haldia although all commissioning and production activities were stopped in October, 1986 entailing an expenditure of Rs. 36.64 crores towards payment of salary and allowances till December, 1990. Inspite of the fact that there has been surplus manpower in the Company, there was high incidence of overtime allowance in all the units which aggregated to Rs. 1380.43 lakhs during the period from 1987-88 to 1989-90. Yet another disturbing feature was the steep decline in labour productivity in Durgapur and Barauni from 66.46 and 93.80 tons of urea per employee in 1987-88 to 18.72 and 46.55 tons respectively in 1989-90.

5.36 The Committee are perturbed about the casual manner in which HFC and the Ministry have been dealing with this vital aspect of manpower management. They regret to note that inspite of the recommendations made

by the Task Force in 1986 for taking measures to reduce the burden of excess manpower, it was only after the Committee took up examination of HFC, that a decision was taken to appoint a committee to study the manpower requirements of all the Units. The Committee desire that the study be expedited, surplus manpower identified and effective measures taken to reduce the surpluses within a realistic periiod. The Committee would urge that a conscientious effort should be made to productivity deploy the surlus manpower, curtail payment of unjustified overtime and increase productivity of labour. They would like to be informed of the steps taken in this regard at the earliest.

5.37 Owing to inequitable distribution of manpower especially at senior and middle levels at the time of reorganisation and the natural tendency to desert a sinking ship, HFC has been experiencing dearth of qualified and experienced manpower from the beginning. In view of the fact that this was a major constraint in improving the performance of the Company, the Committee feel that the administrative Ministry should have come to their rescue and arranged for the services of experienced persons from other fertilizer Companies under their control. They desire that HFCD should evolve a long term manpower policy and besides induction of experienced and qualified personnel at senior and intermediate levels, direct recruitment strictly on merit should be resorted to at junior levels in a phased manner to overcome the problem. They are left with no doubt that human resources development had been the most neglected area in HFC. The Committee recommend that due emphasis should also be given to manpower training at all levels.

5.38 The Committee also regret to note that the most predominant factor coming in the way of efficient functioning of HFC was the unfavourable industrial relations climate prevalent in its units right from the beginning. The total mandays lost on account of strikes alone was 23481 in 1988 and 5365 in 1989. Durgapur Plant was shutdown for about 7 months in 1988-89 on account of labour problems. There were instances when inter-union revalry, minor disputes and resistance from employees delayed the installation of equipment in Durgapur for nearly six years and even severly damaged the oxygen compressor in Haldia. Indiscipline among employees seemed to be the order of the day in HFC's plants with frequent instances of intimidation and gherao of officers which had resulted in demoralisation of employees in general and the management in particular. The problem had compounded with the multiplicity and inter revalry of Unions. A number of agreements were signed with workers under pressure besides some inherited from the erstwhile FCI relating to promotions without consideration of technical qualifications, block overtime not related to actual work, etc. which adversely affected productivity.

5.39 The Committee are of the firm view that improving of industrial relation should receive prompt attention of HFC and the Ministry as a pre-requisite to improving the working of the Company. This was brought out

tellingly by the Secretary, Department of Fertilizers, during evidence. "Unless the basic climate changes, there is very little prospect of the HFC as a whole coming out of the red." The Committee desire that expeditious steps be taken to review and rectify all agreements entered into with workers which are adversely affecting the Company and to improve discipline and morale among employees and industrial relations climate in the Company as a whole.

5.40 The Committee are glad to note that a decision has been taken to implement a productivity linked Incentive Scheme in HFC. They would however, emphasise that the Incentive Scheme should be result oriented and linked to production as also suitably substitute the existing system of payment of unjustified overtime.

CHAPTER VI

ORGANISATIONAL MATTERS

A. Location of Head Office

6.1 HFC was incorporated as a Company with its registered office in the New Delhi consequent upon the reorganisation of erst while FCI in 1978. All the units/divisions of the Company are situated in the Eastern Region viz. Namrup in Assam, Barauni in Bihar and Durgapur and Haldia in West Bengal. Marketing Division, Fertilizer Promotion and Agricultural Research Division and Purchase and Liaison Office are located at Calcutta.

6.2 The Task Force (Paul Pothen Committee) which *inter-alia* examined the question of location of the headquarters of the Company felt that it would be shifted from Delhi to a place in the eastern region inorder that the Corporate Management may have more effective control over the various units and divisions of the Company. The Task Force in their Report recommended as under:

> "In order to enable corporate management to put its concentrated efforts in the units and react quickly towards their problems, it is recommended that the Headquarters of HFC should be shifted from Delhi to a place from where access to and communication with units is easier for the Managing Director and other senior officials of the Corporate Office. As the units of HFC are all in the eastern region, Calcutta may be the suitable place for locating the Headquarters of HFC."

6.3 Reacting to this recommendation of the Paul Pothen Committee, HFC stated in a written reply:

> "At the time of reorganisation of FCI, a decision was taken to locate the Head Offices of FCI, HFC and NFL at Delhi. This has facilitated the Corporation to keep a close liaison with the Government to clear the various revamping and rehabilitation proposals which are crucial to its existence. It has also facilitated to have liaison and coordination with other Government agencies and fertilizer Companies. Further in view of the continuous need to keep close liaison with the Ministry and banks to facilitate funds management."

6.4 Justifying the retention of the Corporate Office in Delhi, the Company added:

> "Further the Government has recently issued instructions in August, 1988 not to relocate the Head Office of the Company to any of the metropolitan cities like Calcutta, Bombay and Madras."

6.5 During evidence of the representatives of HFC, the Committee pointed out that for the purpose of liaison work appropriate staff could be retained in Delhi while the top management could be in proximity to the operating units. Reacting to the suggestion the Acting CMD, HFC conceded:

> "It is more advantageous to be near the factories."

6.6 When the Committee pointed out that in the written information furnished by HFC, the Company seems to have justified the retention of the headquarters in Delhi, the witness added:

> "Although I agree with you, the circumstances are such that nothing will proceed that way and here we may be able to concentrate more."

6.7 When the Committee shought to know that action was taken by the Company on the recommendation of the Task Force; the Acting CMD, HFC maintained:

> "It is upto the Government. Whatever decision they taken, we will implement it."

6.8 Asked as to whether the Company had followed up the matter with the Ministry, the witness pointed out:

> "All the recommendations of the Committee came to the Government."

6.9 The Committee wanted to know from the Ministry the justification for the decision taken by the Government at the time of reorganisation to locate the Headquarters of the Company in Delhi. The Department of Fertilizers stated in a written reply:

> "At the time of reorganisation of erstwhile FCI, Government had, in fact, decided that within a period of two years the Headquarters of Bharat Fertilizers Limited (Later on named Hindustan Fertilizer Corporation) should be moved out of Delhi."

6.10 Enquired as to whether the Government did consider the question of shifting the Head Office to a location in the eastern region before or after the suggestion was made by the Task Force, the Department of Fertilizers stated that the question was considered, but could not be implemented due to various reasons. Explaining the reasons in a note the Department stated:

> "This decision has not been implemented so far due to a variety of reasons, including objection raised by the Headquarter Staff, the advantages of keeping Headquarters in Delhi for close

interaction with Government till final decision on rehabilitation is taken as also the need to avoid administrative expenditure connected with shifting of Headquarters."

6.11 The Committee pointed out that the Headquarters of the Company could be shifted to Calcutta or to some other place in the eastern part of the country—like Barauni, Patna or Durgapur. In response to the suggestion the Secretary, Department of Fertilizers held out an assurance before the Committee:—

"This is an important aspect of improving the management of the Hindustan Fertilizers. I would assure the Committee that I will place before the Government the views expressed by different members of the Committee."

6.12 Illustrating the point further, the Secretary, Department of Fertilizers went on to say:

"Simply, by way of clarification, I would like to recall that when this bifurcation took place in 1978, the decision at that time was that within a couple of years the Headquarters should be shifted out of Delhi into the eastern region. I have before me a letter that we formally wrote to the Hindustan Fertilizers on March 30, 1979, asking them to initiate action to shift the Headquarters. I am mentioning this just by way of benefit to the Committee. In accordance with the original decision to take action to quickly move, however, it is also true that with the change in Government, perhaps in 1980 this order was kept in abeyance by the Government itself. So, I don't want to given an impression that it is the Management that has stalled it. Government wrote a letter saying: don't proceed with this shifting; and in the subsequent years, at various points of time, this question had come up."

