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REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

UNION GOVERNMENT
No. 9 (COMMERCIAL) OF 1995

ELECTRONICS TRADE AND TECHNOLOGY DEVELOPMENT CORPORATION LIMITED

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PREFACE

Audit Boards are set up under the supervision and control of the Comptroller and Auditor General of India(CAG) to undertake comprehensive appraisals of the performance of the Companies and Corporations subject to audit by CAG.

2. The report on Electronics Trade and Technology Development Corporation Limited was prepared by an Audit Board consisting of the following members:

1. Shri N.Sivasubramanian	Deputy Comptroller and Auditor General-cum-Chairman, Audit Board from 29 July 92 to 31 May,1993.
2.Shri U.N.Ananthan	Deputy Comptroller and Auditor General-cum-Chairman,Audit Board from 1 June 1993 to 30 November,1993.
3.Shri C.K.Joseph	Deputy Comptroller and Auditor General-cum-Chairman,Audit Board from 13 December 1993 to 20 March 1995
4.Shri Vijay Kumar	Principal Director of Commercial Audit and Ex-Officio Member, Audit Board-I, New Delhi from 29 July 1992 to 28 July 1993.
5.Shri N.Sunder Rajan	Principal Director of Commercial Audit and Ex-Officio Member,Audit Board-I, New Delhi from 25 November 1993 to 27 July 1994.
6.Shri T.G.Srinivasan	Principal Director of Commercial Audit and Ex-Officio Member, Audit Board-I, New Delhi from 5 September 1994 till date.
7. Shri Ananda Shankar	Principal Director of Commercial Audit and Ex-Officio Member,Audit Board-I, Bombay.
8. Shri K.S.Menon	Principal Director (Commercial) and Member Secretary, Audit Board from 29 July,1992 to Ist August,1993.
9. Shri B.B. Manocha	Director (Commercial), Office of the Comptroller and Auditor General of India, New Delhi.
10.Dr.S.Ramani	Part-time Member (Presently Director, National Centre for Software Technology, Bombay).
11.Shri S.Ravi	Part-time Member (Ex-Adviser Signals, Ministry of Railways, Railway Board, New Delhi).

The part-time members are appointed by the Government of India (in the respective Ministry or Department controlling the Company or Corporation) with the concurrence of the Comptroller and Auditor General of India.

3. The report was finalised by the Audit Board after taking into consideration the discussions held with the Department of Electronics on 19 April, 1994.

4. The Comptroller and Auditor General of India wishes to place on record his appreciation of the work done by the Audit Board.

OVERVIEW

Electronics Trade and Technology Development Corporation Limited (ET&T) was incorporated in August 1974. Its working was examined by the COPU in 1981-82.

(Para 1)

The Company has mainly confined its activities to trading and to a very limited extent export of Indian electronic consumer goods.

(Para 2.1)

The Company has not formulated its micro objectives; no Corporate Plan has been prepared.

(Para 2.2)

Sales of the Company declined by 30 percent in 1991-92 as compared to 1985-86 . In none of the seven years (1985-86 to 1991-92) reviewed could the Company achieve its original targets; shortfall was more than fifty percent in 1989-90 and 1990-91.

(Paras 5.1.2 and 7.4)

The decline in sales of TV picture tubes was a result of decanalisation of import, adequate indigenous supply and recession in the industry. The Company's strategy to improve sales through special programmes did not produce the expected results.

(Para 5.1.2)

The exports by the Company fell below targets in sharp contrast to the all-India trend of increasing exports of electronics; the absence of any export strategy and market study was the main cause.

(Para 5.1.9)

Even though the sales of personal computers (PCs), taken up in October 1988, were on the decline, the Company embarked upon the manufacture of personal computers by acquiring a factory at Bhiwadi in October 1991 for Rs.78.97 lakhs.

(Para 5.2.1)

The production/assembly of PCs was much below the targets in the Project Report.

(Para 5.2.4)

The factory incurred losses during the first 12 months of working as against an anticipated profit of Rs.808.99 lakhs indicated in the Project Report.

(Para 5.2.6)

The Company has not made any significant efforts in the direction of technological development.

(Para 5.3)

Between 1985-86 and 1992-93 closing stock ranged from 21 to 70 percent of net sales. The carrying cost of unsold stock as on 31 March 1993 was Rs.3.17 crores for one year.

(Paras 6.5, 6.6)

About 47 percent of the total closing stock of the Company was more than one year old. There was also write off of old stock each year (upto Rs.152.01 lakhs in 1988-89) mostly consisting of imported items.

(Paras 6.9 and 6.14)

The Company's losses were Rs.538.26 lakhs and Rs.685.11 lakhs in 1989-90 and 1990-91 respectively, though a marginal profit was earned in 1991-92. There was again a loss of Rs.441.44 lakhs in 1992-93.

(Para 7.2)

The Company's financial position would not significantly improve even if its equity restructuring proposal is agreed to by the Government keeping in view its interest burden , dead stock and accumulated losses.

(Para 7.2.6)

The Company has not prescribed any detailed credit policy. Of the total debtors as on 31st March 1993 (Rs.19.49 crores) debts outstanding for more than 6 months constituted about 65 percent.

(Para 7.3)

CHAPTER - 1

INTRODUCTION

1. The Electronics Trade and Technology Development Corporation Limited (ET&T) was incorporated in August 1974.

The Committee on Public Undertakings (COPU) examined the working of the Company in 1981-82 and its recommendations are contained in the Forty-Sixth Report of 29 April, 1982; the details of action taken on the recommendations by the Company/Government are contained in the Seventy-Seventh Report of the Committee of 29 April, 1983.

This appraisal on the performance of the Company covers the period from 1985-86 to 1992-93.

CHAPTER - 2

OBJECTIVES

2.1 The Memorandum of Association of the Company laid down several objectives:

(i) to organise and undertake trade with other countries in all types of electronic equipment, systems, assemblies, components, materials, processes and services etc.,

(ii) to undertake techno-commercial negotiations with organisations abroad on a continuing basis so as to identify/locate/modify/standardise etc. all types of electronic equipment, plants for use in India,

(iii) to bulk the present and future requirements of all types of electronic items, project these abroad, initially in the State Trading countries like Russia, arrange their procurement and stockpile them on warehousing basis,

(iv) to undertake, at the instance of the Government of India, import and/or internal distribution of such electronic items as may be in short supply,

(v) to undertake promotion of exports generally of all types of electronic items, to explore and develop new markets abroad,

(vi) to promote joint production ventures in the electronics field with suitable parties abroad, either for increasing internal production or for export,

(vii) to act as a data bank regarding technological and other developments and production in the electronics field abroad, and

(viii) to locate appropriate know-how for production and/or for development of electronic items, plant and equipment and obtain it from abroad for use in India generally avoiding repetitive import of such technology.

While the Memorandum sets out varied areas and functions for the Company in the field of electronics, the Company has confined itself primarily to trading activities by importing certain electronic equipment, mainly television picture tubes, sale of kits for electronic items like television sets and limited export of Indian electronic consumer goods. Very little was done for achieving objectives like development of Indian electronics industry by import of technical know-how, techno-commercial negotiations with organisations abroad, joint production ventures in the electronics field and diversification of exports of electronic goods. As regards the objective of bulking the present and future requirements of all types of electronic items, the Company only confined its role to picture tubes and that also only for a limited period.

The Department of Electronics (DOE) agreed (May 1994) that despite wide ranging objectives listed in the Memorandum of Association of the Company, "it had mainly confined its activities to trading and to a limited extent to export of Indian consumer goods". However, the DOE observed that MOA normally is a document which lists broadly all the possible areas in which the Company can work/diversify but depending upon the opportunities and circumstances the Company may happen to confine itself to only some of the activities listed out in the MOA. If the Company had largely relied on only trading as an activity that was because it found an opportunity and was fulfilling a need".

2.2 The Company has not formulated its micro objectives as required in terms of the Bureau of Public Enterprises communication of May, 1979.

COPU in its Forty-Sixth Report reiterated this requirement and further observed in its Seventy-Seventh Report that the objectives of the Company being many, it was necessary to lay down the micro objectives of the Company in precise terms.

The Company has also not framed any Corporate Plan so far (May 1994).

COPU had observed that the Company had failed to achieve any significant growth during its 8 years of existence and desired that on the basis of their report the objectives and obligations of the Company would be redefined and spelt out clearly, the policies and programmes reoriented and the management revamped so as to make the Company an effective instrument of ensuring growth of electronics industry in the country.

When asked by the Audit Board (April 1994) about the rectification of the deficiencies in the management, policies and programmes identified by COPU, DOE stated (April 1994) that efforts were being made to resolve the problems faced by the Company, which had been accentuated by the absence of a full-time Managing Director for nearly two years and the resultant lack of corporate vision, market orientation, etc., and the changes in economic policies of the Government.

CHAPTER - 3

ORGANISATIONAL SET-UP

3.1 The management of the Company is vested in a Board of Directors including a Chairman/ Chairman-cum-Managing Director (CMD). As on 31 March, 1993 the Board of Directors comprised, besides the CMD, six other full time/part time Directors, three of whom represented the Government of India. During the period under review there was no full-time chief executive and the Company functioned with only a part-time Chairman and/or Managing Director from January 1984 to January 1991. The DOE agreed (April 1994) that a full time chief executive was an essential and crucial requirement for providing a unified and integrated corporate vision for the Company.

3.2 The Company has ten regional offices at Ahmedabad, Bangalore, Bombay, Calcutta, Chandigarh, Cochin, Jaipur, Madras, New Delhi and Secunderabad. Of the three foreign offices set up in Warsaw (1975), Moscow (1978) and California (1978), the first two were closed in 1992-93. The operations of the Company are carried out by various divisions at Headquarters. The organisational set up of the Company as on 31st March 1993 is shown in Annexure-I.

The Company has also set up some sales shops (Electronikis) on its own or in collaboration with some State Government Industrial Development Corporations which are presently (May 1994) at Bhubaneshwar, Imphal, Panaji and Budgam (Jammu & Kashmir).

The Company started a manufacturing unit at Bhiwadi (Rajasthan) in 1991-92 and also took over the management of a Software Technology Park at Gandhi Nagar (Gujarat) in January 1992, the cost of which was borne by DOE.

CHAPTER - 4

CAPITAL STRUCTURE

4.1 The Company's authorised capital at inception was Rs.50 lakhs which was raised to Rs.500 lakhs in July, 1985. The paid-up capital of the Company as on 31 March, 1993 was Rs.500 lakhs, divided into 50,000 equity shares of Rs.1000 each. The Management stated (June 1993) that a proposal to augment the share capital to Rs.2500 lakhs had been submitted to the Government.

4.2 The Company obtained from time to time between February 1982 and March 1991 unsecured loans from the Government of India to the extent of Rs.973.47 lakhs out of which Rs.595 lakhs were outstanding as on 31 March, 1993. Interest accrued and due on these loans amounted to Rs.326.61 lakhs upto 31 March, 1993. In addition a sum of Rs.40 lakhs was payable as penal interest for non-payment/delayed payment of loan.

The DOE stated (May, 1994) that the "Company has not been re-paying the loans to the Government as its financial position has been deteriorating especially since 1990. The proposal of the Company to convert its loan into equity has not been acted upon by the Department in the absence of a Corporate Plan and Financial Re-structuring Plan which the Company has not been able to submit."

4.3 Inter-corporate loans obtained from three Public Sector undertakings/ institutions outstanding as on 31 March, 1993 aggregated Rs.1682.50 lakhs.

The Company invested part of its cash credit/over draft balance (upto Rs.15 crores) in short-term deposits from January 1992 to June 1992 with financial institutions including an amount of Rs.550 lakhs taken as loan from SCOPE as pointed out in paragraph 8.1 of the Report of the CAG (Union Government) - Commercial - 1993.

