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REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

UNION GOVERNMENT
No. 4 (COMMERCIAL) OF 1991

HMT (INTERNATIONAL) LIMITED

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TABLE OF CONTENTS

PREFACE

This report on HMT (International) Limited was prepared by an Audit Board consisting of the following members:-

Shri K.Tyagarajan	Deputy Comptroller and Auditor General (Commercial)-cum-Chairman, Audit Board upto 30th April 1990.
Shri A.C.Tiwari	Deputy Comptroller and Auditor General (Commercial)-cum-Chairman, Audit Board from 1st May 1990 to 7th June 1991.
Shri P.K.Sarkar	Deputy Comptroller and Auditor General (Commercial)-cum-Chairman, Audit Board from 8th June 1991 onwards.
Shri D.N.Anand	Principal Director of Commercial Audit and Ex-officio Member, Audit Board, Bangalore upto 30th June 1990.
Shri K.Kuppusamy	Principal Director of Commercial Audit and Ex-officio Member, Audit Board, Bangalore from 1st July 1990 onwards.
Shri B.P.Mathur	Principal Director of Commercial Audit and Ex-officio Member, Audit Board-I, New Delhi upto 2nd July 1990.
Shri Vijay Kumar	Principal Director of Commercial Audit and Ex-officio Member, Audit Board-I, New Delhi from 17th July 1990 onwards.
Shri K.S.Menon	Principal Director (Commercial) and Member Secretary, Audit Board from 2nd July 1990 onwards.

Dr.S.S.Saxena*	Director General, Indian Institute of Foreign Trade.Part Time Member.
Shri K.N.Ramaswamy	Retired Deputy Director General, Technical Development, Ministry of Industry. Part Time Member.

2. The report was finalised by the Audit Board after taking into account the results of discussions held with the representatives of the Ministry of Industry (Department of Heavy Industry) on 15th February 1991 and further comments furnished by the Ministry on 8th March 1991.

3. The Comptroller and Auditor General of India wishes to place on record his appreciation of the work done by the Audit Board and the contribution in particular made by the two part time members.

* Did not attend the Meeting held on 15th February 1991.

OVERVIEW

I. HMT (International) Limited was established on 13th December 1974 as a wholly owned Subsidiary of HMT Limited for promotion of export sales and it took over HMT's Export Division in Bangalore and overseas branches in Melbourne, Luxembourg and Sydney with effect from 1st April 1975 from which date trading activities of the Subsidiary commenced.

(Para 1.1)

II. Though the proposals to Government for setting up of the Company mentioned handling of imports of all products of concern to HMT Limited as also establishment of production bases abroad, these were not included in the objectives formulated in 1975. Their exclusion was stated to be on the consideration that the primary objective of the Company was to export products by HMT Limited.

(Para 2.1)

III. The Company acts as the sole export agent for the Holding Company and its Associate Companies. It has also entered into agency agreements as well as export arrangements with reputed manufacturers of engineering goods; but the export of their products effected through the Company was only 3.06 per cent of the total exports of the Company till March 1990.

(Para 3.2)

IV. Export of machine tools was started by the Holding Company in 1961-62 and the value of exports since then till the formation of the Subsidiary was Rs.1015 lakhs. Such exports thereafter and upto March 1990 aggregated to Rs.30,911 lakhs.

(Para 4.2)

V. The objectives of the Company envisaged exports of 20-25 per cent of the Holding Company's turnover whereas the actual achievements declined from 9.3 percent in 1987 to 7 per cent in 1989-90 which was even less than the 15 percent target set in the Corporate Plan of the Holding Company for the period 1982-87.

(Para 4.5 and 4.6)

2. OBJECTIVES

2.1 While the objectives approved in 1975 had envisaged that the Company would export the products of the Holding Company (HMT Ltd.) to the extent of 20 to 25 per cent of the turn over of the Holding Company, the Third Corporate Plan of the Company drawn up in 1982 (1982 to 1986-87) had set a target of export of only 15 per cent of the turn over of the Holding Company. The actual exports by the Company of the products of the Holding Company between 1982 and 1989-90 ranged between 3 per cent (lowest in 1984 and 1989-90) and 8.2 per cent (highest - 1987) as indicated in Annexure-I. This aspect has been dealt with in paragraphs 4.6 to 4.8.

As regards HMT(I) handling imports of the Holding Company and establishing production bases abroad the Ministry stated (March 1991) that though the proposal for the formation of the Subsidiary Company envisaged the handling of imports of products of concern to HMT Limited, the Board of Directors of HMT Limited, at the time of deciding the formation of the Subsidiary, did not include this as one of the objectives, as the primary area of thrust of the Subsidiary was recognised as exports and not imports. It was further stated that in view of the geographical dispersal of manufacturing units of HMT Limited, It was felt that canalisation of import activities through the Company would lead to creation of an additional agency with resultant delays; the import requirements of different units being strictly not comparable/common in nature would have to be made only by the units. The Ministry, however, stated that the Company would consider import of capital goods for HMT Limited after assessing the relative merits thereof.

As regards establishment of production bases abroad, the Ministry stated (March 1991) that the establishment of production bases abroad was contemplated when the Company was being formed with an overall aim of globalising the products of HMT Limited. The agreements entered into for establishing machine tool units in Nigeria, Kenya and Philipines did not come up due to changes in the economic and political situation. The Company, therefore, felt that establishment of production bases in developed markets would not be cost effective and competitive due to high labour cost and administrative overheads. The Ministry added that the Company contemplated establishing bases for manufacture of machine tools in the East European Countries and for watches in Hongkong.

2.2 The Bureau of Public Enterprises (BPE) had instructed all Companies (May 1979) that the micro objectives should be comprehensively spelt out clearly stating its objectives and obligations, inter-alia, providing broad principles for determining the precise financial and economic obligations.

The Ministry stated (March 1991) that the draft Corporate Plan for the period 1990-95, expected to be finalised during 1991-92, would contain the macro and micro objectives of the Company. The macro objectives were identified as under:

1. To globalise the Company's operations by developing a mix of international markets and businesses.

2. To achieve exports of 10 per cent of HMT's turnover on an average during the plan period.

3. To set apart a minimum of 0.5 per cent of annual export turnover towards development of export markets.

The Ministry also stated that the objectives have been detailed by the Company in its export strategies prepared and presented to the Government in 1984. These contain the following:

a) Product strategy:

(i) Product updating of general purpose machines having export potential to match international competition and customer acceptance.

(ii) Developing low cost, high volume, quality machines to meet the needs of the developing countries on a time bound programme to sustain the existing level of exports.

(iii) Development and introduction of Medium slant bed lathe Mini horizontal machine centre and Mini vertical machining centre in the international markets by 1985.

(iv) Manufacture of TL20 Centre Lathe, Smaller Size Surface Grinder and adding to the above range production from other Indian Machine Tools Manufacturers like Hacksaw Machine, Drilling Machine, Pedestal Grinder.

b) Export Pricing

Export pricing should be based on marginal costing only. The Ministry stated (July 1990) that though the export strategy did suggest export pricing on marginal costing concept to make the Company's products more competitive, the pricing had been done based on past experiences, market conditions, possible volume of business, terms of payment with specific reference to credits offered etc. Taking all these factors into account in pricing the products, the Company had quoted prices above marginal cost wherever possible without diluting the overall export strategy to maximise its returns.

c) Cost reduction measures

Cost reduction of 25 per cent of total cost by off-loading of components to ancillary units, small scale units and Workers Entrepreneur Tiny Ancillary Complex (WETAX).

d) Project Export

Identification of potential market through intensive marketing effort and export of projects and services from within and outside HMT Limited,. such as consumer durables tool room, training centres, industrial estates, maintenance workshops, automobile ancillaries, power tillers etc.

e) Export of tractors, watches, lamps and lamp components.

f) Tie up with developed countries, joint venture participation etc.

g) Strengthening of infrastructure.

h) Opening of new offices in U.S.S.R., Iran, Hungary, Poland, Czechoslovakia, Yugoslavia, Malaysia, Romania, G.D.R., Bulgaria by 1985 and

i) Organisational restructuring.

2.3 In the Memorandum of Understanding between HMT Limited and Department of Public Enterprises entered into in May 1988, one of the corporate goals was mentioned as maximisation of exports to finance its imports.

2.4 The extent to which the Company could achieve the foregoing objectives is discussed in the following paragraphs.

3. EXPORT AGENCY AGREEMENTS

3.1 The Company acts as the sole export agent for the Holding Company and its Associate Companies. It has entered into export agency agreements with the Holding Company as well as Associate Companies for this purpose. Though the agreement with the Holding Company envisaged, inter-alia, drawing up of five year rolling plans for international operations with the necessary support plans for product change, technological inputs and new product development, the same has not been prepared. The Ministry stated (July 1990) that this has been envisaged in the draft Corporate Plan under finalisation.