The witness further added:

"Some of the factors that have influenced this policy to shift are (1) the difficulties or the opposition that was raised by the staff here, not only the Senior Managers, but the total staff which is understandable because at every attempt made to shift the headquarters of a company representations come; (2) the revamping plan and the rehabilitation plan which require constant interaction not only with the Department of the Government like the Planning Commission, expert organisations and so on. When once these things have been settled, orders have been issued money has been committed to be spent, then it may be a mere question of time to shift the headquarters. There is also one other consideration (3) the third consideration is of the cost of shifting, the administrative expenditure, which could be deferred. However, I do not want to give an impression that I am justifying the continued retention of the Headquarters when the initial decision

was that the Headquarters will be shifted. Recently we have also been asked by the Urban Development people, that we should shift the headquarters from this metropolitan city and also avoid any other metropolitan city. I would like to assure the Committee that we will reopen this question and try and get a Government decision on this as quickly as possible."

B. Frequent changes in Top Management

6.13 There have been frequent changes in the incumbents of the post of the Chairman and Managing Director in H.F.C. Seven incumbents served the Company as regular CMDs since its inception in 1978. Besides frequent changes the company remain without a regular CMD at frequent intervals as is evident from the information relating to 1987-90 given below:—

Incumbent	From	To	Remarks
Sh. Sebastian Jacob	31.7.87	19.12.88	Reasons for resignation not available
Sh. M.L. Sharma (Acting)	20.12.88	20.8.89	
Sh. N.B. Chandran	21.8.89	21.3.90	Reasons for resignation not available.
Sh. M.L. Sharma (Acting)	21.3.90	Till now	

6.14 Explaining the impact of frequent changes and delay in appointment of the Chief Executive on the efficient functioning of the Company, HFC stated in a written note.

"The frequent changes in the incumbency of CMD and delay in their appointment from time to time has affected the efficiency of the Company as it has created a feeling of uncertainty."

6.15 While admitting that it was the responsibility of the Government to maintain continuity at the top level management of the Company, the Department of Fertilizers conceded in a written reply:

"However, in case of HFC, it so happened that quite a few of the incumbents in the position of Chief Executive had, on their own, left the Company before attaining the age of superannuation. It may be mentioned that whenever a Chief Executive left the Company, the Functional Director acted as the Chief Executive till the new incumbent was appointed. It is conceded, however, that

absence of a regular Chief Executive or frequent changes in its incumbency have not been conducive to proper functioning of the Company."

6.16 On being asked as to when the Government was expected to appoint a regular CMD, the Department stated in a written reply:

"Order appointing a regular CMD in HFC has already been issued by the Government on 6.2.91"

6.17 In reply to a question as to how the Government proposed to ensure continuity in top management in the Company in future, it was stated:—

"The appointment is for five years or till the incumbent attains the age of superannuation, whichever is earlier. The incumbent is expected to join shortly. It is hoped that there would be continuity in top management in the Company in future."

C. Functional Directors

6.18 The Board of Directors of HFC comprised of the Director (Finance) and Acting Chairman and Managing Director, two non-executive Directors from the Department of Fertilizers appointed by the Government and five non-official part-time Directors as in September, 1990.

6.19 The Task Force on the working of FCI (Fertilizer Corporation of India) and HFC set up in 1986 under the Chairmanship of Mr. Paul Pothen in their Report recommended that the Finance Director who is placed on the same salary as the General Manager, needs to be lifted a step for reasons of financial and managerial responsibility. It was also necessary that the Headquarters should have a senior person as Technical Director (Technical) on the same salary as Director (Finance), who will advise his colleagues on the Board as well as the General Managers on technical matters pertaining to operating plants and development issues.

6.20 The Committee enquired about the reasons for not implementing the recommendations of the Task Force. HFC stated in a written reply as follows:—

"The Corporation is in agreement with the recommendations of the Task Force that two posts of Functional Directors—one for Finance and the other for Technical—should be created. These have been communicated to the Government for taking a decision."

The Company further stated:

"The appointments of Director (Finance) and Director (Technical) will go a long way in improving the working of the Corporation. Both these senior functionaries should be able to provide necessary guidance and streamline the working of the organisation."

6.21 The Committee drew the attention of the Ministry to the BPE guidelines on composition of the Board of Directors which *inter-alia* provide:

> "For large multi-unit enterprises and large organisations, the typical structure of Board could be a full-time Chairman-cum-Managing Director assisted by at least two functional Directors, one of whom would be in-charge of Finance, and part-time Directors."

6.22 Responding to this, the Department of Fertilizers pleaded in a written reply:

> "HFC is a company in 'B' Schedule which means CMD is appointed in the B Schedule. As such it is not possible to follow BPE guideline and also accept recommendation of the Paul Pothen Committee without first upgrading the schedule of the company, which is a larger issue."

6.23 However, during the evidence of the Ministry the Secretary, Department of Fertilizers agreed with the recommendations of Paul Pothen Committee on the management structure of the Company. The witness stated during evidence:

> "Paul Pothen Task Force went into both the FCI and HFC; it was not confined to only HFC. It looked at wide range of issues, not simply some technical details, and made a number of recommendations, which in our view are sound and need to be pursued. Particularly, on the management structure they felt that a Corporation of this size should have some functional directors. We feel that this recommendation ought to be accepted and acted upon."

6.24 Referring to the procedural difficulties the witness went on to say:

> "However, there are some difficulties that we need to get over in regard to the levels at which these Functional Directors can be appointed. The Functional Directors will be normally one level below and that level is same as General Manager. But we will have to find some way of getting over it because a full time Director for technical or operational purpose and another full time Director for financial purposes are very necessary for a Corporation with so many recurring problems and with the kind of investment that we have in mind. So, this part of the recommendations on the management structure is something we would like to pursue. It has much merit. But it required some re-classification of the Company and the CMD, etc. which we have to pursue with others."

6.25 After examination of HFC, the Committee have come to the inescapable conclusion that the Achilles' heel of the Corporation is the location of its Corporate Office. While all its operating units and divisions

are situated in the Eastern region, the Headquarters of the Company is in Delhi. It goes without saying that from such a distant location, it has not been possible for the management in the Corporate Office to have effective supervision and control over the various units/divisions of the Company which are crippled with a multitude of recurring problems or make themselves easily accessible to the General Managers of the Units for consultations on matters of urgent nature. This explains the fact that while the units were bogged down with various problems, the management remained helpless and almost ineffective. It difinitely had an adverse impact on the performance of the Company, the details of which have been gone into by the Committee in the earlier chapters and hardly need any recapitulation.

6.26 During evidence, the Secretary, Department of Fertilizers informed the Committee that at the time of reorganisation of erstwhile FCI, Government had, in fact, envisaged that within a couple of years the Headquarters of HFC should be moved out of Delhi. The Committee are dismayed to learn from the Secretary, Department of Fertilizers that direction issued by the Government in March, 1979 asking the Company to initiate action for shifting the Headquarters from Delhi in accordance with the origional decision was rescinded with the change of Government in 1980. The Committee cannot but deprecate the haphazard manner in which instructions issued on the basis of well considered decisions are retracted with the change of Government.

6.27 Significantly, the Committee find that shifting of Headquarters from Delhi was vehemently advocated by the Task Force in its Report submitted to the Government in 1986. Various factors like close liaison and coordination with the Government objection raised by the Headquarter's staff, avoidance of administrative expenditure connected with shifting of Headquarters and the instructions issued by the Ministry of Urban Development not to re-locate the Head Office of Companies in the metropolitan cities advanced to justify retention of the Head Office in Delhi are hardly convincing to the Committee. In Committee's view the Ministry cannot be absolved of its responsibility for not pursuing the matter with the Company in the right earnest and the lack of initiative on their part in getting the decision implemented.

6.28 The Committee have dealt with the issue relating to location of head offices of public undertakings in their earlier Reports and have pointed out that with the development of rapid means of communication, transport etc. there is no reason why the head offices of public undertakings should be located in the metropolitan cities. The Committee are of the firm opinion that from the point of view of corporate management it is but necessary that the Head Office of HFC should be shifted from Delhi to a place in the Eastern region from where access to and communication with the Units would be easier for the Corporate Management of the Company. This would not only make it convenient administratively for the office but would

also yield developmental benefits to the area/region/city where the office is shifted. For the sake of coordination and liaison work the Company could retain minimum necessary staff in the capital. In this connection, it is heartening to note that the Secretary, Department of Fertilizer held out an assurance before the Committee that the question of shifting of the Headquarters from Delhi would be reopened and decision thereon taken as quickly as possible. The Committee desire that steps be taken to expedite the decision, identify a suitable alternative location for the Head Office and ensure that the shifting is done within a reasonable timeframe. The Committee would like to be apprised of the concrete action taken in this regard.

