सत्यमेव जयते

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

UNION GOVERNMENT
NO. 18 (COMMERCIAL) OF 1995

HOTEL CORPORATION OF INDIA LIMITED

सत्यमेव जयते

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

UNION GOVERNMENT

NO. 18 (COMMERCIAL) OF 1995

HOTEL CORPORATION OF INDIA LIMITED

CONTENTS

PREFACE

A reference is invited to the prefatory remarks in Report of the Comptroller and Auditor General of India-Union Government No.1 (Commercial) 1995 where mention was made that reviews of the performance of Companies/Corporations by the Comptroller And Auditor General of India are presented in separate reports.

This report contains a review of the working of Hotel Corporation of India Limited.

OVERVIEW

I. Air India promoted (July, 1971) a wholly owned subsidiary company viz. Hotel Corporation of India Limited (HCI) with registered office at Bombay. The main objective of the Company was to carry on the business of hotels, motels, flight kitchens, etc. as well as related activities, which would tend to promote or assist Air India's business as an international carrier.

(Para 1.1)

II. The Committee on Public Undertakings (COPU) had recommended the merger of HCI with ITDC to avoid overlapping of functions. The Ministry intimated COPU that the proposal of merger had been dropped for the present. The COPU took serious note of the non-implementation of the recommendations and reiterated in their 61st Report (1989-90) and 3rd Report (1990-91) that it should be merged with ITDC.

(Para 1.2)

III. The paid-up capital of the Company as on 31 March, 1995 was Rs.40.60 crores. The borrowings from various financial institutions and Air India were Rs.89.43 crores as on 31 March, 1995. The Company defaulted in repayment of instalments of loans amounting to Rs.48.62 crores as on 31 March, 1995, which resulted in penal interest of Rs.9.90 crores and liquidated damages of Rs.2.24 crore as on that date.

(Paras 2.1 and 2.2)

IV. The Company undertook six new projects for completion which were delayed by seven months to seven years. Projects worth Rs.52.76 crores were finally completed at a total cost of Rs.88.19 crores, registering 67.15 per cent cost overrun.

(Para 3.1)

V. The Company incurred an avoidable expenditure of Rs.78.21 lakhs due to delay in the final approval of Floor Space Index and drawings of one of the units (Centaur Hotel Juhu Beach).

(Para 3.2.1(a))

VI. As the construction of Centaur Lake View Hotel could not be completed within the scheduled time, the architect had to be paid an additional amount of Rs.17.49 lakhs.

(Para 3.2.2(a))

VII. As the laundry equipment worth Rs.72 lakhs imported in December 1983 could not be used fruitfully at Centaur Lake View Hotel, Srinagar, the expenditure incurred on this account proved to be infructuous.

(Para 3.2.2(b))

VIII. As the contracted demand was much higher than the actual electricity consumed, the Centaur Hotel, Delhi Airport incurred an avoidable expenditure of Rs.53.96 lakhs upto 1989-90.

(Para 3.2.3(b))

IX. Excess procurement of cold storages in 1986 for Chefair Flight Catering, Bombay (CFCB) resulted in blocking of funds to the extent of Rs.28.10 lakhs.

(Para 3.2.5)

X. As on 31 March, 1995, the net investment of the Company stood at Rs.96.68 lakhs, out of which Rs.96 lakhs was invested in a subsidiary, Indo Hokke Hotels Limited.

(Para 4.1)

XI. A joint venture operation (India Tea & Restaurant Ltd.) with Tea Board of India with units at London and Sydney resulted in a loss of Rs.854.60 lakhs as on 31 March, 1995. Due to continued losses both the units were closed down in 1990. The Company made a provision of Rs.24.50 lakhs during 1990-91 towards loss due to diminution in the value of investment in this Company, bringing the value of investment to Nil.

(Para 4.2)

XII. While Centaur Hotel Bombay Airport has been making profits every year, the Centaur Lake View Hotel, Srinagar has been incurring losses continuously. The Centaur Hotel Juhu Beach and Centaur Hotel Delhi Airport, which were making losses till 1993-94, have made marginal profits in 1994-95.

(Para 5.2)

XIII. Though Air India is the promoter of HCI, the rates of room tariff of Centaur Hotels offered by Air India were far below the average rate of recovery from other customers. It was only in October 1994 that Air India revised their rates of room tariff of Centaur Hotels substantially.

(Para 5.4)

XIV. The two flight catering units at Bombay and Delhi have been incurring losses year after year. The accumulated loss on these two units alone upto 31 March, 1995 was Rs.42.39 crores. The units have not been recovering even the operating costs. The main reasons for the continuous losses of the units were poor upliftment of meals and high staff and interest costs. Air India did not lift its entire requirement of meals to be supplied in its flights from the flight kitchens of its fully owned subsidiary Company.

(Paras 6.3 & 6.4)

XV. The net worth of the Company had fallen from (-) Rs.8.12 crores in 1990-91 to (-) Rs.39.29 crores at the end of March, 1995 and the paid up capital of Rs.40.60 crores has been fully eroded by accumulated losses of Rs.79.04 crores as on 31 March, 1995.

(Para 7.1)

XVI. The losses made by its three units, Viz. Centaur Lake View Hotel, Srinagar (Rs. 2585.01 lakhs) and the Chefair Flight Catering units at Bombay (Rs. 1303.07 lakhs) and Delhi (Rs. 1771.77 lakhs) over the five year period ending 31st March, 1995 were more than the total losses of the Company (Rs.3041.01 lakhs) over this period. Sixty percent of the Company's total revenue was accounted for by staff cost, `interest and other financial charges' and depreciation.

