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REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

UNION GOVERNMENT

NO. 6 (COMMERCIAL) OF 1991

HINDUSTAN PREFAB LIMITED

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PREFACE

The report was finalised by the Audit Board consisting of the following members after taking into account the results of discussions held with the representatives of the Company and the Ministry of Urban Development :

S/Shri

A.C. Tiwari	Deputy Comptroller and Auditor General (Commercial)-cum-Chairman, Audit Board from 1st May 1990 to 7th June 1991.
P.K. Sarkar	Deputy Comptroller and Auditor General (Commercial)-cum-Chairman, Audit Board from 8th June 1991 till date.
Kanwal Nath	Principal Director of Commercial Audit and Ex-Officio Member, Audit Board-III, New Delhi from 19th March 1990 till date.
Vijay Kumar	Principal Director of Commercial Audit and Ex-Officio Member, Audit Board-I, New Delhi from 17th July 1990 till date.
K.S. Menon	Principal Director (Commercial) and Member Secretary Audit Board from 2nd July 1990 till date.
T.S. Ratnam	Retired Chief Engineer, Central Public Works Department, New Delhi - Part time Member.
D.A.S. Iyer*	General Manager (Home Projects), National Buildings Construction Corporation Limited, New Delhi - Part time Member.

2. The Comptroller & Auditor General of India wishes to place on record his appreciation of the work done by the Audit Board and, in particular, the contribution made by the non-official members.

*Did not attend any meeting.

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OVERVIEW

1. A Housing factory for manufacture of prefabricated houses for displaced persons was set up by the Government of India in 1950. As the factory could not go into production on the lines originally planned, a new Company under the name of Hindustan Housing Factory Private Limited, was formed in 1953 to produce foam concrete slabs, prestressed concrete components, wood work in standardised pattern and for steel fabrication, in association with an Indian private firm. Because of heavy losses incurred by the Company and the inability of the Indian firm to provide working capital, the entire capital was acquired by Government of India with effect from August 1955 thereby making the Company a wholly owned Government Company under the name of Hindustan Housing Factory Limited. In March 1978, the Company changed its name to Hindustan Prefab Limited.

The working of the Company was last reviewed by the Audit Board vide Comptroller and Auditor General of India's Report - Union Government (Commercial) 1970-71 - Part V.

A number of Committees/Expert Group had also reviewed various aspects of the working of the Company during 1976 to 1980 with a view to suggesting improvements. There were noticeable delays in implementing some of their important recommendations, especially those relating to surplus labour. (Paras 1.1 to 1.6)

II. The micro and financial objectives of the Company sent to the Ministry of Urban Development in June 1984 were still awaiting approval. The financial objectives of the Company, approved by the Board of Directors in May 1984, provided for, inter-alia, adequate return on capital, reduction in cost of production by systematic cost control measures and revamping of the Company to make it economically viable. These objectives have largely remained unrealised. (Paras 2.3 to 2.5)

III. The equity capital of the Company was Rs. 446 lakhs as on 31st March 1990. Long term borrowings of the Company increased from Rs. 448.25 lakhs in 1983-84 to Rs. 1559.74 lakhs in 1989-90. The Company has an adverse debt equity ratio which increased from 2.13 : 1 in 1983-84 to 3.50: 1 in 1989-90. Loans to the extent of Rs. 983 lakhs were granted by the Government of India during the period 1960-61 to 1989-90 for working capital requirements of the Company.

The Company defaulted in repayment of principal as well as payment of interest. The principal and interest (including penal interest) in default as on 31st March 1990 was Rs. 418 lakhs and Rs. 646.74 lakhs respectively.

The accumulated loss of the Company as on 31st March 1990 was Rs. 823.39 lakhs which had entirely wiped out the paid-up capital of Rs. 446 lakhs and Reserves and Surplus of Rs. 10.66 lakhs on that date. The main reasons for the losses were under-utilisation of capacity, high cost of production, high overheads, surplus labour and low productivity of labour. (Paras 4.1 to 4.3)

IV The installed capacity for poles and railway sleepers was generally under-utilised. In the case of poles, though order position was comfortable, the actual production was generally not only below the installed capacity but was also less than the targets fixed as well as orders on hand. In the case of Railway Sleepers also, though the order position was generally comfortable the actual production was below the capacity as well as the targeted production. The increase in installed capacity in 1984-85 and 1985-86 remained totally un-utilised. Most of the site works taken up by the Company were not completed as per schedule.

(Paras 6.1 & 6.2)

V. The total cost was more than sale value of production in respect of all items (except RCC and Vayutan). The Company was not able to recover even the prime cost in the case of Wood Works during 1984-85.

(Para 9.3 & Annexure X)

VI. The Company had been incurring losses in the production of both major items viz. P.C. Poles and Railway Sleepers. Though the sale value of production increased substantially in case of P.C. Poles during 1986-87 over the previous year, the losses also increased, indicating that the production of P.C. Poles was not economically viable. The Company was also incurring losses in Wood Works. The operating profit in the site works during the three years 1986-87 to 1988-89 contributed to the over-all reduction in loss of the Company. (Paras 10.3.1 to 10.3.3)

VII. The Sundry Debtors as on 31st March 1990 stood at Rs. 929.11 lakhs which represented about 5.1 months' sales in 1989-90. A sum of Rs. 77.40 lakhs out of Rs. 91.34 lakhs outstanding for one year or more was considered doubtful of recovery by the Management and was fully provided for. (Paras 10.4.1 & 10.4.2)

VIII. Release of payment to a private party for supply of cement without ensuring receipt of corresponding supplies as per terms of the contract resulted in an avoidable blocking of funds for over five years coupled with uncertainty in its realisation. (Paras 12.1.1 to 12.1.3)

IX. The Company had not made any progress in the technology of pre-fabricated construction of houses. No efforts have been made to take advantage of the policy of the Government relating to low cost housing schemes. The Company now proposes to enter into real estate business to off-set its losses and to find capital for its other programmes. However, the Company's proposal to construct flatted factories on the portion of its factory land was not approved by the Ministry of Urban Development.

(Paras 3.4.1 & 3.4.2)

X. The performance of the Company during the last decade has been most disappointing and none of the objectives of the company either social or financial has been fulfilled.

1. INTRODUCTION

1.1 In 1950, the Government of India set up a Housing Factory at Delhi for the manufacture of prefabricated houses, with technical assistance of a foreign firm, for rehabilitating displaced persons. Owing to certain technical and other difficulties, the factory could not go into production on the lines originally planned and it was decided in August 1951 to abandon the original scheme and to explore new avenues for putting the factory to profitable use. It was finally decided that the factory should be utilised to produce foam concrete slabs, prestressed concrete components, wood work in standardised patterns and for steel fabrication, in association with an Indian private firm.

1.2 In pursuance of the above decision, a new company under the name of Hindustan Housing Factory Private Limited was formed on 27th January 1953 with a paid-up capital of Rs. 1 lakh in partnership with an Indian firm on 50 : 50 basis. The fixed assets of the factory were leased out to the newly formed company with effect from 1st April 1953. The main object of forming the new company was to put to profitable use the fixed assets of the existing Governmet factory. Because of heavy loss incurred by the Company and the inability of the Indian firm to provide further working capital, the agreement with the latter was terminated and the entire capital was acquired by Government with effect from 16th August 1955, making the Company a wholly owned Government Company under the name of Hindustan Housing Factory Limited.

1.3 The Company resolved (October 1977) to change its name to 'Hindustan Prefab Limited' on account of the following considerations :

i) The name of the Company had resemblance to that of a factory whereas the Company had multifarious activities including execution of construction contracts at the sites.

ii) The word 'Housing' tagged up with the name of the Company gave an impression that it was engaged in the housing programme of the country. In fact its objects, inter-alia included manufacture and supply of PCC, RCC and Cellular Concrete products as well as wood work components and construction jobs. The change in name became effective from 9th March 1978.

1.4 The working of the Company was last reviewed in the Comptroller and Auditor General of India's Report for the year 1970-71, Union Government (Commercial) Part-V. The present report covers the subsequent period, particularly the activities of the Company for the last six years ending 31st March 1990.

1.5 Various aspects of the working of the Company were also reviewed by the following four Committees/Expert Group with a view to suggesting measures for improvement :

i) Committee appointed by the Board of Directors in August 1975.

ii) Administrative Staff College of India, Hyderabad at the instance of the Board of Directors, 1976.

iii) Committee appointed by the Government of India in December 1976.

iv) Expert Group appointed by the Government of India in October 1979.

1.6 The main recommendations of the Committees/Expert Group contained in their reports of March 1976, July 1977, October 1977 and January 1980 respectively and the action taken thereon are summarised in Annexure I. It will be seen that an important recommendation to reduce the incidence of surplus labour made as far back as in 1976 was implemented only in November 1988 and there was noticeable delay in implementing other recommendations also, like diversification of activities, etc. on account of lack of orders and financial difficulties.

The Management stated (May 1989) :

"The Company has already diversified its activities in the field of civil construction. In order to recover part of factory overheads and engage the available labour force, the Company is continuing its activities viz. the manufacture of PC Poles and Railway Sleepers. However, the manufacture of PC Poles is being restricted and part of the capacity of this department is being converted for the manufacture of Railway Sleepers which is comparatively more remunerative".

Ministry of Urban Development stated (September 1990) that the delay in diversification in site works was due to the uncertainty of the future of the Company as per Government of India letter dated 4th January 1979 and an embargo of October 1980 on taking up new site construction works.

The Government of India letter dated 4th January 1979 allowed the Company to continue its operations only till 31st March 1981. In June 1981 the Chairman of the Company informed the Board that the Government had allowed continuance of the Company beyond 31.3.1981 and "the output of the Company may be increased not only inside the factory but also taking up site works in and outside Delhi...."

2. OBJECTIVES

2.1 The main objectives of the Company are to carry out all kinds of business relating to manufacture, fabrication, assembling, export, import and dealing in

(i) business of engineers, architects, designers, town planners and builders, furnishers and decorators of houses, godowns, shops, flats, sheds, hangers, factories, buildings and construction of all types;

(ii) all forms of foam, reinforced and other kinds of concrete;

(iii) all forms of constructions whether of any metal, concrete, prestressed concrete or any other substance whatever in all their forms including beam, high tension poles, sheets, sleepers, slabs,skeletons, bridges, aviation and factory hangers whether prefabricated or manufactured at site;

(iv) prefabricated houses of all types and description and component parts thereof;

(v) doors, windows, hardware and joinery of all description and/or material, furniture, decoration materials, sanitary and electric installations, refrigerators, heaters, coolers, air-conditioners, fittings and other house hold requirements of every kind and description;

(vi) establishment and working of laboratories for research into manufacture of all types of buildings and building materials, construction technology, trade and marketing and to act as adviser and to establish, maintain and operate training institutions for engineers and specialists in various subjects whether scientific or otherwise.

2.2 The Company is engaged in the manufacture of Prestressed Concrete, (PC), Railway Sleepers, PC Poles, Reinforced Cement Concrete products such as pavement slabs, man hole covers, foam concrete products for insulation and partition, etc. and wood shutters for doors and windows.

2.3 The Bureau of Public Enterprises (BPE) directed (May 1979) all the public sector enterprises to spell out their micro objectives to facilitate realistic and meaningful evaluation by the Parliamentary Committee. The Board of Directors had approved (May 1984) the micro objectives of the Company which interalia included manufacture of prestressed concrete poles for rural electrification and tube-well energisation, reinforced concrete building elements for housing and industrial structure, PC Monoblock, Railway Sleepers for Indian Railways, light weight cellular concrete partition and insulation blocks, machine made wooden frames and shutters as well as civil construction site works.