6.29 The Committee regret to note that there have been frequent changes of Chief Executives in HFC. As many as seven incumbents served the Company as regular CMDs since its inception in 1978. Many of them left the Company before attaining the age of superannuation. To compound the problem, there were quite long intervals between a Chief Executive leaving the Company and his successor taking over on account of delay in succession planning and the Functional Director officiated in his place till the new incumbent was appointed. The callousness on the part of the Ministry is quite evident from the fact that it took about a year to appoint regular CMD in a chronically sick Company like HFC after the post became vacant in March, 1990. Admittedly, the mid-stream changes in the top managment and keeping the Company 'headless' for long spells have hampered the working of the Company.

6.30 It hardly needs reiteration that frequent changes in the incumbents of the Chief Executive and undue delay in succession are detrimental to efficient functioning of any undertaking as these are fraught with lack of control, direction and long term planning. The Committee would urge the Ministry to ensure continuity in top management and proper succession planning in the Undertakings under their control. The Committee on Public Undertakings have dealt with this aspect in several reports earlier. The recommendation of the Committee in their 49th Report (7th Lok Sabha) that "frequent changes of Chief Executives should be avoided and there should be a minimum tenure of five years subject to satisfactory performance" was accepted by Government. It was however, stated by the Government that order was issued in February, 1991 appointing a regular CMD in HFC for a period of five years or till the incumbent attains the age of superannuation, which is earlier and he was expected to join the Company shortly. The Committee hope that if the new incumbent assumed office would complete his full tenure. In order to ensure the smooth functioning of the public enterprises, the committee recommend that in future action be taken much in advance by the Government to appoint the Chief Executives of all the Public sector enterprises so that no enterprise remains without a regular Chief Executive.

6.31 As per BPE guidelines issued in 1972 the Board of Directors for

large multi-unit enterprises should consist of full-time Chairman-cum-Managing Director assisted by at least two functional Directors, one of whom would be in-charge of Finance and part-time Directors. However, the Committee find that at present the Board of Directors of HFC comprised of Director (Finance) who was officiating as CMD since March, 1990, two non-executive Directors from the Department of Fertilizers appointed by Government and five non-official part-time Directors. The Task Force which inter-alia went into this aspect also recommended that the Director (Finance) who is presently placed on the same salary as the General Manager needs to be upgraded and senior person appointed as Director (Technical) to advise the General Managers of the Units on technical matters.

6.32 Although the Ministry stated in a written note that there were certain procedural hurdles in implementing the same as the Company was in 'B' schedule, the Secretary, Department of Fertilizers was fully in agreement with the recommendations of the Task Force during evidence and admitted: "we feel that this recommendation ought to be accepted and acted upon." The Committee feel that lack of expert and professional guidance in technical matters is a main contributing factor for the sharp exacerbation of the problems facing the Company. The Committee, therefore, recommend that Government should examine the desirability of reclassifying the Company and rationalising the structure of the Board consistent with the efficient functioning of the Company.

NEW DELHI;
March 10, 1992

Phalguna 20, 1913(S)

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

APPENDIX III

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

Sl. No.	Reference to Para No. in the Report	Conclusions/Recommendations
1	2	3
1.	1.27	The Hindustan Fertilizer Corporation Limited came into existance in March, 1978 consequent on the decision of the Government of India to reorganise the Fertilizer Corporation of India Limited and the National Fertilizers Limited. It was felt that the erstwhile F.C.I. with as many as 17 Projects, seven in operation and ten under various stages of implementation, had become too large and unwieldly and could not be controlled effectively. On the basis of the recommendations of the Fazal Committee, comprising of representatives of various Ministries, NFL and FCI, the Government allocated running units, Namrup I and II, Durgapur and Barauni and the Haldia Project, which was under implementation to HFC. Though the Secretary, Department of Fertilizers maintained that process or technology of the plants was also one of the factors taken into consideration at the time of allocation of the units among HFC, FCI, NFL and RCF, the main criteria which prevailed over the allocation seems to have been their geographical location. The outcome was that HFC was born unhealthy with the units allocated to it being handicapped with a number of technological, design and equipment deficiencies. The Committee are of the view that while grouping together operating plants located in a particular region, factors like operational viability, profitability, and industrial climate of the units should have been given due consideration while deciding the allocation of the units to the different companies. This would have helped the sick units to draw and sustain on the internal resources generated by the healthier units.

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2.	1.28	It is regrettable to note that as the undivided FCI's marketing establishment was based in Calcutta it was *ipso facto* forced upon HFC with manpower strength far beyond the Company's requirements. Similarly, the financial burden of promotional wing of the erstwhile FCI, called the Fertilizer Promotion and Agricultural Research Division (EP & ARD), which in its generic sense was not the function of a fertilizer company, was also to be borne by HFC. Yet another anomaly of the reorganisation was the exodus of qualified and experienced personnel at senior levels to the healthier companies by way of exercising their options, leaving a vaccuum in the management cadre of HFC.
3.	1.29	After having examined the working of HFC, the Committee are left with no doubt that allocation and grouping of various units, divisions and personnel at the time of reorganisation was inequitable and incongruous. Although at this stage the Committee can only express their displeasure on this lapse, in their view the Government cannot be exonerated for their omissions and commissions at the time of reorganisation of the erstwhile FCI and allocation of the units to HFC.
4.	1.30	The Committee note with concern that the net loss of the Company which was Rs. 80.94 crores at the time of reorganisation in 1978 sharply rose to Rs. 949.70 crores in 1989-90. The claims of HFC's management that the Company had been able to achieve the objectives of reorganisation to a certain extent are not borne out by tangible results. At least the Secretary, Department of Fertilizers was candid enough to admit: "I am afraid, the facts show that the result has not been commensurate with the expected performance of the units for which this bifurcation was done". According to the Committee the performance of HFC after reorganisation has been to say the least, dismal. Not only that none of the objectives of reorganisation has fructified, but also the Company has gone from bad to worse. The Committee have gathered an impression that although the Company had inherited many a problem from its parent company at the time of bifurcation, the administrative Ministry have also miserably failed in their responsibility to evince sufficient interest in its working, guide and monitor the production performance and take timely measures to improve the

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		financial health of the fledgling Company. On the other hand, the Company made no conscientious effort to streamline its own working, revitalise the management cadre, improve production and financial performance and make the units viable. The Company has been crippled with lack of guidance and initiative, apathy and indecisiveness throughout. While expressing their displeasure, the Committee urge the Government and HFC that at least from now onwards concerted efforts should be made to find solution to the problems facing the Company, expedite the revamping and rehabilitation projects and improve the working of the Company without any further delay.
5.	1.31 and 1.32	During evidence, the representatives of both the Ministry and the HFC did not favour further reorganisation of the Company. However, the Committee also do not advocate reorganisation of the Company on the lines of what was done in 1978. Yet, they cannot ignore the fact that the most severe anomaly of the reorganisation was the flight of experienced personnel in search of greener pastures, leaving the Company in the lurch. Manpower management is an aspect which has received the least attention of the company. As a result, the affairs of the Company have been poorly managed. The Committee are not hopeful that a still born project like Haldia could be revived without an experienced, efficient and motivated team of management. In view of this, the Committee suggest that intercorporate transfers within the fertilizer industry including induction of qualified and experienced personnel from the private sector into HFC at the senior levels should be resorted to. The Committee desire that as mentioned by the Secretary, Department of Fertilizers during evidence, the desirability of entrusting the management of Haldia Plant to a professionally managed fertilizer Company in the Public Sector with a view to improving its production performance should be examined by the Government. In terms of the recommendations of the Administrative Reforms Commission accepted by the Government of India as far as back as in 1970, the Public Enterprises were required to formulate a statement of objectives and obligations laying down broad principles for determining their precise financial and economic obligations. However,