(Para 7.2)

XVII. Manpower costs of the Company accounts for 29.40 percent of the revenue from hotels and flight kitchens. In the case of two flight kitchens at Bombay and Delhi, the number of meals uplifted per employee was very low as compared to projections.

(Paras 8.1 & 8.2)

CHAPTER - 1

INTRODUCTION

1.1 Air India formed (8 July, 1971) a wholly owned subsidiary Company viz. Hotel Corporation of India Limited (HCI) with registered office at Bombay. The main objective of the Company was to carry on the business of hotels, motels, flight kitchens, etc. as well as related activities which would tend to promote or assist Air India's business as an international air carrier.

1.2 In order to avoid overlapping of functions of two public sector companies, the Committee on Public Undertakings (COPU) in their 48th Report (1981-82 - Seventh Lok Sabha) had recommended merger of India Tourism Development Corporation Limited (ITDC) and HCI to avoid unnecessary competition within the public sector. The Ministry had intimated (January, 1990) COPU that the question of merger had been dropped for the present. The COPU took serious note of the non-implementation of their recommendations and reiterated in their 61st Report (1989-90 - Eighth Lok Sabha) and 3rd Report (1990-91 - Tenth Lok Sabha) that it should be merged with ITDC. The Ministry of Civil Aviation had set up in March, 1993 a Committee to formulate, for consideration of the Ministry, recommendations on the modalities and terms and conditions for merger of HCI with ITDC. A report was submitted by the Committee to the Ministry in February, 1994. However, the Air India nominee on the Committee gave his separate note of dissent.

CHAPTER - 2

CAPITAL STRUCTURE

2.1 The authorised capital of the Company as on 31 March, 1995 was Rs.41 crores consisting of 41 lakh equity shares of Rs.100 each, against which the paid up capital fully contributed by Air India, stood at Rs.40.60 crores as on 31 March, 1995.

2.2 Borrowings

The Company obtained loans from financial institutions both in Indian rupees and Euro dollars, for financing its development schemes as well as for working capital. The unit-wise position of loans outstanding as on 31 March, 1995 was as follows:-

(Rs.in lakhs)

	Centaur Hotel Delhi Airport (CHDA)	Centaur Lake View Srinagar (CLVH)	Centaur Hotel Bombay Airport (CHBA)	Centaur Hotel Juhu Beach (CHJB)	Chefair Flight Catering Bombay (CFCB)	Chefair Flight Catering Delhi (CFCD)	H.O.	Total
Principal	1371.62	1211.62	28.50	1820.66	352.58	280.07	0.74	5065.79
Repayments	789.52	136.47	-	390.00	256.0	26.00	-	1597.99
Balance	582.10	1075.15	28.50	1430.66	96.58	254.07	0.74	3467.80
Interest Accrued & Due	738.56	1348.86	-	943.69	113.96	255.56	189.68	3590.31
Total Balance	1320.66	2424.01	28.50	2374.35	210.54	509.63	190.42	7058.11

In addition, the Company also borrowed funds from Air India from time to time and the cumulative outstanding amount as at the end of 31 March, 1995 was Rs.1885.07 lakhs.

Though all the projects were completed in 1986 and started functioning, the units did not generate enough revenue to repay any instalments of the loans except in 1989-90 and 1994-95 when a portion of the loan and interest accrued thereon, amounting to Rs.175.05 lakhs and Rs.2246.37 lakhs respectively, were repaid. The Company defaulted in repayment of instalments of loans aggregating Rs.48.62 crores due as on 31 March, 1995. Failure to repay loans in time attracted penal interest and liquidated damages to the extent of Rs.989.58 lakhs and Rs.224.39 lakhs respectively upto 31 March, 1995.

CHAPTER - 3

CAPITAL PROJECTS

3.1 During the period 1975 to 1986, the Company completed the following hotel projects with a view to increasing its business and also to cater to the needs of new airport complexes expected to come up at Bombay and New Delhi.

(Rs. in crores)

S.No.	Project	Scheduled date of completion	Actual date of completion	Extent of delay in completion (In mths)	Reasons	Estimated capital cost	Actual cost	Increase in cost	Percentage of increase over estimate
1.	2.	3.	4.	5.	6.	7.	8.	9.	10.
1.	**Centaur Hotel Bombay Airport (CHBA)**	May, 1975	May, 1975 (partial) Commissioned in January, 1976	7	Though commissioned in Jan. 1976, hotel was partially completed in May 1975, hence time overrun is negligible.	8.5	8.5	-	-
2.	**Centaur Hotel Juhu Beach (CHJB)**	120 rooms in May, 1980. Full commissioning in November, 1980	200 rooms commissioned in October, 1986. Balance by December, 1987	77 85	Delay in approval from Government, Statutory bodies, Revision of plan and suspension of work by contractor	12.82	29.75	16.93	132.05
3.	**Centaur Hotel Delhi Airport (CHDA)**	August, 1982	November, 1982 (200 rooms) March 1983 (148 rooms) June 1983 (28 rooms)	10	Delay in approval of plan by MCD and delay in waiver of compounding fee.	14.95	20.25	5.30	35.45
4.	**Centaur Lake View Hotel Srinagar (CLVH)**	April, 1981 (273 rooms)	53 rooms were commissioned on 5 December, 1983; full commissioning in May, 1984	31 37	Delay by architects and in getting approval from Government	10.99	20.43	9.44	85.90
5.	**Chefair Flight Catering Bombay (CFCB)**	May, 1980	1 June, 1986	73	Delay in approval from Govt., Statutory bodies and delay in shifting of substation etc.	3.00	5.13	2.13	71.00
6.	**Chefair Flight Catering Delhi (CFCD)**	May, 1980	25 June, 1983	37	Delay in approval from Government	2.50	4.13	1.63	65.20
	Total					52.76	88.19	35.43	67.15

(mths = months)

There were time over-runs ranging from 7 to 85 months in the completion of these projects. Except in the case of Centaur Hotel, Bombay Airport, the actual costs of all the other projects exceeded the estimated costs and was as high as 232.05% of the estimated cost in the case of Centaur Hotel Juhu Beach, Bombay.

