सत्यमेव जयते

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

UNION GOVERNMENT
NO. 15 (COMMERCIAL) OF 1995

HINDUSTAN PAPER CORPORATION LIMITED

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PREFACE

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

2. The report on Hindustan Paper Corporation Limited was finalised by an Audit Board consisting of the following members:

1.Shri C.K.Joseph	Deputy Comptroller and Auditor General-cum- Chairman,Audit Board from 13 December 1993 to 20 March 1995.
2.Shri Ramesh Chandra	Deputy Comptroller and Auditor General-cum- Chairman,Audit Board from 6 April 1995.
3. Shri B.K. Chattopadhyay	Principal Director of Commercial Audit and Ex-Officio Member,Audit Board-I, Calcutta from 6 July 1994.
4. Shri Surinder Pal	Principal Director of Commercial Audit and Ex-Officio Member,Audit Board-III, New Delhi from 5 September 1994.
5.Dr. B.L. Bihani	Part-time Member - Managing Director, Star Paper Mills Ltd. Saharanpur.
7.Shri K.S.R. Murthy	Part-time Member - Managing Director, Sri Raghu Paper & Pulp Consultants Pvt. Ltd.
8. Shri R.N.Ghosh	Director(Commercial) O/O C&AG of India from 28 June 1994.

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

3. The report was finalised by the Audit Board after taking into consideration the discussions held with the Ministry of Industry, Department of Heavy Industry on 30 August 1995.

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

OVERVIEW

I. INTRODUCTION

Hindustan Paper Corporation Limited (HPC), set up in May 1970, has two paper manufacturing units-Nagaon Paper Mill (NPM) and Cachar Paper Mill (CPM) in Assam. It also has three subsidiaries viz. Hindustan Newsprint Limited (HNL) in Kerala, Mandya National Paper Mills Limited (MNPM) in Karnataka and Nagaland Pulp & Paper Company Limited (NPPC) in Nagaland.

The present appraisal deals with the execution of two projects of the Company in Assam and their performance.

[Para - 1.1 & 1.2]

II. CAPITAL STRUCTURE

The paid up capital of the Company, wholly contributed by the Government of India, was Rs.479.35 crores and the Government loan was Rs. 406.18 crores as on 31st March 1994. Outstanding liabilities on account of interest and penal interest on Government loan were Rs. 396.94 crores and Rs.284.79 crores respectively as on that date.

[Para - 3.1]

III. PROJECT IMPLMENTATION

The two projects of the Company, each with an installed capacity of 1,00,000 tonnes per annum, were commissioned in October 1985 (NPM) and in April 1988 (CPM) against the scheduled date of September 1980 i.e. after a delay of 5 years (NPM) and 7½ years (CPM). Detailed Project Reports (DPRs) underwent five revisions and the Revised Cost Estimates (RCEs) registered increase of 151.61% and 212.96% in project cost in respect of NPM and CPM respectively.

A Committee appointed (October 1989) by the Government attributed (March 1990) the time and cost overrun to the taking up of two mega projects simultaneously under difficult infrastructural conditions, almost total failure in project preparation, haphazard implementation, delay of 2½ years in appointment of a consultant for detailed engineering, appointment of two consultants at an enormous cost with no satisfactory results and the weak and overburdened project organisation.

[Para - 5.1]

IV. CAPACITY UTILISATION

The capacity utilisation ranged between 55.64% and 70.23% in Nagaon Mill and between 37.43% and 59.15% in Cachar Mill during the six years ending 31st March 1994. The low capacity utilisation was mainly due to non-availability of steam/power, pulp shortage, mechanical and electrical troubles, process failure etc.

[Para - 6.1]

V. UTILISATION OF PLANTS

The available hours in different process and auxiliary plants remained unutilised to a considerable extent due to shortages of raw materials and power and also due to mechanical, electrical and process failure. Due to low efficiency of Recovery Boiler, recovery losses were high. Poor performance of Caustic & Chlorine Plant led to purchase by NPM of caustic soda & liquid chlorine for Rs.690.92 lakhs and Rs.307.28 lakhs respectively during 1986-87 to 1993-94.

There was high finishing loss in both the mills in comparison to norm. The low moisture content in the finished paper led to production of lower quality finished paper as well as loss of Rs.389.86 lakhs due to reduction in weight of paper during 1988-89 to 1993-94.

[Para - 6.3, 6.4, 6.5 and 6.6]

VI. UTILISATION OF INPUTS

Consumption of valuable inputs like bamboo, rosin, alum etc. was higher in comparison to the norms, resulting in extra expenditure of Rs.84.92 crores as per Revised Cost Estimate norms and Rs.64.04 crores as per Management norms, upto 1993-94.

[Para - 8.1]

VII. LABOUR PRODUCTIVITY

The actual productivity per worker/month was much lower than the optimum labour productivity i.e. 6.37 MT in CPM and 6.08 MT in NPM,. even after 8 years' of operation in NPM and 6 years' of operation in CPM.

[Para - 9.2]

VIII. WORKING RESULTS

The Company has been incurring loss continuously since inception. The accumulated loss as on 31st March 1994 amounted to Rs.688.49 crores. Further, increase in inventory, stock of finished goods, work-in-progress and accumulation of book debts indicated prolonged gap between investment and realisation of sale proceeds which in conjunction with non-utilisation of production capacities at optimum level, led to deteriorating ways and means position and increasing demand for working capital.

[Para - 10.1 & 10.2]

IX. FINANCIAL RESTRUCTURING

To ensure economic viability the Company approached the Government (January 1988 and June 1992) to consider capital restructuring, financial reliefs etc. The Ministry engaged SBI caps to examine the restructuring proposals and also to evaluate two alternatives viz. privatisation and financial restructuring. The financial restructuring proposal received from SBI caps is under consideration of the Government.

(Para 10.3)

X. ENERGY CONSERVATION

The consumption of electricity per MT of finished paper compares unfavourably with the norms of Indian paper industry as a whole.

[Chapter - 13]

CHAPTER - 1

INTRODUCTION

1.1 Hindustan Paper Corporation Limited (HPC) was set up on 29th May, 1970 for implementation of the following three projects :

(i) An integrated Pulp and Paper Mill with a capacity of 80,000 tonnes per annum (50,000 tonnes of paper and 30,000 tonnes of market pulp) in the Nagaon District of Assam.

(ii) A newsprint Mill with a capacity of 75,000 tonnes per annum in Kerala.

(iii) An integrated Pulp and Paper Mill with a capacity of 30,000 tonnes per annum in Nagaland.

The first two projects were to be implemented by HPC and the third was to be a subsidiary of HPC as a joint venture with the Government of Nagaland. The latter was incorporated as Nagaland Pulp and Paper Company Ltd.(N.P.P.C.) on 14th September, 1971.

The Government of India approved (1972) in principle the establishment of another Pulp and Paper Project in the Cachar District of Assam. HPC was also advised by the Government of India in 1972-73 to take over Mandya National Paper Mills (MNPM), Karnataka, which became a subsidiary of HPC (January 1974) on its acquiring 92.5% of MNPM's equity capital.

The Kerala Newsprint Project was completed and went into commercial production in November 1982. On completion of the Project the unit was converted into a separate subsidiary Company which was incorporated on 7th June, 1983 as 'Hindustan Newsprint Limited' (HNL).

1.2 The present review covers the implementation of the two projects at Cachar and Nagaon and the performance of these two projects.

1.3 The Company is not preparing any Corporate Plan as per guidelines of Department of Public Enterprises(DPE). The Management stated (August 1995) that although no such plans were prepared in the past the Company was planning to introduce the same.

CHAPTER - 2

OBJECTIVES

2.1 The main objectives of the Company are to :

a) Carry on the trade and business of survey for proving the existence of suitable raw materials for manufacture of pulp, paper etc.

b) Manufacture and sell pulp, paper board, newsprint, paper conversion, chemicals and other products.

2.2 In October 1983, HPC spelt out its micro objectives which were approved by Government in March 1984 as follows :

a) To implement new projects for manufacturing newsprint, paper/board and to run these units efficiently with a view to effecting substantial reduction in the import of newsprint.

b) To promote the establishment of large units ensuring viable operation by professional and modern management.

c) Subject to its social obligation of welfare state and rationalised distribution at a reasonable price, to ensure a fair return on the investment.

d) Assist sick paper mills with technical expertise and other resources and in unavoidable cases by directly running them.

e) Function as the fair distribution agency for own production and imported paper and newsprint.

f) To develop necessary consultancy and R & D facilities.

g) To identify unconventional raw materials for ecological balance and to acquire/develop new energy saving technology to produce cultural paper and newsprint from these raw materials.