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		the Committee are distressed to find that HFC has neither cared to frame its micro objective so far nor have the administrative Ministry considered it necessary to ensure compliance with the guidelines issued by the BPE in this regard, with the result, that the Company has been functioning without any clearly defined objective for the last 13 years. The Committee desire that the matter be enquired into and responsibility fixed and they be apprised of the outcome within three months.
6.	1.33	The Committee are not satisfied with the contention of HFC that its objectives were kept in view at the time of formulation of the annual budgets of the Company. They neither approve the reasons advanced by the Department of Fertilizers for the Company having not formulated its objectives and obligations nor the plea made by HFC that it might be difficult to spell out the micro objectives before the revamping and rehabilitation proposals are implemented. On the other hand, the Committee are of the firm belief that had the Company formulated its micro objectives well in time, its overall performance and profitability would not have been as disappointing as it is today. They need hardly stress that no realistic and meaningful evaluation is possible unless the objectives for which a Company has been established are clearly known. In fact, the Secretary, Department of Fertilizers conceded during evidence that micro objectives should have been framed by HFC. The Committee, therefore, recommend that micro objectives of HFC, which is long overdue, should be formulated as per BPE guidelines and got approved by the Ministry within a period of three months and the Committee informed of the same.
7.	1.34 and 1.35	It is equally astonishing that a large multi-unit fertilizer Company like HFC has been functioning hitherto without a perspective plan. While expressing their displeasure over the lapse, the Committee fail to comprehend how the programmes and activities of the Company were regulated without a long term perspective plan. They hope that as assured by the Secretary, Department of Fertilizers in the course of evidence, Corporate Plan of the Company would be drawn up soon. Ours being a basically agrarian economy, a large multi-

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		unit fertilizer enterprise like HFC has a crucial role to play in the perspective of national plans. The Committee note that while the share of capital investment of HFC in the total investment for fertilizer companies in the Public Sector was the highest which accounted for 26.65% in 1988-89, the percentage share of the Company's production in terms of Nitrogen in the country as a whole was only 4.20% during the year.
8.	1.36	It was significant to note that actual production achieved by the Company in the Seventh Plan period was less than satisfactory with the production as less as 74.15% of the share assigned to it. The Committee find that notwithstanding the fact that the operating units of HFC except Namrup III were not expected to maintain even the present effective sustained load capacity, the Government has fixed targets for Durgapur and Barauni 288% and 136% higher respectively for the period 1990-91 to 1992-93 compared to the actual production recorded in the terminal year of the previous plan period without sufficient justification. Similarly, the projections for production for Namrup I and II are also equally unrealistic. Even after taking into consideration the proposed plan outlay and the high claims made by the Ministry about the prospects of the Company achieving the targetted production, the Committee find that the plants are not amendable to better capacity utilisation without implementing the revamping and rehabilitation proposals as conceded by the Company's management in the succeeding parts of this Report. Although the Committee are not in agreement with the practice of production targets being fixed far below the rated capacity of a plant, they are of the view that projecting utopian targets which cannot be achieved is also equally reprehensible. They are astonished to observe that while marginally higher projections for Namrup I & II, Durgapur and Barauni plants for 1993-94 and 1994-95 are based on the assumption that zero date for the revamping project of these units was 1st April, 1991 with a completion period of 24 months the proposal is still in the embryonic stage. In the circumstances, the Committee wonder whether the Company would be able to achieve even the targets set for the latter part of the plan period. The committee desire that realistic targets for HFC's plants be drawn up for the Eighth Five Year Plan and the same

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		placed before the Committee within three months.
9.	1.37	Having taken into account the fact that Namrup III is a new generation plant which went into operation as recently as in October, 1987, the Committee fail to comprehend the rationale for setting a tepid target for the plant throughout the Plan period. The Committee also find, to their dismay, that no production target has been set for the Haldia Unit of the Company for which revamping and rehabilitation proposal, already approved in principle, is under consideration of the Government for investment decision. The committee desire that revamping and rehabilitation proposal should be finally approved and implemented expeditiously. The Committee would urge HFC and the Ministry not to spare any effort to achieve the production targets set out for the Eighth Five Year Plan period.
10.	2.76	Haldia Project, which was under implementation at the time of inception of HFC, has not been commissioned as yet. Although the zero date of the project was 1 September, 1972 with a completion period of 42 months and the scheduled time for commerical production was September, 1976 as envisaged at the TEFR stage, the project was mechanically completed only in November, 1979, i.e. after a delay of 45 months. The reasons for the delay were stated to have been on account of inordinate time taken in release of foreign exchange, receipt of basic engineering documents, civil works, receipt of major equipments at site and installation of river water system. In addition, the committee observe that much of the actual delay was due to defective project Planning, revision of the basic design of vital sections of the Ammonia plant at late stages, frequent changes in the source of supply of critical equipments and delay in delivery of equipments by suppliers. It is distressing to note that even minor aspects of project planning like land development was not correctly evaluated in the DPR which led to considerable delay in implementation of the project. The Committee were informed that decisions taken to go in for indigenous technology to the extent possible and avail of credit facility for the technology and equipments which were required to be imported were two major contributing factors for the delays.

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11.	2.77 and 2.78	While a host of other factors were responsible for the enormous dealy in mechanical completion of the project, the Committee cannot absolve the Ministry, erstwhile DCI and its P & D Division (now PDIL) for the serious lapses in project planning, execution and monitoring. The Committee are of the view that the time of placing orders on indigenous firms with a view to encouraging development of indigenous technology and foreign firms with an eye on credit facility. The Government and the Company should have satisfied themselves about the competitiveness and reliability of such firms. They feel that with proper planning and effective monitoring much of the delays in implementation of the project could have been avoided. The tardy implementation of the project and change in scope were responsible for revision of the project cost on a number of occasions and its escalation from Rs. 88.03 crores at TEFS stage to Rs. 624.18 crores, for which the approval of the Government is still awaited. The Committee deprecate such heavy cost over-run in 709% higher than the envisaged cost at the FR stage, which made the project unviable. Another disturbing aspect is that although an expenditure of Rs. 608.48 crores was incurred on the project, the latest cost estimate approved by Government was Rs. 281.96 crores. In this connection, the Committee would invite attention to the BPE guidelines issued in 1981 that whatever the revised cost based on DPR exceed by more than 20% of the original amount sanctioned by Government, the case has to be brought up for approval again at the appropriate forum. The Committee are not convinced with the justification given by Government for the lapse that revised cost estimates are normally submitted before the competent authority for approval when the project is on its way to completion. The Committee cannot but express their displeasure over such neglect on the part of the Government in complying with the guidelines and they desire that responsibility be fixed for the lapse and the Committee be apprised in this regard at the earliest. They also desire that revised cost estimate of the plant should be got approved by the competent authority at the earliest opportunity.

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12.	2.79	The Committee are distressed to note that the project suffered from a number of technological and design deficiencies on account of which the plants could not be operated on a sustained basis and production and commissioning activities had to be stopped. Serious problems were experienced in the oxygen compressors, the most critical equipment in the fertilizer plant, and three compressors were damaged. The Committee were informed that ENSA, the French Agency, with whom order was placed for the supply of number of equipments including Oxygen Compressors, had procured various components of the equipments from different agencies and got them assembled. It was surprising to learn that there were as many as 11 firms engaged for basic and detailed engineering for the project while equipments were supplied by as many as 26 companies from India and abroad. The Committee were also given to understand that the selection and import of various technologies were swayed more by economic, rather than technical considerations. Orders for major items were placed on French and Polish firms who arranged major part of the credit. The tied loans resulted in mismatch and repeated failure of equipments. What further dismays the Committee is the selection of an unproven process technology for the Nitro-phosphate Plant in Haldia was based on know-how from Stamicarban, Holland. Significantly, the only Plant other than Haldia set up on the basis of this technology in Bulgaria had been abandoned. Similarly, the process technology selected for Sulphuric Acid and Nitric Acid Plants were reportedly very old. M/s. Toyo Engineering Corporation, Japan and M/s. Uhde, West Germany who were engaged consultants to carry out end-to-end survey of the Plants in Haldia also found a lot of deficiencies in design and fabrication which in some cases ranged between 50% to 100% due to manufacturers' workmanship.
13.	2.80 and 2.81	The Committee were informed that the P&D Division of erstwhile FCI (now PDIL) was responsible for the detailed engineering of the Haldia Project. The Project was transferred to HFC in 1978 after reorganisation of erstwhile FCI. What further dismays the Committee is the fact that neither was any enquiry conducted into the failure of the project nor was any action taken against those who were responsible for planning and implementation of the