The detailed reasons for cost escalation are given below:-

(Rs. in crores)

Projects/ Reasons	CHJB	CHDA	CLVH	CFCB	CFCD	Total
1. Price escalation	10.25	1.66	4.56	0.70	0.81	17.98
2. Change in scope	3.58	2.23	4.20	0.62	0.23	10.86
3. Omissions	0.16	0.50	0.07	0.61	0.59	1.93
4. Under estimation	0.69	-	0.61	0.15	-	1.45
5. Others	2.25	1.13	-	0.05	-	3.43
Savings(-) (Details not available)	-	(0.22)	-	-	-	(0.22)
Total	**16.93**	**5.30**	**9.44**	**2.13**	**1.63**	**35.43**

While a substantial increase in the cost of the projects was caused due to price escalation arising from time overrun, there was also a sizeable increase in the cost on account of changes in the scope. This indicated lack of proper planning.

3.2 Some of the points noticed in audit in the execution of these projects are given below:

3.2.1 Centaur Hotel Juhu Beach (CHJB)

(a) The initial proposal of the Company for 355 rooms in the hotel was based on the then available Floor Space Index (FSI) of 1.5. The drawings and plans were accordingly drawn by the consultants. But the local authority - Bombay Metropolitan Regional Development Authority (BMRDA) restricted the FSI to 1.0 and Municipal Corporation of Greater Bombay gave permission accordingly for construction based on FSI of 1.0. Even after approval by the State Government in May, 1980 for FSI of 1.5, BMRDA delayed the clearance till June 1982. Meanwhile, the Company awarded the contract for civil works (29 December, 1980) to firm 'A' for Rs.7.08 crores to be completed by 14 January, 1983. Due to uncertainty about FSI, the award of other contracts was deferred and extension of time was granted to the existing contractor from time to time. Even after the approval by BMRDA in June, 1982 to FSI of 1.5, the implementation of the project was delayed due to revision of connected drawings, designs, etc.

Firm 'A' after completing entire structural work pleaded their inability to proceed with further work due to lack of adequate resources and claimed Rs.3.47 crores (December, 1984) as enhancement in the rates due to delay in approval of FSI, change in the design of the building, delay in issuing the drawings etc., which in turn prolonged the work. The Company negotiated with the contractor and paid Rs.78.21 lakhs.

(b) The Company procured (1981-82) 3448.67 tonnes of steel costing Rs.20.86 lakhs for construction work in CHJB. Initially during construction, the steel was kept at the work site but later on it was transferred to firm 'A' on grounds of shortage of storage space.

After allowing 5 per cent wastage in usage as per the terms of the contract, the consumption of steel worked out to be 2756.79 tonnes of steel and the balance quantity of 691.88 tonnes was to be returned by the contractor. The contractor returned only 158.26 tonnes leaving a balance of 533.62 tonnes which was not returned. The contractor showed 'Nil' balance of steel in his statement of accounts. According to the terms of the contract, an amount of Rs.55.63 lakhs being the value of steel not returned by the contractor was to be recovered from him. However, the party disputed the claim and the matter was referred to arbitration. The arbitration award was awaited (August, 1995).

Appointment of Consultants:

(c) Firm `B' was appointed as consultants/architects in 1979 on a lump sum fee of Rs.18 lakhs for CHJB. Due to revision in the designs and drawings leading to additional work load, the consultants demanded an additional fee of Rs.11.25 lakhs. Though a Committee of Directors which scrutinised the claim suggested settlement in the range of Rs.1.5 lakhs to Rs.6.00 lakhs, the Company accepted the additional claim of Rs.11.25 lakhs as the firm was not willing to reduce the fees and any change of the consultant at that stage would have delayed the project further. This resulted in increase of consultancy fee from Rs.18 lakhs to Rs.29.25 lakhs. In spite of this increase in fees, the consultants failed to deliver the required drawings in time to the firms 'C' and 'D', contractors for air conditioning and electrical works, due to which they claimed excess amounts of Rs.1.2 crores and Rs.22 lakhs respectively towards cost escalation for execution of the works beyond contract periods. The claims of both parties were referred to arbitration in April, 1986. While the case of firm `C' was settled by HCI after payment of Rs.55 lakhs in April, 1992, the case of firm `D' was decided in favour of the firm and an award of Rs.21.01 lakhs plus interest was given. The Company filed a petition in the High Court, Bombay against the award, which is still to be heard (August, 1995).

Firm `B' after receiving payments upto Rs.23.98 lakhs slowed down their work. Hence, their contract was terminated (October, 1987). In their place, another firm was appointed on 14 October, 1987 at a negotiated rate of Rs.4 lakhs for completing the remaining portion of work. The Management adjusted the fees of Rs.4 lakhs from the balance amount of Rs.5.27 lakhs payable to firm `B'.

