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REPORT OF THE

उद्योग मंत्री, भारत सरकार  
Industry Minister, Govt. of India

COMPROLLER AND AUDITOR GENERAL  
OF INDIA

PAPERS LAID ON THE TABLE  
OF THE RAJYA SABHA  
ON 27 MAR

UNION GOVERNMENT  
No. 3 (COMMERCIAL) OF 1989

HMT LIMITED—LAMPS UNIT  
GOA MEAT COMPLEX  
NATIONAL BICYCLE CORPORATION LIMITED

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## PREFACE

1. A reference is invited to prefatory remarks of the Report of the Comptroller and Auditor General of India—Union Government No. 1 (Commercial) of 1989 wherein mention was made that this report will be presented in several parts.

2. This part contains reviews on (i) HMT Limited—Lamps Unit, (ii) Goa Meat Complex and (iii) National Bicycle Corporation Limited.

## OVERVIEW

This Audit Report (Commercial)—1989 contains 3 reviews. Significant Audit findings highlighted in the Report are :—

### 1. HMT LTD., LAMP UNIT

I. As a part of its diversification programme, HMT set up a Lamp Project consisting of glass factory, lamp components factory and lamp assembly factory between May 1976 and January, 1978 at Hyderabad with Hungarian collaboration. With the assistance of the same collaborators, Fluorescent Tube Lamps (FTL) and Mercury Vapour Lamps (MVL) were added to the product range during 1980-81 and 1981-82. The total investment on the project was Rs. 15.16 crores. (Para 1.1.01).

II. The Committee on Public Undertakings had earlier viewed with concern the performance of the unit, in their 94th Report (1983-84-Seventh Lok Sabha). With certain steps proposed like modifications and improvements to machinery, introduction of quality control and motivation of workers, the Unit was expected to improve its performance and become viable from 1984-85. But the negative factors of low capacity utilisation, higher consumption of materials than the norms fixed and abnormally high cost of production continued to persist. (Paras 1.1.02 to 1.1.05).

III. (a) In spite of carrying out modifications and improvements to the General Lighting System lamp chains at a cost of Rs. 9.99 lakhs by January 1985 the Unit could not achieve even pre-1985 rate of production. (Para 1.2.01).

(b) The production of Fluorescent Tube Lamps was also about 40 to 44 percent of the capacity during the three years ending 1987-88 due to low speed and idle time. (Para 1.2.05).

(c) The production of Mercury Vapour lamps ranged from 32 to 75 percent of the capacity of 0.375 million lamps per annum due mainly to idle time for want of materials. (Para 1.2.07).

(d) The production of components was also lower due to creation of capacity in excess of requirements for in-house consumption and the Company's inability to sell them to other lamp

manufacturers and to the collaborators, who had guaranteed an off-take of upto Rs. 1 crore. Investment of Rs. 1.06 crores on an additional shell blowing machine to increase the capacity by 32 million shells proved to be infructuous as the Unit could not produce even upto the earlier capacity of 43 million shells in any of the years. The performance of the Lead Glass Furnace of the Unit was not satisfactory and the capacity utilisation was less than 40 percent in all the five years upto 1987-88 even after relining it in December 1982 at a cost of Rs. 27.37 lakhs. Major portion of the lead glass produced was declared sub-standard resulting in very high wastages in production of lamps and also affecting their reliability. (Paras 1.2.08 to 1.2.11).

IV. The value of actual consumption of materials (as a percentage of the value of production) was more than that indicated in the DPRs/FRs of all the three projects. (Para 1.3.01)

V. The actual men in position were far more than the requirements with reference to the actual production resulting in surplus labour. (Paras 1.4.01 to 1.4.04).

VI. Though the budgetted sales were fixed far below the production capacity in all the five years ending 1987-88, the achievements were still lower. (Paras 1.5.01 to 1.5.02).

VII. The company was allowing some sick units to sell their products under its brand name, leading to reduction in its market share from 13 to 10 percent. (Paras 1.5.01 to 1.5.05).

VIII. The export performance of the Unit during the last five years ending March, 1988 has also been dismal. (Paras 1.5.08 to 1.5.10).

IX. The Unit will not be able to break even (on the basis of actual incidence of expenditure during 1987-88) even if it attains the maximum achievable capacity as indicated by the Japanese consultants unless components of the value of Rs. 5. crores are produced and sold. (Paras 1.6.01 to 1.6.03).

## 2. GOA MEAT COMPLEX LIMITED

I. Goa Meat Complex Limited was incorporated in March, 1971 as a Government Company with the main objective of providing hygienic and wholesome meat to the consumers at reasonable rates. The project was sanctioned in November 1975 at an estimated cost of Rs. 108 lakhs and was scheduled to be completed by September 1979. The work was entrusted to National Dairy Development Board in April 1977 and was completed in June, 1982 at a cost of Rs. 156.08 lakhs. (Paras 2.1 and 2.3).

II. Against the anticipated slaughter of 150 animals per day, the actual number of animals slaughtered per day averaged to 30 only during 1983-84 to 1987-88. By-products costing Rs. 10.78 lakhs were not processed during the period 1983-84 to 1987-88 resulting in loss of revenue by Rs. 9.06 lakhs. A plant to process the by-products of the slaughtered animals installed at a cost of Rs. 6.97 lakhs had not been put to use at all. (Para 2.3. a, b).

III. The Company also had employed excess manpower. As the refrigeration plant and by-products plant had not been operated, the employment of staff for these plants was not warranted. (Para 2.5).

IV. The Company has accumulated losses of Rs. 164.06 lakhs till end of March 1988 after taking into account the subsidy amounting to Rs. 44.56 lakhs against the paid up capital of Rs. 61.83 lakhs. (Para 2.4).

V. Only 3504 animals were slaughtered by the Company in 46 months and sold in the market through four retail booths set-up in four municipalities of Goa. Stiff competition from cold storage owners was stated by the company to be a reason for limited operations. (Para 2.3.c)

## 3. NATIONAL BICYCLE CORPORATION OF INDIA LIMITED

I. To ensure the continuance of undertaking in the interest of general public for the production and distribution of bicycles, Bombay and Ghaziabad units of erstwhile Hind Cycles Limited were taken over and National Bicycle Corporation of India Limited (NBCL) was incorporated in October 1980. Although the value

of assets vested in the company was only Rs. 190.46 lakhs, the unit was taken over on payment of purchase consideration of Rs. 242.01 lakhs. (Paras 3.1 and 3.2)

II. The company had incurred losses amounting to Rs. 31.39 crores (accumulated upto March 1988) against the equity of Rs. 5.53 crores. The reasons for such heavy losses being (i) Low production and turn-over, (ii) Low utilisation of machine and manpower, and (iii) surplus labour. (Paras 3.1.2 and 3.3)

III. Against the production capacity of 2,70,000 cycles for both the units, the production ranged from 83,717 to 1,67,226 during 1982-83 to 1987-88. The company had not drawn any programme for rehabilitation of out-dated machines for increasing productivity. (Para 3.3)

IV. Though the company switched over to purchasing main items required for production of bicycles from the open market, no reduction in the labour strength was made. The company did not have any system of calling tenders for material purchases. The cost of production is also ascertained only after the close of financial year and therefore, is not taken into account for fixing the selling prices during the year. (Paras 3.4, 3.5 and 3.6).