2.4 The following financial objectives were also approved by the Board of Directors in May 1984 :

i) To ensure adequate return on the capital employed and maintain annual dividend at a reasonable level on its equity capital.

ii) To ensure optimum economy in the expenditure.

iii) To generate sufficient internal resources for financing partly/wholly expenditure on new capital projects.

iv) To develop long term corporate plan to provide adequate growth of the activities of the Organisation.

v) To reduce the cost of production by means of systematic cost control measures.

vi) To revamp the company to make it an economically viable unit.

2.5 These objectives were sent to the Ministry of Urban Development in June 1984; Ministry's approval thereto has not been received.

The Ministry of Urban Development stated (December 1988) as under :

"It would not be appropriate at this stage to examine the micro objectives formulated by the Company in May 1984 for approval by the Government, unless this Ministry is informed of the achievements of the last over five years on various aspects of obligations listed in the proposal".

The Ministry inter-alia stated again (September 1990) :

"The financial objectives could not be achieved for the reason that there had been higher labour fixed overheads, heavy interest liability on Government loans, uneconomical sale rates due to cut throat competition, low productivity due to old age of labour".

3. ORGANISATIONAL SET UP AND ACTIVITIES

3.1 The Management of the Company vests in the Board of Directors.

3.2 The Board consists of one full time director designated as Managing Director (MD) or the Chairman-cum-Managing Director, (CMD) who is the executive head and other directors subject to a ceiling of eleven directors. The number of directors during the period 1972-73 to 1979-80 ranged between seven and ten, from 1980-81 the number of directors came down to three, including the CMD. Two of the Managing Directors held office for eight months and six months only during the years 1984-85 and 1985-86. The organisation chart of the Company is given in Annexure II.

3.3 Activities

3.3.1 The activities of the Company are two fold : manufacture of pre-fabricated components in the factory at Jangpura, New Delhi and execution of civil construction works at sites at different locations in India.

3.3.2 The manufacturing activities in the factory are carried out through the following departments :

i) Prestressed Concrete Department

This department comprises PC.I (Poles) and PC.II (Railway Sleepers) sections which manufacture prestressed concrete poles, used for electric transmission and distribution lines by the State Electricity Boards and railway sleepers for the Indian Railways respectively.

ii) Wood Works Department

This department produces joinery items like wood shutters for doors and windows on a mass scale with the help of special purpose machines.

iii) RCC and Vayutan Departments

These two departments produce RCC components such as pavement slabs, water tanks, etc. and cellular concrete blocks used for partition and insulation purposes.

3.3.3 Site Works

The Company started construction of prefabricated houses at sites in December 1965 on experimental basis and executed the construction of fully/partially prefabricated flats/quarters at various sites.

The Company did not take up any new site construction works due to unremunerative rates (1977-78 to October 1980) and the embargo imposed by the Government on taking up new works (October 1980 to June 1981). On lifting of the embargo the Company tendered for site works but was awarded a work only in October 1983.

3.4 Long Term Perspective

3.4.1 The adverse debt equity ratio, continued losses despite increased production, negligible advancement in diversification like preparation of flyash bricks or prefabricated houses is sought to be countered by entering into real estate business by the Company. Construction of a commercial complex in collaboration with NBCC and HUDCO and conversion of the present location for commercial purposes, etc. is expected to result in increased funds flow and repayment of past liabilities and modernisation of the Company. However, the Company's proposal to construct flatted factories on the portion of its factory land was not approved by the Ministry of Urban Development.

3.4.2 The increased emphasis on low cost housing through-out the country could not be exploited by the Company at all as it was competing with private trade in matters of tenders to DDA etc. In order to take full advantage of the market for low cost housing, the Company could have made model housing schemes in several modules which could have been presented to the Housing Boards and central agencies engaged in such activities.

The Ministry, inter-alia, stated (September 1990) as under :

(i) Inspite of adverse debt-equity ratio, the Company had been able to increase its production both in the factory and at the sites. The Company had successfully manufactured fly ash bricks on an experimental basis and also secured orders for the manufacture of two million fly ash bricks for NTPC.

(ii) The Company intends to take part in a land development project along with NBCC and HUDCO to generate cash which would result in an increased flow of funds for repayment of past liabilities.

(iii) The Company made significant progress in the field of housing for economically weaker section by propagating partial prefabrication. One large scale project undertaken by this Company was the construction of 1952 Economically Weaker Section (EWS) housing units in Rohini which was completed in record time.

In this connection the following remarks are offered :

(a) Adverse debt equity ratio has arisen due to erosion of working capital and continued losses leading to dependence on borrowed funds. The Company never had the problem of liquid resources as the Ministry had been granting loans for working capital as and when demanded by the Company.

(b) As regards fly ash bricks, the Company manufactured 2.06 lakh bricks at a cost of Rs. 5.06 lakhs while its sale value was Rs. 0.90 lakh. The manufacture of these bricks, thus, appears to be economically non-viable.

(c) The cost of sales was always higher than the sale value during the last five years. The percentage of cost of sales to sales ranged between 105 to 108 during the years 1985-86 to 1989-90.

(d) As regards development of low cost housing scheme, the Company did not take up any project so far (March 1991). As to significant progress in the field of housing for economically weaker section, the Company refers to construction of 1952 EWS quarters executed for DDA as civil contracts.

The Ministry of Urban Development further stated (April 1991) as under :

"Apart from the HPL, the Ministry is also administratively incharge of two other public sector enterprises namely the NBCC and HUDCO. While NBCC is a major construction agency executing various contracts in different specialised fields, HUDCO is an important techno-financing agency for housing construction and infrastructure. While there is no specific proposal under consideration of the Ministry to convert HPL into a subsidiary of either NBCC or HUDCO, the Ministry is encouraging the three enterprises to work on the basis of greater collaboration based on complementary and mutual benefit. This collaboration could be specific to particular project on a given piece of land as in the case of works entrusted to HPL at Andrewsgunj in Delhi by HUDCO or could take the form of the three agencies working as a consortium. Such a consortium would benefit from the strength of each enterprise by way of execution of large scale projects, use of prefab technology, urban design and financial support. It is also possible for some divisions of CPWD to draw upon HPL on an assured basis for various requirements of materials and components for construction and maintenance. The details of such collaborative arrangements will be worked out in the course of this year".

4. CAPITAL STRUCTURE

4.1 The authorised and paid-up capital as on 31st March 1990 was Rs. 500 lakhs and Rs. 446 lakhs respectively. The long term borrowings were Rs. 1559.74 lakhs (wholly from Government of India) as on 31st March 1990. The table below indicates paid-up capital, long term borrowings and debt-equity ratio from 1983-84 onwards :

Year	Paid-up Capital	Long term borrowings (including over-due interest)	Debt-equity Ratio
		(Rs. in lakhs)	
1983-84	210.00	448.25	2.13 : 1
1984-85	250.00	556.71	2.23 : 1
1985-86	290.00	698.93	2.41 : 1
1986-87	300.00	905.26	3.02 : 1
1987-88	320.00	1090.08	3.41 : 1
1988 -89	355.00	1309.88	3.69 : 1
1989-90	446.00	1559.74	3.50 : 1

It will be seen that as against the norm of 1 : 1 the Company was having an adverse debt equity ratio which increased steadily from 1983-84 to 1988-89. In 1989-90 there was a marginal reduction.

4.2 The Company defaulted in repayment of loans received from the Government of India for working capital as well as interest due thereon upto 31st March 1990 as per details given below :

(Rs. in lakhs)

Year	Amount of loan granted	Amount in default	
		Principal	Interest including penal interest
1960-61	40.00	Nil	0.66
1974-75	68.00	68.00	73.01
1975-76	30.00	30.00	33.81
1976-77	20.00	20.00	22.89
1977-78	50.00	50.00	55.69
1978-79	30.00	30.00	29.98
1980-81	25.00	25.00	21.88
1981-82	50.00	20.00	22.23
1982-83	25.00	25.00	26.34
1983-84	50.00	50.00	58.83
1984-85	100.00	100.00	106.17

1985-86	100.00	Not due	78.00
1986-87	100.00	Not due	60.75
1987-88	100.00	Not due	36.75
1988-89	100.00	Not due	19.75
1989-90	95.00	Not due	-
Total	983.00	418.00	646.74

It may be seen that there has been continuous default in repayment of loan and also payment of interest from 1974-75 onwards. This resulted in increasing liability of interest including penal interest from year to year.

The Ministry stated (September 1990) that the servicing of this loan imposed a heavy burden on the profitability of this Company and the Company had requested the Government for conversion of Rs. 550 lakhs out of this loan into equity so as to bring the interest burden of the Company within manageable limits.

4.3 The accumulated losses of the Company amounted to Rs. 823.39 lakhs as on 31st March 1990 which worked out to 184.62 per cent of its paid-up capital (Rs. 446 lakhs as on that date. Thus, the entire paid-up capital and retained profits were wiped out and the Company was fully dependent on borrowed funds for purchase of fixed assets and working capital.

5. EXPANSION AND DIVERSIFICATION

5.1 Prefabricated Houses :- A Committee appointed to look into the method of achieving low cost large scale housing construction recommended in October 1969 that this Company should set up prefabrication plants in major cities. The Government indicated to the Company in September 1972 that UNDP assistance of 0.7 million dollars was available for this purpose. A feasibility report for setting up a pre-fabrication plant in Bombay was prepared in 1970 and updated in November 1972. The Management stated that they were not aware of further developments in this regard.

The Ministry stated (September 1990) that in spite of best efforts the old records could not be located at this belated stage, and therefore, the Management was not aware of further developments.

5.2 The Company started manufacture of Concrete Railway Sleepers in March 1969. However, following heavy rejection of sleepers by the Railways, this line of manufacture was discontinued in September 1970 as mentioned in paragraph 5 (B) of the Report of the Comptroller and Auditor General of India 1970-71 (Part-V) Union Government (Commercial). In December 1972, the Company entered into a fresh agreement for supply of 1.20 lakh sleepers at the rate of Rs. 114.00 per sleeper. The manufacture of Railway Sleepers was again discontinued in May 1977 as the rate of Rs. 135.00 per sleeper offered by the Railways in June 1976 was not acceptable to the Company. The production was reviewed in August 1982 following the recommendations of the Dinesh Mohan Committee and an agreement for manufacture and supply of 4.50 lakh sleepers at the rate of Rs. 197.00 per sleeper valuing Rs. 887 lakhs was entered into with the Railways in February 1982. The production performance from year to year has been analysed in the subsequent chapter "Production Performance".

5.3 The Company has been executing cost plus as well as item rate contracts for site works. The performance of the Company in the execution of the site works has been discussed in the chapter "Production Performance".

5.4 Fly Ash Bricks Plant

5.4.1 The Company appointed (February 1983) National Industrial Development Corporation Limited (NIDC) as consultants for conducting feasibility study for setting up a Lime Fly Ash Bricks Plant on a fee of Rs.0.90 lakh. The proposal was approved by the Ministry in April 1983.

5.4.2 The consultants submitted their report in 1983-84. However, the project could not be undertaken for the following reasons :

i) The project cost of Rs. 795 lakhs was considered too high.

ii) The estimated cost of production of fly ash bricks (Rs. 472 per thousand) was much higher than the cost of conventional clay bricks (Rs. 400 per thousand).

iii) The expectation of procuring fly ash at no cost and marketing of 12 crore bricks in a year was not considered achievable.

5.5 R&D Activities

5.5.1 Though the production of fly ash bricks as per feasibility report of NIDC was considered economically non-viable, the Company continued R & D activity to make use of fly ash. The Management stated (January 1988) that the Company successfully manufactured in 1987 fly ash bricks through its own R & D activities without any additional investment.

The Ministry stated (September 1990) that the Company had already taken up the manufacture of fly ash bricks for NTPC in July 1989 against their order of 2.0 million bricks. In this connection, it may be mentioned that the cost of manufacture of 2.06 lakh bricks was Rs. 5.06 lakhs as against its sale value of Rs. 0.90 lakh in 1989-90.