3.2.2 Centaur Lake View Hotel Srinagar (CLVH)

(a) Firm `S' was appointed (August, 1979) by the Company as architects for the Centaur Lake View Hotel (CLVH) project at a fee of Rs.40 lakhs. The contract stipulated the completion of the work by April, 1981. As the construction was prolonged beyond April, 1981, the architects claimed Rs.67.02 lakhs as against Rs.40 lakhs agreed to. The increase in the architect's claim was mainly due to additional works and for execution of the work beyond agreement period. As against the total claim of Rs.67.02 lakhs, the Company paid Rs.36.59 lakhs. The architects went for arbitration for recovery of Rs.30.43 lakhs and the Company finally settled the claim for Rs.17.49 lakhs including interest @ 10 per cent per annum.

Idle equipment:

(b) The Company imported laundry equipment in December, 1983 at a cost of Rs.72 lakhs for use in CLVH as the city had no laundry of such magnitude as could meet the needs of foreign guests and international conventions of foreign dignitaries and Heads of State. Due to poor occupancy, supply of electricity at low voltage, and the absence of trained staff, the equipment was used on a limited scale from May, 1985. While on one hand the laundry equipment could not be used to the full extent, on the other hand between April 1984 and November 1986 the laundry services were entrusted to a private firm at Srinagar involving an expenditure of Rs. 3.68 lakhs. During the period 1984-85 to 1987-88 the revenue earned by the hotel from laundry services was a mere Rs.6.25 lakhs. The interest charges alone for these four years on the investment @ 18% per annum amounted to Rs.52 lakhs. Purchase of this equipment at a cost of Rs.72 lakhs was, therefore, injudicious. The Dry Cleaning machine of the laundry equipment was transferred to CHJB, Bombay in July, 1991.

The Management stated (August, 1995) that this machine was partially installed at CHJB, Bombay but could not be made operational as some parts of the machine could not be transported to Bombay due to reasons beyond their control.

3.2.3 Centaur Hotel, Delhi Airport (CHDA)

Avoidable payment to Municipal Corporation of Delhi:

(a) The construction of Centaur Hotel Delhi Airport was to be completed by August, 1982. The Company went ahead with the construction of hotel on the land belonging to International Airport Authority of India without getting the building plans approved by the Municipal Corporation of Delhi (MCD). MCD imposed a penalty of Rs.31.20 lakhs for not taking their prior approval.

However, after extensive deliberations and at the instance of Ministry of Tourism and Civil Aviation, MCD reduced the penalty of Rs.31.20 lakhs to a token penalty of Rs.3.12 lakhs. The Management paid Rs.3.12 lakhs under protest. Had the approval of MCD been taken in time, the payment of Rs.3.12 lakhs would have been avoided.

Extra expenditure on electricity:

(b) Based on an assessment (August, 1982) of the total connected load of 4491.46 KW at CHDA, the Company contracted for supply of 4161 KW of electrical energy from Delhi Electricity Supply Undertaking (DESU) effective from September, 1982. The contracted load was based on the original planned requirements which also included laundry load and the requirements for a discotheque. However, as the laundry and the discotheque were not constructed, the actual drawal of power was less than the contracted demand. Based on the recorded maximum demand during the previous year, the Company approached (February, 1984) Delhi Electric Supply Undertaking (DESU) for reducing the contracted demand to 2100 KW But as the contracted demand was to be kept as such for five years (upto 1987) as per the agreement entered into, the reduction sought for was not entertained by DESU. Even after 1987, the Company did not approach DESU to have the contracted demand reduced. Consequently, the minimum billing, which was 60 per cent of the contracted demand and which was higher than recorded consumption every month, was paid by the Company resulting in avoidable expenditure of Rs.53.96 lakhs from 1982-83 to 1989-90.

The Management stated (September, 1993) that as 1986-87 and 1987-88 were two years when CHDA had encouraging cash profit, it was felt that further facilities would be added for which the contracted demand would be required. The Management further added that owing to the change in tariff rules by DESU from April, 1990, the billing was being done on the basis of the committed load and actual consumption of energy, thus making the earlier basis inoperative. However, the fact remains that inaccurate estimation of demand initially and failure to take prompt action to have it reduced later led to an avoidable expenditure of Rs. 53.96 lakhs.

3.2.5 Chefair Flight Catering (CFC), Bombay

Excess procurement of cold storages:

The Company procured (September, 1986) 23 cold storages at a total cost of Rs.35.91 lakhs and installed them at Chefair Flight Catering, Bombay. The units were not effectively kept in operation during the first year in order to test them during the guarantee period. Only five cold storage units were in use, two had been given on hire to ITDC, three were kept as standby and the remaining were kept idle (August, 1995). The investment (Rs.28.10 lakhs) in 13 remaining cold storage units, which have not been put in operation, was unnecessary resulting in blocking of funds.

The Management stated (September 1993) that the installed capacity of this flight kitchen was around 36,50,000 meals per annum. As 100 percent capacity utilisation was envisaged at the time of project implementation, there was a need for 23 cold storage units. However, due to the growth of competition in the market, the capacity could not be optimally utilised and it was only between 33% and 46% during the period 1990-91 to 1994-95. Consequently only five cold storage units could be put to use.

CHAPTER - 4

JOINT VENTURES

4.1 As on 31 March, 1995, the net investment of the Company stood at Rs.96.68 lakhs, out of which Rs.96 lakhs was invested in Indo Hokke Hotels Limited, a Joint Venture Company.

4.2 India Tea & Restaurants Ltd

India Tea & Restaurants Ltd. (ITRL), Bombay was incorporated in June, 1981 to take over the tea centres at London and Sydney operated by the Tea Board as going concerns. The paid up capital of Rs.50 lakhs was contributed by Tea Board and Hotel Corporation of India in the proportion of 51:49 respectively. The accumulated loss of ITRL as on 31 March, 1995 was Rs.854.60 lakhs. In view of the continued losses, Government decided to close down both the units based on the recommendation of the promoters. Accordingly, the restaurant at London was closed on 4 April, 1990 and the Sydney unit was closed on 13 September, 1990. But ITRL still remains to be wound-up. HCI made a provision of Rs.24.50 lakhs in its accounts for 1990-91 towards loss due to diminution in value of investment in ITRL, thus bringing the value of investment to nil.