V. The export of bicycles has also reduced from 11,275 in 1984-85 to 3,300 in 1986-87. Although the production of bicycles declined from 92,374 in 1983-84 to 60,470 in 1986-87 at Bombay unit, incidence of overtime paid ranged from Rs. 3.13 lakhs to Rs. 27.24 lakhs during 1983-84 to 1986-87. (Para 3.3 and 3.4).

VI. The book-debts over six months were to the tune of Rs. 77.43 lakhs as on 31-3-1987. This included an amount of Rs. 33.09 lakhs which was considered doubtful of recovery. (Para 3.9).

VII. Due to liquidity constraints, the company defaulted in discharging its liability of provident fund contribution and property tax amounting to Rs. 34.14 lakhs during 1987-88. Besides, a penalty of Rs. 1.89 lakhs imposed by Provident Fund authorities due to default in timely payment of Provident Fund Contribution is also payable. Further, an interest of Rs. 413 lakhs was over due on Government loans as on 31-3-1987. (Para 3.9).

## HMT LIMITED

### LAMPS UNIT

1.1.01 The Lamp Project consisting of glass factory, lamp components factory and General Lighting Service (GLS) lamp assembly factory set up in Hyderabad by HMT as a part of its diversification programme with Hungarian collaboration commenced production between May 1976 and January 1978. Fluorescent Tube Lamps (FTL) and Mercury Vapour Lamps (MVL) were added to the production range in collaboration with the same firm during 1980-81 and 1981-82 respectively. The total capital outlay on all the three projects was Rs. 15.16 crores.

1.1.02 The Committee on Public Undertakings (COPU), which considered the working of HMT Ltd., in their 94th Report (1983-84—Seventh Lok Sabha) had observed that the Lamps Unit had suffered a total loss of Rs. 8.24 crores from 1978-79 to 1982-83 due to low capacity utilisation, higher consumption of materials than the norms fixed, heavy rejections, quality complaints and abnormally high cost of production. In their recommendations the Committee stressed the need for improving the quality of the products and upgrading the technology, and stepping up the production of energy efficient lamps.

1.1.03 Government agreed (September 1984) with the Committee on the need for improving the performance of the Unit and stated that the following steps were being taken in this connection :

- (i) Modifications and improvements to all the six GLS lamp making chains scheduled to be completed during 1984 to achieve the rated speed and control over material consumption as per norms.
- (ii) Introduction of system of in-process quality control to check the quality after each operation, systematic checking of the quality of all components and raw materials supplied to the lamp factory, enforcing of rigorous checking of final product to ensure its quality,

and conducting studies to improve packing of goods to avoid/minimise damage during transportation and handling.

- (iii) Introduction of a new lamp capable of withstanding voltage fluctuations and having longer life.
- (vi) Drawing up of motivation plans to re-train and educate the employees to improve performance.

1.1.04 With the implementation of the various measures the Unit was expected to improve its performance and become viable from the year 1984-85. The Government also issued directive in this regard to the Unit in September 1984.

1.1.05 In pursuance of the above mentioned recommendations of COPU and reply furnished by Government delineating the various measures proposed to be taken for improving the performance of the Unit, a study was undertaken by Audit to find out to what extent the performance of the Unit has improved. The study revealed that the Unit continues to be afflicted with low capacity utilisation, higher consumption of materials than the norms fixed and abnormally high cost of production as mentioned in succeeding paragraphs.

## 1.2. PRODUCTION PERFORMANCE

### GLS LAMPS :

1.2.01 Though modifications and improvements to all the six chains as assured by the Ministry, were completed by January 1985 at a cost of Rs. 9.99 lakhs, the average hourly production continued to be much below even 1600 lamps stated to have been produced prior to modification. The Unit could achieve an average hourly output of only 1327 lamps in 1985-86, 1340 in 1986-87 and 1257 in 1987-88 which worked out to 82.94%, 83.75% and 78.56% of the production prior to 1985 and 66.35%, 67% and 62.85% of the rated output of 2000 good quality lamps per hour. The

Management stated (December 1988) that each chain was capable of achieving only 5.97 million lamps per annum at the rate of 1680 lamps per hour and estimated working hours of 3,555 i.e. 79 per cent of the available hours (4,500). This contention of the Management is at variance with their admission before the COPU that after rectification, the chains would start producing at the rate of 2000 lamps per hour. Significantly the average hourly output which was only 1327 lamps in 1985-86 dropped down further to 1257 in 1987-88.

1.2.02 The actual production and shortfall due to low rate of output as well as idle time are given below :

Particulars	1985-86	1986-87	1987-88
	(in million numbers)		
Rated capacity	54.00	54.00	54.00
Actual production	22.39	21.45	18.53
Short-fall	31.61	32.55	35.47
Short-fall-due to low rate of output	11.35	10.57	10.95
Short-fall due to idle time	20.26	21.98	24.52

1.2.03 The Japanese Consultants who were appointed in December 1986 by the Management to conduct a diagnostic study of the Unit stated (June 1987) that there were limitations pertaining to the basic Hungarian equipment. They suggested some improvements to be carried out and with those improvements the six chains were expected to produce 46.656 million lamps per annum. The Management have not taken any decision on the suggestions of the Japanese consultants so far (March 1989).

1.2.04 An analysis of idle time revealed that setting up time and want of materials and men contributed to bulk of idle time (59 to 88%), which accounted for shortfall in production of 30.80 million lamps during the three years ended 31st March, 1988. The Management stated (December 1988) that non-availability of materials was the outcome of the low sales resulting into low realisation creating acute scarcity of funds. No explanation was given for want of men. The Unit had a surplus labour (Para 1.4.03) and the Ministry had informed (September, 1984) the COPU that steps were being taken to

draw up motivation plans to retrain and educate the employees to improve the performance.

1.2.05. *Fluorescent Tube Lamps* : The rated output of the FTL chain of 1250 lamps per hour worked out to an annual capacity of 5.625 million lamps on 2 shifts basis. However, the DPR indicated the achievable capacity as 4.25 million lamps per annum after making allowance for utilisation of 84% and rejections at 10%. The actual output during 1985-86, 1986-87 and 1987-88 was 1.73, 1.67 and 1.87 million lamps which worked out respectively to 40.71%, 39.29% and 44% of even the achievable capacity. The low utilisation was attributable to low speed attained as also idle time as may be seen from the table below :

Particulars	1985-86	1986-87	1987-88
	(In million numbers)		
Achievable capacity	4.25	4.25	4.25
Actual production	1.73	1.67	1.87
Shortfall	2.52	2.58	2.38
Shortfall due to low rate of output	1.32	1.25	1.61
Shortfall due to idle time	1.20	1.33	0.77

The loss of production on account of idle time for want of materials alone accounted for 1.67 million lamps during 1985-86 to 1987-88.