3.2 The Company has also entered into agency agreements with reputed manufacturers of engineering goods, but the export of their products effected through the Company for the period 1982 to 1989-90 was of the order of Rs.727 lakhs which worked out to just 3.06 per cent of the total exports of the Company.

4. OVERALL PERFORMANCE

4.1 The exports are effected through direct sale of products stocked, orders procured by head office, branch offices, agents abroad and by participation in various tenders invited by foreign buyers.

4.2 While the value of the exports effected by the Holding Company till the formation of the Subsidiary was Rs.1015 lakhs, during the period 1975 to March 1990 it was Rs.30911 lakhs.

4.3 The table in Annexure-I indicates the overall export performance during the last 8 years ended 31st March 1990 vis-a-vis the targets and turnover of the Holding Company.

4.4 A further analysis of the product-wise exports of HMT Limited during the last 8 years ended March 1990 is at Annexure II.

4.5 The COPU in their 94th report (Seventh Lok Sabha) observed (April 1984) that:-

(i) The performance of the Company in the matter of exports has not been very encouraging.

(ii) As against the target of 20 per cent envisaged in the Second Corporate Plan (1978-83), the achievement was only 5 per cent in the terminal year 1982-83.

(iii) The Third Corporate Plan (1982-87) further scaled down the targets to 15 per cent to be achieved in 1986-87 whereas the Company was hopeful of achieving only 8 to 10 per cent.

The Committee further desired that concerted efforts be made to boost the exports at least to achieve the targets set in the Corporate Plan and that various measures outlined by the Managing Director, while giving evidence before the Committee, be carefully considered by various Ministries to remove the constraints and provide facilities to boost the exports. Government stated (September 1984) that concerted efforts were being made to boost HMT's exports, but it was observed that the actual performance during the subsequent years was much lower than that of 1983-84.

The reasons for variation in export of HMT products in 1988-89 and 1989-90 against targets were stated (March 1991) to be economic reforms in Russia and non-materialisation of certain exports to Bulgaria.

The Ministry stated (July 1990) that the export figures of HMT Limited included their direct deemed exports and a comparison excluding direct deemed exports would show a better performance.

Exclusion of direct deemed exports of HMT Limited would not be justified in as much as the objective of achieving the turnover target of 20 to 25 per cent did not exclude such direct deemed exports. They are treated as exports as per sales agency agreement and they are also included in the actual exports of the Company; and above all, the evidence placed before the COPU did not exclude such deemed exports. Even after excluding direct deemed exports of HMT Limited, there had been only marginal imporvement in the export performance except during 1983-84.

4.6 From the table given in Annexure I, it could be seen that the Company did not even plan to achieve an export of 20 to 25 per cent of the Holding Company's turnover in any year, let alone achieve it. The maximum value of exports achieved for the period ended March 1990 was Rs.45.97 crores only as against the target of Rs.100 crores set for achievement by 1984-85.

4.7 The Ministry's reply (July 1990) is that the Corporate objective of achieving the export target of 20 to 25 per cent of HMT's turnover was an ambitious one fixed at a time when the main business of the Holding Company was machine tools. In his evidence before the COPU, the Chairman of HMT Limited stated (April 1984) that the Company expected to achieve an export turnover of 8 to 10 per cent by the end of the Third Corporate Plan. He further stated that scaling down of export turnover of 20 to 25 per cent was based on market trends and technological and price constraints. The Company further stated (January 1989) that the average growth was 20 per cent per annum which was approximately in line with the export growth targets fixed for the country; that the Company had approximately 50 per cent share of machine tool exports from the country and that the Company had been receiving export awards from EEPC consistently.

4.8 The fact, however, remained that the evidence before COPU did not consider the target of 20 to 25 per cent as ambitious and also the growth was neither uniform nor progressive in as much as the actual growth in value of export, which was only 0.8 per cent in 1983, became negative in 1984, rose to 7.4 per cent in 1985, 19.5 per cent in 1986 and 75.01 per cent in 1987 and negative again during 1988-89 (average of 12 months) and 21.5 per cent in 1989-90.

The Ministry stated (July 1990) that the recession in capital goods market the world over in 1981-82 affected the Company's exports of machine tools and capital goods projects; the Company evolved different strategies to divert its exports to such markets where recession was not so severe and thereby secured substantial export orders in East Europe, Africa and Middle East.

The Ministry explained (February 1991) that the poor performance in exports was due to the revolution caused in the industry with the entry of computers and electronic system in the field of machine tools, making the Company lose the competitive edge which affected exports. The Company hoped to regain this in a short time through introduction of CNC system. The Ministry stated (March 1991) that efforts made by the Company in scanning technology in advanced countries by means of the feed back it got through its sub-agents, visits of personnel abroad and participation in international exhibitions, had helped them in developing new products suitable for export markets.

4.9 The performance of the Company in the export of non-HMT products was also not satisfactory even though the Board of Directors had decided as early as in August 1981 that for expansion of exports, a major portion could be export of products other than those of HMT Limited and could include items like cycles manufactured by private manufacturers to countries like Kenya. Inspite of this the exports of non-HMT products ranged from 4.1 to 13.2 per cent only of the total exports during the 8 years ended 1989-90 (except in 1984).

The Ministry stated (July 1990) that the experience in terms of quality and delivery proved to be a deterrent to embark upon large scale exports in future contracts and added that once the Company identified potential markets and customers, the associates resorted to direct exports delinking the Company. The Ministry added that notwithstanding these constraints, the Company had been offering various engineering products in its quotations against tenders and the Company had targeted exports of Rs.7 crores in 1990-91 for which orders of Rs.6 crores were already on hand.

4.10 Major reasons for non-achievement of Corporate export objectives were quoting non-competitive prices, technological obsolescence of Holding Company's products under manufacture for 15 to 20 years and lack of research and development efforts to keep pace with the rapid changes in technology in developed countries. The Ministry stated (July 1990) that the Holding Company had expanded its product range vertically keeping the requirement of Indian industry in mind. However, expansion of different sizes within a specified variant was not carried out in view of economies of scale and hence it would not be possible to offer machines of exact specifications and machines with higher specifications were quoted to comply with tender conditions for offering total packages. It further stated that the Company was established in 1974 mainly to improve exports and the exports which were Rs.5 crore in 1975 had grown to Rs.47 crore in 1988-89 which was indicative of the achievement of its objective. As (i) the Holding Company has been in the field of machine tool industry for over three decades and (ii) the Company, having been established way back in 1974 mainly to improve exports has huge reserves, adequate timely measures to overcome these impediments should have been taken. The export turnover in 1988-89 expressed as a percentage of the Holding Company's turnover did not indicate any improvement.

The Ministry added further (March 1991) that as a measure to improve export performance, the Company carried out SWOT analysis, studied the pattern of developmental activities of various countries and formalised its micro objectives such as target markets, product mix, technological levels of products for target markets, desirable project packages, launching of CNC product range in industralised countries, setting up of assembly facilities in EEC for machine tools and in Hong Kong for watches etc., and intended to implement these during the Fourth Corporate Plan period beginning from 1990-91 to 1994-95 in line with the eighth five year plan.

Despite the above strategies the Company is not hopeful of achieving export target of more than an average of 10 per cent of the Holding Company's turnover during 1990-95 as against the original Corporate objective of achieving 20 to 25 per cent of turnover of Holding Company.

4.11 While machine tools accounted for less than 40 per cent of the total turnover of HMT Limited, the export of machine tools accounted for more than 90 per cent of the total exports and actually touched 97.3 per cent in 1989-90. The export of other products like watches, tractors, lamps etc. was negligible even though they accounted for more than 60 per cent of HMT's turnover. It is thus apparent that the Company has not been able to establish export market for products other than machine tools even though the aim of the Holding Company was that all the business groups would contribute to export. The Ministry stated (July 1990) that while the export of watches would only result in increased imports to reduce the gap between the demand and supply within the country, the level of production of tractors was also slightly less than the internal demand.

4.12 While assuring COPU that concerted efforts were being made to boost HMT's export of machine tools the Government had delineated (September 1984) the following strategies adopted by the Company:

1. The market profiles of developing countries being different from those of developed countries, HMT Limited was introducing low priced, simple and general purpose machine tools for their Vocational Training Centres, Industrial Training Institutes and Polytechnics as also users in trade and industry.