2.3 With a view to achieving micro objectives, HPC took up:

(a) Preliminary works for three new projects viz., U.P. Newsprint Project, Bihar Newsprint Project and Arunachal Pradesh Paper Project and incurred an expenditure of Rs.34.58 lakhs on feasibility studies. Keeping in view the poor track record both in project implementation and in operation of its own plants, the implementation of the proposed paper project was not entrusted to HPC. The U.P. Project was entrusted (March 1986) to the National Newsprint and Paper Mills (NEPA) Ltd. Further, the Company could not recover the cost incurred on the feasibility study from NEPA as there was no specific agreement to this effect.

(b) The Company decided (August 1976) to invite tenders for Consultancy service in respect of detailed engineering and supervision work of pilot plant at Dehradun and Saharanpur under UNDP Project (known as Central Pulp and Paper Research Institute (CPPRI). The work was, however, undertaken by the Company itself without entering into any written agreement with CPPRI. Outstanding dues against CPPRI stood at Rs.9.22 lakhs which CPPRI refused to pay as payment terms were not settled initially. The Government accorded (January 1986) approval to the write-off of Rs.9.22 lakhs.

Thus, in regard to two of its micro-objectives i.e. implementing new projects and rendering consultancy services, HPC not only failed to achieve the objectives but also incurred losses.

CHAPTER - 3

CAPITAL STRUCTURE

3.1 The authorised capital of the Company as on 31st March 1994 was Rs.500.00 crores and its paid up capital Rs.479.35 crores (wholly contributed by the Government of India). Loans advanced by the Government of India amounting to Rs.406.18 crores were outstanding as on 31st March 1994. The Company also had cash credit arrangements with various banks for meeting its working capital requirement, the amount outstanding at the end of March 1994 being Rs.30.38 crores.

The accumulated interest as on 31st March 1994 on Government loans amounted to Rs.396.94 crores. Due to its non-payment, the Company had become liable to pay penal interest amounting to Rs.284.79 crores upto 31st March 1994.

The debt to paid-up capital ratio of the Company during the 5 years ended on 31st March 1994 varied from 0.84 : 1 to 0.89 : 1.

3.2 The Company approached the Government (October 1989) for a moratorium on payment of interest and principal instalments upto 31st March 1990. The Government granted (February 1990) moratorium on payment of loan instalment on the loans granted for Nagaon and Cachar Paper Mill upto March 1990 but did not agree to the request for moratorium on interest.

CHAPTER - 4

ORGANISATIONAL STRUCTURE

The Chairman and Managing Director is assisted by Chief Executives of Subsidiaries, Director(Finance), Director (Personnel), Director (Operation), Director (Marketing), Executive Director(Vigilance) and Chief Executives of NPM and CPM. The Organisational Structure of the Company as on 31st March 1994 is given in Annexure-I.

The Company had eight Chairmen (including two part time and one acting) during the period from 20th June 1970 to 31st March 1994. The Company did not have either a full time Chairman or a full time Managing Director on three separate occasions for nine months, ten months and sixteen months respectively.

CHAPTER - 5

PROJECT

5.0 NAGAON AND CACHAR PROJECTS

5.1 To utilise the experience of National Industrial Development Corporation (NIDC) in paper project, HPC entrusted (January 1971) NIDC with the preparation of Detailed Project Reports (DPRs) in respect of Nagaon Paper Project (NPP) and Cachar Paper Project (CPP) at a fee of Rs.75,000. NIDC prepared and submitted the DPR (December 1971) in respect of NPP envisaging product-mix of 50,000 tonnes paper and 30,000 tonnes saleable pulp with a capital outlay of Rs.31.70 crores (including foreign exchange of Rs.4.19 crores). The DPR for CPP was prepared in 1972 for integrated pulp and paper mill with an annual capacity of 50,000 tonnes at a capital cost of Rs.30.88 crores. The scheduled time of commissioning as envisaged in the DPRs was 4½ years for each of the Projects. These DPRs were discussed with the Government (November 1972) which advised submission of revised DPRs incorporating the latest cost estimates. Accordingly, the Company submitted (May 1974) the revised estimates for Nagaon at Rs.88.99 crores and for Cachar at Rs.88.68 crores. The Company had completed some of the preliminary works in respect of both the projects. In August, 1975 the Company felt that the project cost would increase by 30% over that of May 1974. In September 1974, Management recommended to the Government to enhance the capacity to 1,00,000 tonnes per annum which was approved by the Government in March 1977.

Due to abnormal delay in commissioning of NPP and CPP Projects, the cost estimates were revised by Company four times and as per latest estimates (April 1991) there were cost overruns by 151.61% and 212.96% respectively as compared to the capital cost of the first Revised Cost Estimate(RCE) of March 1977 as indicated in the table below:-

Date of revision of estimate	Date of approval by Govt	Capital Cost estimate of each project Rs /crores		Scheduled date of commissioning		Percentage increase in comparison to 1st RCE	
		NPP	CPP	NPP	CPP	NPP	CPP
As per DPR (NIDC)		31 70	30.88	--	--	--	--
Revised by the Board							
(a)August 1975	March'77	114 25	114.00	Sept'80	Sept'80	--	---
(b)August 1981	July'82	228 44	226 32	Dec.'83	Middle'84	99.94	98.53
(c)February'84	March'86	278 54	305 29	Oct.'85	Oct.'86	143.80	167.80
(d)July 1987	-	310 70	384 89	Oct.'85	Jan.'88	171.95	237.62
(e)April 1991	May'92	287 47	356 77	-	-	151.61	212.96

There was a delay of 5 years in the implementation of NPP while the delay in the case of CPP was 7½ years as the actual commissioning was done in October 1985 and April 1988 against the scheduled date of September 1980.

The Management attributed (March 1992) the excess capital cost and delay in project completion to absence of broad gauge railway line, lack of adequate industrial development resulting in non-availability of skilled/un-skilled labours, non-availability of power as Mills were located in seismic zone, cost for construction of civil works and township having to be enhanced by 2.5% in concreting and 10% in steel for reinforcement, large amount spent to keep the plant area free from flood and prolonged local agitations and natural calamities, the contractors invoking force majeure clauses resulting in extensions of project completion period, higher costs etc.

The Government appointed (October 1989) a Committee to investigate and report on the execution and submission of revision of cost estimates of February 1984. The Committee cited (March 1990) the following reasons for time and cost overruns :

a) Taking up two projects of this magnitude for implementation simultaneously under difficult infrastructural conditions.

b) Almost total failure in project preparation.

c) Haphazard Implementation.

d) Delay of 2½ years in appointment of a consultant for detailed engineering.

e) Appointment of two consultants at an enormous cost to the project with no satisfactory results.

f) Weak and overburdened project organisation.

As regards action taken by the Government on the findings (March 1990) of the Investigation Committee the Ministry stated (August 1995) that major escalation took place between 1977 and 1982 when the progress of the project was not correctly reported. The matter was investigated and though certain senior officials were apparently responsible, no action could be taken as the matter came to light at a very later stage.

5.2 Item-wise details of each revision in respect of both the projects are given in Annexure-II. The factors broadly responsible for upward revision of cost estimates of the two projects in comparison to the earlier cost estimates are indicated below :-

(Rs. in lakhs)

Date of Revision	Physical Reasons		Fiscal Reasons	
	NPP	CPP	NPP	CPP
August, 1981	1416.68	2005.08	10001.76	9226.92
February, 1984	2079.00	2100.00	2931.00	5797.00
July, 1987	2196.00	2676.00	1020.00	5284.00
April, 1991	(-)3218.00	(-)3373.00	895.00	561.00
Total	2473.68	3408.08	14847.76	20868.92

The upward revision of cost estimates of two Projects, in addition to time overrun, was due to :-

(a) Extra payment of Rs.180.00 lakhs was made for additional work involved on account of change in location due to poor soil conditions, though contractually not required.

The Board of Directors while observing (August 1989) that the project authorities had all along tried to project a scenario that the plea of the contractor for additional payment was justified, had advised (August 1989) the Management to take immediate steps to effect recovery from all the contractors to the extent possible. No such recovery had, however, yet been made (March 1994). A one-man Enquiry Committee observed (March 1990) that four contracts were awarded much before the land was acquired and soil investigation taken up resulting in shifting of the location and additional payment.

The Ministry stated (December 1994) that it was concluded after detailed examination that neither the contractor nor HPC could be held responsible for the additional expenditure. The Ministry also stated (August 1995) that certain Iapses and undue haste led to excess expenditure.

(b) Incorporation of "New Additions" in the revised estimates (Annexure III): It is, however, observed that these items should have been anticipated well in advance for inclusion in earlier estimates as the Company had gained experience by executing two projects (NPPC & HNL) earlier.