1.2.06 A Task Force constituted by the Board of Directors in August 1983 to study the poor performance of the Unit opined that the project should have been taken up after establishing GLS technology successfully. One of the main reasons for low output may thus be that the Company took up the FTL project prematurely before fully absorbing and successfully establishing GLS lamp making technology.

1.2.07 *Mercury Vapour Lamps* : The feasibility report for MVL project prepared in February 1980 indicated the capacity as 0.75 million lamps per annum on single shift based on a rated output of 500 lamps per hour and utilisation at 80 per cent and rejection at 10 per cent. The agreement for supply of equipment by the collaborators entered into in April 1980 was revised in December 1980 reducing the rated output to 250 lamps per hour. The feasibility report and project estimates were not, however revised. The actual production was 0.12, 0.2



and 0.26 million lamps which worked out to 32%, 74.67% and 69.33% of the capacity indicated in the feasibility report as reduced by the subsequent agreement. The Unit was bogged down by idle time caused mainly because of want of materials which accounted for a loss of production of 0.252 million lamps.

### SHELLS AND COMPONENTS

1.2.08 The project report for the manufacture of GLS lamps envisaged production of

glass shells and components in excess of in-house requirements for being sold to other lamp manufacturers. The external sales of shells and components were estimated to contribute about 49% of the total turnover of the GLS project. The following table indicates the capacity established as per the project report, the actual production and outside sales of the shells and components during the last five years ending 31st March, 1988.

Components	Annual production capacity as per DPR (In millions)		Actual Production/Outside sales				
			1983-84	1984-85	1985-86	1986-87	1087-88
			(Quantity in millions)				
GLS Shells	43.00/ 75.00 from 84-85	Production	21.79	33.51	34.01	32.35	26.30
		Sales	2.19	2.07	6.45	7.89	6.84
Fluorescent Shells	5.50	Production	1.84	3.91	2.93	1.99	1.84
		Sales	..	0.61	0.47	0.13	..
Lead Glass (MT)	1300.00	Production	476.56	294.68	216.76	509.43	503.34
		Sales	132.71	117.00	117.56	270.48	330.00
Filaments	115.40	Production	64.58	44.74	30.61	32.61	24.92
		Sales	19.64	11.14	3.22	1.50	0.02
Lead-in-wire	238.00	Production	74.83	87.04	86.98	71.72	59.07
		Sales	12.36	9.15	26.34	10.83	1.13

1.2.09 The Company installed in March, 1984 an additional shell blowing machine costing Rs. 106.20 lakhs with a capacity of 32 million shells per annum to increase the total shell making capacity to 75 million shells per annum to meet the acute shortage of GLS shells in the country. While the production of GLS shells during the three years prior to installation of the new shell blowing machine was 46.87 millions in 1981-82 and 21.79 millions in 1982-83 and 1983-84, the actual production after installation of the machine ranged between 32.35 millions and 34.01 millions during 1984-85 to 1986-87 and it slid down to 26.30 millions in 1987-88. While approving the investment, the Chairman and Managing Director of the Company had directed (February 1981) that firm commitment for purchase of 23 million shells per annum should be obtained from the two assisted units and ways for the disposal of the balance should also be explored. But the sales were very negligible. As against 49% of the total turnover of the GLS project as envisaged in the Project Report, the value of shells and components sold to other

lamp manufacturers ranged from 8.58 per cent to 12.44 per cent only rendering the additional investment of Rs. 106.20 lakhs unproductive. The Management replied in December 1988 "depending upon the product mix, market demand and shelf life of glass, we have utilised the machine to the optimum level possible".

1.2.10 The Management had reported (June 1986) to the Board that mushroom growth of small scale units with much lower wage costs and other facilities affected the components sale resulting in curtailment of production of components mainly to meet the Company's requirement. One of the reasons for this situation was inability of the Company to export components worth Rs. 100 lakhs guaranteed to be imported by the collaborators which was one of the parameters that weighed with the Government in sanctioning the GLS project in January, 1975. The Board of Directors was further informed (June 1986) "lower volume of production resulted in the underutilisation of machines and surplus employees with the consequent burden of

idle capacity costs". The excess man power due to curtailment of components production was identified as 78.

1.2.11 Though the market potential for lead glass was stated to be very good in view of the insufficient indigenous production capacity and continued imports, the performance of the lead glass furnace in the Unit was not satisfactory and capacity utilisation was less than 40% in all the five years upto 1987-88 even after relining it in December 1982 at a cost of Rs. 27.37 lakhs.

1.2.12 The poor performance of the furnace was investigated (August 1983) and it was found that among other things, difficulty in temperature control was affecting the quality of lead glass and that there was excess consumption of furnace oil. The Task Force constituted by the Board also stated in its report (November 1983) that the lead glass quality required improvement to exploit the market potential and that quality deficiency was resulting in very high shrinkage in the Company's own production affecting the reliability of the lamps. To remedy the situation, it was decided (January 1984) to replace the existing ceramic recuperator by a metallic recuperator which would result in fuel saving by about 12% leading to the recovery of the cost of metallic recuperator in 15-16 months. Accordingly, a metallic recuperator was purchased in December 1984 at a cost of Rs. 3.49 lakhs. However, subsequent (February 1985) discussion with the Hungarian collaborators, revealed that the metallic recuperator would actually lead to extra consumption of oil and it was decided to repair the ceramic recuperator instead of replacing it by a metallic recuperator. The repair and recommissioning of the lead glass furnace including the ceramic recuperator was completed in November 1985 at a cost of Rs. 14.57 lakhs. The metallic recuperator procured at a cost of Rs. 3.49 lakhs in December 1984 is lying unused.

1.2.13 Even after repair of the lead glass furnace (including recuperator), the production continued to be less than 40% of the capacity as it was not capable of operating at its full rated capacity and 79.18% of the production in 1985-86 (11/85 to 3/86), 74.12% in 1986-87 and

52.13% in 1987-88 was declared as sub-standard resulting in very high wastages in production of lamps and also affecting their reliability. The Management stated (December 1988) that "all out efforts are being made to bring about a systematic improvement of the quality of lead glass".

### 1.3 CONSUMPTION OF COMPONENTS AND MATERIALS

1.3.01 The COPU while considering the performance of HMT limited had noted (April, 1984) that one of the reasons for the losses incurred by the Unit was higher consumption of materials than the norms fixed. According to the profitability analysis of all the three projects indicated in the respective DPRs/FRs the value of consumption of raw materials and components as a percentage of value of production worked out to 44.9. The value of actual consumption was, however, more than the percentage envisaged as per details given below :

Year	Value of production	Value of consumption of materials (Rs. in lakhs)	Percentage of 3 to 2	Value of excess consumption (Rs. in lakhs)
1	2	3	4	5
1983-84	1084.76	700.67	64.59	213.59
1984-85	1192.36	720.14	60.40	184.82
1985-86	1291.03	736.04	57.01	156.34
1986-87	1351.34	764.57	56.58	157.84
1987-88	1300.76	685.24	52.68	101.20

The value of excess consumption over that envisaged in DPR/FR, worked out to Rs. 8.14 crores during the last 5 years. Analysis made by Audit revealed that the higher level of wastages (than those recommended by the Task Force) in the assembly of components contributed to the excess consumption to the extent of Rs. 2.76 crores.