2. So far as developed countries were concerned as NC/CNC machine tools were increasingly being used there, HMT Limited was planning to develop specially designed CNC machine tools which could be built in larger volumes to achieve economies of scale.

3. In order to reduce cost of production and improve price competitiveness in international markets HMT Limited had identified certain types of general purpose machine tools where the critical components requiring high skills or specialised equipment etc., could be manufactured by HMT Limited while a large number of components involving lower manufacturing technology could be farmed out to ancillaries.

4. Efforts were also being intensified to promote export of projects and products.

4.13 The Company had stated (March 1989):

(i) It has been making efforts consistently to promote exports of low priced simple and quality general purpose machine tools for Vocational Training Centres, Industrial Training Institutes and Polytechnics in developing countries. The Company has achieved substantial exports of quality general purpose machine tools to such Institutes. The Comapny has also concluded contracts for supply of 254 machines to CAMEMD, Algeria valued at Rs.450 lakhs The contract is now under execution".

(ii) "HMT Limited has also developed different variants in CNC machines viz STC-15, SB CNC-35, SB CNC-55 etc. SB CNC machines could be either used as stand-alone CNC machine or converted into FMS line by providing higher levels of automa

-tion. HMT(I) has been making efforts to export these products and a number of offers have already been made to export these machines".

(iii) "Reduction in cost of production by farming out to ancillaries a number of components involving lower manufacturing technol -ogy is continuously being carried out by HMT Limited. The main objective of ancillarisation was to obtain quality components involving lower manufacturing technology at lower prices. No separate ancillaries for the specific purpose of exports have been established".

(iv) "The Company has been making continuous efforts to increase exports of projects and services".

It was observed that:

(i) The Company has so far (October 1990) sold three CNC machines in U.S.A.

(ii) As admitted by the Company, no separate ancillaries for the specific purpose of exports have been established and there was no reduction in the prices of exportable products as a result of ancillarisation, which itself has not made much progress in the later years, and

(iii) As may be seen from the table in Annexure I, the value of projects and services sharply declined after 1984 but picked up from 1987.

The Ministry stated (July 1990) that

(i) The delay in export of CNC machines to the developing countries was mainly due to delay in export clearance, which was in turn due to vigorous field tests introduced to ensure product reliability so as to avoid after-sales-service costs and adverse reputation to HMT's brand name in these markets.

(ii) The products exported were manufactured in different units of the Holding Company and export per unit was not large enough to attract/establish ancillaries for manufacture of components exclusively for exports; the Company did not also manufacture products which it exports; the manufacturing units of the Holding Company had been taking various steps for cost reduction, including ancillarisation.

(iii) The deteriorating economic conditions in developing countries adversely affected Company's exports of projects and services to these countries and to overcome these economic constraints, the Company modified its marketing strategies by resorting to counter trade arrangement (in the case of Malaysia), marketing of small and medium size projects for private entrepreneurs (in the case of Kenya) etc.

When the Audit Board asked for Ministry's reaction to the Company's statement (June 1989) that the decline in exports was due to inadequate support from Government and Financing Agencies, the Ministry stated (March 1991) that the Government had devised a number of schemes to provide for export incentives to exporters which included Cash Compensatory Support (CCS), International Price Reimbursement Scheme (IPRS), REP Tax Exemption (50%) on export profits, Blanket Foreign Exchange Permits etc; that the Company had suggested further concessions like maintenance of bank accounts abroad in foreign currencies, National Interest Account for export to high risk countries, up-front against order received etc., and that these would be examined by various Government agencies in due course. Other measures stated to have been evolved were to:

(i) identify potential markets and frame short and long term strategies to reach these ends;

(ii) identify and develop modules of projects for products from within HMT Limited and outside;

(iii) associate and work for third country projects;

(iv) set up Joint Ventures for machine tools and other related projects, and

(v) to diversify into new fields/areas to suit market requirement based on field studies etc.

4.14 The table in Annexure III indicates the country-wise distribution of exports for the last eight years ended March 1990.

4.15 A review of the table would disclose the following:

(i) East Europe accounted for a major portion of the export in all the years except in 1984-85, 1988-89 and 1989-90. The export to this region steadily rose from Rs.940 lakhs in 1982-83 to Rs.3055 lakhs in 1987-88 (except in

1984-85) but declined to Rs.1452.63 lakhs in 1988-89 and to Rs.974 lakhs in 1989-90. The percentage to total export increased from 61.8 in 1982-83 to 89.5 in 1987-88 but declined to 34.9 in 1988-89 and 21.2 in 1989-90.

(ii) The exports to Africa/Middle East showed a declining trend after 1984-85 except in 1988-89 and in 1989-90. The exports to neighbouring countries including deemed exports were also very small and registered a steady and steep decline from 9.5 per cent in 1982-83 to 1.8 per cent in 1989-90 except in 1987-88 and 1988-89 when there was a small increase.

(iii) Exports to Australia and Newzealand ranging from 1.3 per cent in 1982-83 to 1.7 per cent in 1989-90 and to America ranging from 3 per cent in 1982-83 to 4.9 per cent in 1989-90 was very poor, despite the Company having branch offices in these countries.

(iv) The exports to Western Europe were also extremely poor (0.5 per cent in 1982-83 to 0.7 per cent in 1989-90 of total exports; during 1986-87 it was 0.1 per cent).

The Ministry stated (July 1990) that while the Company could take advantage of potential market avenues in East Europe due to higher import in that region and bilateral trade arrangements between the countries which contributed to better exports there, exports in Africa/Middle East was affected due to financial problems faced by them, export to Australia, Newzealand and America was affected by global recession in machine tools in developed countries as well as advent of low cost general purpose machines from Taiwan, South Korea and other far east countries and exports to West Europe was affected due to high competition in prices and technology which the machines manufactured by the Holding Company and others could not match. Moreover, the machines manufactured in countries such as Germany, Spain and Portugal had low cost of production which gave them a distinct advantage over Indian machines.

4.16 It is thus obvious that except in Eastern Europe, and Africa and Middle East (during the last two years) where the export performance had been good, the Company had not been able to make any dent in the developed countries which could be attributed to non-competitive prices, technological status of HMT products in the international market and lack of aggressive marketing, even after establishing local branches incurring substantial expenditure.

The Ministry claimed (July 1990) that the excellent track record of securing repeat orders from the customers in developed markets like U.S.A. and Australia proved that the Company's products had been accepted with regard to quality and added (March 1991) that the International market scenario was projected to be dim in view of global recession, Gulf situation etc. on account of which the global trade was not likely to exceed 5.5 per cent in 1990 and 1991 as compared to 7.5 per cent in 1989. The democratisation of the East European Countries was also expected to have a drastic effect on trade with these countries and in order to cope with these situations the Company made certain strategic shifts in its operations such as:

(a) Scanning of new business opportunities for general engineering products and industrial consumer goods in Australia.

(b) Targetting small enterpreneurs in order to expand the customer base in North Africa due to emerging emphasis on privatisation.

(c) Expanding the product base and exploring opportunities for project exports in East, West and Southern Africa.

(d) Developing new markets like Iran and Turkey in West Asia. The aftermath of the Gulf war also promised additional business.

(e) Contemplating production base in Europe in view of the imminent single window system of EEC by 1992.

(f) Intensifying steps to contact the end-customers directly and through established agents in specific markets in the Eastern European Countries and expanding product base by introducing its tractors in some of these countries.

(g) Encouraged by the successful establishment of the Advanced Training Centre at Malaysia, intensifying its efforts to offer similar hi-tech projects in the region and assessing export of software in the form of technical services.

(h) Effecting improvement in the marketing efforts at U.S.A. especially for the newly developed hi-tech CNC machines.

4.17 The Company's share in the import of machine tools by various countries is as under:-

(In Percentages)

Region	1984	1985	1986	1987	1988-89	1989-90
1. East Europe	0.61	1.81	2.08	1.84	0.68	0.18
2. South East Asia	1.04	0.21	0.02	-	8.45	0.52
3. Australia	0.29	0.09	0.08	0.16	0.21	0.61
4. America	0.01	0.01	0.03	0.01	0.01	0.04
5. West Europe	0.01	-	-	-	0.01	0.01

This shows that there exists vast export potential for machine tools.

The Ministry stated (July 1990) that the share of Company's export of machine tools has not grown with the total imports by these countries since most purchases are hi-tech, high value machines rather than low cost and relatively low technology machines offered by the Company.