CHAPTER - 5

PERFORMANCE ANALYSIS

5.1 Trading activities

The Company's trading activities comprise mainly procuring electronic components, equipment, TV picture tubes and personal computers from abroad and within the country and selling these to the small-scale units in electronic field, Government departments and agencies and actual users against their import licences.

5.1.2 The sales of the Company during the past eight years ending 1992-93 is given below :-

	Particulars of Sales	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93
				(Rupees in lakhs)					
a)	Sales to Actual Users	238.38 (1.0)	408.92 (3.0)	778.96 (6.4)	374.08 (3.6)	1130.08 (14.8)	835.13 (11.7)	864.46 (9.9)	660.78 (9.0)
b)	Sale to Govt. Deptt./Agencies	445.00 (3.6)	1149.00 (10.9)	1495.00 12.4)	1154.00 (11.0)	1575.00 (20.6)	1606.00 (22.5)	3397.00 (38.7)	3852.00 (52.7)
c)	Sales at California Branch	80.66 (0.7)	23.08 (0.2)	32.56 (0.3)	37.20 (-)	39.39 (0.5)	73.46 (1.1)	168.63 (1.0)	302.99 (4.1)
d)	Consultancy	1.74 (0.1)	5.28 (0.1)	-	11.20 (0.1)	4.12 (0.1)	6.07 (0.1)	12.69 (0.1)	7.02 (0.1)
e)	Export Sales	312.13 (2.5)	154.16 (1.5)	120.48 (1.0)	72.65 (0.7)	336.60 (4.4)	36.62 (0.5)	54.55 (0.8)	116.45 (1.8)
f)	Other Sales	11379.17 (91.3)	8770.46 (83.4)	9661.49 (79.9)	8790.96 (84.2)	4569.52 (59.7)	4583.91 (64.2)	4278.53 (48.8)	2368.23* (32.4)
	Total Sales	12,457.08	10,510.90	12,088.49	10,440.09	7,654.71	7,141.09	8,775.86	7,307.47

Note : i) Figures in parentheses denote percentage of total sales.

ii) * This includes inter - unit transfers valuing Rs.363.05 lakhs.

A comparison of the Company's sales performance with the targets (upto 1991 -92) set may be seen in Annexure-II. Besides the fact that sales showed an erratic trend there were several other features, indicative of flaws in planning and budgeting by the Company.

While the decline in sales of the Company over the period is prominent - it was down by 30 percent in 1991-92 vis-a-vis 1985-86 - the figures in Annexure-II indicate that budgeting and forecasting was defective. This is reflected by the fact that the Company failed each year to achieve the original sales targets. The failure is marked in the years 1989-90 (shortfall 55 percent) and in 1990-91 (shortfall 54 percent)); during these two years the Company did not have a regular full-time Chairman and the Managing Director was also a part-time functionary. The Management did not analyse the reasons for these shortfalls in their Annual Budget exercise.

While the sales to Government Departments/Agencies and Actual users increased over the years, other sales which basically covered the numerous users in the industry went down.

The steep fall in sales beginning from the year 1988-89 was mainly on account of decanalisation of import of picture tubes (the Company was, till then, the sole canalising agency for the import of picture tubes), adequate indigenous supply, recessionary trends in TV markets, etc. The Company, as a strategy to counter this development and the general slump in the electronics market that occurred around 1989-90 formulated special sales programmes like Material Technology Brand Name (MTB), Teleteach, personal computer etc. However, as is clear from Annexure-II and the analysis of the programmes in subsequent paragraphs, the results fell far short of expectations.

DOE agreed (May 1994) that after peaking in 1985-86, the sales achieved by the Company showed a declining trend. The decline was especially steep in 1989-90 and 1990-91. It was just that while one of the reasons could be the absence of a full time CMD, that alone could not fully explain the decline. The sharp decline in the colour TV market which affected the sale of colour TV kits by ET&T and the increasing import curbs on account of poor BOP position in 1991 were also some of the reasons for the sharp decline.

In the post-July'91 period, the Company was trying to readjust itself to the changed circumstances and at least in one area namely exports, it had succeeded very well with a large order (16,000 CTVs supplied during the last 8 months) of Colour TV's to Germany. However, with the losses suffered in earlier years and consequent erosion in the net worth, the Company's financial capability had been considerably hampered.

With the collapse of the Colour TV market MTB also failed because basically MTB was a plan to assist small scale manufacturers to get components at reasonable prices so that they were able to produce low cost TV's. However, with the market itself declining, the small manufacturers did not have capability to sustain themselves. DOE further pointed out that MTB plan for Black and White TV succeeded as the demand for Black and White TV continued to be good.

DOE did not address itself adequately to the many problems faced by the Company, after decanalisation in 1985, which ought to have been normally foreseen and appropriate policy initiatives taken and guidance given. There were no clear directions to the Company while it was drifting along in the field of consumer electronics without any long term planning. For example, no concrete steps were taken towards software development even though a policy decision was taken in this regard by the Government of India in 1984 itself and as such the Company could not reap the benefit of a possible diversification with commercially viable prospects. DOE informed the Audit Board (April 1994) that though some of the problems were foreseen, greater emphasis was being laid on the Company's day to day existence on account of its accumulated losses and lack of finances.

5.1.3 Sale of TV picture tubes

Although it formed a major item of sales of the Company, the sale of TV picture tubes after decanalisation in 1985-86, started a downward trend and vis-a-vis industry's sales of the item, the Company's sales were rather insignificant. The sales declined from 8.48 lakh units in 1985-86 to 5.06 lakh units in 1987-88. The sales for the subsequent four years upto 1991-92 were 3.17 lakh, 1.56 lakh, 1.11 lakh and 1.01 lakh units as against which the country's consumption figures were 52 lakhs in 1988, 55 lakhs in 1989 and 54 lakhs in 1991-92. The sales of TV picture tubes further dropped to 0.83 lakh units in 1992-93.

5.1.4 Material Technology Brand Name Programme

Material Technology Brand Name Programme (MTB) which was launched in 1984 included material package, technology package and brand name and publicity package for promoting "ET&T" as a brand through multi-media publicity.

Under this programme, the Company selected small scale manufacturers and sold complete TV kits to them. These were assembled by them for sale in the market under "ET&T" brand name. Since the Company did not have its own manufacturing facility, it selected a Bombay firm for the trial and pilot production of B/W and Colour TV sets. This was started in March-September, 1985 and the distribution of the TV kits under the programme started in April-December, 1985. Against the projected sales of 1,50,000 B/W and 1,00,000 colour TV kits, the Company could sell only 73,000 B/W and 25000 colour TV kits by May 1986.

Except for sale of B/W TV kits, the MTB Programme did not achieve its targeted sales. Further, though other electronic items like VCP, Copiers, PCs etc were targeted for sale, no such items were ever sold. The decrease in total sales (valuewise) under the scheme from 1985-86 to 1991-92 was 83 percent.

The quantity-wise sales of colour and black/white TV kits under the scheme from 1986-87 onwards were as follows:-

Quantities sold

	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92
Colour TV Kits	20300	39953	44408	6860	5342	3297
B/W TV Kits	145800	156550	149250	81700	74285	66284
Total	166100	196503	193658	88560	79627	69581

The quantity-wise sales of both colour and B/W TV kits came down by nearly 58 percent from 1986-87 to 1991-92. While at its peak nearly 100 manufacturers were regular buyers; the number came down to 35-40 in 1991-92.

A major fallout of the low sales was piling up of huge stocks. Stock valuing Rs.878.50 lakhs remained unsold as on 31 March, 1992 of which stock valuing Rs.376.63 lakhs and Rs.89.33 lakhs were lying for more than two and three years, respectively. The loss in respect of the blocked capital amounted to Rs.153.20 lakhs at 15 percent carrying cost.

The Management stated (June 1993) that the MTB Plan was essentially to assist small scale manufacturers to make them able to produce low cost TVs. In a dwindling market, the small manufacturers did not have the sustenance power. It was however, seen that the Company did not evolve any long or short-term marketing strategy to boost its sales under the scheme by identifying the lacunae in marketing and identifying saleable products after proper market study and promoting them by projection of its image for easy saleability of its products. These coupled with the general slump in demand in the domestic market led to decline in sales of the products under the scheme.

The Management informed the Audit Board in April 1994 that the sales of the MTB kits were affected because of recession in the TV Industry, the adverse impact of the excise duties levied by Government and the limited sustaining power of small scale manufacturers. The offtake of colour TV kits was restricted on account of the sophisticated features introduced in the models of the large manufacturers. It further stated that inventories of Black and White TV kits of this programme had completely been liquidated and only a few colour TV kits continued to remain in stock, the disposal of which was being attempted by offering price reduction.

5.1.5 Sale of low cost computers

In October 1988 a programme for making personal computers (PCs) available at low cost was launched by DOE and in September 1989 the Company was designated as the coordinating agency for the project. The idea was that a lower pricing level would stimulate demand and further promote computer culture in the Country.

In July 1989 it was anticipated that two lakh PCs would be sold per year with a turnover of Rs.108 crores in two years. Procurement of about 16000/17000 units per month was considered necessary to achieve the sales target. The first order for supply of 10000 units during October 1989 to January 1990 was placed on Electronics Systems (Punjab) Limited, (ESPL) who however, could not adhere to the delivery schedule and supplied only 929 units by March 1990 (the orders booked for sale upto this date were for 4000 units). From 1990-91 the Company started procuring the PCs from other manufacturers also. Even then it could not make a dent in the market and its sales came down within one year of inception of the programme as can be seen from the table below:-

Year	Purchases		Sales		Closing Stock	
	Quantity (nos.)	Value (Rs/lakhs)	Quantity (nos.)	Value (Rs/lakhs)	Quantity (nos.)	Value (Rs/lakhs)
1989-90	NA	217.02	NA	107.29	281	63.97
1990-91	6267	837.42	5136	914.33	1370	191.59
1991-92	1606	381.23	2548	688.97	428	97.24
1992-93	1760*	552.09	1771	702.96	417	133.45

* *Includes 1300 units transferred from the Company's factory at Bhiwadi.*

The sales of PCs dropped by 52 percent during 1991-92 which was contrary to the all-India trend of increasing sales; (from sales of 1.02 lakh units in 1990-91 the all-India sales went up to 1.08 lakh units in 1991-92). The sales further went down in 1992-93 (by 65 percent in comparison to 1990-91). The Management did not analyse the reasons for failure of the scheme or for diminishing sales. No separate profitability analysis of the scheme was done by the Management.

DOE sanctioned (March, 1990) a loan of Rs. 1.55 crores for the project. Repayment of the loan was to be done in five years starting from 1991 but no repayment has been made so far since according to DOE the Company has desired that the loan be converted into equity.

The Company subsequently embarked upon the production of PCs on its own and acquired/started a manufacturing unit for the purpose at Bhiwadi (Rajasthan) in 1991-92. The performance of that unit is given in paragraph 5.2 below.

The Management informed the Audit Board in April 1994 that the Company could not compete effectively because of the existence of a "grey market". It contended that the scheme was not conceived as a purely commercial venture and if the concept of the Company acting as a catalyst to bring down the market prices of PCs to below Rs.10,000 was accepted, the Company had certainly succeeded in realising that objective because private manufacturers reduced the prices of their PCs as soon as the Company entered the market.

It is, however, seen that initially the scheme was conceived only as a commercial venture as there was a profit element of Rs.200 per unit in the sale of the PCs. Further the catalytic effect in bringing down the prices of PCs is doubtful since the sale was very meagre in comparison to the total sales in the country.