### 1.4 PERSONNEL COST

1.4.01 The detailed project report for GLS lamps indicated the man power requirement as 1628 in the case of lamp and component factories. The detailed project report for FTL indicated the man power requirement as 220, and the feasibility report for MVL indicated the man power requirement as 100. Thus, in all the requirement was 1948. The following table

indicates the man power requirement as per DPRs, actual men-in-position and percentage of

production to DPR estimates since the commencement of production.

Year	MAN POWER			ACTUAL PRODUCTION AS A PERCENTAGE TO DPR's PROJECTIONS			
	As per DPRs	Actual men-in position	% of men-in position to DPRs projection	GLS	FTL	MVL	Components
1977-78	1628	931	57	22	..	..	1.4 to 33
1978-79	1638	1392	85	45	..	..	10 to 67
1979-80	1753	1600	91	49	..	..	33 to 86
1980-81	1848	1706	92	38	4	..	18 to 52
1981-82	1948	1917	98	74	36	0.2	20 to 85 (GLS shells—109)
1982-83	1948	2026	104	71	31	3.2	15 to 68 (GLS shells—102)
1983-84	1948	1938	99	66	32	3.2	12 to 56
1984-85	1948	1968	101	74	40	4.6	10 to 45 (FTL shells—71)
1985-86	1948	1922	99	70	41	24.0	9 to 53
1986-87	1948	1841	95	67	39	56.0	17 to 43
1987-88	1948	1818	93	58	44	52.0	13 to 39

1.4.02 Even though the Company attained a production level of only 22% in respect of GLS lamps and 1.4 to 33% in respect of components during 1977-78 and 45% in respect of GLS lamps and 10 to 67% in respect of components during 1978-79 of the production envisaged in the DPR, the number of employees recruited was 1392 which worked out to 85 per cent of the requirement as projected in DPR. Though the Company was aware of the labour rendered surplus due to under utilisation of capacity, it continued to recruit additional hands for the new projects (FTL and MVL) and between 1979-80 and 1982-83, 634 persons were recruited.

1.4.03 With continued under utilisation of production capacities, there was always surplus man power which was not identified till 1984-85. In the action plan of 1984-85, Management identified 381 persons as surplus to requirements, and the Board of Directors directed (July 1985) that redeployment of excess man power should be examined by the Director (Personnel) in its entirety. The National Institute of Training in Industrial Engineering (NITIE) which was asked (December 1986) to make a comprehensive study of the excess man power in the Unit, informed (April 1987) that 606 persons were surplus to the requirements with reference to the budgetted pro-

duction for 1987-88. On the basis of the standards adopted by NITIE, a further examination was conducted by Audit to find out the extent of surplus man power in earlier years. It was seen that the level of production attained in the earlier years was always less than the levels adopted by NITIE for arriving at the extent of surplus man power leading to the inference that the Unit had surplus man power of not less than this magnitude in all the previous years from 1981-82 resulting in avoidable labour cost ranging from Rs. 0.94 crore to Rs. 1.94 crores every year based on the average cost per employee in the respective years. Further, even during 1987-88, the production level attained was 62 to 65 per cent in respect of lamps and 35 to 63 per cent in respect of components of the level which formed the basis of NITIE's assessment.

1.4.04 In this context, it is relevant to note that the value added was not sufficient to cover even the personnel cost after meeting the cost of power and fuel. The cost of under absorption of personnel cost due to surplus labour and under utilisation of capacity during the last 5 years ending 1987-88 worked out to Rs. 14.16 crores out of the total loss of Rs. 33.28 crores. The Management, stated (December 1988) that as on date 229 persons had since been transferred to the Watch case (181) and other Divisions (48).

## 1.5 MARKETING

1.5.01 The table below indicates the budgetted and actual sales of the three products and lamp components.

YEAR	GLS		FTL		MVL		COMPONENTS
	Q	V	Q	V	Q	V	V
1983-84							
B	29.24	881.64	3.00	462.28	0.10	100.00	300.00
A	22.37	760.60	1.30	213.90	0.018	13.60	92.72
1984-85							
B	30.64	1097.14	3.50	616.70	0.10	100.00	186.16
A	21.32	762.68	1.71	355.69	0.02	23.12	88.44
1985-86							
B	30.00	1105.50	2.64	505.03	0.24	230.77	55.10
A	22.35	871.38	1.76	374.01	0.12	119.02	81.83
1986-87							
B	30.00	1107.00	2.64	505.03	0.31	290.27	188.85
A	21.38	770.73	1.66	344.57	0.27	241.91	103.27
1987-88							
B	30.00	1005.00	2.90	533.00	0.40	373.00	129.00
A	20.11	764.35	1.90	368.19	0.25	229.55	108.57

B = Budgetted.

A = Actual.

Q = Quantity in Millions

V = Value in lakhs of rupees.

1.5.02 The budgetted sales in respect of the products were fixed far below the capacity of the production units in all these years and the achievements were still lower. The actual sales (as a percentage of DPR projections) ranged from 62.84 to 69.90 in respect of GLS lamps, 30.59 to 44.71 in respect of FTL and 3.6 to 54 in respect of MVL during the last 5 years ending March 1988. The Board of Directors was

informed from time to time that the short-fall in sales was due to severe competition prevailing in the market for GLS and FTL, absence of consumer pull for HMT brand and low production. However, surprisingly while explaining to the Board of Directors the reasons for shortfall in production, the shortfall was attributed to low sales in addition to other factors.

1.5.03 The following table indicates the market share of HMT vis-a-vis the other leading manufacturers :

	(In percentage)				
	1983	1984	1985	1986	1987
<b>GLS</b>					
<b>Brand</b>					
HMT	11.20	11.70	11.64	8.15	5.90
Philips	31.36	32.35	30.57	31.59	34.40
Bengal	11.40	10.90	13.40	9.57	11.00
Sylvania	11.90	10.25	10.90	9.76	11.74
Bajaj	3.35	8.10	8.49	7.39	7.04
<b>FTL</b>					
HMT	3.76	4.34	3.63	3.23	3.55
hilips	25.38	21.49	17.28	17.53	22.43
Bengal	12.12	11.65	10.67	7.73	6.07
Sylvania	10.83	9.19	8.72	6.84	8.13
Electron	10.44	10.28	14.27	12.17	10.53
<b>MVL</b>					
HMT	3.82	2.09	21.21	29.00	31.55
Philips	55.09	54.47	39.84	32.00	22.22
Mysore	26.79	25.05	20.16	17.00	22.39
Sylvania	9.13	8.64	10.87	11.00	12.73

1.5.04 While many of the manufacturers of GLS lamps have been either maintaining or increasing their share of the market, HMT's share has declined sharply over the last two years. As regards FTL, while Philips and Sylvania have increased their share during 1987, HMT could not do so to any appreciable extent. The share of HMT in MVL could go up mainly due to branding its products under other names.