5.3 Impact of delay

(a) The delay in implementation of NPP and CPP ultimately resulted in increase in project cost by Rs.173.22 crores and Rs.242.77 crores respectively over the revised cost estimates of August 1975. During this period there was steep increase in price of plant and machinery and also substantial upward revision in the rate of exchange and rate of statutory duties. However, the effect of inflation (fiscal reasons) on the total increase of cost of the project was to the extent of Rs.148.48 crores (NPP) and Rs.208.69 crores (CPP).

(b) Engineers India Limited (EIL) was appointed (December 1979) as consultant at a fee of Rs.217 lakhs for both the projects. As the project completion was delayed due to no fault of EIL, the Company had to pay Rs.416 lakhs as revised fees to EIL.

The Ministry stated (December 1994) that the extra expenditure to EIL was largely due to delayed implementation of project and also in terms of agreement with EIL.

(c) Equipments valuing Rs.4.00 crores were damaged/ lost at CPP due to delay in completion of project. The Company decided (May 1986) to conduct an investigation, through a Committee, to fix responsibility for lapses.

The Committee attributed (June 1988) the losses/damages to long / improper storages, pilferage / theft and losses/ damages in transit. It held the Project Management, Corporate Headquarter and Site Management responsible for the additional expenditure on re-ordering and re-conditioning but could not fix definite responsiblility. Instead, responsibility was fixed on a group of officials working in different phases at Calcutta or the sites.

The Chairman-cum-Managing Director (CMD) in his report to the Board of Directors, concluded (November, 1989) that fixing responsibility on any isolated individual or group of individuals would not meet the ends of justice as it was a case of total management failure. The Board of Directors agreed with the findings of the CMD, negating the principle of accountability.

(d) Both the projects became economically unviable as break-even points (B.E.P.) were 102% and 123% for NPP and CPP respectively as per latest revised cost estimates.

5.4 Coal Handling Plant (CHP)

The Contract of CHP for Cachar Project was awarded before aquisition of land and the soil investigation The contract, inter-alia, provided that the prices would remain firm in all respects till the commissioning of Cachar Project i.e. September 1983. However, the Company decided to make an additional payment of Rs.62.40 lakhs (Rs.37.00 lakhs for additional work for change in location due to poor soil conditions at the original site, Rs.3.00 lakhs for cost of soil testing at the alternative plant layout and Rs.22.40 lakhs for work already done and abandoned). The plant was commissioned in August 1986.

The Ministry stated (December 1994) that in case of invoking the contractual obligation of the vendor, the vendor would have abandoned the work and HPC would have no other alternative but to reallocate the work to some other party involving further cost and time overrun.

The fact, however, remains that had the detailed soil investigation been conducted earlier the Company would have avoided the additional expenditure of Rs.59.40 lakhs.

CHAPTER - 6

PRODUCTION

6.1 Production Performance

The production process involves pulp making (chipping of basic raw materials, digestion, screening, washing and bleaching) and conversion of pulp into paper (beating/refining of pulp, mixing of Alum, Clay, rosin dye etc., paper making, calendering, winding, cutting, finishing and packing). It also involves soda recovery process for recovery of alkali used in the process of pulp making. The flow chart of the manufacturing process is given in Annexure-IV.

The first and second paper machines were commissioned in March 1985 and April 1986 respectively in Nagaon Paper Mill (NPM) while the first and second machines were commissioned in April 1988 and July 1988 respectively in Cachar Paper Mill (CPM) with an installed capacity of 50,000 MT per annum each. The table below indicates the installed capacity, budget/revised budget production, actual production and percentage of utilisation of NPM and CPM:-

(Figures in MT)

Year	Budget Prodn.	Revised Budget	Actual Prodn.	%age of Actual Installed Capacity	Production to Budgeted Production
Installed Capacity 1,00,000 MT					
NPM					
1988-89	80,000	58,000	58,117	58.12	72.65
1989-90	90,000	72,500	70,232	70.23	78.03
1990-91	90,000	70,000	66,125	66.13	73.47
1991-92	90,000	65,000	57,544	57.54	63.94
1992-93	75,000	65,000	55,643	55.64	74.19
1993-94	65,000	65,000	67,482	67.48	103.82
CPM					
1988-89	60,000	45,000	37,435	37.43	62.39
1989-90	70,000	52,000	47,160	47.16	67.37
1990-91	80,000	80,000	57,623	57.62	72.03
1991-92	80,000	60,000	54,455	54.46	68.07
1992-93	65,000	60,000	59,150	59.15	91.00
1993-94	65,000	65,000	51,432	51.43	79.13

It will be observed that (i) budgets/revised budgets for production were lower than the installed capacity (ii) the actual production fell short of budgets/ revised budgets except that of NPM for the years 1988-89 and 1993-94. Low productivity was due to shortage of raw materials and non-availability of steam, power, pulp shortage, mechanical and electrical trouble, process failure etc. In the absence of detailed records, the extent of production loss attributable to each of the above factors could not be ascertained.

The Management stated (March 1992/April 1993) that the budget/revised budget estimates were generally prepared considering the market for the product which may not be always at the level of available capacity. Therefore, percentage of actual production should be compared with reference to the revised budget production instead of comparing it with the budget production.

As part of the diversification, the Company started manufacture of newsprint at Nagaon and Cachar in July 1992. After economic liberalisation the prices of imported newsprint had fallen steeply and the two units were unable to sell the newsprint manufactured by them. They had, therefore, reverted to production of writing and printing paper.

The Board of Directors observed (March 1991) that it would be extremely difficult to achieve more than 70-75% of capacity utilisation in view of inherent design defects and power supply position in both the Mills. The highest capacity utilisation achieved was 67.48% (1993-94) and 59.15% (1992-93) in NPM and CPM respectively. The Management further stated (August 1995) that the corrective measures to rectify the design defects had since been taken.

6.2 Memorandum of Understanding (MOU)

Actual performance against the target fixed under MOU with the Government for the years 1992-93 & 1993-94 is given below :

	Year	NPM		CPM		TOTAL	
		Target	Actual	Target	Actual	Target	Actual
a) Production(MT)	1992-93	75000	55643	65000	59150	140000	114793
	1993-94	65000	67482	65000	51432	130000	118914
b) Operating Profit/(Loss) (Rs.in Crores)	1992-93	23.82	6.97	25.09	14.75	48.91	21.72
	1993-94	4.62	13.62	13.69	(0.96)	18.31	12.66
c) Cash Profit/(Loss) (Rs.in Crores)	1992-93	8.50	(8.24)	5.15	(4.73)	13.65	(12.97)
	1993-94	(10.75)	(1.89)	(5.94)	(20.43)	(16.69)	(22.32)
d) Net Profit/ (Loss) (Rs.in Crores)	1992-93	(15.06)	(31.87)	(25.06)	(32.91)	(40.12)	(64.78)
	1993-94	(34.42)	(25.42)	(36.82)	(51.12)	(71.24)	(76.54)

It would be seen that neither production nor operating profit for the two mills together as envisaged in the MOU could be achieved. Instead of the projected cash profit in the MOU for the year 1992-93, the Company incurred cash loss. Further, the net loss registered an increase of 61.47% & 7.44% over the loss anticipated in the MOU for the years 1992-93 and 1993-94 respectively.

The MOU rating given by Department of Public Enterprises(DPE) for the year 1992-93 was fair (composite score) and very good (provisional rating) for the year 1993-94.