DOE stated (May 1994) that the low cost computer project "did achieve the objective of keeping the prices of PCs down to affordable levels" but also admitted that" the Company did not cash in on the opportunities in a growing computer market".

5.1.6 Sale of printers

The Company started procuring printers from local manufacturers and took up their sale alongwith PCs in 1989-90.

Based on the total all-India demand for 132 column DOT Matrix Printers the Company expected to sell 5000 and 10000 units in 1989 and by August 1990, respectively, and hoped to earn a profit of Rs.34 lakhs.

However, due to the delay in the delivery of the proto-types and quantity ordered subsequently by nearly 6 months, there was a substantial fall in actual sales.

The position of purchase and sale of printers by the Company from 1989-90 to 1992-93 is shown in the table below:-

(Quantity in nos., value in lakhs of Rupees)

Year	Purchases		Sales		Closing Stock	
	Quantity	Value	Quantity	Value	Quantity	Value
1989-90	NA	44.92	--	26.21	538	38.00
1990-91	7129	476.97	6537	503.10	1011	70.65
1991-92	2835	232.85	3337	319.11	509	41.97
1992-93	1722	202.37	1996	254.91	235	23.30

The table indicates the declining trend in sales of the printers; besides, the sales were insignificant compared to all-India sales of printers which amounted to Rs.115 crores in 1990 and Rs.135 crores in 1991.

The Management stated (June 1993) that "printers are not yet one of the products of ET&T." The tie-up with manufacturers was in order to" give one window service to computer users in addition to giving right prices through bulk buying". DOE also stated (May 1994) that the declining trend in the sale of printers was a corollary to the declining sales of computers as printers were not one of the products of ET&T. It is, however, observed that the Company took a conscious decision to enter the field of marketing of computer peripherals (in December 1988) including that of Dot Matrix Printers and also expected to earn a profit on those sales. Thus the sale of printers was a part of their specific sales programme independent of the sale of computers.

5.1.7 TELETEACH PROJECT

5.1.7.1 The Company conceived the idea of a community educational video scheme named Teleteach Project in 1985 for imparting the right type of training to tradesmen, craftsmen and artisans. It involved bulk purchase of hardware, preparation and collection of software and selling of composite units and their maintenance. This scheme was later merged in 1987-88 with the Margdarshan and VOICE projects of the Company. Up to 31st March, 1992 capital expenditure of Rs.56.72 lakhs was incurred mainly on setting up of two studios at Delhi and Bombay and on the purchase of cinematographic equipment like video cameras, VCRs, monitors, etc. which have remained largely idle in view of their limited utilisation in production of video films.

The sale of cassettes under the project during the three years upto 1989-90 amounted to Rs.13.70 lakhs, Rs.7.96 lakhs and Rs.79.16 lakhs respectively. In 1990-91 and 1991-92 sales achieved were Rs.51.03 lakhs and Rs.57.72 lakhs respectively. No targets were fixed against which the performance of the scheme could be monitored. The Management stated (January 1993) that there were no projections of profit by way of sales of cassettes for 1990-91 and 1991-92 and no income and expenditure account was prepared for sale of cassettes under the scheme for these two years.

The Management, however, again reported in June 1993 that the gross profit margin on Teleteach operations was Rs.21.34 lakhs during 1991-92.

The Company has retained (March 1993) an unspent balance of Rs.37.28 lakhs out of Rs.81.79 lakhs received as grant-in-aid (during September 1987 to March 1988) instead of surrendering it to Government in terms of the sanction order.

5.1.7.2 In November 1987, the Company evolved a scheme of Video Oriented Instructional Course on Electronics (VOICE) involving the production of 280 instructional video films by March 1990 for developing manpower in the electronics field. The scheme envisaged production of 80 films on software development in four areas viz. curricular, vocational, rural development and general management business and the remaining 200 films on electronics courses for polytechnics.

A review of the scheme revealed that the progress under the scheme was tardy. As against 280 films targeted for production by March 1990, only 54 films were produced at a cost of Rs.19.63 lakhs. During 1990-91 and 1991-92 only 93 films at a cost of Rs.37.11 lakhs were produced. No monthly progress reports have also been prepared and submitted to DOE in terms of their letter of August, 1988.

The Company had also not maintained a separate account for the grant of Rs.75 lakhs received from Government of India in March 1988 nor deposited the grant when received in a separate bank account as required.

The Management stated (June 1993) that "the project is the only one of its kind in India and has emerged as the clearing house for all the educational films produced in the country".

5.1.8 Apart from the sales programmes enumerated the Company embarked upon certain other programmes like Electronic Private Secretary Project in 1987 envisaging sales of computer systems with software for professionals and Vivek Darpan (1989) envisaging sale of audio visual media for educating the rural population in collaboration with National Literacy Mission authorities.

The foregoing analysis of the performance of the Company reveals that due to decanalisation, there was significant drop in sales and the programmes drawn up to counter this development also failed mainly because these were not well devised and insufficient spade work had been done. The schemes did not take into account future trends in the market and the competition that the Company would face in the market.

The turnover of the TV picture tubes started declining from 1986-87 because of decanalisation. Steps taken to improve the situation by selling TV kits under the MTB scheme were not successful on a sustained and continuing basis and these sales also started declining from 1989-90 due to the recession in the TV industry. The sale of equipment also declined from 1988-89 as the Government no longer recognised the Company as a designated agency of import of such equipment for R&D laboratories, educational institutions etc.

The role of the Company as a nodal agency to substitute imports from the Eastern European bloc countries did not materialise either. On the other hand the policy support which it enjoyed in canalised import of TV picture tubes and equipment import had also been progressively withdrawn. After the enunciation of the new economic policy of Government in 1991-92 the Company is actually trying to survive by diversifying its activities to manufacture of PCs, FAX machines, sale of software of others, sale of strategic electronic equipment, setting up of hardware/software electronic parks and setting up of trading houses in foreign countries.

The role of the Company is now limited to that of a trading house without any policy support in a highly competitive business dealing with electronic items in a liberalised trading environment.

Thus the Company has failed to obtain a foothold in the market even after 20 years of its existence.

5.1.9 EXPORTS

5.1.9.1. One of the objectives of the Company is to undertake promotion of export of all types of electronic items and to explore and develop new markets abroad for maintaining, diversifying and expanding the export trade in electronics.

5.1.9.2 The table below indicates the item-wise exports made by the Company during the eight years upto 31 March 1993:-

Item of export		1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93
				(Rupees in lakhs)					
1.	TV Sets,Kits Picture tubes	0.08	18.17	23.44	3.79	238.40	13.51	50.75	107.14
2.	Floppy Disks	13.38	56.00	62.22	47.77	-	-	-	-
3.	Personal Computers, software and Systems	14.99	0.51	-	0.08	44.83	0.13	0.30	-
4.	Garnet Powder	-	1.18	24.29	9.01	15.05	17.39	-	-
5.	Telephone Cables	36.25	70.18	-	-	-	-	-	-
6.	Electronic test and Measuring instruments	-	0.75	1.88	2.10	0.50	0.17	1.48	-
7.	Oscilloscopes	-	-	5.24	-	33.77	-	-	-
8.	Others	13.83	7.37	3.41	9.91	4.05	5.42	2.02	9.74
	Total	78.53	154.16	120.48	72.66	336.60	36.62	54.55	116.88

The export of TV Picture tubes and Garnet Powder to USSR and Poland was under canalised/counter trade arrangements. During 1988-89 the Company exported to Bangladesh and Vietnam electronic test and measuring instruments valued at Rs.2.10 lakhs, which were earlier imported by the Company.

5.1.9.3 The following data regarding exports to various countries for the eight years ending 31 March 1993 indicate that the Company failed to achieve any appreciable turnover with Eastern- European bloc and practically no dent was made in the South-Asian/African markets.

Name of the Country	Value of Exports							
	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93
	(Rupees in lakhs)							
USSR	64.20	126.18	62.22	47.85	204.95	-	-	-
Poland	5.92	1.12	24.66	10.69	15.08	17.33	-	-
Kenya	-		8.99	-	3.18	0.13	1.45	-
Bangladesh	0.08	7.04	2.50	2.12	10.19	6.31	18.43	61.97
Zimbabwe	-	7.92	10.24	0.18	8.70	1.56	-	-
Indonesia	-	-	-	-	-	-	-	37.26
Others	8.33	11.90	11.87	11.82	94.50	11.29	34.67	17.65
TOTAL	78.53	154.16	120.48	72.66	336.60	36.62	54.55	116.88

The export to USSR declined drastically after 1989-90 because of the decanalisation of export of picture tubes from April 1990. Further, the country-wise export trends show that the Company has not been able to sustain and expand its exports to under-developed/developing countries of Asia/Africa (excepting Bangladesh) which are the target areas of other Indian exporters.

It was also seen that even though the Company failed to obtain any export orders for picture tubes from Russia during 1990-91 and 1992-93, the erstwhile associates of the Company and others in the private sector captured that market and made substantial exports during these years (value of exports to USSR during 1991 was Rs.7059.60 lakhs).

The Company failed in its export performance by its own standards too, as indicated below in terms of the original and revised targets of exports and actuals thereagainst during the seven years ending 1991-92 (exports targets for 1992-93 have not been made available by the Management).

Year	Targets		Achievements	Shortfall (-)/Excess(+) with reference to targets		Percentage of shortfall	
	Original	Revised	(Rupees in lakhs)	Original	Revised	Original	Revised
1985-86	350.00	-	78.53	(-) 271.47	-	77.5	-
1986-87	650.00	-	154.16	(-) 495.84	-	76.3	-
1987-88	1000.00	122.00	120.48	(-) 879.52	(-) 1.52	87.9	1.2
1988-89	1500.00	600.00	72.66	(-) 1427.34	(-) 527.34	95.1	87.9
1989-90	2000.00	750.00	336.60	(-) 1663.40	(-) 413.40	83.2	55.1
1990-91	1000.00	Not revised	36.62	(-) 963.38	-	96.3	-
1991-92	200.00	Not revised	52.93	(-) 147.07	-	73.5	-

The drastic scaling down of the targets in the revised estimates for the year 1987-88 to 1989-90 itself is an indication of very ambitious goals with no matching efforts to achieve them. The shortfall with reference to the original targets exceeded 73 percent.

Among the chief causes of poor export performance were the absence of any short or long-term export policy and failure in identification of export markets or items for exports. The Company has not prepared any data bank of export market profiles based on market intelligence and present needs.

5.1.9.4 During the 1980s there was spectacular growth in India's export of electronics items; the annual average growth rate being 34 percent excepting in 1991 when a marginal decline of 3.2 percent was recorded (electronics export was Rs.900 crores in 1991 as against Rs.154.50 crores in 1985). The growth areas were computers, computer software components and consumer electronics. The Company's export performance against this backdrop can be rated as dismal.

The Management stated (June 1993) that while export of electronic products was definitely one of the activities of the Company it was not fair to judge the Company's performance separately from the country's performance in electronics exports which, barring soft-ware exports, was extremely insignificant until recently. The Company was not operating till 1991-92 in the software field. The Management further stated that the gap between targets and achievements was not relevant here.

DOE informed the Audit Board (April 1994) that the performance of the Company in the sphere of exports had improved. It is seen that the exports during 1992-93 amounted to Rs.116.45 lakhs. However, these exports included local sales (Rs.92.26 lakhs) to Indian exporters under back to back arrangement treated as exports of the Company.

5.1.10 CONSULTANCY:

The Company could not achieve the modest targets set for consultancy jobs as shown in the table below :-

Year	Targets	Achievements	Percentage of shortfall
	(Rupees in lakhs)		
1985-86	125.00	1.74	98.6
1986-87	130.00	5.28	95.9
1987-88	150.00	-	100.0
1988-89	50.00	11.20	77.6
1989-90	300.00	4.13	98.6
1990-91	40.00	6.07	84.8
1991-92	30.00	12.69	57.7
1992-93	N.A.	7.02	-

The Management did not offer any reasons for this poor performance.