4.3 Indo Hokke Hotels Ltd

Indo Hokke Hotels Ltd. (IHHL) was formed in 1982 with equity participation by Hokke Club Ltd., Japan. The paid up capital of IHHL was Rs.172 lakhs as on 31 March, 1995 which had been contributed by Hotel Corporation of India Ltd (Rs.96 lakhs) and Hokke Club Ltd., Japan (Rs.76 lakhs). The Joint Venture Company has established a small hotel with 26 rooms at Rajgir, Bihar. The operations of the hotel are seasonal and the average occupancy achieved by the hotel was 15 per cent in 1994-95 as against 31 per cent in 1991-92. The accumulated loss of Rs.32.64 lakhs as on 31 March, 1993 was completely wiped out during 1993-94 (profit Rs.35.87 lakhs) and as on 31 March, 1995, the Company had an accumulated profit of Rs.13.01 lakhs.

CHAPTER - 5

PERFORMANCE OF HOTELS

5.1 Presently, the Company is operating the following four hotels:-

i) Centaur Hotel Bombay Airport (CHBA)

ii) Centaur Hotel Juhu Beach (CHJB)

iii) Centaur Hotel Delhi Airport (CHDA)

iv) Centaur Lake View Hotel Srinagar (CLVH)

5.2 Operating Results:

Operating results of CHBA, CHJB, CHDA and CLVH for the five years ended 31st March, 1995 are given below:-

(Rs.in lakhs)

	1990-91	1991-92	1992-93	1993-94	1994-95
A. CHBA					
Total revenue	1298.00	1285.26	1459.03	1771.05	2906.04
Total expenditure	1158.00	1061.98	1217.52	1341.83	1752.55
Operating surplus	140.00	223.28	241.51	429.22	1153.49
Interest on loans	3.00	9.54	11.44	7.89	5.62
Depreciation	18.00	20.74	22.25	21.27	29.21
Net Profit	119.00	193.00	207.82	400.06	1118.66
Prior period adjustment	(-)31.00	5.88	5.52	35.79	7.09
Net profit after adjustments	88.00	198.88	213.34	435.85	1125.75
Occupancy Ratio (Percentage)	84	73	93	102	97

B. CHJB

Total revenue	1163.00	1225.56	1441.00	1857.99	2803.01
Total expenditure	953.00	956.43	1130.28	1254.62	1511.49
Operating Surplus	210.00	269.13	310.72	603.37	1291.52
Interest	292.00	363.53	426.17	464.06	501.79
Depreciation	143.00	147.28	150.02	148.86	159.49
Net Profit/Loss	(-)225.00	(-)241.68	(-)265.47	(-)9.55	630.24
Prior period adjustments	(-)11.00	(-)29.66	(-)22.91	30.99	(-)32.66
Net Profit/Loss after adjustments	(-)236.00	(-)271.34	(-)288.38	21.44	597.58
Occupancy Ratio (Percentage)	63	59	67	84	75

C. CHDA

Total revenue	751.00	828.31	1048.62	1203.99	1504.75
Total expenditure	677.00	713.92	888.30	912.46	1015.85
Operating surplus	74.00	114.39	160.32	219.53	488.90
Interest	199.00	216.09	226.61	201.90	269.31
Depreciation	77.00	77.78	78.80	80.28	81.82
Net Profit/Loss	(-)202.00	(-)179.48	(-)145.09	9.35	137.77
Prior period adjustments	(-)38.00	(-)37.27	(-)1.55	(-)12.18	0.40
Net Profit/Loss after adjustments	(-)240.00	(-)216.75	(-)146.64	(-)2.83	138.17
Occupancy Ratio (Percentage)	63	65	72	68	58

D. CLVH

Total revenue	78.00	141.06	125.61	131.36	133.80
Total expenditure	165.00	180.42	201.64	235.66	230.11
Operating Profit/ Loss	(-)87.00	(-)39.36	(-)76.03	(-)104.30	(-)96.31
Interest	244.00	318.05	369.03	362.63	366.31
Depreciation	104.00	103.91	104.23	98.11	53.01
Net Profit/Loss	(-)435.00	(-)461.32	(-)549.29	(-)565.04	(-)515.63
Prior period adjustments	(-)45.00	17.43	(-)16.80	21.02	(-)35.38
Net Profit/ Loss after adjustments	(-)480.00	(-)443.89	(-)566.09	(-)544.02	(-)551.01
Occupancy Ratio (Percentage)	30	65	58	47	44

Losses and low occupancy ratios in CHDA were attributed to industrial unrest among the employees, interest burden on Euro Dollar loans, competition from other hotels etc., whereas in CLVH this was due to current situation in Kashmir valley. The accumulated loss of CLVH was Rs.44.80 crores as on 31 March, 1995. Due to the prevalent situation in the Kashmir Valley, there is little tourist traffic and the hotel is mainly occupied by officials of various Government departments, Banks, Border Security Force, etc. at a very low tariff. The revenue generated by the hotel is meagre and falls short not only of meeting the total operating expenditure, but even the staff cost. Besides, the loans taken for the hotel project have remained outstanding, which carry a heavy interest burden. The Ministry of Civil Aviation had recommended (August, 1994) to the Ministry of Finance for waiver of interest, penal interest and liquidated damages by the Financial Institution/Banks till such time the hotel was in a position to earn profits. A final decision is, however, awaited (August, 1995).