6. PRODUCTION PERFORMANCE

6.1 Capacity Utilisation

6.1.1 Poles

6.1.1.1 The installed capacity, order book position, targeted and actual production of poles during the last six years ending March 1990 are given in the following table :

Year	Installed capacity (Nos.)	Targeted production (Nos.)	Orders on hand: At the beginning of the year (Nos.)	Orders on hand: Received during the year (Nos.)	Total (Nos.)	Production during the year (Nos.)	Percentage of the production to installed capacity
1984-85	80,000	65,000	69,463	51,746	1,21,209	78,933	99
1985-86	80,000	72,000	42,276	87,645	1,29,921	71,417	89
1986-87	80,000	1,00,000	58,504	1,03,488	1,61,992	87,922	110
1987-88	1,02,688	1,00,000	74,070	83,682	1,57,752	83,795	82
1988-89	1,06,000	1,00,000	73,957	60,733	1,34,690	74,444	70
1989-90	74,932*	85,000	60,246	20,548	80,794	33,865	45

*Reasons for decrease in installed capacity were not available.

6.1.1.2 It will be seen that except in 1986-87 actual production was not only below the installed capacity but was also less than the targeted production (except 1984-85). The Directors in their report for the years 1985-86 and 1986-87 reported that the orders of Punjab State Electricity Board were not executed due to non-lifting of supplies by them during 1984-85 and the rates were not considered viable in subsequent years. The decrease in production during 1987-88 & 1988-89 was attributed by the Management to conversion of part capacity of P.C. Poles into that of Railway Sleepers on account of financial viability. According to Director's Report of the Company for the year 1989-90, the shortfall in production of poles was due to the fact that private sector enterprises have set up pole manufacturing units in the neighbouring States. These units are in small scale sectors and get the benefits of exemption of sales tax, lower excise duty, State Government orders and price preference. Therefore, the Company finds it difficult to compete with them and procure orders at viable rates.

As the Department was incurring losses, with a view to developing alternative use of P.C. Department, a part of the capacity of P.C. Poles was converted to manufacture of P.C. Railway Sleepers in a phased manner during 1982-83. As a result, the installed capacity of P.C. Poles came down from 1,37,663 Nos. in 1981-82 to 80,000 Nos. in 1984-85. This was increased further to 1,02,688 Nos. during 1987-88 and 1,06,000 Nos. in 1988-89 though the production during these years decreased as compared to 1986-87. The capacity was again reduced to 74,932 Nos. during 1989-90; the actual production was only to the extent of 45 per cent of this reduced capacity. This has resulted in an idle capacity of around 30 per cent in 1988-89 and 55 per cent in 1989-90.

The Ministry stated (November 1990) that the Management was now trying to find out alternative products and phase out the production of poles.

6.1.2 Railway Sleepers

6.1.2.1 The order book position, installed capacity and actual production of Railway Sleepers during the last six years ending March 1990 are tabulated below :

Year	Installed capacity	Targeted production	Orders on hand: At the beginning of the year	Orders on hand: Received during the year	Total	Production during the year	Percentage of the production to installed capacity
	(Nos.)	(Nos.)	(Nos.)	(Nos.)	(Nos.)	(Nos.)	
1984-85	1,05,000	1,00,000	(-) 26,616*	1,00,000	73,384	66,441	63
1985-86	1,33,340	1,20,000	6,943	1,00,000	1,06,943	71,791	54
1986-87	1,33,340	1,25,000	35,152	1,00,000	1,35,152	86,039	65
1987-88	1,25,000	1,25,000	49,113	1,45,000	1,94,113	1,00,430	80
1988-89	1,50,000	1,40,000	93,683	13,500	1,07,183	1,09,119	73
1989-90	1,75,000	1,50,000	(-) 1,936*	1,35,000	1,33,064	1,19,920	69

*Production of Railway Sleepers was continued pending receipt of firm orders against letter of intent issued by Railway Board for 4.5 lakh sleepers in 1981 and further anticipated order.

6.1.2.2 In the case of sleepers also, though the order position was generally comfortable the actual production was below the installed capacity as well as targeted production. Though the installed capacity was increased from 80,000 sleepers in 1983-84 to 1,05,000 sleepers in 1984-85 and to 1,33,340 in 1985-86 the percentage of actual production to installed capacity decreased during these years as compared to 1983-84. Thus, the increased capacity of 25,000 sleepers in 1984-85 and 28,340 sleepers in 1985-86 and 1986-87 remained totally unutilised.

The Management attributed the low production of Railway Sleepers to inadequate supply of special cement and malleable inserts by the Railways (all the years).

The Ministry stated (September 1990) that the production was being improved by constructing curing ponds which will lead to more production of sleepers.

6.2 Production Targets and Achievements

6.2.1 The value of targeted and actual production during the seven years upto 1989-90 is given in Annexure III.

6.2.2 The total shortfall in production ranged from 7 per cent in 1988-89 to 36 per cent in 1987-88. In the case of Railway Sleepers, there was shortfall in each of these seven years. The shortfall in Wood Works Department was more prominent during 1986-87 and 1987-88. The shortfall in all the items was very prominent during 1987-88 and 1989-90.

6.2.3 Site Construction Works

As mentioned earlier (vide para 3.3.3) the Company re-started site construction works in the year 1983-84. The details of works taken up since then upto 31st March 1989 are indicated in Annexure IV.

6.2.4 In this connection, the following observations are made :

(i) None of the works was completed/progressed as per schedule except the one at Sl. No. 6. The work at serial No. 1, i.e., construction of F.C.I. Godowns at Narwana Phase-II did not involve prefabrication work and it was wholly the conventional type of construction work. This work was executed mainly departmentally. The Company suffered a loss of Rs. 20.21 lakhs (excluding Head Office Overheads) in the work which was mainly attributed (May 1989) by the Management to steep hike in the prices of coal resulting in heavy increase in the price of bricks which was the major raw material. The other work of FCI godowns at 20 places (Sl. No. 2) also did not involve pre-fabrication. These works were executed on cost plus nine per cent basis through sub-contractors.

(ii) The work of construction of 1952 EWS quarters for the Delhi Development Authority (Sl. No. 3) was partly conventional (Rs. 4.80 crores) and partly prefabricated (Rs. 2.12 crores). The prefabrication work was executed mainly departmentally and the conventional type work (brick work, etc.) was executed through two sub-contractors.

(iii) Sanskrit Nagar Group Housing Society Work (Sl. No. 4) did not involve pre-fabricated work. The work was executed on turnkey basis through sub-contractors.

(iv) Jan Suvidha Complexes at 27 sites in Delhi (Sl.No.5) were partly prefabricated and partly conventional. The work was executed through separate sub-contractors.

(v) The work of Transit Camp, Shopping Centre, Boundary Wall and staff quarters of NTPC (Sl. No. 7) was also executed through sub-contractors.

7. SALES MANAGEMENT AND PRICING POLICY

7.1 Targets and Achievements

7.1.1 The orders on hand, targets of sales and actual sales during last six years ending 31st March 1990 (Product-wise) are given in the following table :

(Rs. in lakhs)

Year	Orders on hand as on 1st April	Fresh Orders received or escalations accrued	Targets of Sales	Actual Sales	Percentage of shortfall(-)/ excess(+) of sales to targets
		(a) Railway Sleepers			
1984-85	786.54	103.23	264.00	147.94	(-) 43.96
1985-86	741.83	332.73	324.00	229.23	(-) 29.25
1986-87	845.33	(-) 50.21	387.50	259.48	(-) 33.04
1987-88	535.64	243.95	436.00	316.71	(-) 27.36
1988-89	462.88	118.36	448.00	368.99	(-) 17.64
1989-90	212.86	663.73	630.00	623.90	(-) 0.97
		(b) P.C. Poles			
1984-85	168.19	148.56	186.00	210.01	(+) 12.91
1985-86	106.74	317.03	204.00	233.91	(+) 14.66
1986-87	189.86	391.36	410.00	315.07	(-) 23.15
1987-88	266.15	313.45	415.00	330.16	(-) 20.44
1988-89	249.44	131.71	360.18	178.27	(-) 50.50
1989-90	202.88	117.49*	318.44	180.88	(-) 43.19
		(c) Wood Works			
1984-85	82.84	60.43	100.00	113.45	(+) 13.45
1985-86	29.82	108.61	126.00	95.07	(-) 24.54
1986-87	43.36	1.85	182.40	36.26	(-) 80.12
1987-88	8.95	175.16	250.00	22.87	(-) 90.85
1988-89	161.24	127.80	167.00	83.21	(-) 50.17
1989-90	205.83	(-) 49.55	240.00	141.26	(-) 41.14
		(d) R.C.C. and VAYUTAN			
1984-85	7.17	13.93	20.00	13.69	(-) 31.55
1985-86	7.41	50.52	20.00	16.86	(-) 15.70
1986-87	41.07	50.66	25.00	40.92	(+) 63.68
1987-88	50.81	4.79	49.00	30.84	(-) 37.06
1988-89	24.76	56.84	24.82	42.54	(+) 71.39
1989-90	39.06	40.37	50.00	43.29	(-) 13.42

*Includes P.C. Railway Sleepers.

(e) Construction Work

1984-85	239.00	533.92	180.00	249.10	(+) 38.39
1985-86	523.82	617.50	720.00	416.32	(-) 42.18
1986-87	725.00	1309.85	545.00	335.33	(-) 38.47
1987-88	1699.55	1333.40	1350.00	712.84	(-) 47.20
1988-89	2320.11	470.97	1000.00	971.08	(-) 2.89
1989-90	1820.00	(-) 143.85	1261.56	1073.70	(-) 14.89

1.2 It will be seen that though order position was generally favourable, the Company by and large failed to achieve the sales targets.

The Ministry stated (September 1990) that the targets for sales in respect of railway sleepers could not be achieved due to non-achievement of required production targets owing to inadequate supply of special cement and MCI inserts by the Railways.

7.2 Pricing Policy

7.2.1 The orders are normally secured by the Company on competitive tender basis. The prices quoted for Railway Sleepers are generally subject to an escalation clause which provides for increase/decrease in the cost of labour and primary raw-materials. The prices for other products and site works are generally firm.

7.2.2 Before submitting tenders/accepting contracts, the estimated costs are prepared by the Design Department which included anticipated percentage of wastage. Based on these estimated costs, selling prices are generally fixed after adding 10 per cent profit margin (i.e. nine per cent on sales). In order to quote competitive prices or to utilise the dormant capacity in any department and the technically skilled permanent staff which would otherwise be idle, orders were also sometimes accepted at a price which covered factory cost and a portion of overheads.

The Ministry stated (September 1990) as under :

"With its high overheads the Company has to compete with smaller private sector manufacturers for getting orders for its other products. These smaller private sector manufacturers do not have to pay Central Excise Duty and Sales Tax which aggregate 23 per cent in the case of HPL. Therefore, the Company had to resort to the policy of marginal costing on the logic that positive contribution towards its overheads is better than refusing orders".

8. MANPOWER

8.1 The table below indicates the manpower of the Company for the last six years ending 1989-90.

Category	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
Administration						
(a)Managerial	3	3	4	4	3	3
(b)Supervisory	89	108	117	77	80	86
(c)Clerical	135	147	148	180*	204	209
	227	258	269	261	287	298
Production						
(i)Workers(regular)						
(a)Skilled	426	388	408*	290	270	249
(b)Semi-skilled	403	394	280*	427	391	359
(c)Unskilled	185	240	458	455	499	464
	1014	1022	1146	1172	1160	1072
(ii)Casual workers	309	207	41	-	-	-
Grand total	1550	1487	1456	1433	1447	1370

*Categories readjusted.