6.3 Utilisation of Process Plants

The utilisation of different processing units of NPM and CPM plants during the last 6 years ending 31st March, 1994 is given in the table below:-

Year	Available Capacity MT	Actual Production MT	Percentage of Utilisation	Total available hours	Idle hours	Percentage of idle hours to available hours
Chipper House						
NPM						
1988-89	601920	159960	26.57	35040	20201	57.65
1989-90	-do-	209949	34.88	-do-	14691	41.93
1990-91	-do-	194980	32.39	-do-	15825	45.16
1991-92	-do-	144871	24.07	-do-	14457	41.26
1992-93	-do-	128935	21.42	26280	14146	53.83
1993-94	-do-	136794	22.73	-do-	13097	49.84
CPM						
1988-89	601920	89501	14.87	35040	8779	25.05
1989-90	-do-	116096	19.29	-do-	14423	41.16
1990-91	-do-	150608	25.02	-do-	14150	40.38
1991-92	-do-	138812	23.06	-do-	16982	48.46
1992-93	-do-	140972	23.42	-do-	16591	47.35
1993-94	-do-	118991	19.77	-do-	18185	51.90
Continuous Cooking Plant (Digester)						
NPM						
1988-89	123750	58894	47.59	8760	3019	34.46
1989-90	-do-	72877	58.89	-do-	1729	19.74
1990-91	-do-	68713	55.53	-do-	1640	18.72
1991-92	-do-	60391	48.80	-do-	2021	23.07
1992-93	-do-	54244	43.83	-do-	2896	33.06
1993-94	-do-	66738	53.93	-do-	2983	34.05
CPM						
1988-89	-do-	37689	30.46	8760	4706	53.72
1989-90	-do-	48353	39.07	-do-	3382	38.61
1990-91	-do-	57817	46.72	-do-	3384	38.63
1991-92	-do-	55206	44.61	-do-	3118	35.59
1992-93	-do-	56869	45.95	-do-	3267	37.29
1993-94	-do-	49701	40.16	-do-	3286	37.51

Year	Available Capacity MT	Actual Production MT	Percentage of Utilisation	Total available hours	Idle hours	Percentage of idle hours to available hours
Bleaching Plant						
NPM						
1988-89	108900	52594	48.30	8760	3717	42.43
1989-90	-do-	65702	60.33	-do-	2017	23.03
1990-91	-do-	61778	56.73	-do-	2314	26.42
1991-92	-do-	53801	49.40	-do-	2584	29.50
1992-93	-do-	47814	43.91	-do-	3484	39.77
1993-94	-do-	59086	54.26	-do-	3162	36.10
CPM						
1988-89	108900	33778	31.02	4380	1805*	41.21
1989-90	-do-	43546	39.99	8760	3365	38.41
1990-91	-do-	51820	47.58	-do-	3293	37.59
1991-92	-do-	49765	45.70	-do-	3486	39.79
1992-93	-do-	46659	42.85	-do-	3353	38.28
1993-94	-do-	41233	37.86	-do-	3553	40.56

* No down-time record was kept separately for Bleach Section from April 1988 to September 1988.

Year	Available Capacity MT	Actual Production MT	Percentage of Utilisation	Total available hours	Idle hours	Percentage of idle hours to available hours
Paper Machine						
NPM						
1988-89	137610	58117	42.23	17520	9564	54.59
1989-90	-do-	70232	51.04	-do-	6897	39.37
1990-91	-do-	66125	48.05	-do-	7017	40.05
1991-92	-do-	57544	41.82	-do-	8251	47.09
1992-93	-do-	55643	40.44	-do-	8585	49.00
1993-94	-do-	67482	49.04	-do-	7198	41.08
CPM						
1988-89	113850*	37434	32.88	17520	9671	55.20
1989-90	137610	47160	34.27	-do-	10063	57.44
1990-91	-do-	57623	41.87	-do-	8003	45.68
1991-92	-do-	54455	39.57	-do-	8654	49.39
1992-93	-do-	59150	42.98	-do-	6934	39.58
1993-94	-do-	51432	37.38	-do-	8031	45.84

* Out of the two machines, one was commissioned in July 1988.

It would be seen that the utilisation of the different process plants was poor during all the years from 1988-89 to 1993-94. The factors responsible for idle hours during the last 8 years (for NPM) and 6 years (for CPM) ending 31st March, 1994 are summarised below :

Name of the Plant		Idle Hours as percentage of total available hours			
		Shortage of raw materials	Power Shortage	Mechanical Electrical and process failure	Others
A.Chipper House	NPM	0.50-5.82	4.00-44.63	8.52-21.19	16.52-39.97
	CPM	2.33-3.19	4.33-14.20	16.38-21.78	34.65-58.74
B.Continuous Cooking Plant (Digester)	NPM	4.46-24.63	8.27-47.98	19.20-47.90	1.73-9.85
	CPM	1.51-48.11	6.15-26.85	20.85-51.01	2.74-17.72
C.Bleaching Plant	NPM	21.25-44.92	7.00-40.11	10.87-28.91	4.55-7.35
	CPM	6.45-43.43	0.66-23.48	11.59-43.36	8.35-16.18
D.Paper Machine	NPM	16.77-48.54	6.21-57.76	4.05-24.68	2.41-16.17
	CPM	20.75-34.75	7.66-29.92	7.81-19.96	5.60-54.44

6.4 Finishing loss at Paper Machine :

The finishing losses at both the mills were very high. The Management stated (August 1990) that according to M/s. Development Consultant Private Limited (DCPL), the norms for finishing loss was between 6-8%. However, the Company indicated (March 1991) normal finishing loss as 6%. The actual loss in NPM, however, increased from 5.45% in 1988-89 to 11% in 1992-93. In 1993-94 although there was a marginal improvement (9.63%) but even this was more than normal loss. The loss in CPM varied between 6.9% to 9% as shown below :-

N P M	88-89	89-90	90-91	91-92	92-93	93-94
		(Figures in MT)				
1.Machine Production	61465	74961	70602	62018	60310	74677
2.Finished Production	58117	70232	66125	57544	53628	67482
3.Total Finishing Loss	3348 (5.45%)	4729 (6.31%)	4477 (6.34%)	4474 (7.21%)	6682 (11.08%)	7195 (9.63%)
4.Finishing Loss as fixed by Board(6%) of machine production	3688	4498	4236	3721	3619	4481
5.Extra loss of Prodn.	-	231	241	753	3063	2714
C P M						
1.Machine Production	40215	51394	62635	59236	64799	56528
2.Finished Production	37434	47160	57623	54455	59150	51432
3.Total Finishing Loss	2781 (6.92%)	4234 (8.24%)	5012 (8.00%)	4781 (8.07%)	5649 (8.72%)	5096 (9.01%)
4.Finishing Loss as fixed by Board(6%) of machine production	2413	3084	3758	3554	3888	3392
5.Extra loss of Prodn.	368	1150	1254	1227	1761	1704

The Management attributed (August 1990/July 1993) the high finishing loss mainly to wide variations across and along the deckle, regular paper torn on paper machine and rewinding, absence of automatic machines and high rejection of reels. Further, basis weight, moisture variation, shade variation and improper parent roll build-up were also contributing factors. To reduce losses, procurement of BM Gauge has already been initiated to avoid basis weight and moisture variation and other steps are also being taken to reduce finishing losses. The Management further stated (August 1995) that high finishing loss in 1992-93 & 1993-94 was due to manufacture of larger varieties of paper.

6.5 During 1988-89 to 1993-94 the moisture content in the finished paper ranged between 2.65% and 4.50% in the two Mills against the minimum desirable moisture of 5%. This resulted in production of lower quality finished paper. It also led to loss of Rs.389.86 lakhs due to reduction in weight of paper.

The Management stated (August, 1995) that the moisture content in the finished product had since been controlled by installation of Basis Weight Moisture Meter.

6.6 Utilisation of Auxiliary Plants

6.6.1 The utilisation of the main Auxiliary Plants for the last 8 years (for NPM) and 6 years (for CPM) ending 31st March 1994 are given in the table below :-

Name of the Plant		Percentage of utilisation	Idle hours as range Factors responsible for idle hours (percentage of total available hours)				
			Inputs	Shortage of power	Space	Mechanical & electrical trouble	Others
A.Recovery Boilers	NPM	52.00-85.10	26.45-65.55	0.00-1.09	0.04-14.32	11.45-46.47	10.79-36.07
	CPM	82.95-86.49	1.28-10.01	9.95-20.40	6.25-25.99	10.25-45.92	17.15-59.23
B.Power Plant							
i)TG Plant	NPM	28.09-55.37	-	-	-	58.07-100.00	40.88-41.92
(2x15 MW at each mill)	CPM	24.31-50.56	NA	NA	NA	NA	NA
ii)C.F.Boilers	NPM	63.89-84.50	NA	NA	NA	NA	NA
	CPM	47.58-83.64	NA	NA	NA	NA	NA

Note : NA indicates that the figures are not available with the Management

It would be seen that the utilisation of such plants was far below the capacity during all the years from 1985-86 to 1993-94.

The Management attributed (July 1993) the low efficiency of Recovery Boiler to poor performance of both the Electro-Static Precipitators; poor performance of lime mud filters at NPM; higher active alkali charge in Digester and higher alkali losses in Pulp Mill at NPM, poor quality of lime, power and steam restrictions. Recovery losses are also high due to frequent cascade boil out caused by carry over in recovery boiler. The boiler upgradation and installation of additional white liquor clarifier is being considered to overcome the problem. In August 1995, the Management confirmed that modification to improve the efficiency of boiler was in progress.

Regarding Turbo Generation Plant (TG Plant), the Management attributed (August 1990/March 1992) the low efficiency to coal containing high percentage of ash content, poor generation of Coal Fired Boilers upto 1988-89 in case of CPM, shut down of other sections and non-drawal of steam problems in TG Sets.