1.5.05 It was reported to the Board of Directors in June, 1986 that the good image of HMT lamps built up at the initial stage was tarnished by allowing some sick units to sell their products under HMT's brand name rendering the reduction of HMT's market share from 13 to 10 per cent. In addition, the Company has also been manufacturing products, mainly MVL, for other customers to be sold under their brand names and such sales constituted 42.52, 74.32 and 52 per cent of the quantity of MVL sold during 1985-86, 1986-87 and 1987-88 respectively indicating absence of aggressive marketing. This would also affect the promo-

tion of the Company's brand name in the long run, apart from leaving the advantage of good manufacture to the competitors.

1.5.06 The marketing of lamps is being done through clearing and forwarding agents situated in various parts of the country. The Task Force appointed (August 1983) by the Board of Directors had recommended (November 1983) *inter-alia*, organisational strengthening and strategic re-orientation of marketing. As a part of organisational strengthening a separate marketing department called General Engineering Products Group (GEP) was established in 1983-84 and entrusted with the marketing of lamps. A fixed percentage of the lamps sales value was allowed to the marketing department to meet the marketing and establishment expenses. The marketing commission received from the Lamps Unit was not even sufficient (except in 1984-85) to cover the direct marketing costs such as advertisement and publicity, sales promotion incentives and commission, distribution expenses,

travelling expenses etc. with the result that no part of the fixed expenses of the marketing de-

partment could be recovered as may be seen from the following table :

Particulars	1983-84	1984-85	1985-86	1986-87	1987-88
	(Rupees in lakhs)				
Commission received from Lamps Unit	76.00	105.00	100.25	110.62	134.63
Direct marketing expenses	77.46	98.31	137.20	151.98	160.86
Direct loss	01.46	(+) 6.69	36.95	41.36	26.23
Establishment cost	17.66	27.35	49.40	85.38	113.65
Total Loss	19.12	20.66	86.35	126.74	139.88

1.5.07 Despite the establishment of separate marketing department and incurring huge establishment expenditure thereon, the sales in quantitative terms remained stagnant during the last five years. Thus, the department instead of contributing to higher sales and decreasing the loss has actually added to the losses being incurred by the Lamps Unit.

1.5.08 The table below indicates the percentage of regionwise sales of GLS lamps to total sales of GLS lamps during the last five years.

Region	1983-84	1984-85	1985-86	1986-87	1987-88
South	57.67	58.96	58.38	67.76	65.97
North	9.33	8.20	11.88	8.33	8.43
East	3.81	5.53	2.81	0.63	0.39
West	27.54	26.01	25.03	21.90	24.88
Central	1.65	1.30	1.90	1.38	0.33

In spite of the Company's being in production during the last twelve years, its sales to Northern, Eastern and Central regions were very negligible. In this connection, it is interesting to note that the Company had justified the installation of the last two GLS chains to meet the demand of Northern States and to have an all India coverage. But inadequate attention paid to these three regions could have resulted in the Company's poor sales. The Management have not been analysing the regionwise sales with a view to ensure that it gets its adequate market share in all the regions.

1.5.09 The expenditure on advertisement and publicity and sales promotion increased from Rs. 37.08 lakhs in 1983-84 to Rs. 100.92 lakhs in 1987-88. But, as observed (March 1988) by an expert appointed by the Board (September, 1987) to study the marketing strategy, despite

big improvement in the demand for GLS lamps, HMT's market share reduced from 7.5% in 1978 to 5.1% in subsequent years due to lack of aggressive marketing policy. Even though there was a 'Seller's Market' for FTL, the Unit did not penetrate the market through wholesale dealers in the main centres. The Board also observed (June 1988) that there was no demand pull for HMT lamps in the market.

1.5.10 One of the parameters for sanctioning the GLS project by Government in January 1975 was that the Company would explore the possibilities of exporting lamps and components to the extent of Rs. 250.00 lakhs per annum. However, the export performance of the Unit during the last 5 years ending March 1988 has been dismal as the actual exports ranged between Rs. 1.28 lakhs and Rs. 4.10 lakhs only.

1.5.11 Despite the fact that the Company had major share in the Southern Region, a consumer incentive scheme was introduced with a view to boost up sales in Southern Region during the quarter April 1986 to June 1986. Under the scheme certain free gifts were to be offered on the lamps purchased. The estimated sales during the quarter were Rs. 69 lakhs and free gifts valuing Rs. 11.93 lakhs were purchased and distributed to the C&F agents for onward transmission to the retailers along with the bulbs through the wholesalers. The scheme was actually implemented during the period June 1986 to August 1986. There was, however, no improvement in sales as compared to the corresponding period of the previous year. The expenditure of Rs. 11.93 lakhs thus had not added to its performance earlier.

## 1.6 PROFITABILITY ANALYSIS

1.6.01 The low capacity utilisation, higher consumption of materials than the norms fixed and abnormally high cost of production resulted in the Unit continuing to incur heavy losses. The table below indicates the details of working results from 1983-84 to 1987-88 vis-a-vis the projections made in the project reports.

Particulars	DPR		ACTUALS				(Rupees in Lakhs)					
			1983-84		1984-85		1985-86		1986-87		1987-88	
	Rs.	% to value of production	Rs.	% to value of production	Rs.	% to value of production	Rs.	% to value of production	Rs.	% to value of production	Rs.	% to value of production
Value of production (Excluding Excise Duty)	1789.50		1084.76		1192.36		1291.03		1351.34		1300.76	
<i>LESS :</i>												
Consumption of Material	803.45	44.90	700.67	64.59	720.14	60.40	736.04	57.01	764.57	56.58	685.24	52.68
Added value	986.05	55.10	384.09	35.41	472.22	39.60	554.99	42.99	586.77	43.42	615.52	47.32
<i>Conversion Cost :</i>												
Personnel	157.78	8.82	424.36	39.12	494.86	41.50	512.06	39.66	528.25	39.09	584.50	44.94
Power & Fuel	71.28	3.98	42.14	3.88	57.54	4.83	59.64	4.62	64.64	4.78	119.61	9.20
Other Expenses	92.24	5.15	195.74	18.04	237.42	19.91	269.96	20.91	299.82	22.19	392.73	30.19
Marketing	74.88	4.19	76.00	7.01	105.00	8.81	100.25	7.77	110.62	8.19	134.63	10.35
Depreciation	128.98	7.21	118.70	10.94	113.78	9.54	107.65	8.34	103.85	7.68	106.66	8.20
Total :	525.16	29.35	856.94	78.99	1008.60	84.59	1049.56	81.30	1107.18	81.93	1338.13	102.88
Operating Profit/(Loss)	460.89	25.75	(472.85)	(43.58)	(536.38)	(44.99)	(494.57)	(38.31)	(520.41)	(38.51)	(722.61)	(55.56)
<i>LESS :</i>												
Other income	—	—	48.38	4.45	33.37	2.80	68.80	5.33	34.75	2.57	43.65	3.36
Net Profit/(Loss) before interest	460.89	25.75	(424.47)	(39.13)	(503.01)	(42.19)	(425.77)	(32.98)	(485.66)	(35.94)	(678.96)	(52.20)
<i>Add :</i>												
Interest	115.48	6.45	145.34	13.40	190.23	15.95	177.40	13.74	150.47	11.13	146.22	11.24
Net Profit/(Loss)	345.41	19.30	(569.81)	(52.53)	(693.24)	(58.14)	(603.27)	(46.72)	(636.13)	(47.07)	(825.18)	(63.44)

1.6.02 The value added was not sufficient to cover even the personnel cost after meeting the direct expenses (power and fuel and marketing commission). In addition to these losses, the marketing of the lamps done by a separate Unit also resulted in losses amounting to Rs. 392.75 lakhs during these years.