5.2 Manufacturing activities

Production of PCs at Bhiwadi Unit

5.2.1 The Company started trading in PCs in 1989 by procuring them from local manufacturers. This system had many disadvantages/problems like lack of proper control on cost and quality, under-cutting by the suppliers, difficulty in incorporating different specifications of the clients, double payment of sales tax (as the Company was not a manufacturing unit) etc. The Company therefore, decided to establish its own manufacturing unit for PCs and acquired a sick industrial unit at Bhiwadi (Rajasthan) from the Rajasthan Financial Corporation (RFC) in July 1991 alongwith its assets/liabilities.

An offer for Rs.45.82 lakhs was made to RFC in July 1991 which was revised to Rs.73.50 lakhs and further to Rs.78.97 lakhs in August 1991. The basis of these revisions in price was not available on record. No detailed evaluation of the assets etc. of the factory was made before making the offers. The final price paid *prima facie* appears to be incorrect since the depreciated value of the assets including buildings, plant & machinery was not examined.

Possession of the premises was taken in October 1991. The assets of the unit were mortgaged not only to RFC but also to a Bank which had filed a suit in May 1990 for recovery of their dues (which was not known to the Company before finalising the sale) and consequently the Company also inherited these liabilities.

The Management stated in June 1993 that "in the judgement of the Corporation the price paid for the facilities, equipment, land and building available is extremely reasonable and beneficial to the Company and the appreciated value today would be much more".

5.2.2 The total cost of the project was estimated at Rs.433.08 lakhs, to be spread over three years, with the major portion (Rs.407.80 lakhs) being invested in the first year. It was also envisaged that 68 percent of the project cost would be financed through long term loans. The project report envisaged the total working capital requirement to run the factory in the first year as Rs.1143.75 lakhs, part of which (Rs.297.51 lakhs) was to be met from internal sources and the balance (Rs.846.24 lakhs) from borrowings (74 percent of total working capital requirement). The Company did not however, borrow any funds to meet the working capital requirement.

5.2.3 According to the Project Report, plant and machinery for assembly, system integration, inprocess quality control etc. valuing Rs. 58.58 lakhs (including foreign components worth Rs.22.85 lakhs) were to be acquired in three phases; the major part (Rs.48.67 lakhs) in the first phase. The Company in the first phase acquired plant and machinery worth Rs.14.63 lakhs only (upto 31 December, 1992). The total expenditure incurred on civil works (repairs and renovation) upto 31 December, 1992 was Rs.1.65 lakhs.

The Management informed the Audit Board (April 1994) that the additional investments envisaged in the Project Report were not made because of financial constraints and that the unit at present contained only bare facilities. The production of PCs in the unit was also limited because of lack of demand.

5.2.4 The Project Report envisaged the following production plan in the four quarters of the first year of operation of the unit:-

Item of Production	Numbers to be produced				
	Ist Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Personal Computers					
XT Model	10	200	400	400	1010
AT Model	5	1000	2000	2000	5005
Television receivers					
Black & White	1000	6000	10000	13000	30000
Colour	50	250	700	1000	2000
FM/AM Radio Receivers	-	500	1000	1500	3000

The factory produced/assembled only 47 personal computers and 72 colour television receiver chassis during the first three months of its operation upto 31 March 1992.

The production during 1992-93 was as follows:

Personal Computers :

XT Model	468
AT Model	420

Television receivers :

Black & White	1340
Colour	200

Besides, the factory also produced personal computers of M2 and M3 models (411 Nos), PC Mother Boards [68 nos.] and Colour and Black and White TV chassis (531 Nos). However, the production of main items was much below the projections in the Project Report.

5.2.5 According to the Project Report the manpower to be deployed in the first year was 80 as against which 11 technical and 6 non-technical staff (7 executives and 10 non-executives) were deployed as on 31 December 1992 besides 11 technician apprentices.

The Management stated (June 1993) that the under utilised staff of the Company were redeployed in the factory to make full use of the manpower in achieving better utilisation of human resources.

As no norms of manpower utilisation have been evolved for the factory the utilisation of manpower, idle time etc could not be ascertained.

5.2.6 The profitability as projected in the Project Report for the first five years of its operations was as follows:

	Ist Year	2nd Year	3rd Year	4th Year	5th Year
		(Rupees in lakhs)			
Cost of production	5677.51	9425.87	14050.70	14055.09	14050.20
Turnover	6486.50	10517.25	16315.50	16315.50	16315.50
Profit before tax	808.99	1421.38	2264.80	2260.42	2265.30

The project report did not take into account the interest on short-term loans while arriving at the profit from the project each year. The break-even point was also not calculated.

The working results of the factory for the period January to March 1992 revealed a loss of Rs.8.72 lakhs which does not include the cost of manpower deployed nor the overheads of the Company apportioned. No working results for the period April to December 1992 were prepared. However, it was seen that the factory continued to work at a loss as the value of production per day was Rs.4740 as against cost per day of Rs.5245 as calculated by the Management. Thus as against projected profit of Rs.808.99 lakhs in the first year of its working the factory actually incurred a loss during 12 months of its operation since January 1992.

The Management informed (April 1993) the Audit Board that the factory was not considered to be a separate cost centre; the work in the factory was geared towards completing the orders in hand for products like PCs, TVs etc. But the production performance had lagged behind the figures in the Project report which was not unusual in the fast changing electronics area where mid-course changes were many. The Management further stated (June 1993) that the performance of the Bhiwadi factory should be judged as a part of the overall performance of the Company rather than as an isolated manufacturing base.

The fact remains that the Company cannot afford to have a factory without any adequate return in the form of value added products. Further there was already a lack of demand for PCs of the Company and the Company is already using the facilities for assembly of TV sets.

5.3 TECHNOLOGY DEVELOPMENT

Among the objectives for which the Company was set up was technology development for electronics industry in India by obtaining ***inter alia*** appropriate know-how for production and/or for development of electronic items, plants, etc. in order to avoid repetitive imports, to serve as a data bank of technological and other developments and production in the electronics field abroad. The Company has little to show by way of achievement in these areas.

COPU, while examining the performance of the Company in 1982 disapproved the thinking of the Company that its objective was not research and development but to promote only exports. The Committee felt that it had an obligation to upgrade the electronics industry as a whole (vide COPU's Forty-Sixth Report 1981-82).

On the role of the Company in technology development, the Management informed (May 1993) the Audit Board that it was limited to "adaptive technology" and basic research was never the objective of the Company. In their written reply (June 1993) it was further stated that it can "undertake R&D activities for the benefit of the electronic industry only if the activities are financed by the Government".

DOE clarified to the Audit Board [April 1994] that the Company's role was limited only to the diffusion of 'hands on' technology by the adoption of technologies already developed by others and reverse engineering techniques. DOE further clarified [May 1994] that it supported the view of the Company that the latter could embark on only adaptive R&D which is relevant to its product portfolio and not basic R&D.

The Company has indicated the modification and indigenisation of its black/white televisions, development of an AM/FM radio set, introduction of personal computers with indigenously designed ASIC chips with the assistance of ER&DC Trivandrum, Kerala, indigenisation of the imported circuitry in the colour televisions as their contributions in the field of "adaptive technology".

The total expenditure on R&D Centre through which the technological development is done, for the eight years ending 1992-93, is as below:-

Year	**Expenditure** (Rupees in lakhs)
1985-86	7.03
1986-87	5.46
1987-88	0.71
1988-89	1.18
1989-90	2.93
1990-91	2.01
1991-92	3.60
1992-93	1.12

CHAPTER - 6

PURCHASE, MATERIAL MANAGEMENT AND INVENTORY CONTROL

6. Purchase System

6.1 The Company has no comprehensive purchase manual even after nearly two decades of its existence and inspite of large purchases being made every year.

6.2 The table below indicates the value of purchases made and closing balance of stock-in-trade during eight years ending 31 March 1993:-

Year	Total value of purchases	*Value of purchase on behalf of Actual users	Net purchase during the year (including goods-in-transit) (Cols 2 - 3)	Value of closing stock (including goods-in-transit)	Percentage of closing stock to net purchases (5 to 4)
(1)	(2)	(3)	(4)	(5)	(6)
		(Rupees in lakhs)		(Percentage)	
1985-86	5924.03	227.86	5696.17	2558.07	45
1986-87	5948.41	395.36	5553.05	3342.33	60
1987-88	6174.63	691.76	5482.87	3237.49	59
1988-89	5825.22	363.45	5461.77	3488.90	64
1989-90	5952.34	1041.48	4910.86	5054.01	103
1990-91	3775.50	808.71	2966.79	2751.31	93
1991-92	5355.94	821.17	4534.77	2482.61	55
1992-93	4919.86	631.06	4288.80	2112.05	49

*There are no closing stocks of purchases on behalf of actual users; such purchases have been excluded from total value of purchases to make the comparison meaningful.

Inspite of high stock holding during all the years the Company's purchases continued to be large reflecting unplanned purchases and poor marketability.

The Management stated (April 1993) that it purchased products in anticipation of market demand. "The imported components and materials can only be purchased in bulk for stock and sale and these bulk value stocks take time to get depleted". DOE stated (May 1994) that Teletext Decoders valued at Rs.2.5 crores and Hungarian IC's valued at Rs.1 crore procured by ET&T at the behest of the Government contributed to the high value of the closing stock. It however, accepted the position that even after taking into consideration this fact, the inventory levels in ET&T were substantially high.

It is seen that the purchases made were not based on realistic assessments of the requirements of the market and the changing industry situation. Also, the faster obsolescence of electronic items was not kept in view.

6.3 Major items purchased and their closing stock for the eight years upto 1992-93 are given in Annexure III.

The value of items imported during the years 1987-88 to 1991-92 is as detailed below :-

Year	**Total purchases**	**Value of imported items of purchase**	**Percentage of imported items to total purchase**
	(Rupees in lakhs)		(Percentage)
1987-88	6174.63	4188.40	68
1988-89	5825.22	2880.25	49
1989-90	5952.34	3421.88	57
1990-91	3775.50	1402.33	37
1991-92	5355.94	2358.03	44

(Figures for earlier years and 1992-93 awaited).

6.4 The Company has not prescribed any maximum, minimum and reordering level of stock, in the absence of which the justification of the high purchases or closing stock could not be assessed. The Management stated (April 1993) that because import of electronic components could not be made on a month to month basis and also due to dealing with an extremely large number of components and materials, it was not possible to adhere to the norms of maximum and minimum stock holding.

Inventory Buildup

6.5 The carrying cost of the inventory for the eight years ending 31 March 1993 is as detailed below:-

Year	Value of closing stock (including goods-in-transit)	Carrying cost for* the year
		(Rupees in lakhs)
1985-86	2558.70	383.71
1986-87	3342.33	501.35
1987-88	3237.49	485.82
1988-89	3488.90	523.33
1989-90	5054.01	757.49
1990-91	2751.31	412.70
1991-92	2482.61	372.39
1992-93	2112.05	316.81

*Calculated at 15 percent per annum on the basis of BPE's guidelines of October 1967.