5.3 The main objectives of creation of Hotel Corporation of India Limited was to cater to the needs of Air India at International Airports. A study of business given by Air India to Centaur Hotels reveals the following:

(Rs.in lakhs)

	1990-91	1991-92	1992-93	1993-94	1994-95
Total expenditure incurred by Air India					
- at Bombay	883	824	991	747.83	N.A
- at New Delhi	755	860	1144	1277.79	N.A
Business to HCI					
- at Bombay	522	729	861	536.00	713
- at New Delhi	255	464	656	850.00	800
Percentage of business to HCI to the total business of Air India					
- at Bombay	59.1	88.5	86.9	71.7	N.A.
- at New Delhi	33.8	54.0	57.3	66.5	N.A.

Though HCI is wholly owned by Air India, the business given by Air India to HCI's hotel in Delhi ranged from 34 per cent to 66 per cent and that at Bombay from 59 per cent to 88 per cent.

5.4 The rates of room tariff being offered by Air India over the years have been quite low compared to the other segments. HCI had requested Air India to revise the room tariff for Air India passengers, crew & officials with effect from 1 October, 1992 uniformly for all hotels as follows:

	CHBA, CHDA and CHJB (Rs.)	Rates applicable from 1.10.91 to 30.9.92	
Single room	900	CHJB -	Rs.577.50
Double room	1200	CHDA -	Rs.550 for pax Rs.580 for crew & officials.

The above request was made keeping in view the revision of room tariffs effective 1 October, 1992 as under:

	CHBA	CHJB	CHDA
Single room	1520	1720	1090

Air India finally approved the rate of Rs.770 only in June, 1993, which was only 45% of the normal tariff for CHJB. Rate increase offered by Air India over the years (Rs.540, Rs.550, Rs.555, Rs.577, Rs.770 from 1989-90 to 1993-94) was meagre compared to tariff increases and average recovery rate from other segments. It was only in October 1994 that Air India increased the rates substantially to Rs.1,400, but by then the normal tariff had also increased to Rs.3,300.

Thus, not only was the business given by Air India to the Company low, but it also paid lower rates as compared to the normal tariff for this business.

5.5 Bomb blast at Centaur Hotel Bombay Airport and Juhu Beach, Bombay

There were two bomb blasts - one at CHJB and the other at CHBA on 12 March, 1993 in the wake of a series of bomb blasts which took place in Bombay on that day. As a result of the blast, 13 rooms at CHJB and 8 rooms at CHBA were badly damaged. Two more rooms suffered minor damages at CHBA. The work relating to rehabilitation/restoration has been completed.

The Company spent Rs.144.34 lakhs on the rehabilitation/restoration works, out of which it received an insurance claim of Rs.108.26 lakhs (August, 1995).

CHAPTER - 6

PERFORMANCE OF FLIGHT CATERING UNITS

6.1 Two flight catering units, Chefair Flight Catering (CFC), Bombay and Chefair Flight Catering, Delhi were being operated since 1969 and 1970 respectively by the Company to cater to the supply and handling of meals and beverages for flights of Air India operated from Bombay and Delhi. The assets of these units, which were earlier owned by Air India, were formally handed over by Air India to the Company with effect from April, 1973. Subsequently, in addition to Air India these units started catering to Indian Airlines and some international airlines like Air France, Lufthansa, Singapore Airlines, Aeroflot etc.

6.2 The Company prepared a Project Report in January, 1978 for the expansion of capacities of these two units in a new location with a projected meal handling of 35179 meals per day in the case of CFC, Bombay and 22866 meals per day in the case of CFC, Delhi by the year 1989-90. The projected capital outlay was Rs.3 crores for Bombay and Rs.2.50 crores for Delhi with 50 per cent to be met from equity from Air India and 50 per cent from long term loans. The Project Report envisaged completion of facilities by April, 1980, a sales growth of 15 per cent per year and an internal rate of return of over 30 per cent.

The expanded facilities in Bombay were commissioned in 1986 at a cost of Rs.5.13 crores and at Delhi in 1983 at a cost of Rs.4.13 crores.

6.3 A review of the working of both these units showed that they had been incurring huge losses year after year, as shown below:-

(Rs. in lakhs)

	1990-91	1991-92	1992-93	1993-94	1994-95
CFC, Bombay					
Revenue	415.00	495.54	522.47	567.12	610.14
Expenditure	491.00	563.14	654.81	684.78	740.71
Operating profit/loss	(-)94.00	(-)67.59	(-)132.34	(-)117.66	(-)130.67
Interest	68.00	85.22	106.03	166.84	115.39
Depreciation	36.00	36.12	36.07	36.15	36.04
Net Profit/Loss	(-)180.00	(-)189.93	(-)274.44	(-)320.65	(-)282.00
Prior period adjustments	(-)33.00	(-)3.41	(-)3.34	(-)1.06	(-)16.84
Net profit/loss after adjustments	(-)213.00	(-)192.34	(-)277.98	(-)321.71	(-)298.04
CFC, Delhi					
Revenue	475.64	464.04	566.96	581.48	243.75
Expenditure	629.95	652.63	759.79	732.81	502.64
Operating profit/loss	(-)154.21	(-)188.59	(-)192.33	(-)151.33	(-)338.89
Interest	72.79	102.42	119.32	174.81	199.83
Depreciation	21.01	20.93	16.73	15.00	15.08
Net Profit/Loss	(-)248.01	(-)311.94	(-)328.38	(-)341.14	(-)553.80
Prior period adjustments	(-)27.06	11.90	22.07	5.49	(-)0.90
Net profit/loss after adjustments	(-)275.07	(-)300.04	(-)306.31	(-)335.65	(-)554.70

Against a projected accumulated pre-tax profit of Rs.29.56 crores for CFC, Bombay and Rs.16.79 crores for CFC, Delhi over a ten year period after expansion (with profits from the first year itself), the accumulated loss at the end of March, 1995 was Rs.16.77 crores and Rs.25.62 crores for CFC, Bombay and CFC, Delhi respectively. The units have not been recovering even operating costs (i.e. costs before depreciation and interest) ever since their expansion (except during 1988-89 in the case of CFC, Bombay).