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		Project. They recommend that at least now a detailed enquiry be conducted with a view to fixing responsibility for all the lapses in the excution and monitoring of the project and the Committee be informed of the outcome within a period of three months. Due to non-availability of power committed by WBSEB, the commissioning activities could be resumed only after a 20 MW Gas Turbine was imported and commissioned in 1982 at a cost of Rs. 691 lakhs. The Committee desire that the proposal for the rehabilitation of Haldia Project should invariably include provision for stabilising power generation from the existing Gas Turbine. Since the supply of power from grid is unpredictable the practicability of augmenting the existing power generation capicacity in the Plant in keeping with the requirements should also be considered.
14.	2.82	The Committee note that Government took a decision to stop all production and commissioning activities in Haldia w.e.f. 16.10.1986. The Committee were informed that although some production could be achieved in Ammonia, Methanol and urea plants between 1983 and 1986, the decision was taken as stabilised operation of the plant could not be achieved due to persistent problems faced by the various equipments. Besides this expenses on testing and commissioning of the Plants were also reportedly on the increase. A Technical Committee set up to assess the additional requirement of funds for the Project, in fact, had recommended that Haldia should be allowed to resume commissioning in a phased manner with an investment of Rs. 14.74 crores. The Committee are at a loss to understand as to what considerations weighed with the Government to take a sudden decision to close down the Plant all together without having obtained the advice of any expert body or agency. The Committee have reasons to doubt the wisdom of this decision. They are of the view that since the different plants in Haldia were facing persistent problems, a consultant should have been engaged to undertake a detailed study for improving their efficiency and in the meantime the plants could have been kept in operation. The Committee also note that the recommendation made by the Technical Committee that operation of the plants should be allowed to be resumed was not given due consideration by Government.

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		They further note that HFC incurred a loss of Rs. 321.64 crores upto March, 1990 on account of non-commissioning of Haldia Project.
15.	2.83 and 2.84	M/s. Toyo Engineering Corporation, Japan engaged to carryout end-to-end survey of Ammonia, Urea and Methanol Plants in their report submitted in July, 1988 proposed additional investment of Rs. 299.18 crores for revamping of the plants. The Committee are affirmed that there was no proposal before the Government to revamp the plants on account of high investment required. They are distressed to find that no efforts have been made by the Company or the Government to rehabilitate these plants since their closure in 1986. The Committee recommend that soon after a decision on the proposed DAP/NPK Plant in Haldia is taken, the viability of rehabilitating the Ammonia, Urea and Methanol Plants should be examined by Government.
		The Committee note that M/s. Uhde Gmbh, West Germany submitted a proposal for an additional investment of Rs. 199.17 crores in two phases for revamping and rehabilitation of the Nitro-Phosphate Group of Plants. Although Phase I proposed at a cost of Rs. 123.88 crores to produce 1100 tpd of NP was cleared in principle by the Government in July, 1989 and a DPR prepared thereafter, it was subsequently concluded that a new grass root DAP Plant of 600 tpd with indigenous technology based on imported Phosphoric Acid and Ammonia would be better. Resource constraints and unviability were stated to have been the main reasons for not pursuing the proposal submitted by the consultant. The Committee were informed that if investment was made as per the consultant's proposal, the retention price would have increased to the extent of Rs. 10741 per tonne Urea against the normal rate of Rs. 4200 and Rs. 8534 per tonne for NP against normal rate of Rs. 5000, thereby increasing the subsidy burden on Government.
16.	2.85	The Committee find that HFC and the Government have advanced diametrically opposite views on the question of setting up a new grass root plant at Haldia utilising the existing infrastructural facilities and equipments to the maximum limit. Whereas HFC favoured an NPK Plant, the Department of Fertilizers vehemently advocated in

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		favour of a DAP Plant. Diverging views were also expressed on the investment requirements, cost of production and viability in case of each proposal. However, the Committee have not gone into the merits and demerits of both the proposals. Nonetheless, they note that the subsidy outgo in case of DAP Plant would be Rs. 4787 per tonnes as against Rs. 15889 in case of NPK Plant. Whereas the proposal for the DAP Plant was based on imported Phosphoric Acid, the Committee were given to understand that Paradeep Phosphates Limited and Madras Fertilizers Ltd. were facing shortage of imported Phosphoric Acid due to suspension of its import by Government. While conceding that there was shortage of the raw material in the country, the Secretary, Department of Fertilizers informed the Committee during evidence that the Government proposed to expand the capacity of Phosphoric Acid in the country and even the facility for its production in Haldia could be made use of in the long run. The Committee are further informed that PIB clearance for making the Project Report for a grass root plant in Haldia was received on 15th February, 1991 and that proposals for both DAP and NPK Plants would be submitted for a final decision. However, the Company felt that with the expenditure actually incurred and further investment required for rehabilitation, the Project might not become viable even if it is commissioned.
17.	2.86	While urging the Government to expedite a final decision on the proposal for the rehabilitation of Haldia Project, which has been hanging fire over several years, the Committee desire that a decision on the product should be taken after careful evaluation of all the aspects of the proposals including availability of raw material and viability of the Plant. The Committee would like to be apprised of the final decision in the matter.
18.	2.87	The Committee find that in the four projects completed and commissioned by HFC during the period 1985-90, there were delays ranging between 35 to 109 months and cost escalation ranging from 103% to 412%. The Committee were informed that while factors like delay in civil works, change in scope, etc. were responsible for considerable delay in cost overrun, the major contributory factor was non-adherence of schedule by suppliers of equipments and machinery, most of which were public

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		enterprises. Some of the equipments were manufactured for the first time by these companies resulting in slippages and defects in the equipments. Commenting on monitoring the execution of Projects by HFC's management, the Acting CMD was candid in admission that "had they done the job in time, the problems would not have arisen." The Committee are perturbed about the enormous delays and cost escalations in the execution of the Project which admittedly, were due to lack of management control and monitoring by the Company. In this context, it is also significant to note that the retention price formula does not reckon cost escalation in the implementation of projects for the purpose of calculation of fertilizer subsidy and the Company had to bear the brunt of cost overrun. They would also stress that although the Committee are in favour of encouraging indigenous knowhow for the manufacture of capital equipments, the Government should have ensured that the Companies had the capacity and expertise to manufacture the items before public undertakings were directed to place orders on these Companies. The Committee trust that HFC and the Ministry would ensure in future that schedules fixed for implementation of projects would be adhered to religiously.
19.	3.71	The Committee view with concern the abysmally low capacity utilisation and the declining trend in production in HFC's operating Units, Barauni, Durgapur and Namrup I & II. The Committee were also given to understand that production and capacity utilisation in respect of Urea was the lowest in HFC comparing to other plants producing the fertilizer in the public as well as Cooperative sectors. Whereas average capacity utilisation in the Company's plants in 1989-90 was 36% fertilizer companies in the cooperative sector, KRIBHCO and IFFCO recorded 114.8% and 106% capacity utilisation respectively and public sector companies like NFL and RCF, 97% and 81% respectively. It is also distressing to note that the total production of Nitrogen by the Company has declined from 2.89 lakh tonnes in 1987-88 to 2.40 lakh tonnes in 1988-89 and 2.37 lakh tonnes in 1989-90, inspite of the fact that Namrup III with an installed capacity of 177150 MT Nitrogen commenced production in 1987. The actual production by all the units of HFC fell short of the targets

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		throughout the Seventh Plan period, which the Committee have gone into in the earlier part of this Report. They are particularly concerned about the level of capacity utilisation which was 66.5% in 1989-90 in Namrup III, a gas based new generation plant commissioned in 1987 even after its gestation period was over, whereas similar plants in the country were operating at 100% or more of their capacity. The Committee are unhappy to find that no serious efforts had been made either by the Company or the Ministry to improve the production performance by the units.
20	3.72	The shortfall in production was attributed to a variety of factors like technological and design deficiencies, equipment breakdown, power shortage, insufficient supply of raw material, etc. These constraints, besides annual turnaround, were responsible for the number of stream-days achieved by the Units of HFC being low, the lowest being 42 days for the Urea Plant in Durgapur in 1989-90. The technological and design deficiency in the Montecatini technology on which the Plants of the Company were based was stated to be predominant hurdle in improving the production performance and quality of Urea prills. Although other proven technologies were available at the time of its selection in 1960s, the decision in favour of it appears to have been swayed more by economic rather than technological considerations since M/s Montecatini, Italy offered to finance the foreign exchange component of the project on supplier's credit basis. The Committee find that whereas the process knowhow for the Urea Plant was a proven one, Ammonia plant of 600 TPD capacity with centrifugal compressors was designed by the consultant for the first time. While expressing their displeasure over selection of an unproven technology for the Ammonia Plant, the Committee feel that notwithstanding the economic considerations, the provenness of technology and design of the knowhow selected should have been given precedence over all other considerations, especially in view of the heavy investment involved in a fertilizer plant.
21	3.73	Another production constraint was frequent breakdown of equipment resulting in considerable loss of streamdays in the units. The Committee find that whereas the Urea Plant in Namrup I was closed down, the equipment failures in Durgapur, Barauni and in a relatively new plant