6.6 The table below indicates the position of the closing stock-in-trade as at the end of eight years upto 31 March 1993 vis-a-vis the sales of the Company :-

Year	Total sales	Sales to Actual Users Licencees	Net Sales	Closing Stock (including GIT)	Percentage of closing stock-to net sales	Value of closing stock in terms of total sales	Value of closing stock in terms of net sales
		(Rupees in lakhs)			(Percent)	(in months)	
1985-86	12457.08	238.38	1 2218.70	2558.70	21	2.4	2.5
1986-87	10510.90	408.92	10101.98	3342.33	33	3.8	3.9
1987-88	12088.49	778.96	11 309.53	3237.49	29	3.2	3.4
1988-89	10440.09	374.08	10066.01	3488.90	35	4.0	4.15
1989-90	7654.71	1130.08	6524.63	5054.01	70	7.9	9.2
1990-91	7141.08	835.13	6305.96	2751.31	44	4.6	5.2
1991-92	8775.86	864.46	7911.40	2482.61	31	3.5	3.7
1992-93	7307.47	660.78	6646.69	2112.05	31	3.4	3.1

6.7 The table below indicates imported and indigenous composition of the closing stock held as on 31st March 1992 (excluding the goods-in-transit, defective stocks under replacement and stock lying with third parties):-

Group/items	Value of stock		Total value of stock
	Imported	Indigenous	
	(Rupees in lakhs)		
Components and Materials	559.03	81.58	640.51
Equipment	220.84	--	220.84
Decoders	252.37	--	252.37
MTB	--	878.50	878.50
Personal Computers	7.01	330.48	337.49
Teleteach Items	9.93	--	9.93
Others	--	--	28.54*
California Branch	--	--	25.15
Total	1049.18	1290.56	2393.33

* Status could not be ascertained.

It may be seen that the value of imported stock as on 31 March 1992 amounted to about 4 percent of the stock, most of which was slow-moving or non-moving, as brought out later in para 6.14.3.The Management could not furnish the itemwise details of imported and indigenous closing stock held as on 31 March, 1993 (excepting the total value of such stock). It is seen (vide para 6.9) that the total stock (Rs.892.98 lakhs) held for more than three years included imported items valued at Rs.605.32 lakhs which were slow-moving/non-moving items. This represented 87.8 percent of the stock held for more than three years.

6.8 The value of stock held by third parties and of defective stocks under replacement as on 31 March, 1992 aggregated Rs.19.30 lakhs and Rs.46.10 lakhs respectively, the agewise status of which could not be ascertained.

6.9 The table below indicates the agewise analysis of the closing stock-in-trade (excluding goods-in-transit) held on 31 March, 1992:-

Description of Stock	Less than one year	One year but less than 2 years	2 years to less than 3 years	3 years to less than 5 years	5 years & above	Total
			(Rupees in lakhs)			
Components/ Material	309.66	10.79	67.35	245.42	7.89	640.51
Decoder	-	-	-	-	252.37	252.37
Equipments	151.36	1.56	39.00	28.11	0.81	220.84
MTB	412.54	-	376.63	89.33	-	878.50
PC/PCM	330.48	-	-	-	7.01	337.49
Teleteach items	9.93	-	-	-	-	9.93
California Branch	25.15	-	-	-	-	25.15
Others	28.54	-	-	-	-	28.54
Total	**1267.06**	**12.35**	**482.98**	**362.86**	**268.08**	**2393.33**

The value of stock which was more than one year old was Rs.1126.27 lakhs, representing 47 percent of the total closing stock (Rs.2393.33 lakhs) and more than 2 years old stock (mainly in respect of MTB and Components and Material groups) constituted 47 percent of total closing stock as on 31 March 1992.

The Management could not furnish the item-wise age of the stock held on 31 March 1993; however, the agewise analysis of the stock is as follows:

	Total Stock	Imported	Indigenous
		(Rupees in lakhs)	
Less than one year	855.18	339.45	515.73
1 to 2 years	281.54	57.10	224.44
2 to 3 years	82.19	3.30	78.89
3 to 5 years	631.47	343.81	287.66
More than 5 years	261.51	261.51	-
Total	**2111.89**	**1005.17**	**1106.72**

6.10 It was seen that integrated circuits (ICs) valued at Rs.23.30 lakhs imported in 1989-90 and computer tapes valuing Rs.43.39 lakhs imported in December 1991 were kept in customs bond as on 31 March 1992. While the ICs were still (December 1992) lying in bond, the computer tapes were debonded after August 1992 on payment of customs duty aggregating Rs.83.46 lakhs. Upto 31 March 1992, Rs.1.06 lakhs and Rs.0.88 lakh were paid as storage and other charges, respectively, in respect of these ICs and tapes.

6.11 The table on page 35 indicates the closing stock in trade vis-a-vis sales by the regional offices of the Company as on the last date of March, 1990, 1991, 1992 and 1993.

The closing stock in the regional offices in 1989-90 was very high in comparison to sales and it ranged from 161 percent (Bombay) to 25 percent (Calcutta). The closing stock was 78 percent and 113 percent in respect of sales of Madras and Bangalore branches, respectively. The percentage of stock of the regional offices to total stock of the Company showed an increasing trend. The closing stock in 1991-92 in all the regional offices was generally high compared to their sales and ranged between 11 and 33 percent. The overall percentage came down in 1992-93 marginally.

Physical Verification of Stock

6.12 Physical verification of stock is done annually at the Corporate office by the Corporate Control Division alongwith the Internal Audit Division and at the Regional Offices by firms of Chartered Accountants.

The Chartered Accountants pointed out various defects in the system of stores accounting and procedure viz. inadequacy of arrangements followed, infrequent verification and failure to cover all the items in physical verification and to investigate and regularise shortages/excesses.

The net shortages and excesses for the years 1985-86 to 1991-92 were as follows:-

Year	Excess	Shortage	Net shortage(-)/ Net surplus(+)
		(Rupees in lakhs)	
1985-86	22.81	9.09	(+)13.72
1986-87	11.68	8.23	(+) 3.45
1987-88	3.88	15.09	(-)11.21
1988-89	6.71	10.21	(-) 3.50
1989-90	14.06	34.17	(-)20.11
1990-91	12.99	7.21	(+) 5.78
1991-92	14.91	11.67	(+) 3.24

Particulars	Bombay				Madras				Calcutta				Secunderabad				Bangalore			
	1989-90	1990-91	1991-92	1992-93	1989-90	1990-91	1991-92	1992-93	1989-90	1990-91	1991-92	1992-93	1989-90	1990-91	1991-92	1992-93	1989-90	1990-91	1991-92	1992-93
Sales (Rs. in lakhs)	655.61	904.00	1379.75	732.00	1172.20	1127.83	1929.23	1942.20	930.33	1036.99	946.80	440.00	397.84	577.31	851.99	896.00	263.57	594.56	1033.36	652.00
Closing* Stock (Rs. in lakhs)	1053.56	306.96	451.40	186.54	913.36	203.67	207.13	176.47	233.55	151.59	153.10	120.77	179.53	97.56	119.34	143.80	297.60	185.98	201.29	84.55
Percentage of stock to Sales	160.7	33.9	32.7	25.5	77.9	18.1	10.7	9.08	25.1	14.6	16.2	27.1	45.1	16.9	14.0	16.1	112.9	31.3	19.5	13.0
Percentage of stock of regional Offices to total stock of the Company.	17.7	11.2	18.4	8.8	15.5	7.4	8.5	8.3	3.9	5.5	6.3	5.7	3.0	3.5	4.9	6.8	3.3	6.8	8.2	4.0

(The total stock of the Company in 1989-90 - Rs.5947.81 lakhs, 1990-91- Rs.2749.60 lakhs, 1991-92- Rs.2448.15 lakhs and 1992-93- Rs.2112.05 lakhs)

(*) Closing stock includes goods-in-transit.

Slow and Non Moving Stores

6.13 The Committee of Experts appointed in December 1988 to find ways and means of streamlining material management reported (March 1989) that "since the pricing practices keep in view inventory holding upto 3 months, any item of stores which has a balance in stock for six months requirements may be considered as slow-moving. Any item with a stock of 12 months requirement may be treated as non-moving. Items that have not been issued for 18 months may be treated as movable surplus and items which have not moved at all for 24 months may be treated as dead stock." (These would, however, not apply to items which have become obsolete on account of technological changes). The Management have, however, not classified the stock in this manner.

6.14 The Company has written off stock-in-trade during the years 1985-86 to 1991-92, the value of which was as follows:-

Year	Value of stock written off (Rupees in lakhs)
1985-86	85.15
1986-87	23.23
1987-88	30.98
1988-89	152.01
1989-90	5.40
1990-91	99.97
1991-92	80.39

6.14.2.1 The Company approved (October, 1989) the write off or reduction in value of certain slow and non-moving stock (mostly imported) valuing Rs.152.01 lakhs in the accounts for the year 1988-89. The write off included stocks worth Rs.36.30 lakhs of floppy disks (procured during 1985-86) damaged due to improper storage and also obsolete; diskpack valuing Rs.18.38 lakhs which became defective due to long storage and had become unsaleable due to change in technology; ribbons valuing Rs.2.61 lakhs which became defective due to long storage; video pancakes valuing Rs.6.16 lakhs which became defective due to long storage and improper handling and ICs valuing Rs.16.24 lakhs imported but un sold because of high failure rate of the items. The value of certain items like printer calculators, data display monitors, transistors, etc. was reduced by Rs.40.02 lakhs in order to make them saleable in the market since the prices of these items had fallen in the domestic market.

6.14.2.2 In September 1991 the Company again reduced the value and wrote off slow-moving and non-moving stock by Rs.99.97 lakhs in the accounts for 1990-91. The write offs included components of EPABX group valuing Rs.19.22 lakhs. The reduction in value was made of items like unsaleable ICs and delay lines (purchased in 1988-89) (value reduced by Rs.69.73 lakhs). The value of some PCB mounting assembly imported in January 1989 which could not be sold due to changes in the market and of data display monitors was reduced by 50 percent to make them saleable. The value of high-cost sophisticated R&D equipment like logic analysers was also reduced by 40 percent to make them saleable.

The write-offs clearly reveal that not only was procurement/purchase not always well thought out but the storage system for imported electronic goods was also defective leading to loss by way of damage, etc.

6.14.3 The Management segregated the total slow and non-moving stock (value: Rs.883.42 lakhs) held in the closing stock as on 31 March 1992 as detailed below:

Group/item	1987-88		1988-89		1989-90		1990-91		1991-92		Total	
	Slow Moving	Non Moving	Slow Moving	Non Moving	Slow Moving	Non Moving	Slow Moving	Non Moving	Slow Moving	Non Moving	Slow Moving	Non Moving
					(Rupees in lakhs)							
Components/ Materials	6.79	1.14	151.27	51.37	8.23	58.99	0.41	-	-	-	166.70	111.50
Equipment	0.42	0.39	27.41	5.18	26.84	14.59	-	1.56	56.33	14.96	111.00	36.68
Decoders	-	252.37	-	-	-	-	-	-	-	-	-	252.37
MTB	-	-	89.33	-	46.10	-	-	-	-	-	135.43	-
Personal computer system/material	-	5.84	0.97	47.04	13.83	2.06	-	-	-	-	14.80	54.94
TOTAL	7.21	259.74	268.98	103.59	95.00	75.64	0.41	1.56	56.33	14.96	427.93	455.49

Note : Year denotes the year of purchase.

It may be seen that the value of the slow-moving and non-moving stock as on 31 March 1992 as estimated by the Management constituted about 18 and 19 percent of the total stock held (Rs.2393.33 lakhs). The entire slow and non moving stock (nearly 37 percent of the total stock) was imported stock (except Rs.47.04 lakhs) of which the major portion was imported prior to 1989-90.

Thus, more than one-third of the closing stock is unsaleable and dead. It would appear that the import of these items was done without proper assessment or market study leading to draining of scarce foreign exchange. There was no return on the capital employed on the stock either. (The position in 1992-93 was not available).

