

Engineering Projects (India) Limited— Loss in Execution of Foreign Projects

**Ministry of Industry
(Department of Heavy Industry)**

**COMMITTEE ON
PUBLIC UNDERTAKINGS
1991-92**

TENTH LOK SABHA



**LOK SABHA SECRETARIAT
NEW DELHI**

SECOND REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS (1991-92)

ENGINEERING PROJECTS (INDIA) LIMITED— LOSS IN EXECUTION OF FOREIGN PROJECTS

MINISTRY OF INDUSTRY
(DEPARTMENT OF HEAVY INDUSTRY)



Presented to Lok Sabha and laid in

Rajya Sabha on 10th December, 1991

LOK SABHA SECRETARIAT
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(1991-92)**

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INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Second Report on Engineering Projects (India) Limited—Loss in Execution of Foreign Projects.

2. The Committee's examination of the subject was mainly based on an Audit para contained on the Report of the Comptroller & Auditor General of India, 1989 Union Government (Commercial) Part—IX.

3. The Subject was examined by the Committee on Public Undertakings (1990-91). That Committee took evidence of the representatives of Ministry of Industry (Department of Heavy Industry) on 5 November, 1990 and also of the representatives of Engineering Projects (India) Limited on 11 December, 1990. The Committee, however, could not finalise their Report due to the dissolution of Ninth Lok Sabha on 13 March, 1991.

4. The Committee on Public Undertakings (1991-92) considered and adopted the Report at their sitting held on 21 October, 1991.

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

6. The Committee wish to express their thanks to the Ministry of Industry (Department of Heavy Industry) and Engineering Projects (India) 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 Heavy Industry and EPI who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

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

NEW DELHI;
6th December, 1991

15th Agrahayana, 1973 (Saka)

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

PART-I

BACKGROUND ANALYSIS

The Audit Report of the Comptroller & Auditor General of India, Union' Government (Commercial)—Part-IX 1989 has brought out an audit observation on EPI Ltd.—Loss in execution of Foreign projects which is discussed in detail as under:—

1.1 Engineering Projects (India) Limited was established in April, 1970 as consortium of seven public sector units and had a paid-up capital of Rs. 800 lakhs as on 31st March, 1988. The main objective of the Company was to develop necessary expertise and potential to take up turnkey projects with overall responsibility from the conceptual stage to its final completion on a consortium approach. The Company worked mainly on construction and material handling projects. The annual turnover increased from Rs. 29.27 lakhs in 1972-73 to Rs. 17,731.20 lakhs in 1981-82 but declined thereafter to Rs. 5386.68 lakhs in 1987-88.

A. Projects undertaken in Foreign Countries

1.2 The Company from 1972-73 has been bidding and obtaining orders from foreign countries for execution of construction and material handling projects as part of its activities. To the end of 1987-88, it had been able to secure 27 projects of the value of Rs. 67,476.30 lakhs. This was almost 46% of the total projects in their hands both in India and abroad. Of this the value of the projects accepted for execution in Kuwait, Iraq and other countries was as under:—

	No. of Projects	Value in lakhs of Rupees
1. Kuwait	7	28,849.80
2. Iraq	14	32,400.50
3. Others	6	6,226.01

1.3 No new works were secured in foreign countries since 1981-82 except for Council of Ministers Building Project modification work in Iraq for Rs. 3435.00 lakhs and water supply project in Bhutan valued at Rs. 450 lakhs awarded to the Company in 1983-84 and 1987-88 respectively. The Management stated in its Annual Report for the year

1983-84 that because of the falling construction activities in the Middle East and Gulf areas, continuing hostility between Iran and Iraq and severe competition, it would now concentrate more on securing business in the home market.

B. Loss in Foreign Projects

1.4 According to Audit the overall picture of the profitability or otherwise of the projects undertaken revealed that in 8 projects the company had incurred very heavy losses. The synoptic picture of the value of each project, the profit anticipated and the loss incurred of the work are given below:

Rs. in lakhs

Sl. No.	Name of the Project	Contract Value		Profit anticipated at the time of contract	Actual loss booked upto 31.3.88
		Original	Revised		
1	2	3	4	5	6
Kuwait Projects					
1.	Sief Palace Area Building Project, Kuwait	3264.00	3747.72	173.70	53.83
2.	35th Brigade Camp Project, Kuwait	7464.00	8345.25	448.20	170.50
3.	Al-Firdous Housing Project, Kuwait	23182.00	14892.25	1060.00	5307.24
4.	Oil Storage Tank, Jeddah, Iraq Projects	375.00	376.15	7.68	7.47
5.	Water Research Centre Project, Iraq	1550.00	1589.31	139.44	226.22
6.	Northern Grain Silos Projects, Iraq Lot-3A	4561.70	4845.07	281.47	375.40
7.	Central Grain Silos Projects, Iraq Lot-4	4288.22	4618.17	257.29	221.07
8.	CMBP, Iraq Council of Ministers buildings	3414.20	4647.12	239.70	1595.45
				2607.48	7957.18