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		like Namrup III had increased to disturbing proportions in 1989-90 with the number of streamdays lost in the Ammonia Plants having been 116 in Durgapur, 114 in Barauni and 52 in Namrup III and in the Urea Plant in Namrup III the same was 45 days. The frequent breakdown of equipments were reportedly due to unproven equipments and unreliable supply of power. Admittedly the maintenance system in the Company was left with much to be desired. Although the Acting CMD, HFC was candid in admission during evidence that "the plant people are careless in taking action quickly", the Committee are surprised to find that there is no centralised maintenance system in the Company. The Units had to heavily depend on outside agencies even for routine maintenance work which led to an expenditure of Rs. 446.55 lakhs in 1989-90. The Committee are not satisfied by the steps already taken by the Company in this regard. They recommend that the Technical Department should be further toned up with an effective Centralised Maintenance System functioning under the Corporate Office for attending to all major maintenance jobs in the Plants gradually reducing dependence on external help. In view of the frequent unscheduled shutdowns, the Committee would also underscore the need for improving prevention maintenance in the plants.
22	3.74	The Committee note that power shortage was yet another contributing factor adversely affecting production. Although agreements were signed with the concerned agencies before commissioning of the Plants, the Power Supply from the grids became erratic due to growth in demand. The Committee are not convinced with the reasons advanced by the Company for not having included Captive Power Plants in the Original Project itself and having relied solely on grid power especially for fertilizer plants which are continuous process industries. The Committee were given to understand that a similar Ammonia Plant based on Montecatini technology set up in Cochin had given better performance as compared to HFC's plants because a CPP was commissioned there in the very beginning. At this stage they would only like to comment that commissioning the plants totally relying on grid power was a clear case of bad project planning. What further dismays the Committee is the fact that inspite of

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		setting up captive Power Plants in all the Units with the passage of time with capacity to meet power requirements to a considerable extent, the Units continued to experience unabated power shortage due to the unsatisfactory performance of CPPs on account of equipment problems and poor quality of coal. The Committee are not able to comprehend the argument advanced by HFC that the CPPs were meant only to meet the requirement of Ammonia Plants. They suggest that the desirability of enhancing the existing captive power generation capactiy of the operating units should be examined by Government and suitable action taken with a view to minimise dependence on grid power. It is a matter of concern to the Committee that although the Company had succeded in stabilising power generation at Namrup, the CPPs at Durgapur and Barauni were still facing a number of teething troubles. While the Committee note that a private agency has been engaged for running the CPP at Durgapur, they suggest that if need be, the services of an expert agency might be engaged for the power Plant in Barauni also for improving its performance. At the same time the Committee desire that the Central Government should use their good offices and impress upon the State Government / Electricity Boards to ensure regular and uninterrupted power supply to the plants situated in the respective States.
23	3.75	The number of streamdays lost on account of shortage of raw material in the Urea Plants were 109.5 in Barauni, 107 in Durgapur and 104.5 in Namrup II in 1989-90. There was shortage in the supply of natural gas by ONGC and Oil India Limited to the extent of 30% in Namrup Group of Plants. As a result, all the plants could not be operated together at the optimum capacity. Moreover, due to high Methane content in the gas supplied by OIL the consumption was also higher. The Committee are happy to learn that the problem has since been sorted out with the personal intervention of the Secretary, Department of Fertilizers and the gas companies have promised to improve the gas supply. They also note that the problem with the quality of river water for the Namrup Plants was also expected to be overcome as a result of intervention by the Government. The Committee trust that with these measures, production would improve in the Namrup group

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		of Plants. Dur to higher ash content in the coal supplied by the collieries of Coal India Limited for the power and steam generation plants there were heavy breakdown and evasion of equipments. The Committee have been informed that efforts were being made to get an agreement signed with Coal India Limited for regulating the quality of coal supplied to the Units. The Committee find that although during the Performance Review Meeting, the Ministry had suggested that HFC should consider deputing some experienced officers at the collieries for monitoring the quality and despatches of coal, it could not be implemented in the absence of an agreement to that effect. The Committee desire that steps should be taken to finalise the agreement expeditiously with Coal India Limited for supply of coal including that for deputing officers of HFC at the collieries for monitoring the quality of coal. The Committee are also informed that the Company experienced difficulties in arranging necessary funds for the procurement of input materials like Naphtha and Coal due to liquidity problems. What dismays the Committee is that while on one hand the Company experience shortage of raw material on account of liquidity problems, on the other hand the Company was carrying heavy inventory which represented 24.62 months consumption as in the end of March, 1990. They cannot resist commenting that the purchase of raw materials was not carefully regulated and did not commensurate with the actual requirement of each raw material.
24	3.76	The Committee are also unhappy to note that capacity utilisation which has been declining over the years in Barauni, Durgapur and Namrup-I was abysmally low in 1989-90, i.e. 10.4% in Durgapur, 11.2% in Namrup-I and 24.2% in Barauni. Namrup-II 66.5% in the year. The Committee are informed that proposal was submitted by the Company to the Government for derating the capacity of old generation plants. The Secretary, Department of Fertilizers favoured derating the capacity of these plants during evidence on the ground that the rated capacities were no more achievable due to deterioration in the condition of the plants. He pointed out during evidence : "Our expectation is that with the revision of rated capacity, with this modest capacity taking advantage of the captive power plants and restructuring of the capital, these

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		units can be turned around." The Committee urge the Ministry to weigh the pros and cons of the proposal and expedite a decision thereon.
25	3.77	The cost of production was considerably high in all the three Units of HFC—Barauni, Durgapur and Namrup —both in comparison to the selling price and Average Retention Price fixed by Government. The Committee are particularly concerned about the jump in the cost of production in Durgapur Unit from Rs. 7398 per tonne in 1988-89 to Rs. 11737 in 1989-90 and in Barauni Unit from Rs. 5198 per tonne in 1988-89 to Rs. 8138 in 1989-90. It is also intriguing that in Durgapur unit while the direct cost increased from Rs. 4484 per tonne in 1989-90 the indirect cost registered a sharp rise from Rs. 2914 to Rs. 6004. This phenomenon is stated to have been due to gross under-utilisation of capacity on account of frequent breakdown of equipments and machinery, interruption in power supply, disturbed industrial relations, etc. Higher rate of consumption of raw material as compared to FICC norms due to increased number of shutdowns and start-ups, ageing of equipments etc. has also added to the higher cost of production. Notwithstanding these constraints, the Committee are of the view that there was still scope for cost reduction by reducing overhead expenditure, stabilising power supply and maintaining consumption close to FICC norms. The Committee urge the Company and the Ministry to constantly review the performance of these plants and conduct periodic cost analysis with a view to reducing the cost of production.
26	3.78	The Government appointed a consultant, M/s. Halder Topsoe, Denmark in 1987 for carrying out end-to-end survey of Namrup I & II, Durgapur and Barauni Plants with a view to undertake revamping of these plants. The consultant, in its report forwarded to the Government in July, 1988, recommended revamping of the plants with an additional investment of Rs. 486.39 crores (which was updated to Rs. 604.24 crores by PDIL in February, 1990) with a view to achieving optimum capacity. Although HFC felt that after revamping as suggested by the consultant the Company could earn an yearly profit of Rs. 9595 lakhs, after the pre-PIB meeting held in May, 1990, the Company was directed to examine the possibility of going in for minimum investment on these plants with a view to operating them for 4-5 years and initiating fresh proposals

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		for grassroot plants in the meantime. Accordingly, an alternative study was got done by PDIL and the minimum investment worked out to Rs. 97.84 crores. The Committee are informed that the modest investment proposal was at the final stage of consultation with the appraisal agencies in the Government and was expected to be put up to the competent authority shortly.
27	3.79	Going by the chronological order of events, the Committee are highly distressed to see the lackadaisical approach of the Government towards rehabilitation of these chronically sick units of HFC. In view of the fast deterioration of the plants and equipments and sharp decline in production over the years in HFC's plants, the Committee cannot but express their displeasure over the inordinate delay on the part of the Government in taking a decision to appoint a consultant to look into the problems which were being faced by these plants, about two years' time taken to scrutinise the revamping proposals submitted by the consultant and not arriving at a final decision on the latest investment proposal for revamping worked out by PDIL. Moreover, due to the vascillating approach of the Government to the problem, the study undertaken by the consultant and the expenditure thereon were rendered infructuous as the proposal submitted by the consultant was not accepted by Government. The Committee deprecate such unwarranted delays and indecision on the part of the Government on such vital issue.
28	3.80	The Committee note that both HFC and the Ministry are in favour of the modest investment proposal for partial revamp in view of the magnitude of the investment as proposed by the consultant, resources crunch and uncertainty of the plants becoming viable even after making such heavy investment in the plants. The Committee desire that after due consideration the proposal should be got approved by the concerned Departments of the Government without any further loss of time. The Committee are also informed that the modest investment proposal would be viable only subject to derating the installed capacity of these plants to 60% approval of the proposal submitted by the Company for capital restructuring and sanctioning of new grassroot plants at these sites. The Committee find that whereas proposals for derating the capacity and capital restructuring are