6.14.3.2. These non-moving stocks included Floppy Disk Drives (Rs.47.06 lakhs), Hungarian Pattern generators (Rs.24.62 lakhs) and Analysers (Rs.27.19 lakhs) imported in 1988-89 which could not be sold because of lack of market or for being defective.

The slow and non-moving stocks also included stock of 9958 teletext decoders valuing Rs.252.37 lakhs as on 31 March 1992 which were part of 10,500 decoders imported at a cost of Rs.2.62 crores in November 1985 on the specific instructions of the Ministry of Information and Broadcasting but not taken delivery of. The infructuous expenditure on the purchase of these teletext decoders has been pointed out in paragraph 9 of the Report of the Comptroller & Auditor General of India, Union Government-(Commercial)-1987. The efforts of the Company to dispose of these decoders have not been successful so far. As of December 1992, the unsold stock of decoders was valued at Rs.251.79 lakhs (9937 units) and the interest lost on blocked capital alone amounted to Rs.45 lakhs per annum. The Management stated (June 1993) that various meetings were held regarding compensation for the expenditure incurred, but a decision was yet to be taken.

6.15 An analysis of purchases of Colour Picture Tubes (CPT) made by the Company during 1988-89 onwards revealed that despite large closing stocks of unsold picture tubes the Company went on making purchases in anticipation of demand even though the sales were coming down each month. The closing stock of CPT as of October 1988 was 17,386 (value : Rs.388.82 lakhs) and 82900 CPTs were purchased/received against various purchase orders during November 1988 to February 1990.

With sales not picking up as anticipated, the procurement of picture tubes resulted in heavy accumulation of unsold stock. Only 75,443 CPTs could be sold by the Company during 18 months period from October 1988 to March 1990 as against 3 to 3.5 lakh CPTs projected in a year. The carrying cost of unsold CPTs from November 1988 to March 1990 alone amounted to Rs.75.27 lakhs per month which could have been avoided had the import of CPTs been based on the actual demand of the end users.

The value of the closing stock of these imported CPTs as on 31 March 1991 amounted to Rs.64.14 lakhs and the interest lost thereon for one year alone amounted to Rs.11.55 lakhs. (The stock came down further in 1991-92 and the value was Rs.0.63 lakh as on 31 March 1992).

CHAPTER - 7

FINANCIAL AND PROFITABILITY ANALYSIS

7.1 FINANCIAL POSITION

The table below summarises the financial position of the Company for the eight years ending 31 March 1993:-

	LIABILITIES	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93
					(Rupees in lakhs)				
a)	Paid up Capital	280.00	280.00	380.00	380.00	500.00	500.00	500.00	500.00
b)	Reserves and Surplus	352.63	584.21	659.63	677.10	217.88	217.88	166.56	8.27
c)	Borrowings:								
	-Govt. of India	434.00	155.00	305.00	356.65	513.47	513.37	595.00	595.00
	-Cash Credit etc.	1277.39	1216.45	1259.12	1548.49	1616.03	976.84	1223.86	785.01
	-Export Finance	43.38	20.25	-	-	-	-	-	-
	-Public Sector & others	--	500.00	1500.00	900.00	2776.51	1708.02	2110.14	1935.74
	-Total	1754.77	1891.70	3064.12	2805.14	4906.01	3198.33	3929.00	3315.75
d)	Current liabilities	2201.58	3259.04	2489.92	2556.53	2610.95	2272.44	2734.87	3032.05
e)	Provisions	69.32	31.86	776.30	396.49	45.92	20.46	24.87	--
	Total Liabilities	**4658.30**	**6046.81**	**7369.97**	**6815.26**	**8280.76**	**6209.11**	**7355.30**	**6856.07**
	ASSETS								
f)	Gross block	159.34	190.17	337.71	398.79	439.30	460.30	567.83	601.15
	Less: depreciation	18.40	27.81	42.14	59.67	79.96	102.02	125.67	153.49
g)	Net fixed assets	140.94	162.36	295.57	339.12	359.34	358.28	442.16	447.66
h)	Advance for capital expenditure	103.87	103.87	106.42	109.66	109.30	109.17	109.17	115.54
i)	Current assets								
	- Inventories	2558.07	3342.33	3237.49	3499.90	5054.01	2751.30	2482.61	2112.05
	- Sundry debtors	605.39	1357.97	2272.97	1726.50	1926.90	1387.05	1946.97	1866.35
	- Cash & Bank balances	449.10	445.39	272.26	317.44	259.21	227.82	563.56	534.77
j)	Loans & Advances	623.78	632.22	1172.57	832.06	496.62	616.77	1060.50	589.63
k)	North Korean Project	177.15	-	-	-	-	-	-	-
l)	Intangible assets								
	-Deferred Revenue Expenditure	-	2.67	12.69	1.49	4.91	3.14	2.26	0.55
	-Accumulated losses	-	-	-	-	70.47	755.58	748.07	1189.52
	Total Assets	**4658.30**	**6046.81**	**7369.97**	**6815.26**	**8280.76**	**6209.11**	**7355.30**	**6856.07**
	Capital employed	2283.53	2649.37	3984.65	3751.09	5439.21	3048.32	3736.06	2518.42
	Net worth	632.63	861.54	1026.94	1055.61	642.50	(-)40.84	(-)250.33	(-)690.07

Notes: (i) Capital employed represents net fixed assets plus working capital.

(ii) Net worth represents paid-up capital plus free reserves less intangible assets.

7.2 WORKING RESULTS

7.2.1 The following table indicates the comparative position of the turnover, expenditure, trading and net profit/loss of the Company for the eight years ending 31 March 1993:-

Income	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93
				(Rupees in lakhs)				
Sales								
Domestic	11824.17	9390.56	11156.49	9944.95	6144.51	6189.80	7675.54	5828.38
Exports	78.53	154.16	120.48	72.66	336.60	36.62	54.55	116.45
Projects	-	528.89	-	-	-	-	-	-
Consultancy	1.74	5.28	-	11.20	4.13	6.08	12.69	7.02
Others	319.03	432.01	811.52	411.28	1169.47	908.58	1033.08	1355.62
Indirect Exports	233.61	-	-	-	-	-	-	-
Total Sales	12457.08	10510.90	12088.49	10440.09	7654.71	7141.08	8775.86	7307.47
Direct Expenses	11493.26	9640.98	11220.67	9558.31	7172.65	6734.06	7595.37	6628.39
Trading Profit	963.82	869.92	867.82	881.78	482.06	407.02	1180.49	679.08
Other Incomes	53.76	143.55	209.20	61.02	142.60	105.76	74.62	97.14
Other Adjustments	44.14	62.30	132.21	128.82	27.33	30.98	64.87	23.11
Gross Profit	1061.72	1075.77	1209.23	1071.62	651.99	543.76	1319.98	799.33
Other Expenditures								
Establishment	92.46	138.43	162.12	204.18	220.60	268.03	297.48	326.09
Office Management	68.69	131.46	93.56	132.50	143.19	148.67	162.80	186.58
Trade Expenses	82.60	136.72	204.80	224.96	197.72	204.90	204.17	208.34
Financial Charges (Net)	419.20	109.42	416.89	329.51	557.56	528.36	540.64	629.04
Research & Development Expenditure	7.03	5.46	0.71	1.18	2.93	2.01	3.60	1.12
Export Market Development Expenditure	13.74	19.07	7.69	10.43	-	-	-	-
Depreciation	6.51	9.04	14.30	17.96	20.29	22.41	25.57	29.23
Other Expenses/ adjustments	42.61	203.71	55.49	82.55	20.82	39.71	73.12	-
Total Expenditure	732.84	753.31	955.56	1003.27	1163.11	1214.09	1307.38	1380.40
Net Profit(+)/ Loss(-) before tax etc.	(+)328.88	(+)322.46	(+)253.67	(+)68.35	(-)511.12	(-)670.33	(+)12.60	(-)581.07
Tax Provisions and other adjustments	(-)221.69	(-)210.39	(-)134.04	(-)57.19	(+)27.14	(+)14.78	(-)5.09	(-)139.63
Net Profit(+)/ Loss(-)	(+)107.19	(+)112.07	(+)119.63	(+)11.16	(-)538.26	(-)685.11	(+)7.51	(-)441.44

7.2.2 The Company has not been a foreign exchange earner for the country and as can be seen from the table below, on the contrary the net outgo of foreign exchange has been considerable during the last eight years ending 31 March 1993:-

Year	Total expenditure in foreign exchange	Total earnings in foreign exchange	Net outgo of foreign exchange
		(Rupees in lakhs)	
1985-86	5471.05	84.07	5386.98
1986-87	4586.79	770.25	3816.54
1987-88	3970.14	124.97	3845.16
1988-89	2572.53	80.32	2492.21
1989-90	2440.96	347.35	2093.61
1990-91	594.17	45.93	548.24
1991-92	1551.94	122.11	1429.83
1992-93	1322.39	61.51	1260.88

7.2.3 The Company had to resort to heavy borrowings vide table in para 7.1 *supra* during the years to meet its working capital requirements. The steady increase in the borrowings was mainly due to the fact that working capital of the Company was locked up in unsold stock of goods and sundry debtors as can be seen from the table below:-

As on 31st March	Total Closing Stock	Trade debtors (Net)	Total
	(Rupees in lakhs)		
1986	2558.07	605.39	3163.46
1987	3342.33	1357.97	4700.30
1988	3237.49	2272.97	5510.46
1989	3488.90	1726.59	5215.49
1990	5054.01	1926.90	6980.91
1991	2751.31	1387.05	4138.36
1992	2482.61	1946.97	4429.58
1993	2112.05	1866.35	3978.40

Had the Company taken steps to realise the trade debts, most of which were more than 6 months old and to liquidate the huge stocks held, there would have been lesser need to resort to such large borrowings.

7.2.4 During 1991-92, there was no generation of cash in the operations of the Company. A sum of Rs.826 lakhs had to be borrowed during the year (besides withdrawals of Rs. 9 lakhs from Reserves/surplus) which was utilised for acquiring fixed assets (Rs.84

lakhs) and in meeting working capital requirements (Rs.700 lakhs) and operating losses (Rs.42 lakhs).

7.2.5 The percentage of net profit to capital employed came down from 4.5 in 1985-86 to 0.3 in 1988-89 and became negative in 1989-90 viz (-) 10 and (-) 21 in 1990-91. The percentage of net profit to paid-up capital also came down from 38 in 1985-86 to (minus) 108 in 1989-90 and to (minus) 137 in 1990-91. The position improved slightly in 1991-92 because of profit but went down again during the year 1992-93 due to loss. As per existing guidelines of the DPE the average rate of return on capital employed in expected to be 11 percent.

7.2.6 Turn around strategy

The Company had evolved a turnaround strategy in 1989, which featured ***inter alia***, shedding of unremunerative business, improvement of product portfolio by entering into other fields and diversification into manufacturing.

The strategy not only called for reorientation of the Company's own business but also assumed certain policy related support from the Government in respect of the import and export policy regarding electronics. The fiscal measures required included augmentation of the equity capital base with increase in the authorised capital and conversion of outstanding loans from Government into equity.

The Management informed (May 1993) the Audit Board that the policy support of the Government assumed for the turnaround strategy had not yet been received.

DOE admitted to the Audit Board (April 1994) that the Department and the Management had not pursued the question of restructuring the Company and that not much progress had been made in converting the Government loans into equity as proposed by the Management.

Even if the Government of India loan of Rs.595 lakhs was converted into equity the Company's financial position would not improve significantly since the conversion would only reduce the interest burden of the Company (Rs.15 lakhs p.a. approx.). The cash generated out of the interest saved would be insufficient for payment of interest on funds borrowed from P.S.Us/Banks (which on the 1991-92 base amounted to nearly Rs. 5 crores p.a. approx.).