1.6.03 An analysis made in Audit revealed that the Unit will not be able to break-even on the basis of actual incidence of expenditure during 1987-88 even if it attains the maximum achievable capacity as indicated (June 1987) by a firm of Japanese consultants after a diagnostic study of the existing manufacturing machinery of the Unit, unless components of the value of about Rs. 5 crores are produced and sold. The Management, however, stated (December 1988) "a cash break even can be achieved by the Unit based on production level of (1) GLS lamps—300 lakhs (2) FTL—30 lakhs (3) MVL—4 lakhs (4) components—Rs. 235 lakhs based on 1988-89 budget prices after taking into account improved utilisation of material, reduction in wages consequent to redeployment of personnel in watch case division etc. However, there are other constraints like marketing competition etc". Taking into account the high level of idle time, the low speed of the chains, and the inability of the Company to sell com-

ponents even to the extent of Rs. 1 crore per annum during the last 5 years due to market constraints, the chances of achieving even break even, much less making profit, are remote.

### 1.7 OTHER TOPICS OF INTEREST

The detailed project report for GLS lamp project included supply of an oxygen plant by the collaborators. The plant supplied at a cost of Rs. 19.69 lakhs (including installation) went into trial production in June 1979 but could not be put to productive use due to technical problems which could not be solved and the plant was disposed of in June 1986 for Rs. 17.45 lakhs resulting in a loss of Rs. 2.24 lakhs besides loss of interest of Rs. 24.78 lakhs on the locked up capital for seven years. A Committee constituted by the Chairman and Managing Director in September 1985 to identify the chronology of events leading to the non-functioning of the oxygen plant and fix responsibility, reported in October 1985 lack of evidence in taking up and pursuing with the collaborators the malfunctioning of the oxygen plant even though the supplier had guaranteed its performance and had offered their services if needed by the Company. Though the Committee felt that this could have been done, it found it difficult to fix responsibility on any individual officer for the lapses.



## 2. GOA MEAT COMPLEX LIMITED

### 2.1 INTRODUCTION

Goa Meat Complex Limited was incorporated in March, 1971 as a Government Company with the main objective of providing hygienic and wholesome meat to consumers at reasonable rates by setting up a modern slaughter house in the Union Territory of Goa and also to utilise the by-products and the culled and unproductive animals for slaughtering. The paid-up capital of the Company as on 31st March 1988 was Rs. 61.83 lakhs (including share application money of Rs. 13.91 lakhs) contributed by the Government of India, Government of Goa and the four Municipalities in Goa in the ratio of 2 : 1 : 1. A loan of Rs. 95 lakhs was obtained from the State Bank of India to finance the project. Repayment of principal and interest on this loan was guaranteed by the Government of India.

### 2.2 PROJECT IMPLEMENTATION

The capital outlay on the project was estimated in November 1975 at Rs. 108 lakhs to be financed by equity and loan in the ratio of 2 : 1. Though the project was sanctioned in November, 1975, the construction work on turn-key basis was entrusted to the National Dairy Development Board (NDDB) in April 1977 at an estimated cost of Rs. 108 lakhs. The work was scheduled to be completed by September 1979. Reasons for the delay in awarding the work were not on record. The project was completed and handed over by the NDDB to the Company in June 1982. The total expenditure on the project upto June 1982 worked out to Rs. 156.08 lakhs, including NDDB's service fee of Rs. 7.43 lakhs.

The delay in completion was attributed by the NDDB to the inability of the Company to provide adequate funds from time to time, which was in turn, due to delay in sanction of term loans by the State Bank of India (SBI). The delay in sanction of the term loans by SBI was due to delay in release of Government guarantee by Government of India. The increase in expendi-

ture on the project from Rs. 108 lakhs to Rs. 156.08 lakhs was attributed to (i) increase in market prices as a result of the time over-run and (ii) inadequate provisions made in the original estimates.

The above excess expenditure on the project was also not got approved by the Government of India which sanctioned the original outlay on the project.

### 2.3 PRODUCTION PERFORMANCE

(a) *Low utilisation of the slaughtering plant*  
The plant had so far been working only at about 18 to 23 per cent of its capacity since commissioning in November 1982 as indicated below :—

Year	No. of animals estimated to be slaughtered	No. of animals slaughtered	Percentage of utilisation
1983-84	46950	8319	17.72
1984-85	46950	9050	19.28
1985-86	46950	9231	19.66
1986-87	46950	8776	18.69
1987-88	46950	10465	22.29

The actual number of animals slaughtered per day, however, averaged 30 only as against 150 anticipated in the feasibility report. The management explained in August 1987 that the estimate of availability of 150 cattle per day in the new slaughtering house was based on field studies and the statistics concerning beef-consuming population in the municipal areas and that it was further assumed that the illegal slaughtering and import of beef would be arrested by enforcing the relevant provisions in the Municipalities, invoking the provisions of the Municipalities Act, banning the illicit slaughtering and import of beef into the Municipal territory but the provisions had not, however, been enforced strictly by the Government of Goa so far, resulting in idle capacity cost of Rs. 7.72 lakhs per annum on the proportionate idle investment.

#### (b) *Idle Plant*

A plant to process the by-products of the slaughtered animals was installed alongwith the

slaughtering plant at a cost of Rs. 6.97 lakhs. Due to the low capacity utilisation of the slaughtering plant, the by-products plant had not been put to use. The Company could not process the by-products of the value of Rs. 10.78 lakhs, which resulted in a loss of net revenue of Rs. 9.06 lakhs for the period 1983-84 to 1987-88.

#### (c) Company's Own Operations

In order to bring about better utilisation of the slaughtering plant, the Company started (during 1984-85) its own operations of purchasing animals, slaughtering them and selling the meat in the market. For this purpose, four retail booths were set up by the Company in the four Municipalities of Goa. During the period of 46 months of its operation from June 1984 to March 1988, only 3504 animals were slaughtered for sale. The Company stated that these operations could not be increased due to the stiff competition from the cold storage owners who sell beef at cheaper rates.