8.2 The Company has been facing the problem of surplus labour over the years. The Wadhera Committee in its report (March 1976) had recommended introduction of a voluntary retirement scheme to reduce recurring incidence of surplus labour and transfer of approximately 200 employees to the sites or retirement under voluntary retirement scheme. The Company stated (September 1976) that about 170 employees were transferred to the sites but had to be taken back after discontinuance of site works and ongoing works completed in 1981-82. The Dinesh Mohan Committee in its report (January 1980) also referred to the problem of surplus manpower and recommended voluntary retirement scheme which would relieve the Company of the burden of 100 employees who were invalid and physically handicapped. The Board of Directors in their 193rd meeting (March 1984) approved a voluntary retirement scheme which was submitted to the Government (April 1984) for approval.

8.3 The voluntary retirement scheme prepared by the Company was not approved by the Government. However, a voluntary retirement scheme evolved by the Bureau of Public Enterprises, circulated (vide their O.M. No.2(36)/86-BPE(WC) dated October 5, 1988) was implemented with effect from

November 25, 1988. The scheme, interalia, provided that availability of funds for implementing the voluntary retirement scheme was to be resolved by the Administrative Ministries through normal inter-ministerial consultations. The Company, therefore, approached (January 1989) Government of India to release funds for the payment of terminal benefits to the employees opting for the voluntary retirement. The voluntary retirement scheme in the meantime (November 1989) was introduced and thirty nine workers were retired under this scheme (November 1989).

8.4 Thus, the recommendations of Wadhera Committee (March 1976) for solving the problem of surplus labour remained largely unimplemented for about 12 years. On the other hand the strength of labour increased from 1,007 as on 31st March 1984 (when the scheme of voluntary retirement was approved by the Board of Directors) to 1,172 as on 31st March 1988. In addition to this, a large number of casual workers were also employed by the Company during the years 1983-84 to 1986-87. In this connection the Management stated (January 1987) as follows :

(a) Workers were promoted/placed in selection grades in certain skilled categories to remove stagnation which had resulted in enhancement of strength of skilled cadre.

(b) Casual workers were employed (i) to make up the shortfall against the temporary requirement and for balancing the production gangs; (ii) to meet absenteeism of regular workers; and (iii) to provide for the replacements against the employees who retired, resigned, died or whose services were terminated.

The Management further stated (May 1989) that based on the best judgement, the casual labour was regularised in a phased manner. In the year 1986, 197 casual workers were regularised and in the year 1987, 40 workers were regularised. This resulted in increase in number of regular workers. However, the overall position of workers came down from 1,323 in March 1985 to 1,187 in March 1987 and 1,072 in March 1990.

The Ministry stated (September 1990) that the surplus labour was being reduced by way of voluntary retirement. No recruitment in labour force in the skilled category was made during the period under report. Besides, no recruitment was made/is being made to fill up the vacancies caused by retirement on superannuation, death, resignation or voluntary retirement in the labour force. The Ministry further stated (September 1991) that the surplus labour as on 31st March 1991 was around 100.

8.5 Labour Deployment

8.5.1 The production estimated in the last six years budgets for production of PC Poles and Railway Sleepers and the No. of men to be engaged are indicated in the following table :

Year	Poles			Sleepers		
	Production Estimate (Cum)	No. of men to be engaged	Average production per worker (Cum)	Production Estimate (Cum)	No. of men to be engaged	Average production per worker (Cum)
1.	2.	3.	4.	5.	6.	7.
1984-85	10,584	443	23.89	10,896	325	33.53
1985-86	12,089	471	25.67	13,080	445	29.39
1986-87	16,620	438	37.94	13,625	372	36.63
1987-88	15,887	416	38.19	13,625	375	36.33
1988-89	16,637	431	38.60	15,260	345	44.23
1989-90	14,621	381	38.38	16,350	387	42.25

8.5.2 The targeted production and labour requirement per cubic metre of production did not show any definite pattern. The labour requirements were not planned on the basis of assumed norms of efficient production but represented an allocation of existing labour strength.

The Management stated (May 1989) as under :

"The norms of labour utilisation in each production department have been fixed. The surplus labour, if any, cannot be retrenched due to legal complications and social responsibilities. The surplus labour is engaged on alternative jobs in the service departments and some in the other production departments on jobs other than production".

8.5.3 No scientific study had been undertaken by the Company to fix norms for individual departmental operations. In the absence of productivity norms, it is not possible to assess the extent of surplus labour employed.

9. COSTING SYSTEM AND COST OF PRODUCTION

9.1 Costing System

9.1.1 The Accounting Manual of the Company, inter-alia, provides maintenance of proper and adequate system of cost accounts to enable compilation and control of costs. The Company prepares orderwise monthly cost sheets for each product wherein cost is compiled in the following manner :

9.1.2 Cost of Material

The cost of material is identified by recording issues against specific orders. The two major raw materials used for moulded concrete products are cement and H.T. Wire (including strand wire) which account for more than 80 per cent of the material cost. Norms for consumption of raw materials have been fixed by the management in respect of these items. The material usage variance is prepared and reported to management periodically for control purposes.

9.1.3 Cost of Labour

The Company has a system of booking labour in terms of mandays to various production and service departments. The Company has not fixed standard labour cost for control purposes. The labour productivity in the Company is low.

The Management stated (May 1989) as under:

"In view of the varied nature of jobs, standard labour costing is not feasible. However, there is a system of compiling labour utilisation report month-wise showing therein standard mandays allowed and actual mandays utilised and variance."

The Ministry interalia stated (September 1990) as under :

"The low productivity of labour is due to old age and ill health. The average age of the company's work force is 45 years."

9.2 Overheads

Overheads, particularly administrative formed a significant part of total cost. The actual overheads during the period 1984-85 to 1989-90 are given in Annexure V which indicate that overheads increased from Rs. 137.21 lakhs in 1984-85 to Rs. 435.45 lakhs in 1989-90 representing an increase of 217.36 per cent. This was mainly on account of increase in wage bill, interest, etc.

9.3 Cost of Production

The unit cost of production of Railway Sleepers, PC Poles and total cost of production in Wood Works Department is given in Annexures VI to VIII.

In this connection following observations are made :

9.3.1 Railway Sleepers

While the sale value increased by 71.93 per cent between 1984-85 and 1989-90 the administrative and selling overheads increased by 153.48 per cent during the same period.

9.3.2 PC Poles

The sale value increased only by 39.91 per cent from 1984-85 to 1989-90 as against increase of 53.88 per cent in direct cost on material and wages over the same period. Although there was not much variance in the volume of production in 1988-89 (12427 CUM) as compared to that of 1984-85 (12933 CUM), loss in production per CUM increased from Rs. 386.28 in 1984-85 to Rs. 521.64 in 1988-89 (an increase of about 35 per cent). This was mainly due to abnormal increase of 55.47 per cent in factory and administrative overheads. In 1989-90 the production had substantially come down to 5831 CUM which was about 47 per cent of volume of production in 1988-89. In this year, even the direct cost could not be recovered resulting in negative contribution of Rs. 193.97 per CUM and loss of Rs. 1034.48 per CUM.

In regard to Railway Sleepers and PC Poles the Management stated (May 1989) that the increase in Factory Overheads was mainly due to increase in salaries of production labour and staff as a result of grant of additional instalments of dearness allowance and interim relief.

9.3.3 Wood Works

Since no common denominator for production has been evolved by the Company, the unit cost per CUM of timber input has been used to derive a comparative unit cost profile and the same is indicated below :

(Rs./Cum of timber input)

	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
Sale Value	3911	4996	5491	5894	7032	9462
Cost of Production						
Material	3709	4016	4210	3194	4792	6951
Direct Labour	610	794	1170	1148	742	1501
Overheads	877	1219	1734	1699	1803	2973
Total Cost	5196	6029	7114	6041	7337	11425
Loss	1285	1033	1623	147	305	1963

It will be seen that the cost of production was consistently higher than the sale value. In 1984-85 the realisation did not meet even the direct cost.

The Management stated (May 1989) as under :-

"The rates from DDA for supply of Wooden Shutters were not economical. The orders were accepted to keep the labour force in this department engaged. The loss by way of idle labour would have been much more than what we have suffered by accepting the order."

9.4 Break-even and Viability

9.4.1 Railway Sleepers Department

The fixed costs of this department for the last four years ending 1989-90 as per annual cost sheet were as follows :

(Rs. in lakhs)

	1986-87	1987-88	1988-89	1989-90
i) Factory Overheads	35.84	51.98	57.37	86.42
ii) Recovery for Moulds	3.19	3.15	5.07	7.80
iii) Administrative and selling Overheads	47.69	48.07	52.29	76.27
Total Fixed Cost	86.72	103.20	114.73	170.49

The contribution per unit during these years was Rs. 45.48, Rs. 94.07, Rs. 102.98 and Rs. 85.06 respectively (vide Annexure VI). For break-even the Company was required to produce 1,90,677, 1,09,705, 1,11,409 and 2,00,435 numbers, as against installed capacity of 1,33,340 numbers, 1,25,000 numbers 1,50,000 numbers and 1,75,000 numbers respectively in these years.

9.4.2 Prestressed Concrete Poles Department

The fixed costs of this department for the last four years ending 1989-90 as per annual cost sheet were as follows :

(Rs. in lakhs)

	1986-87	1987-88	1988-89	1989-90
Factory Overheads	45.08	45.96	36.11	23.99
Recovery for moulds	7.23	4.44	10.43	14.74
Administrative and Selling Overheads	59.99	42.49	32.90	21.17
Total Fixed Costs	112.30	92.89	79.44	59.90

The contribution per unit during 1986-87 to 1988-89 was Rs. 449.49, Rs. 373.19 and Rs. 113.13 per cubic metre of concrete (vide Annexure VII). However, during 1989-90 there was a negative contribution of Rs. 193.97 per cubic metre. With the given condition of 1989-90 where direct cost exceeded sale value, the Company could never attain break-even level. For break-even during the years 1986-87 to 1988-89 the Company was required to produce 24,983 M3, 24,891 M3 and 70,220 M3 which is 173 per cent, 176 per cent and 565 per cent of the production attained in these years. Assuming an average volume of 0.167 M3 per pole, the installed capacity of 1,06,000 poles (in 1988-89) works out to 17,702 M3. Obviously it was impossible to attain a production of 70,220 M3 required to break even and therefore the production in this department was not economically viable.

9.4.3 Wood Works Department

The fixed costs of this department during the last four years ending 1989-90 were as follows :

(Rs. in lakhs)

	1986-87	1987-88	1988-89	1989-90
i) Factory Overheads	4.53	8.22	25.58	29.00
ii) Administrative and Selling Overheads	6.03	7.59	23.31	25.60
Total fixed cost	10.56	15.81	48.89	54.60

Due to numerous products of various sizes, specification and nature, no common denominator for production has been evolved by the Company. The economic viability of this department has, therefore, to be viewed in terms of money value of production. The contribution of Wood Works department was Rs. 0.67 lakh, Rs. 14.44 lakhs, Rs. 40.62 lakhs and Rs. 25.16 lakhs on sale value of Rs. 33.44 lakhs, Rs. 54.85 lakhs, Rs. 190.65 lakhs and Rs. 173.76 lakhs respectively during these years (vide Annexure VIII). For break-even the department was required to attain a production of Rs. 377.08 lakhs (in 1989-90) under similar conditions of price and wage level.