1.5 When asked to state the latest position in this regard EPI informed the Committee in a written reply that during the period 1980—85, the Government of Iraq gave some additional job. In respect of the additional/new jobs pertaining to Iraqi projects, the company has earned a profit of Rs. 3029.52 lacs (Northern Silos, Central Silos and CMBP). As a result, final loss on the above 8 projects stands reduced to Rs. 4927.66 lakhs as on 31.3.1990. The above figures do not take into account the regional office/head office overheads..

1.6 The Committee wanted to know the justification for EPI taking up these projects. During evidence, CMD, EPI replied as follows:

“the middle-east was opened up for foreign companies for taking up large scale developmental projects sometime around 1975-76. EPI had done some work at the Airport Project in Kuwait and it realised that there was a large opportunity. Even the Government of India, I understand, thought that this was a good area where some Indian companies could have gone into with a view to earning precious foreign exchange. With that view in mind it was thought that EPI should take up this job because it was ideally suited for this purpose.”

It was further stated by the representative that “EPI was a pioneering Company in 1975. It took upon itself the pioneering role of venturing into the overseas projects. Our Company was the first company which looked into it and thought that we should also go abroad and take up the projects in competition with the developed countries of the Western World.”

1.7 When asked to state how did they think they could compete when they did not have the requisite experience, the representative added:

“To a great extent it is right when we were returning into the overseas projects, the total export of the construction projects of this country was not more than Rs. 50 crores.”

He further added:

“When we went outside the country we were competing with the companies which were coming from the developed world and who were highly organised and to compete with most of the advanced countries which are very well organised was rather difficult.”

In this connection when the Secretary, Ministry of Industry was asked to state as to what inputs did EPI have before they entered into a contract with Kuwait, he stated:

"I cannot give you a straight answer. I will have to look into it. After the 1973, oil prices boom only it came into limelight, & started taking up huge projects. So at that point of time our inputs, whatever we could have, must have been sketchy."

The Deptt. of Heavy Industry in a post evidence note stated that at that point of time EPI had not executed any large value Civil Engineering project in India before entering Kuwait. The management did not gear itself up in terms of personnel & procedures to implement the new contract which they had secured. The Company had underestimated the difficult conditions in Kuwait. It was further stated that when EPI along with PCI of Japan took up project in Kuwait at that time the projects in Kuwait were being awarded and there were not many projects in Kuwait which had been earlier completed and as such reputation of the client was not known. The then Chairman EPI was in close touch with Indian Ambassador in Kuwait at the time of negotiation of projects.

1.8 On being asked whether the company anticipated profits from these projects and if so how the estimates went wrong later, the CMD EPI replied during evidence as follows:—

"At that time EPI was still in an incipient stage and it had not taken up very large projects by that time. But taking all the various factors into account EPI had prepared the tender and it was projected that substantial profits would be made in this project which had four phases. Take for instance Ardya Housing Project. As the implementation of the Project went along, it appeared that things started going wrong from the very outset; starting from the requirement and supply of materials. When EPI tendered for this project they had naturally anticipated that the best quality of material which was available in India would be considered suitable for this project also. But later on as we went along it was discovered that each and every item—with the exception of a very few—was rejected by them. Kuwait was insisting us to strictly go along with the British standard specifications and they did not consider our materials to be meeting the requirements. EPI did send some materials like cement and steel which were rejected after it reached there. In the case of cement tests were carried out by an expert agency with the help of the BSS authorities in London and samples were taken there. Inspite of this, when the material was sent there, the cement was rejected and it had to be disposed of in the local market. Similarly steel was also rejected and it had to be either exported to our other projects in Iraq or disposed of."

1.9 However while explaining the losses suffered particularly in Iraq operations, it has been stated by EPI that Iran-Iraq war which broke out in September, 1980 and continued till August, 1988 was the major factor responsible. As a consequence of the war the Company's operations were affected severely. There was demobilization of staff, acute shortage of essential building materials, diesel oil, lubricants, spare parts for construction equipments etc. Besides the war was also responsible for causing low morale among the workers resulting in reduction in productivity.

1.10 In this connection the Ministry of Industry stated in their written reply furnished after evidence that the other materials rejected were wooden door frames and door shutters. These materials were rejected as some of the frames had fine cracks and a few knots and were not considered fit as per British Standard specifications. Though these materials were officially approved by the clients at various stages such as on receipt of the material at site, on assembly, on fixing in the houses and even after final finishing, these were however rejected enmass for phase I during taking over and for subsequent phases without even inspecting all these materials.