Further, working results for 1992-93 revealed that the sales of the Company went down to Rs.7307.47 lakhs (including inter unit transfers) with the loss before tax being Rs.581.07 lakhs. The loss was reduced to Rs.441.44 lakhs by the write back of Rs.158.30 lakhs from Reserves.

7.2.7 MEMORANDUM OF UNDERSTANDING

The Company signed a Memorandum of Understanding (MOU) with the Department of Electronics for the first time in June 1992 for the year 1992-93 laying down the performance parameters *inter alia* aimed at improving the sales turnover by atleast ten percent compared to the previous year (1991-92), reducing sundry debtors, reducing losses and optimising capital utilisation, concentrating on software exports, spreading out exports and achieving export house status.

7.2.7.2 The actual performance of the Company during 1992-93 vis-a-vis the MOU's performance indicators is shown in the table below:-

	Particulars	MOU indicators for good performance	Actual performance	Percentage of shortfall (-)/ gain (+)
		(Rupees in crores)		
1.	Turnover	80.00	73.07*	(-)8.7
2.	Direct expenses	72.80	66.28	(+)8.7
3.	Gross margin	7.40	6.79	(-)8.2
4.	Establishment expenses	3.75	3.26	(+)13.0
5.	Office expenses	1.40	1.87	(-)33.0
6.	Trade expenses	1.95	2.08	(-)7.0

7.	Profit before interest and tax	0.08	0.25	(+)212.0
8.	Sundry debtors	11.70	18.66	(-)59.5
9.	Sundry debtors to Gross Sales (in number of days)	53	93	

* Includes inter branch transfers treated as sales (Rs.3.63 crores)

While fixing the indicators in the MOU for good performance the turnover of the Company was fixed at a lower figure than that of 1991-92 but the Company could not achieve even that figure. The parameters did not take into account the actual profitability of the Company after taking into account the interest burden of the Company which in 1992-93 amounted to Rs.705.42 lakhs. Instead of reducing the losses as envisaged in the MOU, there was an increase in losses; the loss for the year amounted to Rs.581.07 lakhs as against a profit of Rs.12.60 lakhs in 1991-92. The net loss during 1992-93 was Rs.441.44 lakhs as against a profit of Rs.7.51 lakhs in 1991-92.

The MOU for 1992-93 also laid down some obligations on the part of DOE *i.e.* allowing increase in equity from Rs.5 crores to Rs. 20 crores or conversion of Government loan of Rs. 7 crores and accrued interest thereon to equity and compensation for the decoders worth Rs. 3 crores imported for the Ministry of Information and Broadcasting and lying in stock. These matters were not resolved by DOE.

7.2.7.3 The Company signed the MOU for 1993-94 in July 1993 only, which had goals of generating and concentrating on software exports and increasing export business in general as compared to 1992-93 and also increasing trading operations abroad in the form of joint ventures.

DOE intimated (May 1994) that the MOU for the year 1992-93 was discussed in the Adhoc Task Force of the Department of Public Enterprises and as per their recommendations the MOU was approved giving 50 percent weightage for profit and profit related parameters.

As regards action to be taken by DOE in regard to conversion of loan into equity etc., DOE stated that this has not been done in the absence of the Corporate Plan and Financial Restructuring Plan which are yet to be submitted by the Company.

7.3 CREDIT CONTROL

7.3.1 The Company has not laid down any detailed credit policy but credit sale is not normally resorted to. The Management stated (June 1993) that there was a credit policy under which credit to the customers was monitored and controlled. They also stated that they had a flexible credit policy in order to adjust to the market reaction.

7.3.2 The table below indicates the position of sundry debtors vis-a-vis sales of the Company for the eight years ending 31 March 1993:-

Year	Total Sales	Total book debts	Total doubtful debts	Percentage of	
				total debt to total sales	doubtful debts to total sales
	(Rupees in lakhs)			(Percent)	
1985-86	12457.08	627.83	22.44	5.0	0.2
1986-87	10510.90	1380.41	22.44	13.1	0.2
1987-88	12088.49	2299.93	26.95	19.0	0.2
1988-89	10440.09	1758.61	32.02	16.8	0.3
1989-90	7654.71	1960.90	34.00	25.6	0.4
1990-91	7141.08	1437.67	50.62	20.1	0.7
1991-92	8775.86	1998.33	51.37	22.7	0.6
1992-93	7307.47	1917.72	51.37	26.2	0.7

7.3.3. The age-wise analysis (as furnished by the Management) of total sundry debtors (excluding provision for doubtful debts) as on 31 March 1993 is as below:

	Age of debtors	Total (Rupees in crores)
(i)	Less than 6 months	6.75
(ii)	6 months to one year	4.38
(iii)	1 to 2 years	2.53
(iv)	2 years to 3 years	2.42
(v)	3 years and above	3.41
	Total	**19.49***

* Difference with Accounts figures under reconciliation by the Management

Debtors for 6 months and above (Rs.12.74 crores) constitute 65 percent of the total debtors as on 31 March 1993.

A detailed analysis of the outstanding debtors and reasons for non-realisation was not available with the Management.

The total amount outstanding from DOE as on 31st March 1992 aggregated to Rs.275.41 lakhs constituting nearly 15 percent of the total debtors of the Company. Most of these dues pertained to the period form July 1981 to 1990-91. The position as on 31st March 1993 is awaited.

The large number of debtors outstanding at the end of each year is directly attributable to non-pursuance of debtors effectively which in turn increased the financial burden of the Company by the need to resort to cash borrowings.

7.4 Budgetary System

The Company has not prepared any comprehensive budget manual. The Management stated (February 1993) that the budget was prepared by concerned marketing heads and then discussed "in a brain storming session".

7.4.2 The table below indicates the sales targets fixed, both original as well as revised, for the seven years upto 1991-92 (information about 1992-93 is awaited):-

Year	Target Original	Target Revised	Percentage of reduction in target	Achieve-ments	Excess(+)/Shortfall(-) with reference to targets Original	Excess(+)/Shortfall(-) with reference to targets Revised	Percentage of Shortfall with reference to targets Original	Percentage of Shortfall with reference to targets Revised
---	*(Rs. in lakhs)*		*(Percentage)*	*(Rs. in lakhs)*	*(Rs. in lakhs)*		*Percentage*	
1985-86	15220	13113	13.8	12457	(-) 2763	(-) 656	18.2	5.0
1986-87	17705	10402	41.3	10511	(-) 7194	(+) 109	40.6	-
1987-88	19910	12192	38.8	12088	(-) 7822	(-) 104	39.3	0.8
1988-89	15000	10585	29.4	10440	(-) 4560	(-) 145	30.4	1.4
1989-90	17030	7386	56.6	7655	(-) 9375	(+) 269	55.1	-
1990-91	15613	not revised	-	7141	(-) 8472	-	54.3	-
1991-92	11630	-do-	-	8776	(-) 2854	-	24.5	-

The targets fixed originally were revised downwords each year, the reduction ranging from 13.8 percent to 56.6 percent. The achievements fell far short of the original targets (upto 55 percent) during the seven year period.

The Management stated (February 1993) that variations in targets and achievements were discussed and analysed regularly. It was, however, observed that the analysis, if any, was not put up to the Board of Directors for corrective action.

7.5 <u>Pricing Policy</u>

The Company does not have a pricing policy of its own. According to the Management pricing is determined "on the basis of the various cost elements plus overheads and what the market can bear based on the information available."

There is no specific prescribed margin for each item.

The Company does not also have a prescribed costing system.

CHAPTER - 8

INTERNAL AUDIT & ACCOUNTING SYSTEM

8.1 INTERNAL AUDIT

While the Company estabilished its internal audit wing in December, 1979, it is yet to draw up an internal audit manual outlining the scope, programme etc.

The Company has entrusted (since December 1988) the internal audit work in respect of the regional offices to various firms of Chartered Accountants.

The Statutory Auditors have repeatedly pointed out in their Supplementary Reports that many important areas were not covered by Internal Audit e.g. cash transactions, fixed assets and their physical verification, disposal etc., advances given to staff, customs duty payment, demurrage, sales by agents, claims for export incentives and review of sundry debtors & sundry creditors.

8.2 ACCOUNTING MANUAL

The Company has not prepared any accounting manual laying down the detailed accounting procedure and specifying the financial powers, duties and responsibilities of various officers of the Company.

The Management stated (September 1992) that there was no need for any accounting or audit manual as the Accounts and Internal Audit Departments are managed by professional Chartered Accountants and in view of the computerisation of the accounting.

CHAPTER - 9

MANPOWER ANALYSIS

9.1 An analysis of the manpower employed vis-a-vis turnover, cost per employee, etc. for the seven years ending 31 March 1992 is given in Annexure-IV.

While sales per employee showed a decreasing trend, cost per employee was increasing. In 1991-92 while the sales per employee decreased by 53 percent from the earlier year , the cost per employee increased to 116 percent mainly due to increase in wages and other benefits like over time, L.T.C., medical benefits and also increase in administrative and other overhead expenditure.

9.2 The Company has not fixed any manpower norms.

R Chandra

New Delhi
The 4 मई MAY 1995

(RAMESH CHANDRA)
Deputy Comptroller and Auditor General-
cum-Chairman, Audit Board