10. FINANCIAL RESULTS AND PROFITABILITY ANALYSIS

10.1 The table below summarises the financial position of the Company under broad headings for the six years upto 1989-90 :

	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
			(Rs. in lakhs)			
Liabilities						
a) Paid-up capital	250.00	290.00	300.00	320.00	355.00	446.00
b) Reserves & Surplus	10.55	12.24	14.72	14.72	10.76	10.66
c) Borrowings from Govt. of India (excluding interest accrued and due)	422.00	522.00	622.00	722.00	818.00	913.00
d) Trade dues and other current liabilities (including provisions)	451.85	466.36	706.48	1011.16	1369.05	1423.02
	1134.40	1290.60	1643.20	2067.88	2552.81	2792.68
Assets						
e) Gross Block	147.76	160.44	178.45	204.19	232.89	245.43
f) Less depreciation	98.55	103.54	107.90	110.26	116.49	128.06
g) Net fixed assets	49.21	56.90	70.55	93.93	116.40	117.37
h) Capital work in progress	-	0.02	-	17.82	-	0.53
i) Investments	0.03	0.03	0.03	0.03	0.03	0.03
j) Current assets, loans and advances	585.06	644.13	908.22	1236.25	1725.77	1851.36
k) Miscellaneous expenditure including loss	500.10	589.52	664.40	719.85	710.61	823.39
	1134.40	1290.60	1643.20	2067.88	2552.81	2792.68
Capital employed	233.15	288.54	332.40	384.86	544.03	622.09
Net worth	(-) 239.55	(-)287.28	(-)349.68	(-)385.13	(-)344.85	(-)366.73

Note : 1. Capital employed represents net fixed assets plus working capital

2. Net worth represents paid up capital plus reserves and surplus minus intangible assets.

Despite the increase in paid-up capital from Rs. 250 lakhs to Rs. 446 lakhs, the net worth of the Company decreased from minus Rs. 239.55 lakhs in 1984-85 to minus Rs. 366.73 lakhs in 1989-90.

10.2 Working Results

10.2.1 The financial results of the working of the Company for the last six years ending 31st March 1990 are tabulated below :

(Rs. in lakhs)

	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
1. Profit(+)/Loss(-) before interest, depreciation and interest subsidy	(-) 64.86	(-) 67.77	(+) 39.13	(+) 62.09	(+) 61.83	(+) 54.22
2. Interest	61.21	86.60	113.30	119.92	136.20	150.05
3. Depreciation	4.56	5.06	7.82	10.05	8.77	14.87
4.Loss for the year	130.63	149.43	81.99	67.88	83.14	110.70
5. Interest subsidy received from Government	38.00	38.00	-	-	-	-
6. Prior period adjustments	(-) 2.31	(+)22.01	(+) 6.19	(+) 12.88	(+) 87.92	(-) 2.62
7. Net loss	(-)94.94	(-) 89.42	(-) 75.80	(-) 55.00	(+) 4.78	(-)113.32

The loss for the year 1989-90 (Rs. 110.70 lakhs) increased from Rs. 83.14 lakhs in 1988-89 and Rs. 67.88 lakhs in 1987-88. The net profit of Rs. 4.78 lakhs for the year 1988-89 was arrived at after taking credit of Rs. 87.92 lakhs on account of prior period adjustments.

10.2.2 The accumulated losses of the Company amounted to Rs. 823.39 lakhs and represented 184.62 per cent of paid up capital of Rs. 446 lakhs as on 31st March 1990. Thus, the entire paid-up capital and Reserves and Surplus (Rs. 10.66 lakhs) of the Company had been wiped off. The main reasons for losses are under-utilisation of capacity, higher cost of production, high overheads, surplus labour and low productivity of labour, etc.

The Ministry attributed (September 1990) the loss to the following reasons :

(i) High interest liability on Government loans;

(ii) High wage levels due to frequent revision of Dearness Allowance, sanction of three instalments of Interim Relief, revision of rate of HRA and social overheads such as ESI, Provident Fund, Gratuity, Medical reimbursement, Bonus, etc.

(iii) Uneconomical sale rate due to stiff competition with private parties in open tenders;

(iv) Surplus labour;

(v) Low productivity of labour due to old age and ill health; and

(vi) Lack of sufficient orders for PC Poles, Wood Works and Vayutan.

The Ministry's reply is not tenable in view of the fact that the production of PC Railway sleepers was far below the installed capacity as well as targeted production (detailed in para 6.1.2) though the order position was very comfortable.

The Ministry of Urban Development further stated (April 1991) as under :

"As part of the National Housing Policy, the Ministry has been laying stress on the facilitation of housing activity by various State Public Housing Agencies through financial and other support and there is less emphasis on direct construction of houses by public sector agencies under the Ministry. The Ministry has also been emphasising the extension and large scale application of appropriate technology and innovative low cost materials including prefab components and materials based on the utilisation of industrial and agricultural waste. The HPL is expected to contribute to this overall strategy by greater involvement in the manufacture of prefab components, fly ash based building materials, and construction activity involving the demonstration of such materials and new techniques. This objective has been reflected in the draft MOU between the Government and the HPL which has been proposed for approval by the DPE. In the role envisaged for HPL during the 9th Plan period and thereafter, HPL would operate in concert with the BMTPC (Building Materials Technology Promotion Council) under the Ministry as well as the requirements of CPWD and other public agencies for various types of building materials and components apart from the optimum utilisation of the existing factory capacity for profitable product lines like railway sleepers. HPL would increasingly take up production of materials utilised in fly ash, hollow core slabs and partial prefab components like ferro cement tanks. The resources generated from land development would be utilised for additional investment in new technology and machinery in order to lay the basis for larger production of commercially viable prefab components and materials."

10.3 Profitability Analysis

10.3.1 The department-wise profitability analysis is given in Annexure IX.

As regards factory production, it will be seen that both the main products of the Company viz. P.C. Poles and Railway Sleepers were causing losses. Though the sale value of production had increased substantially during 1986-87 in the case of P.C. Poles over that of the previous year, the loss had also increased indicating that the production of P.C. Poles was not economically viable. The loss on P.C. Poles had further increased during 1988-89 and decreased slightly during 1989-90. In case of Railway sleepers, the loss had decreased during 1987-88 and 1988-89 but increased substantially in 1989-90. In case of wood works the cost of production was higher than the sale value in all the years upto 1989-90 and there were sharp variations in the sale value of production from year to year.

10.3.2 Element-wise cost pattern in relation to sale value of production (assumed to be Rs. 100) from year to year is given in Annexure X which indicates that -

i) The total cost was more than the sale value of production in respect of all items (except RCC and Vayutan in 1985-86 to 1988-89) during the six years. There was a marginal improvement in the case of Railway Sleepers during 1987-88 and 1988-89.

ii) The Company was not able to recover even the prime cost in the case of Wood Works during 1984-85 and in case of P.C. Poles during 1989-90. However, it could manage some profit in 1988-89 in respect of RCC & Vayutan.

In the case of Poles and Railway Sleepers, the prime cost ranged between 73 and 103 per cent of sale value of production. The Management attributed (November 1987) the following reasons for the higher cost of production.

i) Stiff competition from the private sector manufacturers whose cost of production was much lower due to lower labour cost as well as overheads; as a result the Company had been quoting for its products on marginal costing basis thereby recovering prime cost and only a part of the overheads.

ii) Under-utilisation of capacity due to lack of sufficient orders.

iii) Low productivity of labour due to old age and ill health.

iv) High wage levels and social overheads due to frequent increase in the wage bills, while the price of the products had remained the same.

v) High interest liability due to huge working capital loans taken from the Government of India to recoup the losses from year to year.

The Ministry of Urban Development in their reply (September 1990) generally endorsed the reasons for the higher cost of production. In this connection it may be mentioned that as already brought out in paragraph 6.1.2 the high cost of production in the case of sleepers was also attributable to under-utilisation of installed capacity despite sufficient orders on hand which in turn was attributed by the Management to inadequate/erratic supply of special cement and malleable inserts by the Railways as referred to earlier.

10.3.3 Site Works

As regards site works, the profitability showed an improving trend from 1986-87 onwards. However, there was loss during 1989-90. The operating profit in site works during the three years from 1986-87 to 1988-89 contributed to a reduction in overall operating loss of the Company as a whole as will be evident from Annexure XI.

10.4 Credit Control

10.4.1 The table below indicates the volume of book debts and sales as at the end of last six years ending 1989-90 :

Year	Book Debts Considered good	Book Debts Considered doubtful	Total	Sales	Percentage of debtors to sales
			(Rs. in lakhs)		
1984-85	266.67	23.43	290.10	734.19	39.51
1985-86	349.91	23.73	373.64	1056.71	35.36
1986-87	539.35	24.66	564.01	1067.51	52.83
1987-88	799.10	87.09	886.19	1486.29	59.62
1988-89	776.77	48.72	825.49	1744.20	47.33
1989-90	851.71	77.40	929.11	2188.41	42.46

The percentage of debtors to sales showed an increasing trend during 1986-87 and 1987-88. The Sundry Debtors represented about 5.1 months' sales in 1989-90 as compared to 5.7 months' sales in 1988-89, 7.2 months' sales in 1987-88, 6.3 months's sales in 1986-87 and 4.3 months' sales in 1985-86.

10.4.2 The details of debts outstanding for more than one year at the end of the last five years are as under :

	1985-86	1986-87	1987-88	1988-89	1989-90
			(Rs. in lakhs)		
1. Debts outstanding for more than one year but less than two years	45.65	27.77	21.25	28.40	22.26
2. Debts outstanding for more than two years but less than three years	13.49	19.95	12.67	48.47	18.06
3. Debts outstanding for more than three years	24.09	32.16	47.10	86.60	51.02
	83.23	79.88	81.02	163.47	91.34

Debts outstanding for more than three years increased from Rs. 24.09 lakhs in 1985-86 to Rs. 51.02 lakhs in 1989-90.

The Management stated (November 1987) that supplies were made by them to the Government Sector such as Railways, State Electricity Boards, D.D.A., N.D.M.C., etc. who did not make the payments strictly in accordance with the terms of payment specified in the agreements. The Management also stated that payments were delayed due to one or other of the following reasons :

- Shortage of funds with the client departments.

- Non-regularisation of the delivery schedule.

- Non-receipt of receipted challans from the respective consignees scattered all over the States of Rajasthan and Haryana.

-Delay in receipt of receipted challans forms from the consignees to whom the railway sleepers were despatched.

10.4.3 An analysis of the outstandings revealed the following :

(i) Rajasthan State Electricity Board (RSEB) had withheld (1985-86) a sum of Rs. 12.34 lakhs from supply bills for excess claims towards transportation charges. Corresponding to this a sum of Rs. 7.85 lakhs has been withheld by the Company from the transportation bills of RSEB. The differential amount of Rs. 4.49 lakhs had been provided for as bad and doubtful debts.

(ii) Food Corporation of India had withheld a sum of Rs. 2.90 lakhs for delay in completion of works and Rs. 0.36 lakh as penal recovery for excess consumption of raw materials.

The Ministry of Urban Development stated (September 1990) that the debtors in terms of number of days of gross sales was the lowest amongst the construction Industry PSEs viz., IRCON, IRCC, HSCL, and NBCC. The comparison made by the Ministry is, however, not valid as the Company derived the major segment of its turnover from factory products in which case the payment terms were usually 90 to 95 per cent against inspection/delivery and balance within a month. The public sector companies quoted in the reply undertook major project work requiring several years for completion involving larger receivables as a percentage of turnover. Moreover the construction projects undertaken abroad by those Undertakings involved deferred credit facilities while the Company had been executing small works which required usually one year or lesser period to complete, and the Company executed no foreign project. Considering the payment terms the receivables could have been reduced through better pursuance and monitoring.