4.18 Even though the Third Corporate Plan of HMT Limited for the period 1982-83 to 1986-87 envisaged distribution abroad of non-competing product lines from other countries the export strategy prepared by the Company in June 1984 did not include this. The Company stated (June 1989) that the export strategy was prepared to formulate plans of action for increased exports from India and therefore, did not include supply of non-competitive third country products; however, the Company had been supplying these products as part of Turn key projects and such supplies till March 1990 was of the order of Rs.16.15 crores.

5. PERFORMANCE OF BRANCHES/OFFICES

5.1 The Company has three branches, one each in Australia, U.S.A. and Kenya. The Kenya Branch, though registered as a branch, is being operated as an office. The Company has also one office in Algeria. The objectives for opening of branches/offices furnished to audit gave only their functions and did not contain any vital data like market demand, sales forecast, profitability etc. The functions of branches were stated to be marketing of machines from ready stock by importing, providing effective after-sales service, locating selling agents and monitoring their performance. The foreign offices only procure the orders and do not stock and sell the machines.

The Ministry stated (July 1990) that the major guiding principles for establishing offices abroad were past performance of the Company in the markets, market potential and Company's performance in these countries. They further added that conducting market surveys outside India being prohibitively expensive besides time consuming, the Company had to rely on feedback from its officials' visits to prospective markets.

5.2 The performance of the branches in U.S.A., Australia and Kenya is discussed below:

U.S. Branch

5.3 This branch, established in November 1978, was marketing only HMT's products till 1984, and thereafter it started marketing products of other Companies. While presenting the operating budgets (July 1978) for the branch, the management stated that as against the average annual sale of Rs.50 lakhs in the past by the agent, the sales by the branch would go up from Rs.96.32 lakhs in 1979-80 to Rs.166.53 lakhs in 1980-81 and to Rs.251.43 lakhs in 1981-82. The following table indicates the targets and actual sales from inception till 1989-90:

(Value in Rs. lakhs)

Year	Targets		Actual		Percentage of
	No.	Value	No.	Value	actuals to targets by value
1979-80	115	96.32	54	96.13	99.80
1980-81	195	166.53	46	89.17	53.55
1981	290	251.43	49	107.82	42.88
1982	86	204.00	18	60.77	29.79
1983	61	173.00	14	51.64	29.85

Year	Targets		Actual		Percentage of actuals to targets by value
	No.	Value	No.	Value	
1984	54	101.00	31	107.29	106.23
1985	47	129.00	18	65.62	50.87
1986	52	150.00	12	47.56	31.71
1987	47	119.00	13	55.95	47.02
1988-89	33	158.85	27	110.54	69.59
1989-90	44	173.00	28	170.56	98.59

5.4 While the targets reported to the Board of Directors were not achieved in two out of the first three years, the targets for the subsequent years themselves were scaled down to a level much below the targeted sales for 1981 and the achievements were still lower. Inspite of inflation, the performance during the last eight years except for 1984, 1988-89 and 1989-90, was almost equal to the average sales of the agent prior to the establishment of the branch. Thus, this branch has not contributed significantly to increase exports.

The Ministry stated (July 1990) that global recession in the early eighties and advent of low cost general purpose machine tools from Taiwan and South Korea flooding the U.S. market, leading to drastic change in customer orientation affected the export of Company's machines to U.S. and other developed countries. The Company had stated (June 1989) that the justification for continuation of the branch was based on its assessment of business prospects and its future plans. But the information furnished by the Ministry (March 1991) indicating the potential markets identified revealed that the U.S.A. and the other developed countries do not figure in the list of identified potential markets.

5.5 An analysis of the product-wise exports revealed that despite drastic change in Customer Orientation, the Company continued to export the same variants since 1982. The export strategy formulated by the Company in August 1984 contemplated introduction of Vikram lathes in the market in 1984; introduction of CNC machines in 1986, developing and modifying B-32 lathes for U.S. defence establishment and export of general purpose machines like B-32 NH and Radial Drills. While assuring COPU that concerted efforts were being made to boost HMT's export of machine tools, the Government delineated (September 1984) strategies of introducing simple and quality generel purpose machine tools for training centres in developing countries. For developed countries HMT planned to develop specially designed CNC machine tools in view of the different market profiles of those countries. Though the Company also reiterated (March 1989) the above, the fact remained that they sold only three CNC machines in the U.S. market; exported 11 Vikram lathes and has not exported any B-32 lathes to U.S. Defence Establishment so far (November 1990). The exports of general purpose machines were also very insignificant. While on one hand the branch could not market the Indian products imported due to lack of demand and fierce competition, on the other, it could not supply machines for which there was heavy demand. In one year alone (1987), the Company lost orders for 10 Vikram lathes valued at $ 1.2 lakhs.

The Ministry stated (July 1990) that by exhibiting STC-25 machines in exhibitions during 1986, it had secured order for export of machines in 1988-89 and planned to sell 5 to 6 CNC machines in the next financial year and the sudden demand recession coupled with changes in customer preference for low cost cheaper machines from South East Asia made the Company change its objectives from exporting more machines to reducing stocks held in the branch.

5.6 Though the Corporate Plan of HMT Limited and export plan of the Company spelt out the strategy of strengthening assembly facility in U.S., no action has been taken in this regard. It was stated (January 1989) that there was no substantial increase in sales in U.S. Branch due to recession in U.S. capital goods market. To a query from Audit Board as to the future plans for improving the performance of the branch, the Company informed (November 1989) that it intended to take the following action:

1. Market Survey for CNC and other machines.
2. Enlarge distributionship and participation in machine tools show and
3. Review pricing decisions etc.

Australian Branch

5.7 This branch was taken over from HMT Limited from April 1975 by the Company to market the HMT products as well as other Associates' products.

5.8 The following table indicates the targets and actual sales of the branch during the last eight years ending 1989-90:

(Value in Rs. lakhs)

Year	Targets		Actuals		Percentage of actuals to targets by value	
	No.	Value	No.	Value	No.	Value
1982	NA	265	48	50.35	-	19.00
1983	148	180	35	35.80	23.6	19.89
1984	67	76	62	60.09	92.5	79.06
1985	75	101	37	43.39	49.3	42.96
1986	Not fixed	45	20	33.52	-	74.49
1987	-do-	40	20	33.53	-	83.82
1988-89	-do-	39	28	72.51	-	185.92
1989-90	-do-	68	24	70.64	-	103.88

The Ministry stated (July 1990) that due to scaling down of operations of the branch, seperate operating plans were not prepared for the branch and exports shown under area-wise exports of operational plans for Australia and Newzealand were considered as targets for the branch.

5.9 In view of the constraints, similar to that of U.S. branch, faced by the Company, the Board of Directors decided (1985) to scale down the operations of the branch by retaining only one Service Engineer to stock and sell spare parts and to provide after-sale service to customers.

Kenya Branch

5.10 It has been functioning as an office. It markets products of HMT Limited and others in East and Central African countries.

5.11 The net expenditure of the branch vis-a-vis the value of orders booked is given below:

(Value in Rs. lakhs)

Year	Net Expenditure	Value of order booked	Earnings assumed at 10% the value of the orders
1982	4.36	70.10	7.01
1983	4.35	95.33	9.53
1984	4.53	56.07	5.61
1985	4.92	32.99	3.30
1986	5.73	39.62	3.96
1987	5.98	232.45	23.24
1988-89	7.89	732.96	73.29
1989-90	8.25	2090.39	209.04

The sudden increase in value of orders booked in 1988-89 and 1989-90 was due to receipt of two major orders for defence industry.

5.12 Though it was envisaged in the Third Corporate Plan of the Holding Company (1982-83 to 1986-87) that stock and sale operations would commence at the branch for boosting the export sale, it has not materialised so far.

The Ministry stated (July 1990) that the procedural delays in Kenya for granting of licence for import of machines for stock and sale operations resulted in delay in commencing operations. However, keeping the market condition in view, the stock and sale operations are being carried through agents.

6. PERFORMANCE OF SUB-AGENTS

6.1 The Company had appointed sub-agents abroad for procuring orders and rendering other services in their respective territories on payment of commission ranging from 0.5 to 12.5 per cent. Explaining the reasons for the wide variation in the percentage rate of commission; the Company stated (February 1988) that depending upon the requirement of each agent they had to offer varied rates of commission in different countries for marketing their products. In addition, the Company utilised the services of Project Equipment Corporation of India Limited (PEC) for export to U.S.S.R. where it did not have an office/agent, on payment of service charges ranging from 0.5 to 1 per cent.

6.2 The area-wise performance of the agents for the years 1982 to 1989-90 is indicated in Annexure IV. It may be seen there from that except in East Europe, the performance in all other areas was not satisfactory. The Ministry stated (July 1990) that economic constraints in certain markets, lack of product range, technology, price and lack of support like softer credit, incentives etc., contributed to the shortfall in performance.