Countersigned

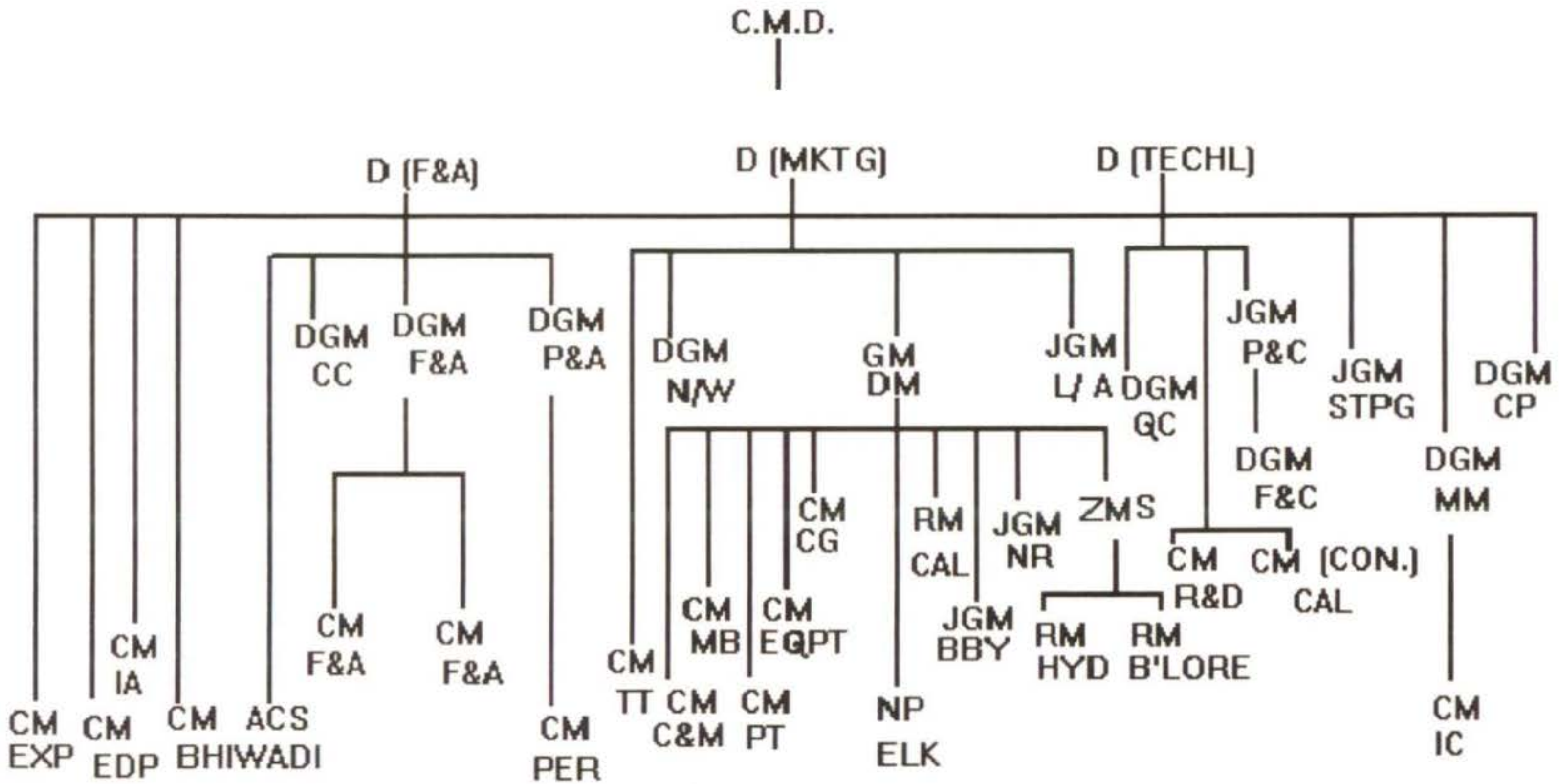
New Delhi
The 5 MAY 1995

(C.G. SOMIAH)
Comptroller and Auditor General of India

ANNEXURES

ANNEXURE-I
referred to in para 3.2

ORGANISATIONAL CHART AS ON 31.03.1993



JGM	:	JT. GEN. MANAGER	P & C	:	PROJECT & CONSULTANCY	C&M	:	COMPONENTS & MATERIALS
DGM	:	DY. GEN. MANAGER	STPG	:	SOFTWARE TECHNOLOGY PARK GANDHI NAGAR	EQPT	:	EQUIPMENT
CM	:	CHIEF MANAGER				PT	:	PICTURE TUBE
ZM	:	ZONAL MANAGER	EDP	:	ELECTRONIC DATA PROCESSING	CG	:	COMPUTER GROUP
ACS	:	ASSISTANT COMPANY SECRETARY	MM	:	MATERIAL MANAGEMENT	TT	:	TELETEACH
CC	:	CORPORATE CONTROL	CP	:	CENTRAL PURCHASE	EXP	:	EXPORT
N/W	:	NET WORK	NR	:	NORTHERN REGION	IA	:	INTERNAL AUDIT
L/A	:	LOS ANGELES OFFICE	IC	:	IMPORT CLEARANCE	CON	:	CONSTRUCTION
QC	:	QUALITY CONTROL	R&D	:	RESEARCH & DEVELOPMENT	ELK	:	ELECTRONIKI
NP	:	NEHRU PLACE						

ANNEXURE-II
(Refered to in Para 5.1.2)

(Rupees in lakhs)

Year	Particulars	Targets: Original	Targets: Revised	Achievements	Excess(+)/Shortfall(-) with reference to Original Targets	Excess(+)/Shortfall(-) with reference to Revised Targets	Percentage of Shortfall with reference to Original Targets	Percentage of Shortfall with reference to Revised Targets
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1985-86	Picture Tubes	5100	6148	10119	(+)5019	(+)3971	-	-
	Components	1175	900	760	(-) 415	(-) 140	35.3	15.6
	Equipments	1350	900	445	(-) 905	(-) 455	67.0	50.6
	M.T.B.	6800	4450	738	(-)6062	(-)3712	89.2	83.4
	Exports	500	350	312	(-) 188	(-) 38	37.6	10.8
	Others	295	365	83	(-) 212	(-) 282	71.9	77.3
		15220	**13113**	**12457**	**(-)2763**	**(-) 656**	**18.2**	**5.0**
1986-87	Picture Tubes	5300	5356	5357	(+) 57	(+) 1	-	-
	Components	1330	1248	1247	(-) 83	(-) 1	6.2	0.1
	Equipments	1400	986	1149	(-) 251	(+) 163	17.9	-
	M.T.B.	8600	2043	2043	(-)6557	-	76.2	-
	Exports	850	738	683	(-) 167	(-) 55	19.6	7.4
	Others	225	31	32	(-) 193	(+) 1	85.8	-
		17705	**10402**	**10511**	**(-)7194**	**(+) 109**	**40.6**	**-**
1987-88	Picture Tubes	5500	5468	5387	(-) 113	(-) 81	2.1	1.5
	Components	1460	1781	1808	(+) 348	(+) 27	-	-
	Equipments	1450	1533	1495	(+) 45	(-) 38	-	2.5
	M.T.B.	10100	3254	3215	(-)6885	(-) 39	68.2	1.2
	Exports	1125	122	120	(-)1005	(-) 2	89.3	1.6
	Others	275	34	63	(-) 212	(-) 29	82.2	-
		19910	**12192**	**12088**	**(-)7822**	**(-) 104**	**39.3**	**0.8**

1988-89	Picture Tubes	4500	3600	3535	(-) 965	(-) 65	21.4	1.8
	Components	2600	1750	1678	(-) 922	(-) 72	35.5	4.1
	Equipments	1600	1065	1154	(-) 446	(+) 89	27.9	-
	M.T.B.	5500	4000	3992	(-)1508	(-) 8	27.4	0.2
	Exports	600	150	73	(-) 527	(-) 77	87.8	51.3
	Others	200	20	08	(-) 192	(-) 12	96.0	60.0
		15000	**10585**	**10440**	**(-)4560**	**(-)145**	**30.4**	**1.4**
1989-90	Picture Tubes	3700	1573	1681	(-)2019	(+) 108	54.6	-
	Components	2100	1764	1899	(-) 201	(+) 135	9.6	-
	Equipments	2500	1549	1575	(-) 925	(+) 26	37.0	
	M.T.B.	6000	1700	1780	(-)4220	(+) 80	70.3	-
	Exports	1300	335	337	(-) 963	(+) 2	74.1	-
	Others	1430	465	383	(-)1047	(-) 82	73.2	17.6
		17030	**7386**	**7655**	**(-)9375**	**(+) 269**	**55.1**	
1990-91	Picture Tubes	1525						
	Components	1757	Not	2544	(-) 738	-	22.5	-
	Equipments	2000	revised	1606	(-) 394	-	19.7	-
	M.T.B.	3171		1347	(-)1824	-	57.5	-
	Exports	1000		37	(-) 963	-	96.3	-
	Computer Group	6000		1567	(-)4433	-	75.5	-
	Others	160		40	(-) 120	-	74.7	
		15613		**7141**	**(-)8472**	**-**	**54.03**	**-**
1991-92	Picture Tubes*	**NA**						
	Components	3100	Not	2610	(-) 490	-	15.8	-
	Equipments	2650	revised	3397	(+) 747	-	-	-
	M.T.B.	2350		1148	(-)1166	-	49.6	-
	Exports	200		055	(-) 145	-	72.5	-
	Computer Group	3200		1304	(-)1896	-	59.3	-
	Others	130		226	(+) 96	-	-	
		11630		**8776**	**(-)2854**	**-**	**24.54**	**-**

*Not available separately, included in Components and MTB.

ANNEXURE-III
(Referred to in Para 6.3)

(Value in lakhs of Rupees, Quantityin lakhs)

Sl. No.	Items	1985-86 Purchase Qty.	1985-86 Purchase Value	1985-86 Closing Stock Qty.	1985-86 Closing Stock Value	1986-87 Purchase Qty.	1986-87 Purchase Value	1986-87 Closing Stock Qty.	1986-87 Closing Stock Value	1987-88 Purchase Qty.	1987-88 Purchase Value	1987-88 Closing Stock Qty.	1987-88 Closing Stock Value	1988-89 Purchase Qty.	1988-89 Purchase Value	1988-89 Closing Stock Qty.	1988-89 Closing Stock Value
1.	T.V.Picture tubes	9.54	3805.64	3.55	1350.43	3.79	2676.68	1.85	1419.98	3.83	2296.36	0.60	726.64	2.43	1644.54	0.12	106.31
2.	P.C.Systems	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3.	Printers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.	Decoders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5.	Others ##	-	1455.28	-	1153.11	-	2596.45	-	1853.35	-	2714.51	-	2213.00	-	3528.25	-	3243.43
	Total	-	5260.92	-	2503.54	-	5273.13	-	3273.33	-	5010.87	-	2939.64	-	5172.79	-	3349.74

Sl. No.	Items	1989-90 Purchase Qty.	1989-90 Purchase Value	1989-90 Closing Stock Qty.	1989-90 Closing Stock Value	1990-91 Purchase Qty.	1990-91 Purchase Value	1990-91 Closing Stock Qty.	1990-91 Closing Stock Value	1991-92 Purchase Qty.	1991-92 Purchase Value	1991-92 Closing Stock Qty.	1991-92 Closing Stock Value	1992-93 Purchase Qty.	1992-93 Purchase Value	1992-93 Closing Stock Qty.	1992-93 Closing Stock Value
1.	T.V.Picture tubes	2.00	2171.76	0.59	1563.35	0.63	216.77	0.087	94.83	1.08	1068.69	0.16	113.56	0. 76	863.10	0. 08	76.75
2.	PC Systems	-	217.02	-	63.97	0.063	837.42	0.014	191.59	0.016	381.23	0.004 (428)	97.24	0.018*	552.10	0.004 (417)	133.45
3.	Printers	-	44.92	-	40.00	0.071	476.97	0.01	70.65	0.028	232.85	0.005 (509)	41.97	0.017	202.37	0.002 (233)	23.30
4.	Decoders	-	-	-	-	-	-	0.10	254.03	-	-	0.0996 (9959)	252.37	-	-	0.099 (9947)	252.04
5.	Others ##	-	2422.17	-	3372.71	-	1344.17	-	2365.99	-	2370.14	-	1922.72	-	1738.66	-	1469.66
	Total	-	4855.87	-	5040.03	-	2875.33	-	2977.09	-	4052.91	-	2427.86	-	3185.36	-	1955.20

* Includes 1300 PCs transferred from Bhiwadi Factory.

Represents balancing figure.

ANNEXURE-IV
(Referred to in Para 9.1)

Sl. No.	Particulars	31st March 1986		31st March 1987		31st March 1988		31st March 1989		31st March 1990		31st March 1991		31st March 1992	
		Sancti-oned	Actuals	Sancti-oned	Actuals	Sancti-oned	Actuals	Sancti-oned	Actuals	Sancti-oned	Actuals	Sancti-oned	Actuals	Sancti-oned	Actuals
1.	Total No. of employees (in numbers)														
	i) Officers	135	108	168	127	168	158	168	197	168	212	230	225	230	223
	ii) Other Staff	205	188	311	242	311	272	311	259	311	242	254	228	257	223
	iii) Total employees	340	296	479	369	479	430	479	456	479	454	484	453	487	446
2.	Proportion of officers to staff	1:1.74		1:1.91		1:1.72		1:1.31		1:1.14		1:1.01		1:1	
3.	Total Sales (Rs. in lakhs)	124,57.08		105,10.90		120,88.49		104,40.09		7654.71		7141.09		8775.86	
4.	Total Salaries & wages (Rs.in lakhs)	92.46		138.43		162.12		204.18		220.60		268.03		297.48	
5.	i) Value added per employee (Rs.in lakhs)	42.08		28.48		28.11		22.89		16.86		15.76		19.68	
	ii) Per employee cost	0.31		0.37		0.38		0.45		0.49		0.59		0.67	
6.	Percentage decrease(Base year) in value added per employee			32		33		46		60		63		53	
7.	Percentage increase(Base year) in cost per employee			19		23		45		58		90		116	

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