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		under consideration, neither has the Government formulated any plans for setting the grassroot plants nor any provision been made in the Eighth Plan projections for the same. On specifically being asked as to when did the Government propose to set up the new grassroot plants, the Committee were informed that at present the Government was concentrating on revamp of the existing plants and the proposal for new plants would be considered in a phased manner after the revamped plant's operation was seen. The Committee cannot but deplore such myopic policies and planning by the Government. The Committee are of the view that there is little possibility of HFC turning the corner, without new grassroot plants sanctioned to the Company so that these could be commissioned in the near future and old plants replaced in the course of time. The Committee urge that the Government draw up a broad timeframe for setting up the new plants immediately after the modest investment proposal is approved by the Government. The Committee would like to be apprised of the action taken by Government in this regard.
29	4.28	The mounting losses of HFC since its inception is a source of deep concern to the Committee. 'The Committee are distressed to find that the Company which had occupied the second position among the top loss making public sector enterprises in the country in 1988-89 catapulted to the top in the list in the year 1989-90 accounting for 8.67% of the total loss incurred by the public sector in the year. At the time of formation of the Company the anticipated rate of return on capital employed was 12% after tax as per FICC pricing policy. However, against the paid up capital of Rs. 645.22 crores, the accumulated loss at the end of 1989-90 had reached a staggering figure of Rs. 949.69 crores, thus wiping out the whole paid up capital. In addition, the company had loans and interest thereon outstanding for repayment due to liquidity problems. Besides the progressive rise in net losses year from Rs. 104.84 crores in 1987-88 to Rs. 156.38 crores in 1988-89 and Rs. 169.97 crores in 1989-90, another disturbing feature was the actual losses incurred being constantly higher than the budgetted figures since

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		1986-87, *viz.* the actual loss which was 111% of the budgetted figures in 1986-87 rose to 116% in 1987-88, 119% in 1988-89 and 125% in 1989-90, pushing the company more and more into the red. Against a budgetted loss of Rs. 175.18 crores for the year 1990-91 the provisional loss incurred upto December 1990 was Rs. 187.97 crores. It is significant that the sharp rise in losses were despite the fact that Government had paid subsidy to the Company aggregating to Rs. 296.92 crores during the last five years from 1985-86 onwards as retention price subsidy and freight subsidy under the Retention Price Scheme.
30	4.29	The Company's dismal financial performance has been attributed to variety of reasons. Some of the predominant factors like high consumption of raw material, low capacity utilisation, high cost of production, interruption in gas supply to Namrup, etc. have already been dealt with in the preceeding chapter of this Report. However, it is hardly believable that a new generation plant like Namrup III has been incurring losses ever since its commissioning in 1987. The losses were to the tune of Rs. 857, Rs. 1795 and Rs. 555 lakhs from 1987-88 to 1989-90 respectively, with figures higher than budgetted in 1987-88 and 1988-89. The Committee note that both the Ministry and HFC are confident that the Company could become viable once these measures are implemented. The Committee have, however, reasons to believe that just by implementing the proposals for financial restructuring, derating the capacity of the plants and partial revamp, the plant might not become financially viable. The capital restructuring proposal was submitted to the Government almost three years back. Since the Company is facing serious financial constraints, the Committee desire that this alongwith other proposals which are still pending with the Government should be expedited and implemented without further loss of time.
31	4.30 and 4.31	Going by the burgeoning losses of the Company it is difficult for the Committee to believe that there had been effective monitoring of its performance by the Board of Directors and the Ministry from time to time. They are left with a feeling that whereas HFC had not taken adequate steps to overcome the constraints facing it since inception, the Government only aggravated the situation by simply ignoring it. The Committee would urge that

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		HFC and the Ministry should constantly review the performance of the plants more effectively and make all possible efforts to see that the Company achieves break even point. The Committee would await steps taken in this regard. The outstandings of the Company as on 31st March, 1990 were Rs. 3295.59 lakhs equivalent to 15.9% of total sales out of which Rs. 1407.85 lakhs were more than one year old. The Committee are unhappy to note that BISCOMAIN in Bihar has not settled debts amounting to Rs. 12 crores owed to the Company despite intervention of the Government at the higher level. They are of the view that HFC must have stopped further supply of fertilizers to the cooperative society. The Committee stress that effective steps should be taken by the Company and the Ministry especially for recovery of debts outstanding for long from the Government Departments and Public Enterprises.
32	4.32	The Committee find that Company has been carrying heavy inventory, much in excess of the norms. The total value of inventories as at the end of 1989-90 was Rs. 203.04 crores. The position was particularly bad in regard to the level of inventory of raw materials, stores and spares etc. which represented 14.40 months consumption in 1987-88 against the norm of 12 months and consistently increased to 19.80 and 24.62 months in 1988-89 and 1989-90 respectively. Although the level of inventory of finished goods, which represented 7.12 months sale in 1987-88 was scaled down to 4.27 months in 1989-90, it was still high against the norm of 0.75 month's sale. It is surprising to the Committee that while on the one hand HFC was carrying excess inventory of finished goods, on the other hand indigenous production of Nitrogenous fertilizers had been less than the overall demand in the country and the Company's sales have been below the targets during the last five years even with a marketing set up beyond its requirements. It hardly needs mention that heavy inventory represents avoidable blocked up capital as also entails inventory carrying cost which was as high as Rs. 7.20 crores in HFC annually. The Committee would underline the need for adopting an aggresive marketing policy to avoid piling up of finished

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		goods and measures to check unnecessary accumulation of process stock.
33	5.35	The Committee note that the manpower strength in HFC at the end of March, 1990 was 10,594. Although it was quite obvious that the Company was allocated manpower far beyond its requirements in many of the departments at the time of reorganisation, no study was conducted to assess the overall manpower requirements. Significantly, a study conducted for Barauni Unit revealed that the actual requirement of manpower was only 1450 against the existing strength of 1715 and sanctioned strength of 1958. Surprisingly, the Company recruited 912 persons during the last five years whereas the number of employees who availed of the Voluntary Retirement Scheme introduced by the Company was only 334. A work force consisting of 1819 persons were still deployed in Haldia although all commissioning and production activities were stopped in October, 1986 entailing an expenditure of Rs. 36.64 crores towards payment of salary and allowances till December, 1990. Inspite of the fact that there has been surplus manpower in the Company, there was high incidence of overtime allowance in all the units which aggregated to Rs. 1380.43 lakhs during the period from 1987-88 to 1989-90. Yet another disturbing feature was the steep decline in labour productivity in Durgapur and Barauni from 66.46 and 93.80 tons of urea per employee in 1987-88 to 18.72 and 46.55 tons respectively in 1989-90.
34	5.36 and 5.37	The Committee are perturbed about the casual manner in which HFC and the Ministry have been dealing with this vital aspect of manpower management. They regret to note that inspite of the recommendations made by the Task Force in 1986 for taking measures to reduce the burden of excess manpower, it was only after the Committee took up examination of HFC, that a decision was taken to appoint a Committee to study the manpower requirements of all the Units. The Committee desire that the study be expedited, surplus manpower identified and effective measures taken to reduce the surpluses within a realistic period. The Committee would urge that a conscientious effort should be made to productively deploy the surplus manpower, curtail payment of unjustified overtime and increase productivity of labour. They would