11. INTERNAL AUDIT

11.1 The Committee on Public Undertakings in their fifteenth report (Fourth Lok Sabha - April 1968) on Financial Management in Public Undertakings had recommended that the functions of the Internal Audit should include a critical review of the systems, procedures and the operations as a whole. The Ministry of Finance (Bureau of Public Enterprises) while accepting the above recommendations, directed the Public Enterprises in September 1968 to introduce such a system. In pursuance of these orders, a Manual outlining the scope of Internal Audit was drawn up in November 1975. The Manual lays down continuous and systematic checking of the systems and procedures of the various departments and reporting the shortfall/deficiency therein.

11.2 The Internal Audit Section is headed by FA & CAO and consists, besides him, of one officer and two Auditors. It conducts the audit of various functional departments on selective basis as per yearly programme approved by the Financial Adviser and Chief Accounts Officer/Chairman-cum-Managing Director covering each department of the Company at least once in two years. The reports are submitted periodically to the Chairman-cum-Managing Director. The physical verification of inventories is also done under the supervision of FA & CAO and physical verification report is submitted to the Chairman-cum-Managing Director. The Internal Audit Section was conducting routine audits but no report as to the critical review of systems and procedures was produced to audit.

The Statutory Auditors in their report under Section 619(3) of the Companies Act, 1956 on the accounts of the Company for the year ending 31st March 1990 had observed as under :

"The programme of Internal Audit was not adequate as important areas viz. Stores Department, Costing Department, Marketing Department, Rohini and Sanskrit Nagar Sites were not included in the programme and necessary follow up of points thrown up by Internal Audit was not adequate."

12. OTHER TOPICS OF INTEREST

12.1 Loss due to advance payment to a private party without any security

12.1.1 The Company placed an order (April 1985) on firm 'A' of New Delhi for supply of 2400 tonnes of non-levy cement at Rs. 1282 per tonne required for construction of godowns of Food Corporation of India at Narwana. According to the terms and conditions of purchase order, the entire quantity of cement was required to be supplied in 10 months and payment was to be made in advance in four equal instalments. The Company released the first and second instalments of Rs. 7.69 lakhs each in May and October 1985. The Company further released the third instalment of Rs. 7.69 lakhs on 30th December 1985 although the firm 'A' had not supplied 300.05 tonnes out of 600 tonnes of cement against the second advance payment made in October 1985. The firm subsequently supplied 345 tonnes of cement till July 1986 whereafter no further supplies were received. Thus against the payment of Rs. 23.07 lakhs for supply of 1800 tonnes, the Company received 1244.95 tonnes of cement worth Rs. 15.95 lakhs. After serving a legal notice (10th October 1986) on firm 'A' for refund of excess amount paid, the Company filed (November 1987) a suit for recovery of Rs. 8.44 lakhs (Rs. 7.12 lakhs plus interest @ 18% upto October 1987). The court had passed (1989) decree for Rs. 7,27,115.30 (principal amount Rs. 7,11,574.10 plus court fee Rs. 10,591.20 plus counsel's fee Rs. 4,950) in favour of the Company but the firm is understood to be under liquidation. Thus, injudicious release of payment without ensuring receipt of corresponding supplies resulted in an avoidable blocking of funds coupled with uncertainty of its realisation.

12.1.2 The Management stated (May 1989) that (i) the third instalment of Rs. 7.69 lakhs for 600 tonnes of cement was released to them on December 10, 1985 and that it was essential to keep the contract alive to enable the supplies of cement at firm rate, and (ii) the firm informed that their plant had been closed due to unavoidable circumstances and the supplies will be resumed as soon as the plant is reopened.

12.1.3 In this connection, it may be stated that according to terms of the contract full quantity of supply against the advance payment was to be made before release of subsequent instalment but the supplier despatched 100.05 tonnes only against the advance payment for 600 tonnes made in October 1985. However, the Company released one more instalment of Rs. 7.69 lakhs which resulted in blocking of much more money with a higher risk of recovery.

12.2 Execution of Civil Construction work of residential quarters at Sadique Nagar - Delay in the completion of work with consequential loss of Rs. 2.70 lakhs.

12.2.1 The following three works were awarded to the Company for execution in terms of agreements entered in each case :

1. Construction of 32 Type-III prefabricated quarters at Sadique Nagar, New Delhi.

2. Construction of 328 Type-III prefabricated four storeyed quarters at Sadique Nagar, New Delhi.

3. Construction of 96 Type-II prefabricated quarters at Sadique Nagar, New Delhi.

These works were completed beyond the stipulated date and consequently the Company had to continue establishment at sites for extended periods for which damages as per details given below were claimed from the clients (Central Public Works Department).

(i) In respect of works at Sl. No. 1, the Company claimed Rs. 70,000 for water supply works and Rs. 1,00,000 for above DPC level works on account of extra expenditure incurred on maintaining establishment beyond contract period i.e. 26th August 1977 to 5th January 1981.

(ii) For works at Sl. No. 3, the Company claimed a sum of Rs. 50,000 for water supply works and Rs. 50,000 for DPC level works on account of damages suffered due to maintenance of staff, etc. beyond contract period. The clients (CPWD) refuted these claims of the Company on the ground that the reasons for delay in completion were attributable to the Company which was neither entitled for the establishment charges beyond stipulated date of completion nor for the refund of penalty levied for delay in completion of work. The Company disputed the contention of the clients and the matter was referred to arbitration.

12.2.2 The Company pursued these claims before the arbitrator on the ground that the reasons for the delay were attributable to the clients and claimed, besides these sums, interest at the rate of 18 per cent per annum from 1st July 1981 to date of payment. The Arbitrator rejected (December 1988/January 1989) these claims, inter-alia, on the following grounds :

a) Due to delay penalty was imposed on the claimant by Superintending Engineer of CPWD; and

b) no formal notice for claim of damages was given by the claimant.

The award was accepted by both the parties.

P K Sarkar

(P.K. SARKAR)
Deputy Comptroller and Auditor General (Commercial)-cum-Chairman, Audit Board

New Delhi
The 16 MAR 1992

Countersigned

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

New Delhi
The 16 MAR 1992

ANNEXURE I
(Vide para 1.6)

IMPORTANT RECOMMENDATIONS OF THE COMMITTEES/EXPERT GROUP AND ACTION TAKEN THEREON.

(a) Wadhera Committee (March 1976)

i) Recommendation

To minimise loss on account of under-absorption of labour and factory overheads, around 200 employees should be transferred to the sites or retired through Voluntary Retirement Scheme.

Action Taken

Nearly 170 employees were transferred to the sites but they had to be taken back since the Company discontinued taking new site works in 1977-78 and ongoing works completed in 1981-82. However, 20 junior clerks were transferred to CPWD and 13 workers to NBCC permanently. On resumption of site work in October 1983, employees were again posted at sites. 141 employees were working at different sites in/outside Delhi (September 1989).

2) Recommendation

Voluntary Retirement Scheme may be introduced to reduce the recurring incidence of surplus labour.

Action Taken

The Board of Directors in their 193rd meeting held on 21.3.1984 approved a Voluntary Retirement Scheme and the same was submitted to the Government for approval. The Government has since (October 1988) approved a common Voluntary Retirement Scheme for the Public Sector Companies and the same has been introduced (November 1988) in this Company also.

3) Recommendation

Where necessary the factory should also procure orders on the principle of marginal costing to absorb the cost of idle labour and equipment.

Action Taken

Orders for poles from PSEB and RSEB were procured on the principle of marginal costing to reduce losses on account of under-utilisation of available capacity of plant, equipment and men.

4) **Recommendation**

The factory should endeavour to diversify its production and standardise element like bridge girders, industrial roofs, industrial girders, flooring and roofing elements, etc., and increase marketing effort.

Action Taken

The Company could not procure orders for these products on regular basis. In 1988-89 the Company received an order for Rs. 16.00 lakhs for manufacture of P.C. Railway Bridge girders.

5) **Recommendation**

New designs should be developed for Industrial and Commercial Buildings to popularise the off take of precast elements.

Action Taken

The Company has developed many designs for industrial and commercial buildings incorporating use of precast elements. The Company has been able to secure some construction works where these new designs/concepts have been used i.e. 1952 EWS houses for DDA/IGNOU (Indira Gandhi National Open University) works, etc. Since, the tenders floated by the clients are usually based on conventional construction most of the time clients do not approve of the alternative designs involving use of precast components.

6) **Recommendation**

There being conclusive evidence of great potential of work in Delhi as well as elsewhere in the country, competent management consultant should be engaged to suggest economical pattern of management and administrative set up.

Action Taken

Administrative Staff College, Hyderabad was engaged (December 1976) as Management consultant, which submitted its report in July 1977. Its recommendations have been discussed below.

(b) Administrative Staff College, Hyderabad (July 1977)

1) **Recommendation**

In order to minimise losses in the short run, the Company should bid on marginal costing basis till capacity is fully utilised in every department in the factory, expand capacity in Wood Works Department without sacrificing incremental economies and bid on site works at a rate which definitely yields profits.

Action Taken

The Company accepted orders for poles on marginal cost basis to utilise the available capacity and recover part of overheads. Wood Work Department capacity has been increased by adding additional equipment like Chemical Treatment Plant and some other balancing items of machinery. The seasoning capacity has also been augmented to increase the production. The Company has been able to secure construction work at viable rates.

2) Recommendation

The maintenance function may be decentralised to improve its efficiency from long term point of view.

Action Taken

The Company considered the existing system of production and maintenance functions with the same agency, viz. the Works Manager for smoother and economical working.

3) Recommendation

A Materials Manager needs to be appointed to look after the stores and purchase departments to improve efficiency of materials management.

Action Taken

The Company did not consider it desirable to create an extra post of materials manager and decided to continue with the existing system of stores and purchase departments under the works manager. However, the post of Sr. Engineer (Materials Management) has been created from July 1986 to look after the work of Stores and Purchase Departments.

4) Recommendation

The Development Department should have three sections - Marketing, Negotiations & Contracts, and Designs. The despatch function may be transferred to the Staff Officers, Yard and Despatches. The proposed Marketing section will concentrate on business development.

Action Taken

Considering the volume of business and the expenses involved in having separate departments, the design office of the Company was made to perform all the three functions of Development Department viz. Marketing, Negotiations & Contracts, and Designing. The despatches of finished goods is being handled by Yard Department. The Sales (Marketing) Cell of the Company is supplementing the efforts of the design department to secure orders for the standard products.

5) **Recommendation**

For site works it was necessary to appoint a Project Engineer under Manager (Projects).

Action Taken

This was not implemented earlier in view of substantial reduction in the site works. One post of Deputy Manager (Projects) was created and is being operated since October 1987, one post each of Manager and Deputy Manager (Projects) has been created in September 1989.

6) **Recommendation**

Personnel & Administration Department should be divided into Personnel and Administration Sections with an Asstt. Personnel Officer and Asstt. Administrative Officer heading each section respectively.

Action Taken

Initially the Company did not consider it desirable to implement this recommendation in view of the decline in Company's activities. However, from May 1985 an Asstt. Administrative Officer was brought in position in addition to Personnel Officer. The post of Personnel Officer was upgraded to Dy. Manager (P&A) from October 1987. As on September 1989 there is one Dy. Manager (P&A) and one Personnel Officer.

7) **Recommendation**

Accounting Consultants should be engaged to install a revised management accounting system.

Action Taken

The Company did not consider it desirable to implement the recommendation in view of probable expenditure of Rs. 50,000.

(c) **Joint Secretary Committee (October 1977)**

Recommendation

Government should provide to the Company an additional amount of Rs. 125 lakhs during 1977-78 and 1978-79 for its working capital requirement.

Action Taken

Government granted Rs. 25 lakhs equity and Rs. 80 lakhs as loan during these two years.

(d) **Prof.Dinesh Mohan Committee (January 1980)**

1) **Recommendation**

As a measure of long term planning, facilities for putting up multistoreyed buildings using appropriate large panel prefabrication system alongwith industrialised methods of construction could be developed if there was an assured demand of a minimum of 1,000 dwelling units in multistoreyed construction over a period of five years. For the time being the factory should concentrate and intensify on prefabrication of smaller components for floors land roofs.