6.6.2 The Coal Handling Plants at Nagoan and Cachar were commissioned in October, 1985 and August, 1986 respectively without the commissioning of already procured wagon tipplers (valued Rs.47.76 lakhs and Rs.42.27 lakhs respectively). In the absence of wagon tipplers the unloading of coal from wagons was being made along the railway track manually and from there to boiler through conveyor and crusher.

The Management stated (August 1995) that due to non-availability of box wagon on meter gauge and availability of coal by truck, the equipment was not in use. The Management also stated that the Company was trying to dispose of the surplus tippler.

It may, however, be difficult to find a buyer for a meter gauge wagon tippler due to increasing conversion of Meter Gauge lines to Broad Gauge.

6.6.3 The performance of Caustic & Chlorine Plant (C & C Plant) was poor owing to which NPM had to purchase caustic soda and liquid chlorine for Rs.690.92 lakhs and Rs.307.28 lakhs respectively during 1986-87 to 1993-94.

The Management stated (March 1992) that capacity utilisation of C & C Plant should be judged by giving due weightage to erratic supply of ASEB power.

Contract for erection/commission of C&C Plant at CPM was placed in September 1983. The Plant was commissioned in April 1993 at a cost of Rs.2346.60 lakhs against the scheduled date of commissioning by July 1986. The delay in commissioning deprived the Company of cost savings expected from captive supply of caustic soda and liquid chlorine. Even after commissioning of C & C Plant at CPM in April 1993, the unit had to purchase Caustic Soda and liquid Chlorine for Rs.152.35 lakhs and Rs.29.50 lakhs respectively during 1993-94.

6.6.4 The Chlorine Dioxide plant at NPM was scheduled to be commissioned in February 1987 with an installed capacity of 550 MT per annum to meet the demand of the mill. The scheduled date of commissioning was revised to October '88 and then again to January 1989. The plant was actually commissioned in September 1992.

The Management stated (August 1990/July 1993) that non-commissioning of the plant was due to non-availability of steady captive power upto 1989, which was the primary requirement. It was added that since the unit was making large quantities of paper for Education Sector with low realisation, bleaching this paper with chlorine dioxide, could have enhanced the cost without additional return.

The Management also stated (August 1995) that the plant was being utilised now as the Company has to supply quality paper to private customers in the competitive market, unlike supplies to Government as in the past. It was also stated that corrective measures have since been taken to improve the power supply.

CHAPTER - 7

MARKETING PERFORMANCE

7.1 Background :

Nagaon Paper Mill of the Company started commercial production in October 1985. The Marketing Division of the Company, however, started functioning from January 1974, when the Management of Mandya National Paper Mills Limited passed into the hands of the Company.

7.2 Marketing Strategy :

The sales activity of the marketing division was restricted to actual production only and the production budget was therefore taken as sales budget of the Company. The yearwise Budget Estimates, Revised Budget and Actual Sales/Production of HPC (in respect of NPM and CPM only) since 1985-86 are tabulated below :-

Figures in MT

Year	Installed Capacity	Budget	Revised Budget	Actual Sales	Actual Prodn.	Closing Stock
1985-86	50000	63000	25000	3971	6388	2417
1986-87	100000	70000	40000	19048	26881	10520
1987-88	100000	60000	60000	72597	64584	1886
1988-89	200000	140000	103000	90624	95552	6334
1989-90	200000	160000	124500	118066	117392	5432
1990-91	200000	170000	143000	121895	123748	7174
1991-92	200000	170000	125000	92441	111999	26183
1992-93	200000	140000	130000	126043	114793	13587
1993-94	200000	130000	130000	120264	118914	10923

It would be seen that the production/sales performance of the Company was unsatisfactory during 1985-86, 1986-87, 1988-89, 1990-91 and 1991-92.

7.3 Agency Commission

The Company paid agency commission of Rs.66.27 lakhs and Rs.125.60 lakhs during 1992-93 and 1993-94 respectively to twelve service agents at different rates purported to be for their services to procure orders from various Government departments and autonomous bodies and prompt realisation of sale proceeds.

The commission amounting to Rs.15.49 lakhs paid during 1993-94 to three agents was an extra expenditure in-as-much as the orders from such buyers were procured by the Company by its own efforts with the utilisation of marketing network of the Company. Scrutiny revealed that the agents in these transactions offered their willingness to serve as agents of the Company only after invitation of tender enquiry by the buyers and submission of offer thereagainst by the Company. Since the buyers had accepted the offer of the Company only, the role of the agents or the duties performed by them, for which commissions were paid to them, were not clear.

It was also observed that in case of agency sale to M/S Tamil Nadu Text Book Society, the Company allowed a special discount of Rs.3.05 lakhs besides normal cash discount and incentive.

The Ministry stated (August 1995) that the system of appointing servicing agent had been dispensed with from 1995-96.

CHAPTER - 8

RAW MATERIALS

8.1 Utilisation of Input Materials

Consumption of inputs like bamboo, alum, lime, coal and rosin had been consistently higher at CPM and NPM in comparison to the norms. The excess consumption resulted in extra expenditure of Rs.84.93 crores as per Revised Cost Estimate (RCE) norms and Rs.64.04 crores as per Management norms upto 1993-94. No systematic analysis was made by the Management to identify the reasons for adverse variation in consumption of input materials.

Regarding high consumption of Rosin in NPM, the Management stated (March 1992) that it was brought down by close monitoring and control in different areas of plant.

The Ministry stated (August 1995) that the Company should make all possible efforts to bring down high consumption of input materials, failing which the Company would not remain competitive. They also stated that the matter was receiving full attention of the Ministry & the Board of Directors of the Company.

8.2 To augment the shortage of bamboo, the Company had sanctioned (November 1989) Rs.2.50 lakhs per year to each of the mill for a period of 5 years for captive plantation. No such plantation had been set up as yet (March 1994)

The Ministry stated (December 1994) that such plantation schemes could not materialise as the farmers wanted monthly and annual payment in advance which was not acceptable to the Corporation.

8.3 The Company entered into agreements with the Government of Assam and two District Councils of Karbi Anglong & North Cachar Hills to effect supply of bamboo. The agreement provided for a minimum guaranteed amount of royalty of Rs.10 lakhs per annum commencing after two years from the date of agreements dated 13.10.80 and 23.12.80; the royalty was to be adjusted against the royalty payable at specified rates on the actual extraction of bamboo during the third, fourth and fifth year.

However, as the plants were not commissioned in time and utilised fully, the Company could not extract the bamboo in sufficient quantity to fully adjust minimum guaranteed royalty. As a result, out of the minimum guaranteed royalty paid, Rs.21.51 lakhs (CPM) and Rs.28.19 lakhs (NPM) remained unabsorbed and resulted in a loss to the Company.

The Management stated (August 1995) that the unabsorbed royalty still remains unadjusted although the Company has reportedly got an interim commitment in a meeting from the Government of Assam. The Company has, however, failed to get any commitment from the two District Councils.

8.4 Material Management :

The material management suffered from the following deficiencies :

i) The Company had not made any ABC analysis.

ii) The Company did not have a system of determining unserviceable or damaged stores and raw materials at regular intervals. The Company also did not prepare any list of slow or non-moving items. However, the work for identifying slow or non-moving items was partly done at NPM.

iii) Reconciliation between Cardex/Bin Card relating to stores, spares and other consumables with the priced stores ledger was not done.

iv) For bringing the entire inventory holding of the mills under computer qualification, computers were installed at NPM and CPM in 1988-89 and 1990-91 at a total cost of Rs.1.64 lakhs and Rs.4.25 lakhs respectively. The computerisation was not yet complete (March 1994).

v) The Company had a system of advanced material planning, but such planning had been affected adversely by consumption of inputs in excess of norms, erratic consumption, fund shortage and liquidity problems, extraneous factors like abnormal power cut, water scarcity, pilferage and deterioration of consumables.

The Management stated (March 1992) that locational disadvantages and political conditions in Assam were also responsible for failure in planning.

8.5 During physical verification of stores of steel and spares as on 31st March, 1985 (material procured from 1980 onward) in NPP a shortage of 314.896 MT of steel was detected Of this, shortage of 204.647 MT was attributed (July 1986) by the Company to the excess issues to contractors on the basis of linear measurement instead of actual weighment.

The Management stated (October 1989) that shortages occurred due to absence of weighbridge till April 1982, material lying in the open without boundary wall and inadequacy of security staff which resulted in theft/pilferage of steel.

It was, however observed that though the weighbridge was received in January 1980, the same was commissioned in April 1982.