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		like to be informed of the steps taken in this regard at the earliest.
		Owing to inequitable distribution of manpower especially at senior and middle levels at the time or reorganisation and the natural tendency to desert a sinking ship, HFC has been experiencing dearth of qualified and experienced manpower from the beginning. In view of the fact that this was a major constraint in improving the performance of the Company, the Committee feel that the administrative Ministry should have come to their rescue and arranged for the services of experienced persons from other fertilizer Companies under their control. They desire that HFCD should evolve a long term manpower policy and besides induction of experienced and qualified personnel at senior and intermediate levels, direct recruitment strictly on merit should be resorted to at junior levels in a phased manner to overcome the problem. They are left with no doubt that human resources development had been the most neglected area in HFC. The Committee recommend that due emphasis should also be given to manpower training at all levels.
35	5.38	The Committee also regret to note that the most predominant factor coming in the way of efficient functioning of HFC was the unfavourable industrial relations climate prevalent in its units right from the beginning. The total mandays lost on account of strikes alone was 23481 in 1988 and 5366 in 1989. Durgapur Plant was shutdown for about 7 months in 1988-89 on account of labour problems. There were instances when inter-union rivalry, minor disputes and resistance from employees delayed the installation of equipment in Durgapur for nearly six years and even severly demaged the oxygen compressor in Haldia. Indiscipline among employees seemed to be the order of the day in HFC's plants with frequent instances of intimidation and gherao of officers which had resulted in demoralisation of employees in general and the management in particular. The Problem had compounded with the multiplicity and inter rivalry of Unions. A number of agreements were signed with workers under pressure besides some inherited from the erstwhile FCI relating to promotions without consideration of technical qualifications, block overtime not related to

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		actual work, etc. which adversely affected productivity.
36	5.39 and 5.40	The Committee are of the firm view that improving of industrial relation should receive prompt attention of HFC and the Ministry as a pre-requisite to improving the working of the Company. This was brought out tellingly by the Secretary, Department of Fertilizers during evidence: "Unless the basic climate changes, there is very little prospect of the HFC as a whole coming out of the red."

The Commiattee desire that expeditious steps be taken to review and rectify all agreements entered into with worksers which are adversely affecting the Company and to improve discipline and morale among employees and industrial relations climate in the Company as a whole.

The Committee are glad to note that a decision has been taken to implement a productivity linked incentive scheme in HFC. They would, however, emphasise that the Incentive Scheme should be result oriented and linked to production as also suitably substitute the existing system of payment of unjustified overtime.

37.	6.25	After examination of HFC, the Committee have come to the insescapable conclusion that the Achilles' heel of the Corporation is the location of its Corporate Office. While all its operating units and divisions are situated in the Eastern region the Headquarters of the Company is in Delhi. It goes without saying that from such a distant location, it has not been possible for the management in the Corporate Office to have effective supervision and control over the various units/divisions of the Company which are crippled with a multitude of recurring problems or make themselves easily accessible to the General Managers of the Units for consultations on matters of urgent nature. This explains the fact that while the units were bogged down with various problems, the management remained helpless and almost ineffective. It definitely had an adverse impact on the performance of the Company, the details of which have been gone into by the Committee in the earlier chapters and hardly need any recapitulation.
38.	6.26	During evidence, the Secretary, Department of Fertilizers informed the Committee that at the time of reorganisation of erstwhile FCI, Government had, in fact, envisaged that within a couple of years the Headquarters of HFC

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		should be moved out of Delhi. The Committee are dismayed to learn from the Secretary, Department of Fertilizers that direction issued by the Government in March, 1979 asking the Company to initiate action for shifting the Headquarters from Delhi in accordance with the original decision was rescinded with the change of Government in 1980. The Committee cannot but deprecate the haphazard manner in which instructions issued on the basis of well considered decisions are retracted with the change of Government.
39.	6.27	Singnificantly, the Committee find that shifting of Headquarters from Delhi was vehemently advocated by the Task Force in its Report submitted to the Government in 1986. Various factors like close liaison and coordination with the Government, objection raised by the Headquarters staff, avoidance of administrative expenditure connected with shifting of Headquarters and the instructions issued by the Ministry of Urban Development not to re-locate the Head Office of Companies in the metropolitan cities advanced to justify retention of the Head Office in Delhi are hardly convincing to the Committee. In Committee's view the Ministry cannot be absolved of its responsibility for not pursuing the matter with the Company in the right earnest and the lack of initiative on their part, in getting the decision implemented.
40.	6.28	The Committee have dealt with the issue relating to location of Head Offices of public undertakings in their earlier Reports and have pointed out that with the development of rapid means of communication, transport etc. there is no reason why the Head Offices of public undertakings should be located in the metropolitan cities. The Committee are of the firm opinion that from the point of view of corporate management it is but necessary that the Head Office of HFC should be shifted from Delhi to a place in the Eastern region from where access to and communication with the units would easier for the corporate mangement of the Company. This would not only make convenient administratively for the office but would also yield developmental benefits to the area/ region/city where the office shifted. For the sake of coordination and liaison work the Company could retain minimum necessary staff in the Capital. In this connection,

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		it is heartening to note that the Secretary, Department of Fertilizer held out an assurance before the Committee that the question of shifting of the Headquarters from Delhi would be reopened and decision thereon taken as quickly as possible. The Committee desire that steps be taken to expedite the decision, identify a suitable alternative location for the Head Office and ensure that the shifting is done within a reasonable timeframe. The Committee would like to be apprised of the concrete action taken in this regard.
41.	6.29	The Committee regret to note that there have been frequent changes of Chief Executives in HFC. As many as seven incumbent served the Company as regular CMDs since its inception in 1978. Many of them left the Company before attaining the age of superannuation. To compound the problems there were quite long intervals between a Chief Executive leaving the Company and his successor taking over on account of delay in succession planning and the Functional Director officiated in his place till the new incumbent was appointed. The callousness on the part of the Ministry is quite evident from the fact that it took about a year to appoint regular CMD in a chronically sick Company like HFC after the post became vacant in March, 1990. Admittedly, the mid-stream changes in the top management and keeping the Company 'headless' for long spells have hampered the working of the Company.
42.	6.30	It hardly needs reiteration that frequent changes in the incumbents of the Chief Executive and undue delay in succession are detrimental to efficient functioning of any Undertaking as these are fraught with lack of control, direction and long term planning. The Committee would urge the Ministry to ensure continuity in top management and proper succession planning in the Undertakings under their control. The Committee on Public Undertakings have dealt with this aspect in serval Reports earlier. The recommendation of the Committee in their 49th Report (7th Lok Sabha) that "frequent changes of Chief Executives should be avoided and there should be a minimum tenure of five years subject to satisfactory performance" was accepted by Government. It was however, stated by the Government that order was issued in February, 1991 appointing a regular CMD in HFC for a

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		period of five years or till the incumbent attains the age of superannuation, which is earlier and he was expected to join the Company shortly. The Committee hope that if the new incumbent assumed office would complete his full tenure. Inorder to ensure the smooth functioning of the public enterprises, the Committee recommend that in future action need be taken in advance by the Government to appoint the Chief Executives of all the public sector enterprises so that no enterprise remains without a regular Chief Executive.
43.	6.31	As per BPE guidelines issued in 1972 the Board of Directors for large multi-unit enterprises should consist of full-time Chairman-cum-Managing Director assisted by at least two functional Directors, one of whom would be in-charge of Finance and part-time Directors. However the, Chairman find that at present the Board of Directors of H.F.C. comprised of Director (Finance) who was officiating as CMD since March, 1990, two-non executive Directors from the Department of Fertilizers appointed by Government and five non-official part-time Directors. The Task Force which inter-alia went into this aspect also recommended that the Director (Finance) who is presently placed on the same salary as the General Manager needs to be upgraded and senior person appointed as Director (Technical) to advise the General Managers of the Units on technical matters.
44.	6.32	Although the Ministry stated in a written note that there were certain procedural hurdles in implementing the same as the Company was in 'B' schedule, the Secretary, Department of Fertilizers was fully in agreement with the recommendations of the Task Force during evidence and admitted: "we feel that this recommendation ought to be accepted and acted upon". The Committee feel that lack of expert and professional guidance in technical matters is a main contributing factor for the sharp exacerbation of the problems facing the Company, The Committee, therefore, recommend that Government should examine the desirability of reclassifying the Company and rationalising the structure of the Board consistent with the efficient functioning of the Company.

CORRIGENDA TO THE FIFTH REPORT OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (1991-92) ON HINDUSTAN FERTILIZER CORPN. LTD.

Page	Para	Line	For	Read
(i)		30	APPENDIX III	APPENDIX
4	1.7	27	pre-emtorily	peremptorily
11	1.26	8	remedials	remedial
28	2.45	7	phose-Asid	phos-Acid
86	5.27	3	can did	candid
92	6.1	2	erst while	erstwhile
101		1	APPENDIX III	APPENDIX