When asked to state if before taking up the Ardyah Housing Project approval of the Board was taken, the representative from EPI stated that the Board in their meeting held on 14.6.1978 had approved the decision and recorded as follows:

“The Board was keen that EPI should take up this project even if it was only on a break-even basis particularly for the reason that this would be a harbinger for such projects abroad and that a huge amount of foreign exchange would be earned by India.”

1.11 In regard to provision in the original contracts, regarding source of materials to be used in the Projects, the CMD, EPI stated during evidence that it should have been agreed upon before getting the contract that material manufactured in India would be used but it did not happen. It was expected that the best quality material manufactured in India, would be supplied and only then it could meet their requirement. But the factual position is that when they started supplying this material it was found that the specification of materials had not been fixed according to the quality.

1.12 In this connection, E.P.I. stated in written replies that the specifications for acceptance of material and fabricated items in the contracts were Kuwaiti specifications for such work. The rejection of material however was due to clients, literal insistence on EPI's compliance with these specifications and conditions. It was abnormal rigidity with which these conditions were applied while accepting the material and work that led to rejections.

1.13 Asked to state if proper safeguards were kept in the contract in case of cost escalation, supply of work force and materials etc., E.P.I. in written replies furnished to the Committee clarified that in Gulf countries

where E.P.I. carried out its major operations, contracts are standard fixed rate contracts without escalation provisions except for escalation provided for Government controlled materials in case of Iraq projects only. There is very little choice given to contractors to make alterations etc. from the conditions they have put in the contract. The anticipated escalation, if any is built into the cost itself.

1.14 The Committee wanted to know whether the quality of materials was inspected before shipment. EPI stated in a written reply that the materials shipped from India were inspected by a reputed international inspecting agency i.e. General Superintendence and only approved materials were shipped.

1.15 The Committee desired to know the action taken by the Company against such sub-contractors who supplied materials and fabricated items which were subsequently rejected and how these rejected items were disposed of. In their written reply EPI stated that based on agreements with the sub-contractors, claims were filed and arbitration resorted to. Out of the rejected items, many could be used on the project after modification acceptable to the client e.g. wooden frames. Other items like steel were transferred to company's projects in Iraq. The remaining items were disposed of in the local markets.

1.16 On a query about the norms followed for selection of sub-contractors and whether limited tenders or global tenders were invited for that, the CMD, EPI replied during evidence as follows

"We did not invite tenders in the newspapers. We had a list of qualified contractors for different work we kept the names of such persons shortlisted who could do their work efficiently. In every list 5,6,7,8, or more persons are sent inquiries and they are asked whether they can do the said work in such a time if so, quote your price. For this public inquiries are not floated but only limited enquiries are floated."

1.17 When the Committee wanted to know the reasons for not calling for open tender EPI stated in the written reply furnished after evidence that it has not been possible to get any records to know clearly as to why open tender system was not followed and only limited tenders were invited. However it appears from the available records of meeting of Committee of Director on Ardyah Housing Project, Kuwait held on 11.11.76 that good deal of preparation had gone into this exercise and leading civil contractors in the country had been contacted.

1.18 EPI further informed in the written replies that for the last few years they have stopped the practice of sub-contracting and has been mostly doing work departmentally through labour contractors under direct supervision of EPI site engineers, except for purchases of equipment and other specialised works.

1.19 According to Audit there was delay in completion of projects in Kuwait and Iraq. The dates of completion of work are:—

Sl. No.	Name of the Project	Date of Start	Date of completion		
			Original	Exten- ded	Actual
Kuwait Projects					
1.	Sief Palace Area Building Project, Kuwait	2/78	2/81	1/83	1/83
2.	35th Brigade Camp Project, Kuwait	1/78	7/80	12/83	12/83
3.	Al. Firdous Housing Project, Kuwait	9/76	5/79	7/84	7/84
4.	Oil Storage Tank, Jeddah	11/78	6/80	10/81	10/81
Iraq Projects					
5.	Water Research Centre, Project	4/79	8/81	9/82	8/83
6.	Northern Grain Silos Project, Iraq, Lot-3A	8/78	4/81	12/82	12/83
7.	Central Grain Silos Project, Iraq, Lot-4	1/79	9/81	8/83	8/84
8.	CMBP, Iraq Council of Ministers Building	5/79	5/81	8/86	8/88

1.20 While explaining the reasons for cost and time over-runs in the Projects executed in Kuwait, E.P.I. informed the Committee in the written replies furnished by them that the reasons for time over-runs were analysed at all stages and it was found that the delays were caused by the very rigid and non-co-operative attitude of the client, delay in handing over site, delay in finalising the building levels, delay in decision regarding foundations, delay in approval of drawings, delays in approval of sample materials, delay in decision relating to ductile iron pipes, congestion in Kuwait ports, rejection of materials approved by the clients before. One internal reason which caused delay was the industrial dispute with labour in 1978, though this was also a result of not providing enough fronts to work by the client. In one of the Projects in Kuwait, rock was encountered. This was also not known earlier as the soil samples did not indicate the same. The client took extraordinary long time to permit the use of explosives for excavation.