CHAPTER - 9

MANPOWER

9.1 The actual manpower employed in NPM and CPM ranged between 77% to 84% and 72% to 80% respectively of sanctioned strength. The actual strength of Supervisors in NPM and CPM has all along been more than the sanctioned strength since 1988-89 and 1990-91 respectively. The actual number of Supervisors was 131 and 116 as on 31st March 1994 as against the sanctioned strength of 96 and 103 of NPM and CPM respectively. However, the actual strength of skilled, semi-skilled personnel has always been less than the sanctioned strength since 1988-89 in NPM and in CPM (except as on 31st March, 1990 and 1991).

9.2 Labour Productivity

The optimum labour productivity per month worked out to 6.37 MT in case of CPM and 6.08 MT in case of NPM. The actual productivity per worker per month varied from year to year as shown below :

Y e a r	Nos. of worker		Production of Paper (MT)		Productivity per worker per month(MT)	
	NPM	CPM	NPM	CPM	NPM	CPM
1988-89	1053	943	58117	37435	4.60	3.31
1989-90	1063	899	70232	47160	5.51	4.37
1990-91	1212	934	66125	57623	4.55	5.14
1991-92	1232	998	57544	54455	3.89	4.55
1992-93	1218	981	55643	59150	3.81	5.02
1993-94	1207	981	67482	51432	4.66	4.37

The Management cited (March, 1992) the following reasons for low productivity :

a) It takes time for the technical personnel to get acquainted with a highly sophisticated paper mill.

b) For such large-sized mills, it takes some time for the production to stabilise. There was shortage of captive power supply (21.3%) in the year 1988-89 due to Turbo Generator problems.

The reply is not tenable as even after 8 years of operation in NPM and 6 years of operation in CPM, labour productivity continued to be on the lower side.

9.3. Overtime

A considerable amount of overtime was paid to the workers and staff as indicated below :

(Rs. in lakhs)

Year	Normal Salary/ wages to workers/staff		Overtime payments to workers/staff		%age of overtime to normal Salary /Wages	
	NPM	CPM	NPM	CPM	NPM	CPM
1988-89	299.75	194.92	52.50	40.13	17.51	20.59
1989-90	355.20	290.65	71.71	62.75	20.19	21.59
1990-91	312.89	340.75	95.51	83.44	30.53	24.49
1991-92	448.14	307.13	107.09	84.50	23.90	27.51
1992-93	412.32	397.20	80.85	88.16	19.61	22.20
1993-94	397.72	361.72	80.90	104.75	20.34	28.96

The Management stated (March 1992) that the payment of overtime was due to (a) shortage of manpower in certain departments since technically qualified persons were not available in certain discipline, hence employees were engaged on overtime in such cases (b) absenteeism and leave vacancies, and (c) attending to break-down jobs etc. The Management also stated (April 1992) that steps had been taken to increase productivity and control overtime.

It was also brought out by the Management in Audit Board Meeting (August 1995) that high breakdown and absenteeism in the initial stages, led to high overtime.

The table above, however, indicates that the payment of overtime continues to be disproportionately high.

CHAPTER - 10

FINANCIAL PERFORMANCE

10.1 Financial Position

The financial position of the Company for the last 5 years ended on 31st March 1994 is tabulated below:-

(Figures in Rs./lakhs)

Sl.No.	1989 - 90	1990 - 91	1991 - 92	1992 - 93	1993-94
LIABILITIES					
1.(a) Paid up Capital (including Share deposit)	47798.43	47935.43	47935.43	47935.43	47935.43
(b) Reserve & Surplus :					
- Capital Reserve	653.30	653.30	653.30	653.30	653.30
2. Borrowings:					
(a) Government of India	41478.02	40718.02	40618.02	40618.02	40618.02
(b) Cash Credit & Others	302.41	2441.68	4961.76	4609.68	3037.90
3. Trade dues & Other Current Liabilities (Including Provisions)					
(a) Advance from Customers	1464.75	448.60	803.95	973.90	1040.89
(b) Other Current Liabilities	24314.05	30523.03	38398.95	45913.83	79623.67
	116010.96	122720.06	133371.41	140704.16	172909.21
ASSETS					
4. Gross Block	57141.41	57430.30	57619.10	57945.94	61581.15
Less: Depreciation	15108.01	20080.27	25033.49	30051.84	35193.23
5. Net Fixed Assets	42033.40	37350.03	32585.61	27894.10	26387.92
6. Capital Work-in-Progress	2671.58	2626.61	2631.64	3290.80	902.44
7. Investment Other than Trade	13919.85	14140.87	14140.94	14140.94	14140.98
8. Current Assets, Loans & Advances					
(a) Inventory	4740.01	5203.47	6994.05	7327.86	7254.49
(b) Finished Stock	862.11	1266.50	4851.68	2596.94	2187.84
(c) Process Stock	21.58	30.77	49.91	60.98	41.51
(d) Sundry Debtors	1589.75	2436.38	2521.44	4005.11	4981.03
(e) Cash & Bank Balance	428.56	442.02	594.38	1708.70	1994.52
(f) Loans & Advances	15591.72	18403.90	19889.12	24151.80	23568.15
(g) Interest Accrued	6861.54	7562.86	9016.03	10467.78	21711.25
9. Miscellaneous Expenditure (not Written off)	1387.24	1215.80	1064.93	893.89	889.69
10. Accumulated Loss	25903.62	32040.85	39031.68	44165.26	68849.39
	116010.96	122720.06	133371.41	140704.16	172909.21
Debt to Paid-up capital ratio	0.87 : 1	0.84 : 1	0.89 : 1	0.89 : 1	0.85:1
Capital Employed	46349.87	41724.30	37299.32	31325.54	7462.15
Net Worth	21894.81	15894.58	8903.75	3770.17	(-)20913.96

Note :- 1. Capital employed represents net Fixed Assets plus Working Capital.
2. Net Worth represents paid up Capital less Accumulated Loss.

10.2 Working Results

The working results of the Company for the last 5 years ended on 31st March 1994 are given in the table below:-

(Figures in Rs./Lakhs)

Sl.No.		1989 - 90	1990 - 91	1991 - 92	1992-93	1993-94
1.	Sales (including sale of scrap, internal consumption of writing & printing paper, Caustic Chlorine & Wrapper and inter-unit transfer & subsidy on sale of paper).	18334.07	20673.88	18238.55	25488.15	25718.78
2.	Increase (+)/Decrease(-) in stock of finished goods	(-) 112.80	(+) 421.79	3604.71	(-)2246.14	(-)428.58
3.	Value of Production.	18221.27	1095.67	21843.26	23242.01	25290.20
4.	Other Income & Adjustments (including prior period adjustment - Credit).	1224.37	789.56	1619.68	3041.66	10611.44
		19445.64	21885.23	23462.94	26283.67	35901.64
5.	Less :					
	Value of raw materials and other materials, stores and spares, power & fuel consumed.	10801.48	13098.07	14059.39	14796.89	15275.29
6.	Net Value added.	8644.16	8787.16	9403.55	11486.78	20626.35
7.	Expenditure contributing to net value added.					
	(a) Salary (including bonus, gratuity, contribution to Provident Fund and Family Pension Fund).	1176.47	1556.70	1617.33	1772.25	1887.70
	(b) Workmen and Staff Welfare Expenses.	31.24	33.27	51.15	67.10	64.96
	(c) Depreciation	4838.16	4887.20	4882.82	4900.38	5221.21
	(d) Interest	4312.54	4060.56	3896.31	3848.83	8074.10
	(e) Other Expenses & Charges (including prior period adjustments debit & excluding allocated to subsidiaries).	3867.04	4386.66	5946.77	6031.80	30062.51
8.	Total Expenditure	14225.45	14924.39	16394.38	16620.36	45310.48
9.	Profit(+)/Loss(-) after adjustment of provisions and prior period (net).	(-)5581.29	(-)6137.23	(-)6990.83	(-)5133.58	(-)24684.13
10.	Net Value Added.	8644.16	8787.16	9403.55	11486.78	20626.35
11.	Percentage of expenditure (contributing to net value added).	164.57	169.84	174.34	144.69	219.67
12.	Value added (Rs./Lakhs) Per employee	2.41	2.36	2.52	3.17	5.70

In the absence of adequate internal generation of funds, the Company had to resort to borrowings from Government and Bank for meeting expenditure, with consequential increase in the burden of interest. The increase in inventory, stock of finished goods, work-in-progress and accumulation of book debts indicated a prolonged gap between investment and realisation of sale proceeds which in conjunction with non-utilisation of production capacities at optimum level, led to deteriorating ways and means position and increasing demand for working capital.