7. PARTICIPATION IN TENDERS

7.1 The Head Office of the Company determines the Pricing Policy, finalises tender documents and also attends to follow up action on offers through field offices and agents.

7.2 The table below indicates the year-wise position of the number and value of tenders in which the Company participated and orders procured during the years 1982 to 1989-90:

(Value in Rs. lakhs)

Years	Tenders participated		Orders procured		Percentage	
	No.	Value	No.	Value	No.	Value
1982	33	2061	7	15	21.21	0.72
1983	53	2600	9	34	16.98	1.31
1984	53	2340	8	96	15.09	4.10
1985	43	4241	9	269	20.93	6.34
1986	38	2574	8	50	21.05	1.94
1987	31	2570	6	288	19.35	11.21
1988-89	37	4760	8	727	21.62	15.27
1989-90	33	15051	8	503	24.24	3.34
	321	36197	63	1982	19.63	5.48

7.3 Except in the years 1985, 1987 and 1988-89 in which the orders procured formed 6 per cent, 11 per cent and 15 per cent respectively of the value of tenders participated in those years, in other years it was not even 5 per cent. The orders procured were mainly for low value items. Though some of the reasons stated (October 1987) for non-procurement of the orders such as high cost of inputs, severe competition, non-availability of suitable products matching tender requirements, suitable suppliers agreeing for tender conditions, inability to offer attractive credit terms in line with long period and low interest rates offered by competitors were beyond the control of the Company, other reasons like inability to submit the tenders within the prescribed time and inability to open bid bonds in time were avoidable. There would have been an improved performance had the Company taken action to submit the tenders in time and made necessary arrangements for opening the bid bonds in time. During 1983-87 the Company could not participate in 10 tenders worth Rs.159 lakhs due to non-submission of tenders in time (Annexure V) and 11 tenders worth Rs.809 lakhs due to inability to open bid bonds in time (Annexure VI). It was also seen that during 1983-88, the Company lost 19 tenders worth Rs.2,458 lakhs due to exhorbitant rates quoted by it (Annexure VII).

The Ministry stated (July 1990) that despite submission of offers through Courier Services or diplomatic bags occassional delays in receipt of offers by the tendering authorities abroad took place which were beyond control, that difference in banking system from country to country caused certain problems leading to delay.

They further added (March 1991) that the following steps had been taken to streamline the issue of bid bonds.

(a) Opening of accounts and establishment of guarantee limits with certain Indian/Foreign banks based on their strengths in the countries in which the Company operates.

(b) Having test key arrangements through certain Bangalore based Banks, so as to establish bid bonds directly from Bangalore instead of through Bombay leading to delays.

(c) Establishment of bid bonds either by fax and/or sending them through courier.

(d) Arranging despatch of bid documents through Diplomatic bags of Indian Embassies.

7.4 Since the pricing for export based on domestic market price was found unsuitable in the international market because of competition, the export strategy of the Company approved by the Board of Directors (June 1984) contemplated quoting on an average 65 per cent of domestic ex-works price or on marginal costing basis which worked out to 55 per cent to 70 per cent realisation depending on situation. The Board of Directors of the Company suggested (December 1984) cost reduction measures by ancillarisation through Workers Entrepreneur Tiny Ancillary Complex (WETAX) and while reviewing the operational plan for the year 1985 they further stressed (February 1985) the need for cost reduction to make the products more competitive and requested the Director, HMT Ltd. to furnish a list of machines which could be exported on marginal cost/cash out basis. Though the Company agreed (November 1989) that the export strategy formulated in 1984 suggested adoption of marginal costing, the cases in which marginal costing were adopted while quoting were not furnished.

The Ministry stated (July 1990) that marginal costing principle continued to be a thrust area for improving exports. The export prices were generally at 65 to 70 per cent of domestic selling prices and ancillarisation through WETAX scheme in the changed market situation resulting in surplus capacity in HMT units would only be counter productive.

The Ministry further added (March 1991) that with the objective of making the prices of products competitive in the international market by containing its prices, cost reduction was constantly employed in the manufacturing units of HMT and other Associate Manufacturers who exported their products through the Company. The following were identified as thrust areas for this purpose:

(a) Improvement in production process reducing rejections, wastage, re-work, re-claiming of rejected parts.

(b) Standardisation, variety reduction, import substitution, reduction in lead time in procurement of materials.

(c) Cost centrewise performance evaluation and improved working capital managaement.

(d) Expanding ancillary network and sub-contracting especially for low value 'C' class items with a view to reduce their costs.

7.5 An analysis of the tenders lost due to non-competitive prices revealed that the ultimate export prices quoted were found non-competitive as the Company, besides quoting rates ranging from 70 per cent to 100 per cent of inland selling prices had also added cost factors like mark-up price, escalation, commercial expenses, agency commission etc. It was further seen that out of quotations for 40 items of machinery analysed in audit, as many as in 18 items of machinery, the prices quoted exceeded the marginal cost and such excess ranged upto 70 per cent.

The Ministry stated (July 1990) that the Company had been quoting prices for exports at 70 to 80 per cent of domestic prices in majority of cases, based on market situation, value and volume of offer. They added that provision for price escalations, commercial expenses, agency commission etc and other cost like ECGC charges and finance charges were also considered; all these costs did not aggregate to more than 20 to 30 per cent of the export price. The total price quoted inclusive of these costs did not normally exceed the domestic price and the Company had in fact secured a number of orders where export realisation was higher than the inland prices.

7.6 As was reported to the Board (December 1988) two orders valued at Rs.424 lakhs for supply of plastic injection machines were lost on account of the delay in execution of an earlier contract for supply of these machines. The Company attributed (June 1989) the delay in delivering to capacity constraints and delays in receipt of imported components. As capacity constraints were known to the Company while accepting the delivery schedule, adequate measures to adhere to accepted delivery schedule should have been taken to maintain its credibility.

The Ministry stated (July 1990) that necessary steps were taken by the Company to adhere to delivery schedules by creating additional capacity at HMT, Hyderabad unit and that due to delays in receipt of imported components delays occured in execution of the contract.

8. PARTICIPATION IN INTERNATIONAL EXHIBITIONS AND TRADE FAIRS

8.1 To explore the market in foreign countries, the Company participated in 58 International exhibitions and trade fairs held in various countries from 1982 to 1989-90. The Company spent Rs.104.04 lakhs for this purpose and sold machines/accessories and watches worth Rs.142.41 lakhs.

8.2 The Company could neither sell any machine nor bag any order in 31 of these exhibitions/trade fairs for which an expenditure of Rs.67.31 lakhs was incurred.

8.3 The Ministry stated (July 1990) that it is the Company's policy to participate in such prestigious exhibitions to create an image of the Company in general and its products in particular.

8.4 The Ministry further added (March 1991) that the Company had a system of obtaining reports from officials deputed for participation in international exhibitions and trade fairs indicating enquiries generated, follow-up action to be taken, response from customers, feedback on exhibits of competitors, suggestions for modification/upgradation of products etc. Follow-up action taken has, however, not been indicated.

9. PROFITABILITY ANALYSIS AND FINANCIAL POSITION

9.1 Even though the activities of the Company were export of HMT as well as non-HMT products, projects and technical services besides buying and selling machine tools in overseas market and export of products on agency basis, there is no system of ascertaining the profitability of each activity after allocating interest and other head office expenses.

The Ministry stated (July 1990) that the Company had been monitoring the profitability of Head Office operations, branches and foreign projects and services by maintaining separate accounts.