Action Taken

The Company was unable to secure any construction work from 1982 to 1984. The work of construction of food grain godowns secured in 1983-84 did not involve the use of prefabricated components. Since 1985-86 the Company is using pre-fabricated components for roofs, lintels, stair cases and shelves in the construction of 1952 EWS houses at Rohini (for DDA) Delhi. The Company has also used prefabricated components for floors and roofing in the construction of Jan Suvidha Complexes at various sites in Delhi.

2) **Recommendation**

It is necessary that the activities of the Company are diversified in such areas where there can be efficient production and assured clientele.

Action Taken

The Company has diversified its activity in the areas of civil construction since 1983-84.

3) **Recommendation**

The Company should take up construction of industrial buildings and sheds using precast concrete components as an alternative to steel structure.

Action Taken

It is constant endeavour of the Company to secure orders for the construction of industrial buildings using prefabricated concrete components. The Company has successfully executed such projects for BHEL in Jhansi, for NFL at Bhatinda and for Haryana Tanneries at Jind.

4) **Recommendation**

As there is likely to be an assured demand of prestressed cement concrete railway sleepers from Railways, the Government could persuade Railway Board to place order on HPL at economically viable rates.

Action Taken

The Company secured in February 1982 an order for manufacture and supply of 4,50,000 railway sleepers. Another order for supply of 45,000 railway sleepers was received in 1987.

5) **Recommendation**

The Company should take up production of solid and hollow blocks with cinder or normal aggregate concrete to combat the shortage of bricks.

Action Taken

The Company has since started production of fly ash bricks against an order of 2 million bricks valuing Rs. 10.02 lakhs for National Thermal Power Corporation Limited.

6) **Recommendation**

Voluntary Retirement Scheme prepared by the Company should be approved by the Government to relieve the Company of burden of about 100 employees who are invalid and physically handicapped.

Action Taken

The Government has since approved (October 1988) a common Voluntary Retirement Scheme for Public Sector Undertakings. The scheme has been implemented by the Company with effect from November 1988. Till 8.11.1989 thirty nine workers had been retired under this scheme.

7) **Recommendation**

Works study by a competent industrial Engineer is necessary as there is sufficient scope for improvement in the various processes of production as well as reduction in wastages and overheads.

Action Taken

Since the Company is operating mainly on job order basis, continuity of orders as per the full capacity is not always there. Therefore, a detailed works study by an independent industrial Engineer was not found to be useful. However, in each of the production departments the critical areas were studied in depth and remedial action was taken to increase productivity, improve quality of products, reduce wastages and ensure maximum utilisation of available sources of men and machinery.

8) **Recommendation**

Government may consider issuing directives to Government agencies like DDA and CPWD to use standardised precast concrete housing components and machine made wooden joinery items being manufactured by HPL.

Action Taken

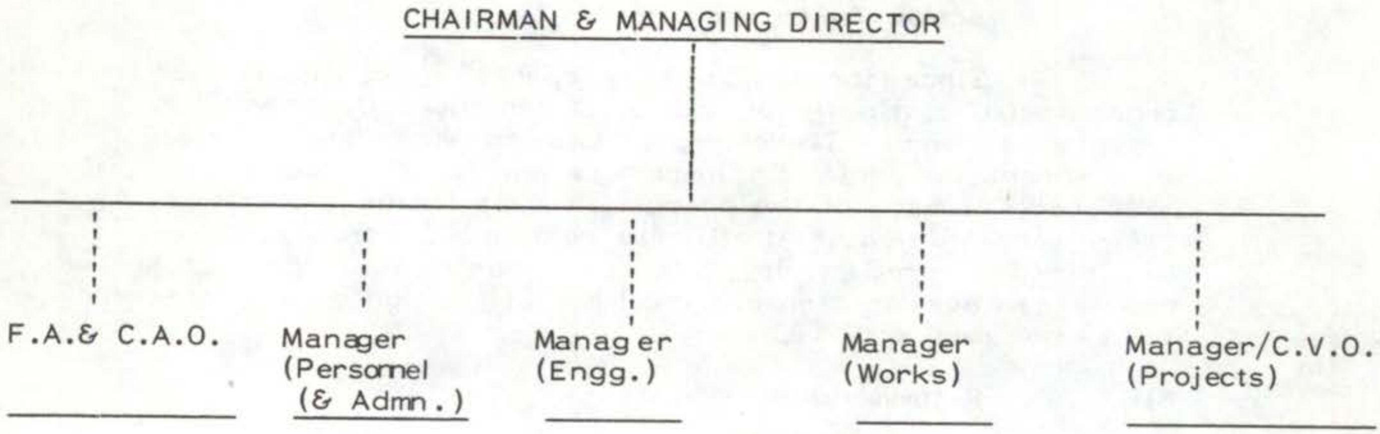
No directives in this regard have been issued so far although from time to time meetings were held between the Company and the Ministry. The last meeting was held on 17th September 1987.

The Ministry stated (September 1990) :

"The Ministry of Urban Development vide letter No. O-17030/5/89-PS dated 30th November 1989 informed HPL that for obvious reasons it may not be possible to consider the suggestion favourably to issue directive to CPWD/DDA/MCD and NDMC etc. to place their orders on HPL."

ANNEXURE II
(Vide Para 3.2)

ORGANISATION CHART



TARGETED & ACTUAL PRODUCTION

ANNEXURE III
(Vide Para 6.2.1)

(Rs. in lakhs)

	PC Poles	PC Railway Sleepers	Wood Work	RCC & Vayutan	Total
			1983-84		
Targeted	254.45	195.00	97.50	14.00	560.95
Actual	182.12	131.38	81.77	15.66	410.93
Shortfall(-)/ Excess (+)	(-) 72.33	(-) 63.62	(-) 15.73	(+) 1.66	(-)150.02
Percentage	(-) 28	(-) 33	(-) 16	(+) 12	(-) 27
			1984-85		
Targeted	186.00	264.00	100.00	20.00	570.00
Actual	210.97	169.97	112.15	7.69	500.78
Shortfall (-)/ Excess (+)	(+) 24.97	(-) 94.03	(+) 12.15	(-) 12.31	(-) 69.22
Percentage	(+) 13	(-) 36	(+) 12	(-) 62	(-) 12
			1985-86		
Targeted	204.00	324.00	126.00	20.00	674.00
Actual	243.19	199.17	96.65	12.23	551.24
Shortfall (-)/ Excess(+)	(+) 39.19	(-)124.83	(-) 29.35	(-) 7.77	(-)122.76
Percentage	(+) 19	(-) 39	(-) 23	(-) 39	(-) 18
			1986-87		
Targeted	410.00	387.50	182.40	25.00	1004.90
Actual	333.44	265.08	30.60	45.31	674.43
Shortfall (-)/ Excess (+)	(-) 76.56	(-)122.42	(-)151.80	(+) 20.31	(-)330.47
Percentage	(-) 19	(-) 32	(-) 83	(+) 81	(-) 33
			1987-88		
Targeted	415.00	436.00	250.00	49.00	1150.00
Actual	306.87	347.17	40.56	37.41	732.01
Shortfall (-)/ Excess (+)	(-)108.13	(-) 88.83	(-)209.44	(-) 11.59	(-)417.99
Percentage	(-) 26	(-) 20	(-) 84	(-) 24	(-) 36
			1988-89		
Targeted	360.18	448.00	167.00	24.82	1000.00
Actual	268.68	427.74	184.38	44.76	925.56
Shortfall (-)/ Excess (+)	(-) 91.50	(-) 20.26	(+) 17.38	(+) 19.94	(-) 74.44
Percentage	(-) 25	(-) 05	(+) 10	(+) 80	(-) 07

1989-90

Targeted	318.44	630.00	240.00	50.00	1238.44
Actual	133.08	517.75	173.76	47.21	871.80
Shortfall (-)/ Excess(+)	(-)185.36	(-)112.25	(-) 66.24	(-) 2.79	(-)366.68
Percentage	(-) 58	(-) 18	(-) 28	(-) 06	(-) 30

SITE CONSTRUCTION WORKS TAKEN UP

ANNEXURE IV
(Vide Para 6.2.3)

No.	Name of the work	Tendered Cost	Schedule date of completion	Actual date of completion	Operating results Profit(+)/ Loss(-)	Reasons for delay as furnished by the Company
		(Rs. in lakhs)				
1.	FCI Godowns of Narwana Phase-II	78.59	March 1985	August 1987	(-) 20.21	Delay in issue of Cement, Steel, Trusses and A.C. Sheets by FCI.
2.	FCI Godowns at 20 places in Haryana & M.P. (Cost Plus Works)	711.76	Between May 1985 & March 1986	Between June 1985 & May 1987	(+) 44.54	Hindrances at sites, Extension of time granted by FCI for all sites except one site (Narwana) which was pending (September 1989).
3.	1952 EWS Quarters for DDA	724.65 (revised to Rs. 765 lakhs due to deviations)	May 1988 (also linked with development work by DDA)	September 1989	(+)122.81	Delayed due to delay in awarding development work and signing the agreement by D.D.A.
4.	Sanskrit Nagar Group Housing Society	195.60 (revised to Rs. 212 lakhs due to deviations)	May 1988	December 1988	(+) 65.04	Non-availability of funds with the Society.
5.	Jan Suvidha Complexes at 27 sites for DDA (Slums)	200.00 (revised to Rs.235 lakhs due to additional work)	Between February 1988 & January 1989	March 1990	(+) 12.89	Delay mainly attributed to non-handing over of clear sites by DDA; late stage changes by DDA and delay in providing sewer connection.

6.	Jan Suvidha Complexes at 32 sites for MCD	250.00	February 1989	February 1989	(+)36.77	–
7.	Transit Camp, shopping centre, boundary wall and quarters for NTPC at Dadri.	134.13 (revised to Rs. 442.75 lakhs due to award of additional work).	Between May 1988 & May 1989	March 1990	(-) 22.32	Slow progress due to shortage of raw material, water logging during rainy season and delay in release of drawings.
	<u>Works awarded/commenced during 1988-89</u>					
8.	Construction of DMS Booths at various places in Delhi.	88.00			In progress	–
9.	Construction of warehouse and office building for Indira Gandhi Open University, New Delhi.	264.00			In progress	–
10.	Navodya Vidyalayas at New Delhi.	400.00			In progress	–
11.	Manufacture, supply and fixing of RCC drains and Footpath Slabs in Jhompri Clusters in Delhi.	600.00			In progress	–

OVERHEADS

ANNEXURE V
(Vide Para 9.2)

(Rs. in lakhs)

	1984-85	1985-86	1986-87	1987-88	1988-89	1989- 90
FACTORY OVERHEADS						
(i) Salaries	14.82	16.83	23.65	22.96	24.91	30.32
(ii) Power & Fuel	11.19	10.23	15.41	18.61	21.63	22.01
(iii) Maintenance & Repairs	32.25	36.54	41.38	45.04	49.07	68.22
(iv) Others	15.07	17.76	23.00	36.07	41.09	43.30
TOTAL	73.33	81.36	103.44	122.68	136.70	163.85
Less tfd. to Capital and other works	11.01	10.56	11.86	10.92	11.63	16.56
	62.32	70.80	91.58	111.76	125.07	147.29
ADMINISTRATIVE OVERHEADS						
(i) Salaries & Establishment, etc.	43.55	53.17	65.03	73.97	89.94	125.87
(ii) Maintenance & Repairs	9.36	12.50	6.06	9.41	9.24	13.64
(iii) Interest	23.22*	48.61*	113.32	119.93	136.20	150.05
	76.13	114.28	184.41	203.31	235.38	289.56
Less Capital & other works	1.24	0.92	2.22	1.28	2.70	1.40
	74.89	113.36	182.19	202.03	232.68	288.16
GRAND TOTAL	149.46	195.64	287.85	325.99	372.08	453.41
Net after Capitalisation	137.21	184.16	273.77	313.79	357.75	435.45

*After adjusting interest subsidy of Rs.38 lakhs each in the years 1984-85 and 1985-86.