1.21 The Committee noted that as a result of time over-runs the EPI had to incur heavy losses. The Committee therefore wanted to know if the cause of losses incurred on these Projects was ever discussed in the Board meeting with a view to taking remedial action.

During evidence CMD, EPI replied:

“We had discussed this problem not as a part of any formal agenda but as a sequel to certain direction from the departments to carry out the enquiry into the causes of losses. In that context, we had discussed this problem in the Board and considered in what manner enquiry can be conducted to arrive at the truth as to the causes of the losses, incurred by the company. As far as company was concerned we were always beset by one difficulty. Either there was no senior officer to be entrusted with this job or the officers were themselves involved directly or indirectly in the operations. Therefore, we always thought that somebody from outside or an independent agency could have gone into it. Even the COPU had gone into the matter and they had arrived at some conclusion. But we actually could not take a final view in this respect in a formal way.”

1.22 Asked to clarify if after the projects started incurring heavy losses any mid-term corrective steps were taken by EPI, it was stated in written replies that several measures were taken in this regard. The major steps taken in this regard included doing away with the sub-contractors who were earlier engaged by the Company for implementing the works, raising claims on clients for the expenditure incurred due to remobilisation of staff and workers, reviewing establishment costs constantly, engaging competent managers, diverting used plant and machinery to Iraq etc.

1.23 The Committee enquired what remedial measures were taken by the Ministry after having come to know about the delay involved in project implementation and huge losses incurred by EPI on foreign projects. The Secretary, Ministry of Industry replied during evidence:

“The Kuwait Project is the major source of loss. This work was awarded to EPI in August, 1976. Some time in 1979, it was known that this Project got into lot of difficulties and it would not work. The matter was brought to the notice of the Ministry in early 1979. A high power delegation including representatives of this Ministry went to Kuwait in November, 1979 to try and sort out the issues. They did sort out some. They could not get rid of the loss-making propositions. They had to complete the project and they did.”

1.24 Asked to state the recommendations of the High Power Committee the Ministry in their written reply furnished after evidence stated that the Committee recommended for:

- (i) Surrender of Phase IV of Dwelling Units and public facility buildings.
- (ii) Use of Pressed steel frames.

(iii) Expediting completion of the project and improve progress of work.

1.25 On being asked whether these recommendations were implemented, the Ministry in their written reply stated that the recommendations were implemented as under:

- (i) Phase IV of the Dwelling Units and Public Facility buildings were surrendered without any cost repercussion to EPI.
- (ii) The rejected teak-wood frames were used with steel claddings.
- (iii) All out efforts were made to improve the progress and a project was completed.

1.26 On a query regarding reduction in losses effected as a result of implementation of these recommendations the Ministry stated that reduction of losses could not be quantified at this stage. However, it was estimated that in case the recommendations were not implemented the losses might have been more by a few crores.

1.27 On being asked whether the Expert Committee found any manual failure, the Secretary, Ministry of Industry replied "There is no specific finding to this effect."

When asked to state if the losses could have been minimised if the EPI had terminated the contract prematurely, the Secretary, Ministry of Industry stated "...at that time it was thought that it will be a loss if we withdraw than if we continue and complete the Project."

1.28 In regard to rejection of steel, the Secretary, Ministry of Industry further added:—

"As far as I find, the fact is that the steel went from India. After being there for sometime, it got rusted. Our people felt that if the steel was used, there would not be any problem. But the Kuwait authorities did not let them use that material. Ultimately we transferred the material to our Iraqi Projects and used it. It was not defective or substandard to the extent it was made out. The point is that, they did not want this kind of steel to be used. They did not permit our people to complete the work. They wanted some other steel."

1.29 In connection with the rejection of materials when the Committee enquired whether responsibility was fixed upon any official, in reply the Secretary, Ministry of Industry stated during evidence that neither any responsibility was fixed nor any action was taken against any official.

1.30 The Committee wanted to know whether the recommendations of the Report of Committee on Public Undertakings in the year 1981-82 regarding delay in completion of projects, supply of the equipment and consumable materials, review of work of various sub-contractors and

detailed work schedules have been implemented. The Secretary, Ministry of Industry replied during evidence as follows:

“The work has been completed and the projects are now complete. We are not taking any new projects in that area. Further, EPI is not taking any project. These projects have been completed. Regarding Kuwait, the settlement has been signed and everything has been cleared. The office has been closed down there. Everybody has been brought back home. In Iraq also, the office has been closed down. All the projects were completed except the council of Ministers project. This project has been completed in the year, 1988. We were thinking of closing the office there and bringing them all over here in December this year (1990). Meanwhile, the Gulf problem has arisen. So, all the staff members have been brought back. There is no one now. I think the settlement of this particular project will be slightly delayed.”