6.4 The main reasons for the continued losses of the units were (i) poor upliftment of meals and consequent under utilisation of capacity; and (ii) high staff and interest costs. A detailed analysis revealed the following:

(i) Shortfall in installed capacity

While the envisaged capacity to be created by the investment in expansion was 35,179 meals per day and 22,866 meals per day, the actual installed capacity was only 10,000 meals per day and 7,500 meals per day respectively for Bombay and Delhi even though the actual investment was much more than what was projected. As a result of reduction in installed capacity vis-a-vis projections without any corresponding reduction in capital costs and other fixed/semi-fixed costs, the projected profitability came down.

(ii) Poor utilisation of capacity created

Even with the low capacity created, the Company could utilise only around 40 per cent of the capacity created at Bombay and 35 per cent at Delhi, which affected the profitability further.

The meals upliftment did not grow at the projected rate of 15 per cent. In the case of Bombay, the meals uplifted in 1994-95 were only 12 lakhs against a projection of 128.40 lakhs meals by the tenth year and in the case of Delhi, the meals upliftment was 5.71 lakhs in 1994-95 against a projection of 83.46 lakh meals by the tenth year. In fact, there was a gradual fall in the meals upliftment in the case of Bombay.

(iii) Loss of Clientele

The main customer, Air India, banking on whom the expansion was done, has reduced its upliftment from CFCs, Bombay and Delhi. Air India's flights from Bombay were exclusively catered to by CFC, Bombay upto June, 1981 after which there was a gradual decline to 65 per cent of Air India's total upliftments in 1993-94. Against the anticipated upliftment of meals by Air India, the actual upliftment came down from 35.54% in 1990-91 to 21.72% only in 1994-95. Similarly, CFC, Delhi was the exclusive caterer to Air India upto 1989 after which Air India decided to split the business and CFC, Delhi accounted for about 45 per cent of Air India's meals upliftment in 1993-94. The share of Air India of the total meal upliftment from CFC, Delhi also came down from 54% in 1990-91 to 30% in 1994-95. Air India has reduced its upliftment from CFCs on the grounds that the meals served were of poor quality and not as per international standards. Further, HCI could not offer competitive rates to Air India.

(iv) High staff costs

The Project Report envisaged staff costs as 20% of total costs which was in line with the industry standards. However, the actual staff costs ranged between 40 to 50 per cent of total costs during the last several years. This was mainly because the number of staff (and consequently the staff cost) was not brought down proportionately in line with the very low capacity created. Despite this, payments for overtime and engagement of casual workers increased from Rs.59.40 lakhs in 1989-90 to Rs.104.80 lakhs in 1993-94.

(v) High debt servicing

Consequent upon the increase in the loan capital and default in the repayment of loans due to continuous losses, the interest burden on the loans had gone up considerably. While the Project Reports for the expansion of both the units envisaged gradual decline in interest costs from Rs.18.29 lakhs in 1988-89 to Rs.1.41 lakhs in 1989-90 in the case of Bombay and from Rs.15.23 lakhs to Rs.1.71 lakhs during the same period in the case of Delhi, the actual interest costs in 1994-95 were Rs.115.39 lakhs for CFC, Bombay and Rs.199.83 lakhs for CFC, Delhi.

6.5 It is evident from the above that there is a need to;

(i) prepare a rehabilitation plan to restructure the facilities and operations;

(ii) shift the sales orientation and diversify the clientele

(iii) improve quality; and

(iv) reduce the overhead costs so that atleast the operating costs are fully recovered.

6.6 The Management admitted (September, 1995) that the flight kitchens were not working to capacity and that was the main reason for the losses suffered. The Management added that the objective of setting up of the flight kitchens was to fully cater to Air India flights but due to emergence of competition in the market which intensified progressively, Air India started floating tenders and awarded contracts to other caterers who quoted lower rates. The same lower rates were given to Chefair, which were not economical.

The Management further stated that as a result of losses, there was paucity of funds due to which proper upkeep, maintenance and upgradation of Chefair facilities could not be undertaken. The Management informed (September, 1995) that a comprehensive rehabilitation plan for both the flight kitchens would be prepared.

CHAPTER - 7

FINANCIAL PERFORMANCE

7.1 The financial position of the Company during the last five years was as follows:-

(Rs. in lakhs)