10.3 Financial Restructuring

In order to ensure economic viability, the Company approached the Government (January 1988) to consider :-

a) Conversion of Loan to Equity,

b) 100% Excise rebate instead of 50% rebate presently applicable without restricting this to 5 years period or percentage of plant and machinery cost

c) Write off of losses accrued during early period of operation,

d) Government of India's help to take up with Government of Assam the question of reduction in unit rate of power from 115 paise to 52 paise as prevalent elsewhere.

As regards conversion of entire interest and principal due as on 31st March 1990 into equity, the matter was finally considered in the Board's meeting in June 1992 when the Management was advised to prepare a consolidated amelioration plan to improve the performance of the Company

The proposal was sent to Government on 20th June 1992 for (i) implementation of schemes costing Rs.64.00 crores (other than Rs.8.00 crores for major repairs) for augmenting production level from 65% to 80%, (ii) moratorium on principal for the year 1992-93, (iii) interest holiday for 1992-93 & 1993-94 and (iv) permission to pay the available cash surplus between loan and interest on 50:50 basis.

Proposals were also sent to Government for (a) writing off of past losses to the extent of liability to the Government of India included in the loss, (b) write off of additional cost of Rs.19.00 crores due to locational disadvantages of the projects as recommended by BICP, (c) waiver of penal interest, (d) rescheduling of loan repayment from 1997-98 onwards and (e) merger of HNL with HPC.

The Ministry stated (December 1994) as follows :

"The financial restructuring proposal of June, 1992 of HPC was examined in the Ministry. The CCEA in November, 1991 while considering the IIIrd revised cost estimates of the Nagaon and Cachar Paper Mills directed that 'having regard to high capital cost and non-availability of raw materials, possibility of making it over to private parties by making capital write off, if necessary may be explored'. In August 1992, the Government decided that the benefit to the Government for both alternatives, namely privatisation and restructuring should be evaluated and compared and submitted for orders of the Cabinet Committee on Economic Affairs. SBI CAPS have been engaged for the purpose. The HPC has also been advised to submit their restructuring proposal to SBI CAPS and interact with them and finalise the restructuring proposal"

The Ministry further stated (August 1995) that the financial restructuring proposal received from SBI CAPS was under consideration of the Government and the privatisation option had been ruled out because of low price realisation prospects.

CHAPTER - 11

COSTING SYSTEM AND COST CONTROL

11.1 Cost Audit was made compulsory in paper industry by the Government of India w.e.f. 1.1.1976 and that was applicable to NPM w.e.f. 1.10.1985. Accordingly cost audit was conducted at NPM for the first time in 1987-88. In case of CPM cost audit became applicable w.e.f. 1989-90.

Being a process industry, the Company follows process costing method. For the purpose of controlling cost, a set of standards is fixed by the Management for each element of cost through Annual Action Plan. Variance reports are prepared on daily basis and considered in the production meeting, variance analysis for the financial year as a whole is tabulated as "Performance Highlights of HPC Mills" for taking suitable action.

The variance analysis indicating variances in sales, expenditure and profit in respect of both the mills is given in Annexure V.

It would be seen from Annexure V that there was adverse profit variance in all the years in both the Mills except in 1989-90 in NPM.

CHAPTER - 12

INTERNAL AUDIT

The Company has no Manual laying down the scope and programme for internal audit. There was loose internal control system as regards inventory control procedures, idle plant & machinery, plant and machinery awaiting inspection, non-adjustment/recovery of materials lying with contractors, advances to suppliers, reconciliation of Sundry Debtors etc.

The Internal Audit Reports are required to be placed before the Board of Directors of the Company. Action taken by the Management on internal audit reports was however not available from the records. The Statutory Auditors in their supplementary report for 1988-89 stated that in view of the increased activities of the Corporation, not only frequency of audit was required to be increased with wide coverage but augmentation of further qualified staff was also necessary.

A system of reviews in the areas of physical verification of stocks, input raw materials and various branches of marketing department has been implemented only from November 1991.

No action on such review regarding deficiencies pointed out by Internal Audit has been taken by the Management as yet (March 1994). However, an Audit Committee was formed (March 1992) for examination and final action on such review reports. No outcome of such examination has been noticed as yet (March 1995).

While admitting absence of follow up on Internal Audit Reports, Management stated (August 1995) that follow up on such reports was essential and could produce good results.

CHAPTER - 13

ENERGY CONSERVATION

Paper making is a high energy consuming process. Energy consumption depends on various factors such as processes involved, product- mix, raw materials, capacity utilisation, types of equipment, degree of integration, size and age of the mill, design and imbalances of the equipment installed.

The consumption of electricity per tonne of finished paper compares unfavourably with the norm i.e. weighted average rate of consumption of electricity per tonne of finished product in Indian Paper Industry as per details given below :-

(Figures in KWH)

P l a n t	Norms	Actuals	%age of increase in actuals over the norm
Chipper House	58	96	65.52
Pulp Mill	256	458	78.91
Stock Preparation & Paper Machine	756	850	12.43
Soda Recovery	151	176	16.56

Further due to lower capacity utilisation of Plant and Machinery, consumption of electricity in the service department was also quite high (841 KWH per MT of paper production).

The Management attributed (August 1992) the high consumption to : (a) the use of unseasoned bamboo & hard wood, (b) the lower capacity utilisation of Digester and also the low efficiency of the Pulp Mill.

The reasons for higher rate of consumption of electricity in the other two areas (viz. Stock preparation and Paper Machine and Soda Recovery) were not always analysed by the Company.

The Management stated (August 1995) that with better Capacity Utilisation and increase in production, the consumption of electricity per unit of production would come down.

The Ministry stated (August 1995) that the Company should give due importance to controlling the high consumption of electricity in order to compete in the market.

CHAPTER - 14

OTHER TOPICS OF INTEREST

14.1 The Company placed orders (January 1981 to March 1982) for supply of piping material on the basis of requirement certified by the consultant, M/s. Development Consultant Private Limited (DCPL). This requirement was revised in June 1981, June 1982 and September 1982 on the advice of DCPL by adding and reducing certain items. The suppliers supplied the additional quantity but refused to cancel the reduced quantities. This resulted in excess procurement of piping material worth Rs.52.00 lakhs. Though the Management threatened (September 1982) DCPL to debit the cost of excess procurement, the amount had not been debited so far (March 1994).

The Management stated (November 1985) that there remained a certain amount of uncertainty and an element of risk in big projects because the consultant prepared a list of requirements based on preliminary/semi-detailed drawings. Further, it was the standard practice to adopt advance procurement of standard items in bulk, which, if found to be abnormally in excess after project completion and meeting inventory requirements for maintenance, could either be utilised in another project or sold at a premium.

The reply is not tenable as the extent of variation (400 to 600 percent) was too high, and even after 12 years (since 1982) the Management had failed to either sell or utilise the excess materials.

14.2 The Company preferred eight claims (October 1984 to December 1985) against the Insurance Company for pilferage, missing and damaged items of stores valuing Rs.26.68 lakhs. The Insurance Company rejected (July/September 1987) the claims on the ground that no FIR was lodged in any case.

The Management stated (October 1992) that owing to the time gap between the receipt of various materials at site and actual inspection, FIR could not be lodged.

The Ministry stated (August 1995) that failure in all the cases was not acceptable and these cases should be looked into in detail.

14.3 Nagaon Paper Mill of the Company has been procuring coal mainly from Coal India Limited (CIL) through handling agents. The terms and conditions of appointment of such handling agents stipulated that in case any penalty freight was charged by the Railways due to overloading, the amount would be recovered from the agent.

The Company paid (September 1986 to December 1989) penalty charges amounting to Rs.24.47 lakhs due to overloading which have not been recovered from the handling agents.

The Management stated (November 1990) that the matter regarding refund of penalty charges was taken up at the appropriate/highest levels with all concerned from time to time but to no avail

14.4 The Cachar Paper Project (CPP) received supplies of various parts and components of paper machine in sound external packing condition between 1980 and 1982. A joint inspection was also conducted in August 1985 by the Company with vendors' representative at the Project site when the packages were found in dilapilated condition and a number of items missing/damaged due to pilferage and prolonged storage.

A claim for Rs.24.32 lakhs was preferred which was admitted (February 1987) by the underwriter to the extent of Rs.2.68 lakhs and the claim for the balance amount of Rs.21.64 lakhs was rejected.

The Management stated (April 1993) that since the Corporation had no knowledge of when and how theft had occurred, no FIR was lodged. Moreover, no proper watch and ward arrangements for the material were available and that there was no adequate storage facility although the materials were received at site. It was also stated that due to under insurance the escalation of replacement value of the damaged components was rejected by the Insurance Company.