1.31 The Committee wanted to know that since there was delay in passing the drawings, time overrun and cost escalation, whether any compensation was claimed for that. In reply during evidence the Secretary Ministry of Industry stated as follows:

“Compensation was claimed. Some settlement was arrived at. When the final settlement of bills took place, all these things were set across the table.”

1.32 In regard to the supervisory function of the Ministry over the Undertakings, the Secretary, Ministry of Industry stated that:

“I did mention that the functioning of these piece projects and the implementation was kept under constant review once it was known that it was going to be a losing proposition. The thing I categorically stated was that such a responsibility on a particular individual was not fixed.”

1.33 The Secretary also stated, “Why and where they had gone wrong had been analysed by various people in the Board itself. Ultimately a decision had been taken that EPI being a Government Organisation should be asked not to enter into contracts like this as far as possible in future. This decision taken in 1987 or 1988 is being followed up.”

1.34 On being asked what corrective measures were envisaged; the Secretary stated EPI is now undertaking a lot of projects within India and acquiring experience for these projects in India. When the Committee desired to know whether efficiency of project management is of one order in overseas operation and entirely of different order in the domestic operation, the Secretary, Ministry of Industry replied in the affirmative.

1.35 The Committee pointed out that since EPI is incurring losses in Foreign projects how will it be successful in domestic projects. In reply the Secretary Ministry of Industry stated “the operations abroad the number of

countries are of such a nature in which the Government companies do find it difficult to compete in certain circumstances. I would not like to say anything more on this subject. At that time we thought that probably we would lose much more and that they will confiscate all the machinery that we had put there, all the houses that we have built there. So at that time, it was thought that it will be a loss if we withdraw than if we continue and complete the project."

1.36 The Committee desired if the Ministry would like to institute an enquiry on these issues. The Secretary, Ministry of Industry stated "We are thinking of inquiring into the matter. The decision is there already in the Board and will see that it will be implemented."

1.37 The Committee invited the attention of the representative of EPI towards an earlier report submitted by COPU in which the Committee had taken a serious note of the fact that the advances to the sub-contractors continued to be paid by EPI. The Committee wanted to know if the advances to the sub-contractors are still being given and if they are pending. They also wanted to know that in case the advances were pending what steps are being taken to recover the same. In the written replies furnished to the Committee, EPI informed the Committee that advances had been paid to the sub-contractors but an effort was made to restrict these within the framework of the respective sub-contracts, except in cases where it became compulsory for them to pay the advances. For instance when EXIM was not promoting any overdrafts to sub-contractors they had to depend upon EPI for their fund requirements. Besides initially when EPI did not pay any ad hoc advances. (i.e. regulating payments strictly as per terms of contracts), the associates could not generate sufficient funds even to meet the wage bills of the labour force etc. This led to instances of strikes/manhandling of personnel at project sites. Since this had been viewed very seriously by the Government of host country and the Indian Embassy, EPI had to pay the advances. The other compulsion under which EPI paid the advances was on account of outbreak of war between Iraq and Iran in September, 1980. When the 'Force Majeure' conditions were in operation as per the terms of the contract the work came to standstill and there was panic alround. EPI therefore had to agree for sending the workers back to India and pay advances to the associates towards cost of air tickets etc. After remobilisation of labour due to the increase in the prices of the products EPI had to pay advances to the associates to enable them to procure materials at much higher prices.

EPI further informed that their claims pending with Iraqi clients are to the tune of Rs. 58 crores approximately. Efforts at the level of Indian Embassy, Government of India and even discussions by their Board of Directors with the top Iraqi officers have failed to bring out any results. Deliberations even at the level of Indo-Iraqi Joint Commission did not help in getting reasonable compensation from Iraqi clients against 'Force Majeure' claims which have not yet been fully settled. As regards recovery

of ad hoc advances part of advances were adjusted towards outstanding ad hoc advances whenever funds became available against monthly running account bills. In addition EPI had also taken action for encashment of bank guarantees furnished by its associates and had received an amount of Rs. 1.74 crores approximately. However, in some cases the associates obtained stay from various courts and EPI is making all out efforts to get the stay vacated so that the guarantees amounts are realised. In order to thwart EPI's claim of ad hoc advances, the associates have alleged inflated claims against EPI. Counter claims have also been made by EPI which are referred to arbitration as per contractual provisions. The total ad hoc advances outstanding as on 31.3.90 are stated to be to the tune of Rs. 6037.30 lakhs and there are about 12 arbitration cases which are pending settlements.