COST OF PRODUCTION OF RAILWAY SLEEPERS

ANNEXURE VI

(Vide Para 9.3)

Description	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
Production (Nos.)	66441	71791	86039	98429	107717	117804
		(Rupees per unit)				
Sale Value per unit	255.82	277.44	308.09	352.71	397.10	439.50
Direct Cost						
-material (cost per unit)	177.16	190.89	206.12	203.86	233.99	261.15
-labour -do-	40.64	44.87	56.49	54.78	60.13	93.29
Total 'A'	217.80	235.76	262.61	258.64	294.12	354.44
Fixed cost (overheads)						
- Factory	31.82	35.32	41.66	52.81	53.26	73.36
- Adm. & Selling	25.54	32.34	55.43	48.84	48.54	64.74
- Mould recovery	6.04	4.44	3.71	3.20	4.71	6.62
Total 'B'	63.40	72.10	100.80	104.85	106.51	144.72
Total 'A' + 'B'	281.20	307.86	363.41	363.49	400.63	499.16
Contribution	38.02	41.68	45.48	94.07	102.98	85.06
Loss	25.38	30.42	55.32	10.78	3.53	59.66

COST OF PRODUCTION OF PC POLES

ANNEXURE VII
(Vide Para 9.3)

Description	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
Production M3	12933	11230	14446	14107	12427	5831
Sale Value Rupees per M3	1631.26	2165.52	2308.16	2175.33	2162.11	2282.28
Direct Cost			(Rupees per CUM)			
- Material	1256.52	1415.29	1454.43	1331.42	1472.19	1548.79
- Labour	352.72	423.53	404.24	470.72	576.79	927.46
Total 'A'	1609.24	1838.82	1858.67	1802.14	2048.98	2476.25
Overheads (Fixed Cost)						
- Factory	202.89	275.69	312.05	325.80	290.09	380.90
- Administration	162.84	252.45	415.27	301.20	264.26	336.13
- Moulds	42.57	41.71	50.03	31.49	80.42	123.48
Total 'B'	408.30	569.85	777.35	658.49	634.77	840.51
Total 'A' + 'B'	2017.54	2408.67	2636.02	2460.63	2683.75	3316.76
Contribution	(+) 22.02	(+)326.70	(+)449.49	(+)373.19	(+)113.13	(-)193.97
Loss	386.28	243.15	327.86	285.30	521.64	1034.48

COST OF PRODUCTION - WOOD WORKS DEPTT. ANNEXURE VIII

(Vide Para 9.3)

(Rupees in lakhs)

Description	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
Sale Value	112.36	101.53	33.44	54.85	190.65	173.76
Direct Cost						
- Material	106.56	81.61	25.64	29.72	129.92	121.04
- Labour	17.53	16.14	7.13	10.69	20.11	27.56
Total 'A'	124.09	97.75	32.77	40.41	150.03	148.60
Overheads						
- Factory	13.98	12.93	4.53	8.22	25.58	29.00
- Administration	11.22	11.84	6.03	7.59	23.31	25.60
Total 'B'	25.20	24.77	10.56	15.81	48.89	54.60
Total 'A' + 'B'	149.29	122.52	43.33	56.22	198.92	203.20
Contribution	(-) 11.73	(+) 3.78	(+) 0.67	(+) 14.44	(+) 40.62	(+) 25.16
Loss	36.93	20.99	9.89	1.37	8.27	29.44
Input of Timber (M3)	2873.35	2032.24	609.04	930.58	2711.25	1836.35
Price of Timber Rs./M3	3741.00	3836.00	3554.00	3916.00	4300.00	4280.00

PRODUCTWISE PROFITABILITY

ANNEXURE IX

(Vide Para 10.3.1)

(Rs. in lakhs)

Description		1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
1.	Factory production						
(i)	PC Poles						
	- Sale value of production	210.97	243.19	333.44	306.87	269.15	143.74
	- Cost of production	260.99	270.49	380.81	347.11	334.69	208.36
	- Profit (+)/ Loss (-)	(-) 50.02	(-) 27.30	(-) 47.37	(-) 40.24	(-) 65.54	(-) 64.62
(ii)	Railway Sleepers						
	- Sale value of production	169.97	199.18	265.08	347.17	427.74	517.75
	- Cost of production	186.83	221.02	312.67	357.79	431.56	588.03
	- Profit (+)/ Loss (-)	(-) 16.86	(-) 21.84	(-) 47.59	(-) 10.62	(-) 3.82	(-) 70.28
(iii)	Wood Works						
	- Sale value of production	112.36	101.53	33.44	54.85	190.65	173.76
	- Cost of production	149.29	122.52	43.33	56.22	198.92	203.20
	- Profit (+)/ Loss (-)	(-) 36.93	(-) 20.99	(-) 9.89	(-) 1.37	(-) 8.27	(-) 29.44
(iv)	RCC & Vayutan						
	- Sale value of production	7.69	12.24	45.31	37.41	44.76	47.21
	- Cost of production	5.72	8.35	41.48	32.16	39.95	50.45
	- Profit (+)/ Loss (-)	(+) 1.97	(+) 3.89	(+) 3.83	(+) 5.25	(+) 4.81	(-) 3.24
2.	Site Works						
	-value of work done	249.09	416.32	335.33	712.84	971.09	1073.71
	-Cost of work done	259.80	433.22	308.29	643.46	892.37	1085.09
	-Profit (+)/ Loss(-)	(-) 10.71	(-) 16.90	(+) 27.04	(+) 69.38	(+) 78.72	(-) 11.38

ELEMENT-WISE COST PATTERN

ANNEXURE X
(Vide Para 10.3.2)

Year	PC Poles	Railway Sleeper	Wood Work	RCC & Vayutan
	(In Percentage)			
1984-85				
A. Prime Cost				
- Direct Materials	77.05	69.25	94.84	32.90
- Direct Labour	21.62	15.89	15.60	18.08
- Prime cost	98.67	85.14	110.44	50.98
B. Other factory expenses	15.05	14.81	12.44	13.39
C. Adm. & Selling Overheads	9.98	9.98	9.98	10.01
D. Total Cost	123.70	109.93	132.86	74.38
E. Sale value of work done	100.00	100.00	100.00	100.00
1985-86				
A. Prime Cost				
- Direct Materials	65.36	68.80	80.38	31.94
- Direct Labour	19.56	16.17	15.90	12.01
- Prime cost	84.92	84.97	96.28	43.95
B. Other factory expenses	14.65	14.33	12.73	12.66
C. Adm. & Selling Overheads	11.66	11.66	11.66	11.61
D. Total Cost	111.23	110.96	120.67	68.22
E. Sale value of work done	100.00	100.00	100.00	100.00

1986-87				
A. Prime Cost				
- Direct Materials	63.01	66.90	76.67	39.41
- Direct Labour	17.51	18.33	21.32	15.43
- Prime cost	80.52	85.23	97.99	54.84
B. Other factory expenses	15.69	14.72	13.55	18.65
C. Adm. & Selling Overheads	17.99	18.00	18.03	17.99
D. Total Cost	114.20	117.95	129.57	91.48
E. Sale value of work done	100.00	100.00	100.00	100.00
1987-88				
A. Prime Cost				
- Direct Materials	61.20	57.80	54.19	34.56
- Direct Labour	21.64	15.53	19.49	20.02
-Prime cost	82.84	73.33	73.68	54.58
B. Other factory expenses	16.43	15.88	14.99	17.51
C. Adm. & Selling Overheads	13.84	13.85	13.84	13.85
D. Total Cost	113.11	103.06	102.51	85.94
E. Sale value of work done	100.00	100.00	100.00	100.00
1988-89				
A. Prime Cost				
- Direct Materials	68.09	58.92	68.14	46.43
- Direct Labour	26.68	15.14	10.55	16.04
- Prime cost	94.77	74.06	78.69	62.47
B. Other factory expenses	17.30	14.60	13.42	14.11
C. Adm. & Selling Overheads	12.22	12.22	12.22	12.23
D. Total Cost	124.29	100.88	104.33	88.81
E. Sale value of work done	100.00	100.00	100.00	100.00

1989-90

A. Prime Cost				
- Direct Materials	64.83	59.42	69.66	44.19
- Direct Labour	38.45	21.23	15.86	29.82
- Prime cost	103.28	80.65	85.52	74.01
B. Other factory expenses	26.94	18.19	16.69	18.13
C. Adm. & Selling Overheads	14.73	14.73	14.73	14.72
D. Total Cost	144.95	113.57	116.94	106.86
E. Sale value of work done	100.00	100.00	100.00	100.00

ANNEXURE XI
(Vide Para 10.3.3)

WORKING RESULTS OF SITE CONSTRUCTION WORKS

Year	Element of cost	Amount (Rs. in lakhs)	% of value of work done
1984-85	Raw Materials consumed	69.25	27.80
	Stores consumed	10.24	4.11
	Moulds & Tools	0.09	0.04
	Direct expenses	151.52	60.83
	Overhead expenses	3.83	1.54
	Administrative Overheads	24.87	9.98
	Total	259.80	104.30
	Sale value of work done	249.09	100.00
	Profit (+)/Loss (-)	(-) 10.71	(-) 4.30
1985-86	Raw Materials consumed	80.21	19.27
	Stores consumed	5.36	1.29
	Moulds & Tools	0.32	0.07
	Direct expenses	294.71	70.79
	Overhead expenses	4.09	0.98
	Administrative Overheads	48.53	11.66
	Total	433.22	104.06
	Sale value of work done	416.32	100.00
	Profit (+)/Loss (-)	(-) 16.90	(-) 4.06

1986-87	Raw Materials consumed	63.53	18.95
	Stores consumed	4.02	1.20
	Moulds & Tools	2.02	0.60
	Direct expenses	172.91	51.56
	Overhead expenses	5.48	1.64
	Administrative overheads	60.33	17.99
	Total	308.29	91.94
	Sale value of work done	335.33	100.00
	Profit (+)/Loss (-)	(+) 27.04	(+) 8.06
1987-88	Raw Materials consumed	153.44	21.53
	Stores consumed	52.15	7.32
	Moulds & Tools	3.16	0.44
	Direct expenses	326.30	45.77
	Overhead expenses	9.71	1.36
	Administrative expenses	98.70	13.85
	Total	643.46	90.27
	Sale value of work done	712.84	100.00
	Profit(+)/Loss (-)	(+) 69.38	(+) 9.73
1988-89	Raw Materials consumed	238.12	24.52
	Stores consumed	72.87	7.50
	Moulds & Tools	5.10	0.53
	Direct expenses	419.31	43.18
	Overhead expenses	38.26	3.94
	Administrative expenses	118.71	12.22
	Total	892.37	91.89
	Sale value of work done	971.09	100.00
	Profit (+)/Loss (-)	(+) 78.72	(+) 8.11

1989-90	Raw Materials consumed	303.30	28.25
	Stores consumed	48.54	4.52
	Moulds & Tools	18.01	1.68
	Direct expenses	486.74	45.33
	Overhead expenses	70.33	6.55
	Administrative Overheads	158.17	14.73
	Total	1085.09	101.06
	Sale value of work done	1073.71	100.00
	Profit (+)/Loss (-)	(-) 11.38	(-) 1.06

ERRATA

Page No.	Reference	For	Read
2	7th line	Board of Directors in 1976	Board of Directors in1976
13	11th line	(November 1990)	(September 1990)