9.2 The Company has no scientific system of ascertaining activity-wise profits by suitable allocation of other expenses and interest activity-wise. The Audit Board desired (February 1991) the Ministry to furnish product-wise/activity-wise profitability after allocating overhead expenses and interest charges. The information furnished (March 1991) for the 3 years ended March 1990 is as follows:

(Rs. in lakhs)

		1987	1988-89 15 Months	1989-90
I.	HMT PRODUCTS			
	Commission received	338.77	165.38	75.26
	Add: Non-operating Income (allocated)	34.55	49.45	120.74
		373.32	214.83	196.00
	Less: Non-operating exp. and interest (allocated)	117.16	134.96	171.17
	Allocated Profit	256.16	79.87	24.83
II	NON-HMT PRODUCTS			
	Sales (including Incentives)	90.73	281.97	534.60
	Less: Cost of Sales	82.44	244.05	509.35
		8.29	37.92	25.25

	Add: Non-operating Income (allocated)	7.16	9.57	18.63
		15.45	47.49	43.88
	Less: Non-operating expenses Interest (allocated)	13.02	15.00	30.20
	Allocated Profit	2.43	32.49	13.68
III	PROJECTS & SERVICES			
	Sales (including incentives)	3.85	115.11	1718.79
	Less: Cost of Sales	(3.80)	51.06	1349.81
		7.65	64.05	368.98
	Add: Non-operating Income (allocated)	20.56	39.55	38.66
		28.21	103.60	407.64
	Less: Non-operating expenses & interest(allocated)	74.06	111.16	157.46
	Allocated Profit	(45.85)	(7.56)	250.18
IV	TECHNICAL SERVICES			
	Sales (including Incentives)	220.34	185.87	56.35
	Less: Cost of Sales	164.15	135.40	37.75
		56.19	50.47	18.60
	Add: Non-operating Income (allocated)	13.66	17.98	13.43
		69.85	68.45	32.03
	Less: Non-operating Expenses	37.04	55.58	39.36
	Allocated Profit	32.81	12.87	(7.33)
	Total of Net profits (I+II+III+IV)	245.55	117.67	281.36

Basis for Allocation was:

1. Interest income from Deposits with HMT, based on approximate contribution by each activity to Reserves.

2. Interest income from Deferred Credits based on actuals.

3. Overhead expenses based on the budgeted activity level.

9.3 A review of the above table would reveal the following:

1. Reduction in the profit from sale of products of HMT Ltd. from 104.3 per cent of total profits during 1987 to 67.9 per cent in 1988-89 (15 months) and to 8.8 per cent in 1989-90 was inter-alia, due to reduction in the rate of commission from 9 to 5 per cent.

2. The profit from the sale of Non-HMT products constituted 1 per cent in 1987, 27.6 per cent in 1988-89 and 4.90 per cent in 1989-90 of the total net profit indicating almost insignificant contribution.

3. The loss incurred in technical services during 1989-90 was due to exclusion of value of technical services of Rs.95 lakhs.

4. To a query from the Audit Board (February 1991) whether the substantial improvement in the performance of the Projects and Services Wing during 1989-90 was due to some specific projects relating to that year or was an indication of improved performance likely to be sustained in future year, the Ministry stated that 1988-89 covered a period of 15 months while 1989-90 covered only 12 months and further stated that the draft Corporate Plan under finalisation would indicate growth in project exports. It was, however, noticed from the figures furnished by the Ministry for the year 1988-89 and 1989-90 that while the export of HMT products had come down by Rs.683 lakhs, the export of non-HMT products and projects and services increased by Rs.333 lakhs and Rs.1164 lakhs respectively during 1989-90 as against 1988-89.

9.4 The overall net profit vis-a-vis total exports effected by the Company for the last eight years ending 31st March 1990 is indicated below:

Years	Total Exports	Net Profit	Percentage of net profit to total exports
	(Rs. in lakhs)		
1982	1916.00	119.50	6.24
1983	1932.00	93.31	4.83
1984	1894.00	127.87	6.75
1985	2034.00	148.91	7.32
1986	2431.00	142.98	5.88
1987	4254.00	245.55	5.77
1988-89	4729.00	117.67	2.49
1989-90	4597.00	281.36	6.12

9.5 Though the Company has been making profit continuously, the percentage of profit to the total exports fluctuated and showed a declining trend between 1986 and 1988-89.

The Ministry stated (July 1990) that the variation in the percentage of net profit to total exports was in relation to the export mix between projects, products and services in addition to a substantial reduction in export agency commission from 1988-89. The Ministry added that the Company had adequate system of analysing variation in profits.

9.6 Though the Company has been making profits continuously right from inception, it did not declare, in consultation with the Holding Company as provided in the Articles of Association, any dividend from 1982 to 1986. However, it has been declaring dividends of 100 per cent from 1987 onwards.

FINANCIAL POSITION

9.7 The financial position of the Company for the last eight years ending March 1990 was as follows:

(Rs. in lakhs)

Particulars	1982	1983	1984	1985	1986	1987	1988-89	1989-90
Liabilities								
a) Paid up capital	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
b) Reserves & Surplus	548.13	609.58	684.45	793.37	917.09	1116.64	1214.31	1449.67
c) Borrowings from Bank-pre shipment export credit	134.95	-	-	-	427.00	38.00	286.00	374.08
d) Trade dues and other current liabilities (including provisions)	177.03	248.09	741.68	503.88	357.56	383.40	1298.38	3458.97
	866.11	863.67	1432.13	1303.25	1707.65	1544.04	2804.69	5288.72
Assets								
e) Gross block	40.20	40.97	52.06	53.72	55.15	58.70	70.24	79.82
f) Less: Depreciation	16.83	17.50	22.96	26.44	29.38	33.36	40.34	47.35
g) Net fixed assets	23.37	23.47	29.10	27.28	25.77	25.34	29.90	32.47
h) Capital work-in-progress	5.67	1.05	-	-	-	-	-	-
i) Investment	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
j) Current assets loans & advances	837.02	839.10	1402.98	1275.92	1681.83	1518.65	2774.74	5256.20
	866.11	863.67	1432.13	1303.25	1707.65	1544.04	2804.69	5288.72
Capital employed (represents net fixed assets + working capital)	683.36	614.48	690.40	799.32	1350.04	1160.59	1506.26	1829.70
Net worth (represents paid up capital + reserves & surplus, Less intangible assets)	554.13	615.58	690.45	799.37	923.09	1122.64	1220.31	1455.67

Reserves and surplus accumulated upto March 1990 amounted to Rs.1450 lakhs (appx.) or 24166 per cent of paid up capital. To a query by Audit Board about non- utilisation of the accumulated reserves, the Company stated (November 1989) that it was in the process of drawing up its Corporate Plan including investment plans to utilise the reserves for market development, product development and other business promotion activities.

9.8 The Board of Directors of the Company approved (May 1985) payment of an advance upto Rs.100 lakhs to the Holding Company towards construction of Corporate Office Complex. The Company paid Rs.200.82 lakhs during the period 11th February and 1st July 1986. The Holding Company, however, adjusted Rs.200 lakhs towards fixed deposit for three years from 1st January 1987 and refunded the balance amount of Rs.0.82 lakh anticipating some delay in the construction of the building. In this process not only the purpose for which the advance paid was not served but the Company had also to forego interest of Rs.20.60 lakhs being the interest at 14 per cent on the advances for the period from 15th February 1986 to 31st December 1986.

The Company stated (June 1989) that there was no loss of interest as the surplus funds available with them did not earn any interest in the current account with the banks. This is not sustainable as the surplus funds could have been invested in deposits with the Holding Company or others.

The Ministry stated (July 1990) that the surplus funds were not immediately invested in short/medium term investments as they were retained to meet anticipated business requirements/exigencies and the decision to invest in fixed deposits of Holding Company were taken by the Board only when no immediate requirements were visualised.

10. INTERNAL AUDIT

The Company had no system of conducting internal audit till 1987. The Company stated (June 1989) that internal audit was not a statutory requirement until 1987. Thereafter the Holding Company has introduced the procedure of conducting internal audit on regular basis.

11. MAN POWER

11.1 The table below indicates the strength of officers and staff for the last eight years ending 1989-90:

Years	Officers In India	Officers In Abroad	Staff in India	Foreign Nationals in overseas offices	Total
1982	71	13	65	16	165
1983	96	11	63	7	177
1984	97	10	66	9	182
1985	93	8	67	8	176
1986	98	7	62	8	175
1987	98	6	62	6	172
1988-89	98	6	55	6	165
1989-90	99	10	54	6	169

11.2 The Board has not fixed any norms for man power. The Ministry stated (July 1990) that the standard force of the Company was fixed by the Board at the time of formation of the Company based on the quantum of export business handled at that time and the future requirements. However the operational budget for 1975-76 placed (May 1975) before the Board merely mentioned the total manpower as 34 without any indication of the future requirements.

12. OTHER TOPICS OF INTEREST

Supply of machine tools and presses to a firm in Algeria Avoidable expenditure of Rs.4.32 lakhs.