1.38 On being asked as to what has been their impact on the total losses EPI stated in the written replies that as per the accounting policy of the company, pending claims' have not been taken into account while working out the profitability of the projects. The same will be taken into account as and when the claims are settled by Iraq clients. Thus, EPI's net losses on Iraq projects would get reduced to the extent of claims finally settled by Iraqi clients.

1.39 On being asked as to what efforts have been made by the company to realise the pending bills for the work done from the clients in order to minimise the financing charges EPI stated that the Iraqi clients and other associated organisations of Iraq have been devising ways and means to delay and hold back payments of the contractors. All the contractors are governed under Iraqi laws, though there is provision for International arbitration. This has not been resorted to as, apart from the process being very costly and time consuming, there has been a major apprehension in the minds as to whether their verdict would be honoured at all by the Iraqis. It has, therefore, been the endeavour of the company to try for an amicable settlement of disputes and realisation of outstanding dues. In this regard a number of meetings by senior officials of the company and Ministry were held from time to time with the senior officials of Iraq Government.

1.40 The Committee wanted to know if till 2 months ago Manager (Material) who was responsible for buying, storing and supplying materials was also entrusted the job of vigilance and whether this procedure was continuing for years together. The Secretary, Ministry of Industry replied in affirmative.

1.41 The Committee inquired about the circumstances under which Manager (Material) was appointed as Vigilance Officer. In their written reply the Ministry of Industry stated:

"Efforts were made to appoint an officer from the organised services (other than those working in EPI) as Chief Vigilance

Officer in the Company, however during 1985 to 1987 future of the company was uncertain therefore as a short-term arrangement and officer of EPI was appointed as Chief Vigilance Officer after consulting the Central Vigilance Commissioner. 3 names were recommended to the CVC in the proposal sent by the Department.”

The Secretary Ministry of Industry stated:

“I agree to the point that the arrangement of appointing any officer within the organisation as Vigilance Officer is not desirable.”

However, in the written reply furnished after the evidence the Ministry informed the Committee that an IPS officer has been appointed after consulting all concerned.

1.42 The Committee pointed out that as per the Annual Report of the Company the accumulated losses as on 31.3.1988 were to the tune of Rs. 203.04 crores. During the year 1988-89 additional losses were of Rs. 38.28 crores so the losses at the end of the year according to their published account were Rs. 241.32 crores. During 1989-90 also these losses have been to the order of Rs. 104.32 crores. So the Committee wanted to know as to what remedial action have been taken by EPI for the financial health of the Company. In this connection CMD stated:

“We have got a Corporate Plan for five years. We have gone into various details. We have tried to reorganise the Company. Next year we have projected a turnover of Rs. 125 crores plus At the end of the 8th plan our projection is that our Company will achieve a turnover of Rs. 250 crores. Once restructuring is done, naturally balance sheet will improve. We have a good outlook for the company. Though now one has to fight for better projects, margins are cut down inspite of that I am very hopeful that the Company should do very well with the kind of expertise it has got. It will not be out of place to mention that this Company has entered in some hi-tech areas especially in metallurgy. It is for the first time in India that Indian Company has done finishing lines in Bokaro. EPI is doing some hi-tech work for steel sector.”

When asked if some concrete steps have been taken to retrieve the Company CMD stated:

“In that context unless and until we have got financial restructuring Company will not be able to pay its dues. There are several circumstances as a result of which these losses were incurred and interest burden is there. Since the Company has a promising future, that is why we have gone to the Govt. with a scheme for its restructuring.”

He further informed the Committee that since there is no full time CMD in EPI and he himself is a part-time Chairman having an additional charge, they have submitted a proposal to the Government for the appointment of Chairman-cum-Managing Director as well as Director (Finance).

Asked to explain that in case Government agree to give one year extension to EPI how many new projects will be taken up by the organisation, CMD, EPI stated:

“Your point is right. Actually there was no restriction on taking up new projects. The total number of projects as at present are 30. In those projects we have to keep up to the schedule and we are trying to make profits. It is a vicious circle. If we have no projects, then the Company will have to be closed. To have a Company without any project means incurring losses without work.”