		1990-91	1991-92	1992-93	1993-94	1994-95
Liabilities						
a)	Paid up capital	4060.00	4060.00	4,060.00	4,060.00	4,060.00
b)	Reserves & Surplus					
	i) Free Reserves & Surplus	-	-	-	-	-
	ii)Committed Reserves	39.41	33.57	14.18	14.18	19.19
c)	Borrowings from					
	i) Government of India	-	-	-		
	ii)Others					
	Long term loans	6789.07	7863.10	4806.48	4773.80	3467.80
	Short term loans			1735.15	1634.28	1782.69
	Public Deposits	-	-	-		
	Interest accrued & due			2421.00	3557.12	3590.31
d)	Current Liabilities & Provisions					
	i) Sundry Creditors	448.76	499.01	618.03	633.95	738.13
	ii) Other Liabilities & Provisions	1862.69	2162.71	2,306.09	2,661.94	2,707.93
	Total	**13199.93**	**14618.39**	**15,960.93**	**17,335.27**	**16,366.05**
Assets						
e)	Gross Block	9207.01	9578.39	9,622.31	9,608.26	9,683.92
f)	Less: Cumulative Depreciation	2900.04	3279.13	3,690.09	4,062.40	4,432.37
g)	Net Block	6306.97	6299.26	5,932.22	5,545.86	5,251.55
h)	Capital work-in-progress	100.38	61.99	61.79	61.89	54.23
i)	Investments	97.42	97.42	97.38	97.13	96.68
j)	Current Assets, Loans and Advances					
	i) Inventories	268.18	288.41	315.65	329.28	387.69
	ii) Sundry Debtors	625.95	484.45	535.66	956.13	957.66
	iii)Cash and Bank Balances	105.92	243.07	295.80	723.12	226.25
	iv) Loans & Advances	822.97	883.58	1,046.88	1,173.33	1,402.54
k)	Miscellaneous Expenditure not written off	9.38	16.19	67.92	97.15	85.68
l)	Accumulated losses	4862.76	6244.02	7,607.63	8,351.38	7,903.77
	Total	**13199.93**	**14618.39**	**15,960.93**	**17,335.27**	**16,366.05**
m)	Working Capital(j-d)	(488.43)	(762.21)	(730.13)	(114.03)	(471.92)
n)	Capital employed(g+j-d)	5818.54	5537.05	5,202.09	5,431.83	4,779.63
o)	Net worth {a+b(i)-(k+l)}	(812.14)	(2200.21)	(3,615.55)	(4,388.53)	(3,929.45)

The net worth of the Company has decreased from (-) Rs.812.14 lakhs in 1990-91 to (-) Rs.3929.45 lakhs at the end of March, 1995 due to losses incurred by the Company over the years. The paid up capital of Rs.4060 lakhs has been fully eroded by accumulated losses of Rs.7903.77 lakhs as on 31 March, 1995.

7.2 Working Results and Cost Analysis

The working results of the Company and an analysis of various components of costs for the last five years is given below:-

(Rs.in lakhs)

	1990-91	1991-92	1992-93	1993-94	1994-95
Total Revenue	4248.87	4589.45	5336.19	6316.45	8418.68
Total Expenses	5413.69	5767.83	6679.18	7135.58	7901.39
Profit/ Loss(-)	(-)1164.82	(-)1178.38	(-)1342.99	(-)819.13	517.29
Break-up of costs:					
i) Food & Beverage Cost	725.75	809.76	882.13	902.96	882.52
ii) Staff Cost	1483.55	1661.65	2065.93	2161.41	2413.56
iii)Interest, other financial charges, and depreciation	1278.70	1503.13	1668.56	1779.62	1834.79
iv) Other costs	1925.69	1793.29	2062.56	2291.59	2770.52
Total	**5413.69**	**5767.83**	**6679.18**	**7135.58**	**7901.39**

	1990-91	1991-92	1992-93	1993-94	1994-95
v) Percentage of F.B cost to total cost	13.41	14.04	13.21	12.65	11.17
vi) Percentage of Staff cost to total costs	27.40	28.81	30.93	30.29	30.55
vii)Percentage of interest, other financial charges and depreciation to total costs	23.62	26.06	24.98	24.94	23.22
viii)Percentage of other costs to total costs	35.57	31.09	30.88	32.12	35.06

The Company was able to turn around during 1994-95 and earned a profit of Rs.517.29 lakhs. This was mainly due to a revenue growth of 33 percent over the previous year on account of improvement in average room recovery rate and higher occupancy in three units viz. Centaur Hotel, Bombay Airport, Centaur Hotel Juhu Beach, Bombay and Centaur Hotel, Delhi Airport. Its other units, viz. Centaur Lake View Hotel, Srinagar and the two flight kitchens at Bombay and Delhi continued to make losses.

It would be observed from the above that over 60 percent (65.01%, 68.95%, 69.98%, 62.39%) of total revenue was absorbed by staff cost, `interest and other financial charges' and depreciation during the first four years under review. However, as a result of substantial increase in revenue during 1994-95, the percentage of such costs to total revenue declined to 50.46%. Again, staff cost, `interest and financial charges' and depreciation constituted over 50 percent of the total expenditure during all the five years under review.

CHAPTER - 8

MANPOWER

8.1 The total manpower of the Company as at the end of 31 March, 1995 was 3879 comprising of 640 officers and 3239 staff. The total wage bill during the year 1994-95 was Rs. 2413.56 lakhs which worked out to 29.40 per cent of the revenue from hotels and flight kitchens (including licence fee for shops and offices and sale of petrol and allied products).

8.2 The meals uplifted per employee in the case of two flight kitchens vis-a-vis estimates in the project report were as follows:-

	CFC, Bombay		CFC, Delhi	
	As per Project Report for 1989-90	Actuals for 1994-95	As per Project Report for 1989-90	Actuals for 1994-95
No. of meals uplifted (in lakhs)	128.40	12.00	83.46	5.71
No of employees	780	420	620	548
No of meals uplifted per employee	16462	2857	13461	1042

On the basis of ouput assumed per employee for 1989-90 in the Project Report, the actual output for CFC, Bombay and CFC, Delhi justified employment of manpower of only 73 and 43 respectively resulting in excess manpower to the extent of 475% and 1174% respectively.

R Chandra

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

New Delhi
The 27 DEC 1995

Countersigned

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

New Delhi
The
02 JAN 1996