The Company signed a contract with an Algerian Firm in January 1984 for supply of machines and presses valuing Rs.9.96 lakhs (C&F). This included six presses valuing Rs.5.32 lakhs. While submitting the quotation, the Company had agreed to fit 'Festo Pneumatic Feeders' for the presses. The contract, however, provided for "Alimentation Automatique Y Compris de rouler, redresseur ot amenage" which when translated meant "Automatic feeder comprising feeder de-coiler and strengthener". While interpreting the same the Company had limited the scope of supplies to only "Festo Pneumatic Feeder". Though the Regional Manager was requested to explain the position to the customer and get them deleted, the same was not done before signing the agreement. When the machines and presses were shipped in July 1984, the customer refused to release payment on the ground that the Company did not fulfil its contractual obligation of completing supplies in all respects including de-coilers and straighteners. As the customer did not agree to delete these items from the contract, the Company had to procure one set indigenously at a cost of Rs.57,400/- and ship it in March 1988. It was agreed that the remaining 5 sets would be supplied after ascertaining the performance of the set supplied and acceptance by the customer. The total extra cost involved on this count would work out to Rs.3.44 lakhs plus freight thereon. It was further seen that while submitting the quotation, the element of freight charges assessed and included was only Rs.43,000/- though the actual freight paid was Rs.1.31 lakhs. The Company's efforts to get the difference did not materialise,

The Ministry stated (July 1990) that interest lost will be compensated by the increase in Rupee-U.S. Dollar exchange rate.

Thus as a result of failure to interpret the requirements correctly and submit quotation accordingly and failure to assess the element of incidental expenses more realistically, the Company had to bear an avoidable expenditure of Rs.4.32 lakhs.

P K Sarkar

(P.K.SARKAR)

New Delhi

The 14 FEB 1992

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

Countersigned

(C.G.SOMIAH)

New Delhi

The 14 FEB 1992

Comptroller and Auditor General of India

ANNEXURE - I (Ref. Para No.4.3)
OVERALL EXPORT PERFORMANCE VIS-A-VIS TARGETS

Particulars	1982	1983	1984	1985	1986	1987	1988-89	1989-90
a) (i) HMT's budgeted turnover (excluding cash assistance)	28590	30672	33780	43584	43243	49279	56169	65000
(ii) HMT's actual turnover (excluding cash assistance)	25808	32040	35085	37180	43053	45974	56649	65307
b) Budgeted exports of:								
(i) HMT Products	1620	1680	1580	1615	1650	2150	3371	3955
(ii) Non-HMT Products	130	120	140	190	250	150	294	640
(iii) Projects	300	300	462	300	300	250	1040	1500
(iv) Total	2050	2100	2182	2105	2200	2550	4705	6095
c) Actual exports of:								
(i) HMT Products	1384	1636	1060	1551	2218	3796	3309	1964
(ii) Non-HMT products	138	148	365	211	156	172	343	607
(iii) Projects	394	148	469	272	57	286	1077	2026
(iv) Total	1916	1932	1894	2034	2431	4254	4729	4597
	(560)	(552)	(331)	(337)	(376)	(639)	(681)	(966)
d) (i) Percentage of total budgeted exports of HMT(I) to HMT's budgeted turnover	7.2	6.9	6.5	4.8	5.1	5.2	8.4	9.4
(ii) Percentage of HMT(I)'s budgeted exports of HMT's products to HMT's budgeted turnover	5.7	5.5	4.7	3.7	3.8	4.4	6.0	6.1

e) (i) Percentage of total actual exports to HMT's turnover	7.4	6.0	5.4	5.5	5.6	9.3	8.3	7.0
(ii) Percentage of actual exports of HMT's products of HMT's turnover	5.4	5.1	3.0	4.2	5.1	8.2	5.8	3.0

( ) indicates No. of machines.

ANNEXURE II (Ref. Para No.4.4)
PRODUCT-WISE EXPORTS

(Rs. in Lakhs)

Year	Particulars	Machine tools & accessories	Watches	Tractors	Lamps & components	Dairy machinery	Total
1982-83	Turnover :	9773.01	9549.26	5345.11	1067.39	72.74	25807.51
	Percentage of turnover to total turnover :	37.90	37.00	20.70	4.10	0.30	-
	Exports :	1341.05	116.22	0.91	0.61	-	1458.79
	Percentage of export to total turnover :	5.20	0.45	-	-	-	5.65
	Percentage of export to total export :	91.90	8.00	0.06	0.04	-	-
1983-84	Turnover :	13520.84	10341.78	6989.23	1084.59	103.74	32040.18
	Percentage of turnover to total turnover :	42.20	32.30	21.80	3.40	0.30	-
	Export :	3961.16	195.87	1.05	1.47	-	4159.55
	Percentage of export to total turnover :	12.40	0.60	0.003	0.005	-	13.0

	Percentage of export to total export :	95.23	4.70	0.03	0.04	-	-
1984-85	Turnover :	13037.00	12143.60	8526.19	1239.55	139.03	35085.37
	Percentage of turnover to total turnover :	37.20	34.60	24.30	3.50	0.40	-
	Export :	1157.56	81.42	7.02	4.10	-	1250.10
	Percentage of export to total turnover :	3.30	0.23	0.02	0.01	-	3.60
	Percentage of export to total export :	92.60	6.50	0.60	0.33	-	-
1985-86	Turnover :	13526.60	12235.54	9728.52	1455.74	234.03	37180.43
	Percentage of turnover to total turnover :	36.40	32.90	26.20	3.90	0.60	-
	Export :	1844.70	85.37	-	2.44	-	1932.51
	Percentage of export to total turnover :	5.00	0.20	-	-	-	5.20
	Percentage of export to total export :	95.50	4.40	-	0.10	-	-

1986-87	Turnover :	16185.11	13904.99	11118.41	1535.76	308.92	43053.19
	Percentage of turnover to total turnover :	37.60	32.30	25.80	3.60	0.70	-
	Export :	2757.45	53.92	0.83	-	-	2812.20
	Percentage of export to total turnover :	6.40	0.10	-	-	-	6.50
	Percentage of export to total export :	98.00	2.00	-	-	-	-
1987-88	Turnover :	16823.02	14501.76	12957.09	1475.42	216.92	45974.21
	Percentage of turnover to total turnover :	36.59	31.54	28.18	3.21	0.48	-
	Export :	3255.51	46.71	1.37	1.28	-	3304.87
	Percentage of export to total turnover :	7.08	0.10	-	-	-	7.18
	Percentage of export to total export :	98.51	1.41	0.04	0.04	-	-

1988-89	Turnover :	20854.85	18639.02	15224.06	1610.54	320.46	56648.33
	Percentage of turnover to total turnover :	36.81	32.90	26.87	2.84	0.56	
	Export :	2958.60	35.23	5.91	1.31	-	3001.05
	Percentage of export to total turnover :	5.22	0.06	0.01	-	-	5.30
	Percentage of export to total export :	98.58	1.17	0.19	0.04	-	-
1989-90	Turnover :	24962.10	20171.12	18174.87	1703.28	289.97	65301.34
	Percentage of turnover to total turnover :	38.23	30.89	27.83	2.61	0.44	-
	Export :	2196.42	49.87	11.63	0.37	-	2258.29
	Percentage of export to total turnover :	3.36	0.08	0.02	-	-	3.46
	Percentage of export to total export :	97.26	2.20	0.52	0.02	-	-

ANNEXURE - III (Ref. Para No.4.14)
COUNTRY-WISE EXPORTS

Region	1982-83		1983-84		1984-85		1985-86		1986-87		1987-88		1988-89		1989-90	
	Rs. in Lakhs	Percentage of total exports	Rs. in Lakhs	Percentage of total exports	Rs. in Lakhs	Percentage of total exports	Rs. in Lakhs	Percentage of total exports	Rs. in Lakhs	Percentage of total exports	Rs. in Lakhs	Percentage of total exports	Rs. in Lakhs	Percentage of total exports	Rs. in Lakhs	Percentage of total exports
1. East Europe	940	61.8	1008	70.7	565	32.2	1478	74.7	2312	85.0	3055	89.5	1453	34.9	974	21.2
2. Africa/Middle East	307	20.2	147	10.3	605	34.5	350	17.7	341	12.5	197	5.8	1755	42.1	2288	49.7
3. Neighbouring countries & deemed exports	145	9.5	120	8.4	144	8.2	97	4.9	28	1.0	100	2.9	95	2.3	81	1.8
4. South East Asia	56	3.7	97	6.8	380	21.7	7	0.3	9	0.3	2	0.1	720	17.3	921	20.0
5. Australia & Newzealand	20	1.3	7	0.5	17	1.0	12	0.6	19	0.7	29	0.8	46	1.1	77	1.7
6. America	45	3.0	7	0.5	21	1.2	21	1.1	8	0.3	17	0.5	24	0.6	225	4.9
7. West Europe	8	0.5	40	2.8	20	1.2	13	0.7	4	0.1	14	0.4	73	1.8	31	0.7
	1521		1426		1752		1978		2721		3414		4166		4597	