PART II

CONCLUSIONS/RECOMMENDATIONS OF THE COMMITTEE

The Committee note that towards the end of 1987-88 Engineering Projects (India) Ltd. has been able to secure 27 projects of the value of Rs. *67473 lakhs which was almost 46% of the total projects in their hands both in India and abroad. Out of these, 8 projects had been undertaken in Kuwait and Iraq on which Company had to incur heavy losses against the anticipated profits. The Committee were informed by EPI that it was primarily with a view to earn foreign exchange that they secured orders from foreign countries. At that time, EPI was still in an incipient stage and they had not executed any large value Civil Engineering work in India and in Kuwait, the only project undertaken by them was Kuwait Airport. There were also not many projects in Kuwait which had been completed earlier and as such reputation of the client was not known. The management of EPI had also not acquired sufficient experience and expertise for executing projects of such magnitude and besides the foreign companies with whom they were required to compete were highly developed and organised. They had underestimated the difficult conditions in Kuwait. The Secretary, Ministry of Industry also conceded that at that point of time their input must have been sketchy.

The Committee regret to note that EPI (Ltd.) out of their sheer enthusiasm to earn foreign exchange undertook the execution of foreign projects. They did not make any efforts to equip themselves adequately with sufficient market inputs before embarking upon such projects. The Committee are not at all satisfied with the contentions put forward by them that the reputation of the client could not be ascertained since at that time not many projects had been completed in Kuwait. In view of the heavy losses that EPI (Ltd.) had to incur on these projects, the Committee are of the firm view that it was decidedly not a prudent and judicious decision on the part of EPI (Ltd.) to have entered into contracts of such high magnitude in the absence of sufficient managerial experience and expertise. They however desire that in future at least EPI (Ltd.) must gear itself fully and acquire adequate proficiency in project implementation before taking up such big projects so that no further drain is caused on country's exchequer.

2. The Committee are constrained to find that when Engineering Projects (India) Ltd. tendered for the projects in Kuwait they had anticipated that the best quality of materials which were available in India would be considered suitable for the project, but later on it was discovered that each

*At the time of factual verification EPI indicated the figure as Rs. 67.476.30 lakhs.

and every item with the exception of a very few was rejected enmass for phase I and subsequent phases by them even without inspecting. Kuwait was insisting that they should go strictly by British specifications and materials supplied by them were not considered to be meeting their requirements. The rejected items like Cement and Steel had therefore to be either exported to other projects in Iraq or disposed of and particularly the Steel had to be imported in regard to the provisions contained in the contract pertaining to specifications, the Committee were informed that the specifications for acceptance of materials and fabricated items as contained in the contract were Kuwaiti specifications. The rejection of materials is stated to be due to Clients' literal insistence on EPI's compliance with these specifications. So far as keeping proper safeguards with respect to cost escalation in the contract are concerned, the Committee were informed that the contracts were standard fixed rate contracts without escalation provision except for escalation provided for Government controlled materials in case of Iraq projects only. There was very little choice given to the contractors to make alterations etc. from the conditions stipulated in the contracts. The Secretary, Ministry of Steel however, admitted that it should have been agreed upon before getting the contracts that the materials manufactured in India would be used but it did not happen.

The Committee regret to note that no proper safeguards were taken by Engineering Project/ (India) Ltd. to protect their commercial interests before entering into the contracts with Kuwait. Instead of incorporating suitable provisions in the contract, they simply based their expectations regarding the acceptability of the materials manufactured in India on conjectures. A greater care and caution exercised in this regard would have saved EPI from the heavy losses which they had to bear subsequently. The Committee would, however, recommend that in future at least before entering into such contracts, all steps should be taken by EPI to vouchsafe their own interests.

3. The Committee note that in all the eight projects undertaken by Engineering Project (India) Ltd. for execution in Kuwait & Iraq there were huge time overruns. The causes of delay in the project implementation have been attributed by EPI to a number of factors, like rigid and non co-operative attitude of the client, delay in handing over site, drawings, approval of sample material and industrial unrest etc. The Committee find that due to heavy time overruns involved in their projects heavy losses have been incurred by EPI. The actual loss as booked on 31.3.88 was to the tune of Rs. 9808.27 lakhs which finally came down to Rs. 4927.66 lakhs as on 31.3.90. Losses incurred in Iraq projects are stated to be on account of the outbreak of war between Iran-Iraq. The Ministry is stated to have been apprised of the difficulties being faced by EPI in the early 1979, when a high powered delegation including representatives from the Ministry went to Kuwait in order to sort out the issues. Though they succeeded in solving some problems they could not get rid of the loss making prepositions, since at that point of time they could also not withdraw prematurely and were left

*At the time of factual verification EPI indicated the figure as Rs. 7957.18 lakhs.

with no other alternative but to complete the projects. A decision to institute an enquiry into the whole matter is stated to have been taken by the Board of Directors of EPI and it was stated that the same would be implemented soon.