(d) A slaughtering fee of Rs. 35/- per animal excluding cost of transport of beef was envisaged while working out the viability of the project. In November 1982, the Company, however, fixed the slaughtering fee at Rs. 45 per animal which included the cost of delivering the beef to the premises of the vendors. It was noticed that while fixing the rate of Rs. 45 per animal, the Company did not work out the economics of transportation and the operational cost of

the slaughtering plant. The Company explained that the high cost of transportation was due to less number of animals slaughtered.

#### 2.4 FINANCIAL PERFORMANCE

The Company had accumulated loss of Rs. 164.06 lakhs since the commencement of its operations in November 1982 to the end of March 1988 after taking into account the revenue subsidies received from the Government of Goa. Details of income, expenditure and loss year-wise were as given below :

Year	(Rs. in lakhs)		
	Income	Expenditure	Net loss
Upto March 1983	2.03	11.88	9.85
1983-84	4.62	32.14	27.52
1984-85	10.91	51.59	40.68
1985-86	20.62	53.25	32.63
1986-87	43.19	61.02	17.83
1987-88	31.79	67.34	35.55

The income includes Rs. 4 lakhs, Rs. 27.50 lakhs and Rs. 13.06 lakhs as subsidy received during 1985-86, 1986-87 and 1987-88 respectively.

The accumulated loss of Rs. 164.06 lakhs to end of March 1988, had completely wiped out the paid-up capital. The Company had not been able to repay the loan of Rs. 95 lakhs to the State Bank of India and also the interest of Rs. 86.16 lakhs overdue on this account to end of March, 1988. An amount of Rs. 30.87 lakhs was also outstanding towards payment to the National Dairy Development Board under the turn-key arrangement.

#### 2.5 EXCESS MANPOWER

The manpower built-up was as indicated below:—

	31-3-1982	31-3-1983	31-3-1984	31-3-1985	31-3-1986	31-3-1987
Executive	—	3	4	4	4	4
Non-Executive	4	20	23	24	25	25
Workers	—	32	32	45	49	49
Total	4	55	59	73	78	78

For the operations contemplated in the Project Report, the Company was having excess staff as indicated below :—

Category	As per Project Report	Actuals March 1986
Workers	25	49
Clerical Supervisors & Managerial Staff	17	29

The employment of staff for Refrigeration Plant and by-product plants was not warranted as these units had not been operated so far (March 1988).

## 2.6 MANAGEMENT

The Management of the affairs of the Company was entrusted to a Board of Directors consisting of three Directors representing the Govt. of India, three Directors representing the Government of Goa and two Directors representing the Municipalities in Goa. It had been observed that the Directors appointed by the

Government of India did not attend any Board Meetings held between 1983-84 and 1987-88. Important decisions of the Board of Directors regarding the recruitment of manpower, fixing of the service charges, seeking revenue grants from the Government to sustain the Company etc. were taken in the absence of the Directors representing the Government of India who had fifty per cent stake in the equity of the Company.

The social objective of providing hygienic and wholesome meat to consumers on a large scale at reasonable rates is still a distant goal. Besides, there had been continuous drain on the exchequer, as in addition to losses in operations (Rs. 164.06 lakhs upto 31-3-1988), the Government was compelled to give revenue grants (Rs. 44.56 lakhs upto 31-3-1988) to ensure the survival of the Company.

This was issued to the Ministry in November 1987 but no reply has been received so far (May 1989).

### 3. NATIONAL BICYCLE CORPORATION OF INDIA LIMITED

#### 3.1 Introduction :

3.1.1. The National Bicycle Corporation of India Limited (NBCL) was incorporated on 27th October 1980 to take over the Bombay and Ghaziabad units of the erstwhile Hind Cycles Limited which remained under the management of the Government of India from the date of taking over on 3rd January 1974 to 15th October 1980 when they were nationalised by an Act of Parliament. These units were transferred to the Company on and from 28th October, 1980. The justification given by the Government of India for the nationalisation was that this was necessary to ensure the continuance of the undertaking in the interest of the general public for the production and distribution of the articles which were essential to the needs of economy of the country.

3.1.2 At the time of take over of the management in January 1974, the units had remained closed (from October 1973) and they were restarted in June 1974/August 1974. The units were incurring heavy losses even prior to nationalisation. After take over in October 1980 also, the Company had been incurring huge losses. The cumulative loss upto 31st March 1988 was Rs. 31.39 crores as against equity capital of Rs. 5.53 crores, thereby totally wiping off the capital.

#### 3.2 Adverse factors relating to take over of the Units :

The units were taken over on payment of purchase consideration of Rs. 242.01 lakhs by the Government of India. However, the net value of assets vested in the Company was only Rs. 190.46 lakhs resulting in excess payment of purchase consideration of Rs. 51.55 lakhs. The machinery taken over were more than 40 years old in respect of the Bombay unit.

#### 3.3 Low capacity utilisation :

Against the rated capacity of 2,70,000 cycles per year comprising 1,80,000 cycles in the Bombay unit and 90,000 cycles in the Ghaziabad unit,

the actual production of cycles was as shown below :

Year	No. of cycles produced		Percentage of capacity utilised	
	Bombay	Ghaziabad	Bombay	Ghaziabad
1982-83	70171	51781	38.98	57.53
1983-84	92374	47430	51.32	52.70
1984-85	115505	51721	64.17	57.47
1985-86	83932	39791	46.63	44.21
1986-87	60470	23597	33.59	26.22
1987-88	67219	16498	37.34	18.33

The low capacity utilisation over the years was attributed by the Company in July 1987 to low productivity and lack of export orders.

The Company incurred loss of Rs. 275.33 lakhs, Rs. 291.73 lakhs, Rs. 426.09 lakhs, Rs. 638.64 lakhs, Rs. 606.81 lakhs and Rs. 659.77 lakhs respectively during six years ending 31st March 1988 mainly due to :

- (1) Low production and turnover,
- (2) Low utilisation of machine and manpower,
- (3) Surplus labour.

The recurring losses caused serious liquidity problem for the Company necessitating large borrowings from Government towards working capital (Rs. 1019.16 lakhs from 1981-82 to 1986-87) and diversion of part of the plan loans (Rs. 44.29 lakhs) to finance working capital. The Company also availed large cash credit from the Bank (Rs. 643.45 lakhs as on 31st March, 1988).

The Company had not drawn up any comprehensive programme for rehabilitation of outdated machines to increase the productivity though piecemeal additions and alterations were being carried out periodically. The Company had stated that a comprehensive plan for Rs. 5.10 crores was submitted to the Board of Directors

in March 1987 and to Government in April 1987 for introducing new plant and machinery in the Ghaziabad unit and replacing certain outdated machines in the Bombay unit. The proposals were under consideration of the Government (March 1989).

Pending approval, Rs. 30.77 lakhs was spent during 1985-86 for purchasing an automatic spray painting plant. The machine was commissioned in March 1986 for increasing the production of sophisticated models of bicycles. The contribution by this machine to the production during 1986-87 was negligible which was attributed by the Company to overall low production during 1986-87.