ANNEXURE - IV (Ref. Para No. 6.2)
AREA-WISE PERFORMANCE OF AGENTS

Region	1982			1983			1984			1985			1986			1987			1988-89			1989-90		
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C
West Asia (Kuwait, UAE, Qater, Oman S.Arabia & Bulgaria)	2	6	7.20	2	8	5.40	2	3	4.50	3	8	5.20	4	12	16.11	4	10	33.63	5	3	912.00	4	9	19.94
South East Asia & Neighbouring countries (Indonesia, S.Korea, Srilanka, Nepal, Bangladesh, Pakistan	5	10	19.58	6	3	559.72	5	6	10.95	6	2	6.98	5	2	3.41	5	2	3.20	4	4	60.32	4	3	52.06
East Europe (Poland, Yugoslavia, Czechoslovakia, GDR, USSR)	3	2	533.71	4	-	-	4	2	700.72	4	5	723.40	4	7	900.74	3	4	1067.95	3	10	723.91	5	6	2607.14
West Africa, Nigeria & Ghana	2	-	-	2	-	-	2	4	60.0	2	2	17.93	3	3	25.77	3	5	21.68	7	27	522.18	2	7	2090.39
East Africa (Ethiopia, Zimbabwe, Mauritius, Kenya)	3	-	-	3	-	-	3	2	0.46	3	2	4.13	3	2	7.90	4	13	124.99						
			560.49			565.12			776.63			757.64			953.93			1251.45			2218.41			4769.53

A- No. of Agents
B- No. of orders secured
C- Value of orders (Rs. in Lakhs)

ANNEXURE - V (Ref. Para No. 7.3)
ORDERS LOST DUE TO INABILITY TO SUBMIT TENDER IN TIME

Sl. No.	Tender Ref.	Tender cell	Project/Country	Value (Rs.in lakhs)	Remarks
1.	Appl d' offers No. Ferrivias 04/83.	T295/ 83	Perrivial Algeria	36.70	Offer sent through M/s. Cox & Kings courier, reached late.
2.	CAP14(INT) WI (2)/85-86 Dt. 15.11.85 (Closing dt. 14.1.86.	T444/ 86	Timber Corporation Wood Inds. II Proj. Burma	33.79	Offer reached agent of the Company only on 14.1.86. Hence not reached late.
3.	BSB/82	T278/ 83	Bangladesh Shilpa Bank Inspection & evaluation Deptt. Bangladesh	29.42	Offer not submitted in time. Offer sent through DHL reached the agent only on the closing date.
4.	Tender No. 005/85:INV	T404/ 85	Deptt. Approvisionment Algeria	20.52	Offer sent through DHL directed to RXA on 7.5.85 reached late. Hence returned back.
5.	Tender Enq. No.7/AS/85	T416/ 85	Commercial Manager, State Enterprise for National Tobacco, Iraq.	9.95	Offer sent by Sky Pack Courier Service on 4.7.85. Offer reached on 14.7.85 only, rejected.

6.	IDA credit No.1328 UG	T412/ 85	Uganda Commercial Bank, (BCB) Kampala, Uganda	8.01	Offer sent by courier service. Offer did not reach by closing date.
7.	/87	T502/ 87	Enterprise Nationale D&I Emballayed Metallioues BCITE.	7.61	Offer not reached in time.
8.	T1842/1674	T417/ 85	Mettalic structure & mechanical Inds. Syria	6.00	Offer sent by Sky Pack courier service on 4.7.85. Offer reached on 14.7.85 only, rejected.
9.	Tender No.104 closing date 14.11.84	T373/ 84	Bangladesh Water Devpt. Board Dhaka, Bangladesh	5.40	Offer not submitted as offer reached the agent only on 14.11.1984.
10.	Tender No. 652	T463/ 86	Ministry of Defence Vehicles Admn. Syria	1.69	Offer sent through courier on 29.4.86. Did not reach in time.
TOTAL				159.09	

ANNEXURE - VI (Ref. Para No.7.3)
ORDERS LOST DUE TO INABILITY TO OPEN BID BOND IN TIME

Sl. No.	Tender Ref.	Project/Country	Value (Rs. in lakhs)	Remarks
1.	1/81/1329/ MA 1	Ministry of Labour & Man Power, Malaysia	230.32	Offer not submitted since bid bond not reached in time.
2.	2/B1/1329/ MA 2	Malaysia		
3.	Qn./86	CONALEP-Mexico	167.46	Offer not considered as bid bond not arranged in time.
4.	IBRD Loan No.2101-IND Ten.No.01/ II.III/EQ/ P3TK/1986 dt.1.10.86	Second Teachers Training Proj. Indonesia	149.04	Bid bond not issued in time & offer not considered.
5.	Tender No. VIT/CB/ 11181	Supply of machines tools for vocational & Industrial Trg. Boards, Singapore.	135.35	Offer of ENAV was rejected as they did not open bid bond.

6.	Qn./86	Ministry of Education & Cultural, Indonesia.	47.18	Inability to extend validity of bid bond.
7.	Bid No.2.3; 2.4; 3.9	Ghana Ports Authority, Ghana	46.08	Offer was not considered by the tendering authorities as bid bond was not opened in time.
8.	Tender No. 133	National Iranian Copper Inds. Tehran, Iran	13.35	Offer not considered as bid bond was not opened in time.
9.	Invitation for bid No. 50/2326 MM25-04	Supply and procurement Dept, Electricity Generating Authority of Thailand.	11.05	Offer not submitted to tendering authorities as bid bond not opened in time.
10.	Bid No.2.1	Ghana Ports Authority, Ghana	06.00	Offer was not considered by the tendering authorities as bid bond was not opened in time
11.	Invitation for bid No. 49/2526 MM25-3	Electricity Generating Authority of Thailand	03.49	Offer not submitted by agents M/s.Garuda as bid bond could not be opened by SBI as BOA required at least 15 days for bid bond opening.
			809.32	

ANNEXURE - VII (Ref. Para No.7.3)
TENDERS LOST ON ACCOUNT OF HIGH PRICES QUOTED

Sl. No.	Tender Ref.	Project/Country	Value (Rs. in lakhs)	Remarks
1.	Qn.dt. 16.7.88	Inds.Devpt. Renovation Organisation Iran	808.00 Supply of machines & collalboration for creation & commissioning	Prices high by 300% for CKD/SKD packs.
2.	02/85/12/84	Ema-OQ-Bureau Des-Carches-Algeria	463.51	HMT's offer was 100 to 300% higher than other 20 offers.
3.	T.525	Ministry of Education, Malaysia machines FN 14, FN IV GTC 28 T	360.00 Supply of	Not competitive 6th lowest.
4.	Ten/Cell/T. 367/84	CAMEMD KAI EL HAYETTE (EX APPREUAL) ALGERIA	Supply of No.22/1000 192 valued at Rs.336.05.	Loss on account of higher cost of HMT's offer

5.	Qn./86	Department of Public Works, Indonesia.	109.01	HMT price not competitive
6.	Qn.dt. 11.11.88	State Electrical Industrial Estb. Baghdad.	70.00 Supply of machines	Prices high by 28%.
7.	Ten/Cell/T. 367/84	SONARIC, Bureau Regional Algeria	62.95	-do-
8.	-do-	Zambia Elec. Corporation Zambia	56.00 Energy meters	Prices high by 50%
9.	Ten/Cell/T. 140/84	Tech. Director Sonatrack, Algeria	43.43	Lost on account of very high price of HMT's offer
10.	03/84	Enterprise Nationale DES APPRAREILS Algeria	26.82	-do-
11.	T.524	Ministry of Labour, Malaysia	26.20	5th lowest Supply of FN 14
12.	Ten/Cell/T. 304/83	SONARIC-III Bureau Regional G.T.SNS, Algeria.	18.99	Lose on account of very high price of HMT's offer
13.	Ten/Cell/T. 359/84	SONARIC, Route-DE-BARAKI, Algeria	16.09	-do-

14.	Qn./87	Dairy Corporation Uganda, Butter packing machine	15.87	HMT's price not competitive.
15.	Qn.dt. 16.7.88	1 BRD Dist. Elico, Jordan	15.50 Energy meters	Prices high by 130%
16.	Qn/886	M.O information Kuwait	12.93	HMT's price not competitive
17.	760/21.9.83	L Enterprise Nationale DE-Distribution Algeria	7.94	Lost on account of very high price of HMT's offer
18.	AMC/3/789/ ET/83	Agricultural Mktg. Corporation, Ethopia	7.12	-do-
19.	Ten/Cell/T. 306/83	SAPTA BOFTE POSTALE.70 Algeria	2.02	-do-
TOTAL			2458.43	