The Committee are distressed to note that as a result of the time overruns as well as other operational problems involved in the implementation of the projects; Engineering Projects (India) Ltd. had to bear huge financial losses. Whereas losses borne out of the projects undertaken in Iraq, could to a certain extent be attributed to Iran-Iraq war the Committee find little justification in the grounds advanced by EPI for the losses incurred with regard to projects executed in Kuwait. They also regret to note that though the projects in Kuwait started posing problems right from the year 1976, the Ministry constituted a high powered Committee only in 1979. In the Committee's view the Ministry as a nodal body have failed to discharge their supervisory role efficiently. They also take a serious note of the fact that though a sufficient period has elapsed but so far no enquiry has been conducted by the Government. They would, therefore, recommend that machinery for project monitoring & implementation should be further improved upon so that immediate action could be taken in the case of slippages. They also desire that the enquiry be conducted into the whole matter immediately with a view to identify the lapses and fix responsibility on the defaulting officials. The outcome of the enquiry should be reported to the Committee within 3 months from the presentation of this report.

The Committee on Public Undertakings in their 50th Report (1981-82) on Engineering Project India Limited presented to Parliament in the year 1982 had recommended that the practice of giving unsecured advances should be discontinued forthwith and steps be taken to recover the outstanding amount along with the interest expeditiously from all subcontractors. The Committee are however shocked to learn that an amount of 6037.30 as on 31.3.90 was still outstanding on account of ad hoc advances against the associates. In order to thwart EPI's claim of ad hoc advances, it is stated that the associates have filed inflated claims against EPI and the matter has been referred to arbitration. According to Engineering Projects (India) Limited, an effort was made to restrict these within the framework of respective sub-contracts except in cases where it became compulsory for them to pay these. Besides EPI has also informed that their claims pending with the Iraqi clients are to the tune of Rs. 58 crore approximately. Efforts at the level of Indian embassy, Government of India and even discussions held by the Board of Directors with the top Iraqi clients have stated to have failed to bring out any results.

The Committee are unhappy to find that a huge amount of advance is still outstanding against the associates. They are not convinced with the justification put forward by EPI for having paid these advances on account of certain compulsions. They are of the view that the management has not cared at all to seriously ponder over their earlier recommendation given in

this regard. At this stage, however, the Committee can not but express their unhappiness over the manner in which their recommendation has been flouted. They would however, desire that a vigorous joint effort should be made by EPI as well as the Ministry for expeditious settlement of all outstanding claims with a view to reduce the net losses suffered by EPI so far.

5. The Committee note that till recently the Vigilance Department of EPI was being run by the Manager (Material). The Committee were informed by the Ministry that an effort was made to appoint an Officer from an Organized Service as Chief Vigilance Officer, however due to the uncertainty of the company during 1985 to 1987 a short-term arrangement to appoint an EPI Officer as Chief Vigilance Officer was made in consultation with Chief Vigilance Commissioner. However, the Secretary conceded that the appointing of an Officer from within the organisation as Vigilance Officer is not desirable. The Committee have been informed that now an IPS Officer has been appointed to head this division.

The Committee express their unhappiness over the fact that under the cover of the uncertainty over the future of EPI, no independent officer was appointed to head such a sensitive Department as Vigilance in EPI and the same was being run by the Manager (Material) who was responsible for buying, storing and supplying material. The Committee doubt whether under these circumstances Vigilance Department of the Corporation was serving any effective purpose. The Committee note that though belatedly, but at least now an Officer from outside the Organisation had been appointed to head this Department and they desire that the same practice should be continued in the future also.

6. The Committee find that according to the Published account of Engineering Projects (India) Limited, total losses at the end of the year 1988-89 were to the tune of Rs. 241.32 crores. During 1989-90 alone the losses have been to the order of Rs. 104.32 crores. One of the remedial measures taken for bringing the Company out of the red as stated by EPI, was a proposal for financial restructuring which has been submitted to the Government. The Committee were informed by EPI that an effort has been made by them to re-organise the Company, and a proposal to appoint a full time CMD as well as Director (Finance) has also been submitted to the Government. A turnover of Rs. 125 crores has been projected for the next year, which towards the end of 8th Plan is expected to go up to Rs. 250 crores. Besides the Company was also stated to have entered into some hi-tech areas especially in metallurgy and the future of the Company was stated to be bright.

The Committee are distressed over the recurring losses suffered by the Engineering Projects (India) Ltd. over a period of years. They desire that some concrete steps should be taken by the Government urgently to retrieve the situation. They, therefore, recommend that no further time should be

lost by the Government in expediting an early appointment of full time Chairman-cum-Managing Director as well as the Director (Finance). They further desire that a high powered committee of experts be constituted to monitor all foreign contracts right from the inception to the end of the contract period so that any violation or breach of contract or any attempt to hide facts of concerned companies can be effectively dealt with and appropriate action initiated. The Committee also desire that the compliance/results be reported to them within a period of six months.

NEW DELHI;
6th December, 1991
15th Agrahayana, 1913(S)

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