#### 3.4. (i) Manpower :

As per the Management, the labour force taken over in the Bombay unit had low productivity as 35 per cent of them were beyond the age of 50 years. Though the Company switched over to purchasing, from the open market, main items required for production of a bicycle, no reduction in the labour strength was made. The Company proposed in July 1983 to introduce scheme of voluntary retirement so as to reduce the labour strength by stages and it is pending consideration by the Government.

#### (ii) Over-time payment :

In spite of the production of bicycles declining from 92,374 in 1983-84 to 60,470 in 1986-87 at the Bombay unit, the workers/staff were paid over-time to the extent indicated below :

Year	Overtime paid to workers	Overtime paid to staff (Rupees in lakhs)	Total	Bicycle produced
1983-84	2.75	2.71	5.46	92,374
1984-85	23.29	4.00	27.29	1,15,505
1985-86	11.81	3.59	15.40	83,932
1986-87	0.99	2.14	3.13	60,470

The Company explained that the payment of overtime was necessitated due to execution of export orders within prescribed period during 1984-85 and action was taken to reduce the over-time payment. The exports were, however,

only 11275 in 1984-85 as against 43,515 in 1985-86.

#### 3.5 Purchase policy :

The Company did not follow the system of calling tenders before placing orders for its material requirement so as to secure the most beneficial prices and to ensure availability of raw materials to carry out uninterrupted production. The requirements of material for given periods with reference to the production schedule were also not planned.

#### 3.6 Cost control :

There was no effective system to maintain cost records to compute the cost of production from time to time. The Company determined the cost of production per bicycle after the close of the financial accounts for the year. Thus, the cost data was not made use of for fixing the selling prices and for effecting economy in cost of production. The cost of production and sale prices for the 3 types of bicycles produced by the Company was worked out for 1984-85 as under :

Model	Cost of production per bicycle (1984-85) Rs,	Selling prices		
		Prior to April 1985 Rs,	From April 1985 Rs,	From October 1987 Rs,
Standard	568	350-360	449-465	466-484
Norton	571	358-374	463-475	480-496
Speed king	618	470-490	567-587	587-607

The selling prices fixed did not compare favourably with the cost of production which was high due to low capacity utilisation, low productivity of labour and machinery and excessive overheads. Cost of production had not been worked out after 1984-85.

#### 3.7 Marketing :

The bicycles produced by the Company were marketed through the distributors appointed in six territories and also directly by the Company through dealers. The details of number

of bicycles sold during the past 4 years ending with 1987-88 are given below :—

Year	No. of cycles produced	No. of cycles sold				Total
		Bombay		Ghaziabad		
		Domestic	Export	Domestic	Export	
1984-85	167226	100363	11275	51994	—	163632
1985-86	123723	46094	43515	39747	—	129356
1986-87	84067	60431	3300	23792	—	87523
1987-88	83717	43797	26461	16389	—	86647

It would be seen from the above that sales had been gradually declining. The Company's export performance had been erratic and no substantial efforts had been made to exploit the export market. The Company stated that they could not afford expenditure involved in export promotion due to working capital constraints and that the private exporters were resorting to under-cutting to a great extent.

It was noticed in audit that even in the areas where distributors were appointed, the Company engaged its own representatives for marketing the products resulting in duplication of efforts and wasteful expenditure. The Company paid distributors' commission amounting to Rs. 10.99 lakhs, Rs. 13.16 lakhs and Rs. 10.47 lakhs during 1984-85, 1985-86 and 1986-87 respectively. When this was pointed out in audit, the Company stated that it was a mistake and that the position was rectified in February 1987 by discontinuing the distributorship.

### 3.8 Financial Position and Working Results

The financial position and working results of the company for the last three years ending March 1988 are summarised below:

	(Rupees in lakhs)		
	1985-86	1986-87	1987-88
(I) Financial Position :			
<i>Liabilities</i>			
(a) Paid up Capital	528.46	528.46	553.46
(b) Reserves and Surplus	—	—	—
(c) Borrowings :			
From Government	998.87	1193.87	1418.87
From Bank Cash Credit	353.04	479.60	643.45
From others	118.44	90.44	64.59
Deferred Credit	—	—	—
(d) Trade dues and other liabilities	753.32	939.80	1010.05
	<u>2752.13</u>	<u>3232.17</u>	<u>3690.42</u>

### Assets :

(e) Gross Block	181.52	193.98	196.25
(f) Less : Depreciation	27.56	36.87	46.08
(g) Net Fixed Assets	153.96	157.11	150.17
(h) Capital work-in-progress	—	0.59	—
(i) Investments	0.07	0.07	0.07
(j) Current Assets, Loans & Advances	662.65	534.63	342.22
(k) Misc. Expenditure (to the extent not written off)	58.75	58.75	58.75
(l) Loss	1876.70	2481.02	3139.21
	<u>2752.13</u>	<u>3232.17</u>	<u>3690.42</u>

### (II) Working Results :

(i) Profit/Loss(—) as per accounts	(—)638.64	(—)606.81	(—)659.77
(ii) Add/deduct Past period adjustments	(—)8.38	(+ )2.49	(+ )1.58
(iii) Net profit/loss	(—)647.02	(—)604.32	(—)658.19

### 3.9. (a) Book debts :

According to the procedure in vogue, the distributors were responsible for the collection of sales dues in their respective territories and the commission payable to them was linked to the actual collections. In spite of this, the amount outstanding towards sales dues as at 31-3-1987 was Rs. 123.46 lakhs of which Rs. 77.43 lakhs were outstanding for periods exceeding 6 months. Besides, an amount of Rs. 33.09 lakhs was outstanding for over 6 months, the recovery of which was considered by the Company as doubtful. The delay in realisation of these dues had contributed to the poor liquidity position of the Company.

### (b) Defaults in payment of statutory and other dues :

Due to the chronic liquidity problem, the Company had defaulted in meeting the liabilities

to the extent of Rs. 16.14 lakhs in respect of Provident Fund and Rs. 18.00 lakhs in respect of property tax during 1987-88.

The Provident Fund authorities had imposed a penalty of Rs. 1.89 lakhs for defaults in timely payment of provident fund dues.

The Company had not paid so far any interest on Government loans. The overdue interest on Government loans as on 31st March 1987 was Rs. 413 lakhs. The Company stated in July 1987

that the package plan submitted to the Government contained proposal for writing off the loans and overdue interest thereon.

### 3.10 Rehabilitation Plan :

The Company submitted to Government in November 1986 a plan to revitalise the two units which, inter alia, aimed at restructuring the capital and expanding the Ghaziabad unit with an additional outlay of Rs. 14 crores. No decision had been taken so far (October 1988).

*K. Tyagarajan*

(K. TYAGARAJAN)  
Chairman, Audit Board & Ex-Officio  
Additional Deputy Comptroller and  
Auditor General (Commercial)

New Delhi,  
Dated :

Countersigned

New Delhi,  
Dated : 120 OCT 1989

*T.N. Chaturvedi*  
(T.N. CHATURVEDI)  
Comptroller and Auditor General of India