14.5 A turnkey contract for supply, erection, commissioning and testing of Paging Industrial Communication System for Nagaon Paper Mill was awarded (February 1986) to firm "A" with scheduled date of commissioning within 15 January 1987 for a total value of Rs.15.30 lakhs, (Rs.12.05 lakhs being the cost of system while the balance Rs.3.25 lakhs for erection and commissioning). The equipments were received piecemeal upto June 1986 and full payment of Rs.12.05 lakhs was released. The erection was completed at a few places upto the end of October 1986 for which payment of Rs.0.92 lakh was made. Although the date of completion of the work was extended upto 12 February 1988 but the work has not been completed so far (March 1994).

The Management stated (December 1988) that investment on these equipments was unnecessary.

The Ministry stated (December 1994) as follows :

"...........The system is still very much in existence and cannot be termed as unnecessary. The mill authorities are trying to make use of the system by repairing the same at their own cost which would not be significant"

14.6 The Company awarded to a contractor the work of construction of stock preparation building including roll grinder, turbine house, boiler house, D.M. plant and the tank foundation at a total cost of Rs.108.82 lakhs to be completed within 12 months from 1st June 1980. As the Company failed to furnish drawings and work fronts in time, the contractor was allowed extension of time upto October 1984. The job was completed at a cost of Rs.241.47 lakhs against the original contract value of Rs.108.82 lakhs.

The Enquiry Committee on cost & time overrun observed (March 1990) that owing to non-availability of sites & fronts after the contract was awarded and changes in the scope and specifications made thereafter, the claim for additional payment was honoured.

14.7 Although the projects at Nagaon & Cachar were commissioned in October 1985 and April 1988 respectively, the Plant & Equipment procured during construction of the Projects valuing Rs.12.68 lakhs consisting of 5 Truck Tipplers (Rs.12.38 lakhs) and 2 local Control Panel for Chippers (Rs.0.30 lakhs) have been lying surplus. It was decided (April 1992) by the Board of Director to dispose of the equipment. No action has been taken as yet (March 1995).

R chandra

New Delhi
The

27 DEC 1995

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

Countersigned

New Delhi
The

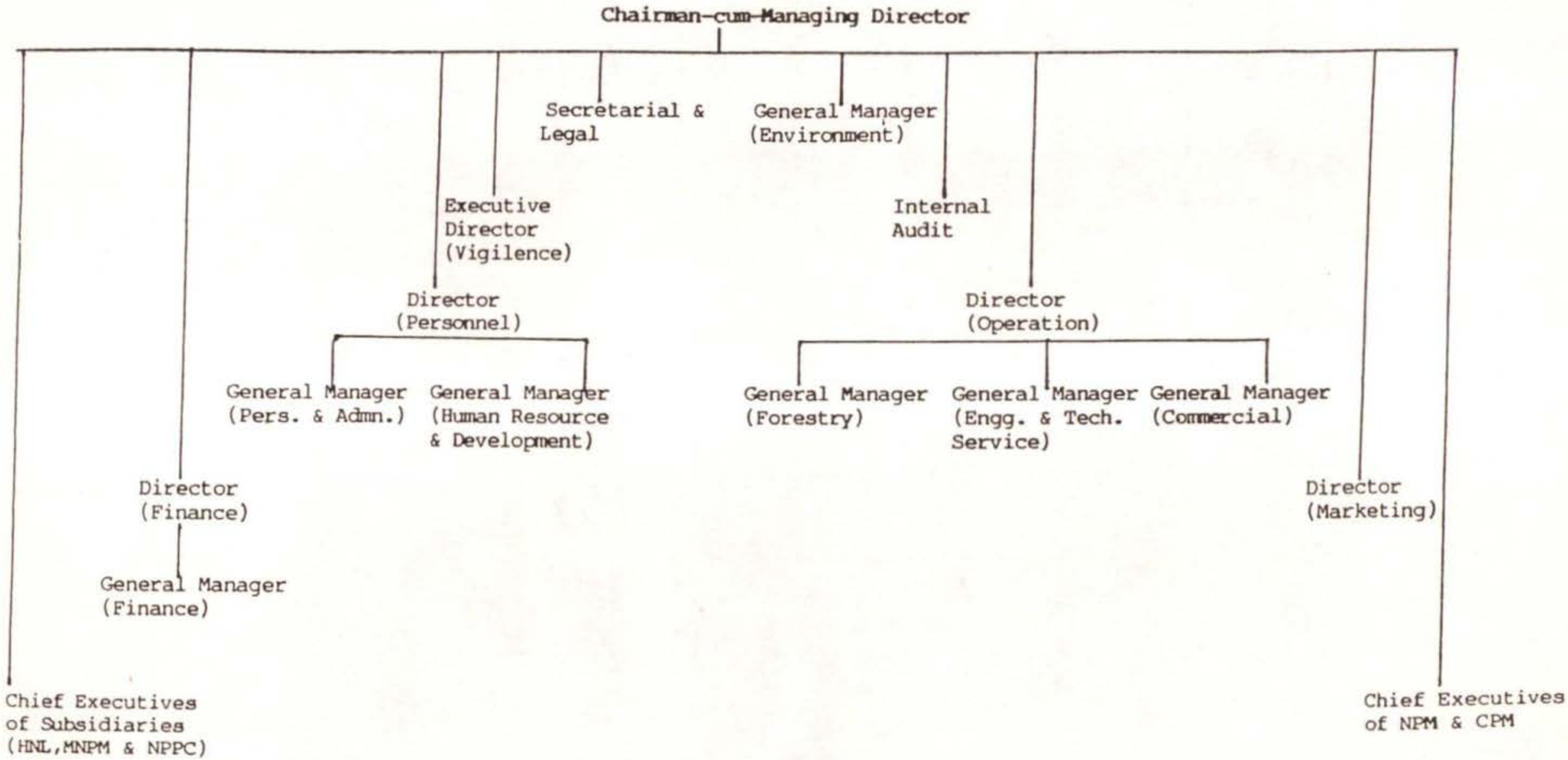
02 JAN 1996

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

ANNEXURE - I

(Referred to in Paragraph 4)

Organisational Structure



ANNEXURE-II

(Referred to in Para 5. 2)

Statement showing breakup of DPR vis-a-vis Revised Cost Estimates

(Rs. in lakhs)

Particulars	DPR as Prepared by NIDC		Revised Cost Estimates approved by GOI in March 1977		Revised Cost Estimates approved by GOI in July 1982		Revised Cost Estimates approved by GOI in March 1986		Revised Cost Estimates submitted to GOI in January 1988		Revised Cost Estimates submitted to GOI in April 1991	
	NPP	CPP	NPP	CPP	NPP	CPP	NPP	CPP	NPM	CPM	NPM	CPM
1. Land	381.75	361.67	25.0	22.0	34	33	34	62	34	62	145	89
2. Civil Works			902.5	936.5	2822	3160	5030	6621	5395	7502	5016	7150
3. Plant & Machinery including initial spares	2292.73	2183.46	8992.7	8932.7	15546	15141	15641	15746	16985	17929	16011	17453
4. Projecting Cost	282.13	254.49	803.4	887.2	2847	2692	4532	5198	5048	9269	5044	8881
5. Township	214.00	288.10	496.6	496.6	1102	1120	1979	2265	2070	2952	1756	1329
6. Margin Money for working Capital	-	-	205.0	205.0	493	486	638	637	775	775	775	775
7. Lime Plant	-	-	-	-	-	-	-	-	763	-	-	-
Total	3170.61	3087.72	11425.2	11400.0	22844	22632	27854	30529	31070	38489	28747	35677
Break Even Point	59.80%	66%	67%	67%	98%	76%	82.07%	97.93%	206.30%	266.74	102%	123%
Pay back period	5 Years 7 Months	5 Years 11 Months	5 Years 8 Months	5 Years 8 Months	10 Years 5 Months	11 Years 2 Months	9 Years 3 Months	11 Years 3 Months	41 Years 3 Months	64 Years 11 Months	15 Years 3 Months	14 Years 10 Months

ANNEXURE-III

{REFERRED TO IN PARA 5. 2(b)}

Items Incorporated In RCE as "New Items"

(a) Lift Shaft for Pulp Mill

(b) Bamboo Staking Yard

(c) Painting

(d) Chemical Godown

(e) Second HCL Plant

(f) Interchanging of Reels Spool

(g) Loco Engine

(h) Bypassing of Chip-Washing System

(i) Bleach Plant Controlled Instrument including pump flow meter

(j) Hand Hypo Transfer Station

(k) Hypo Sludge Disposal Pump

(l) Mercury Pump

(m) FRP Centrifugal Pump

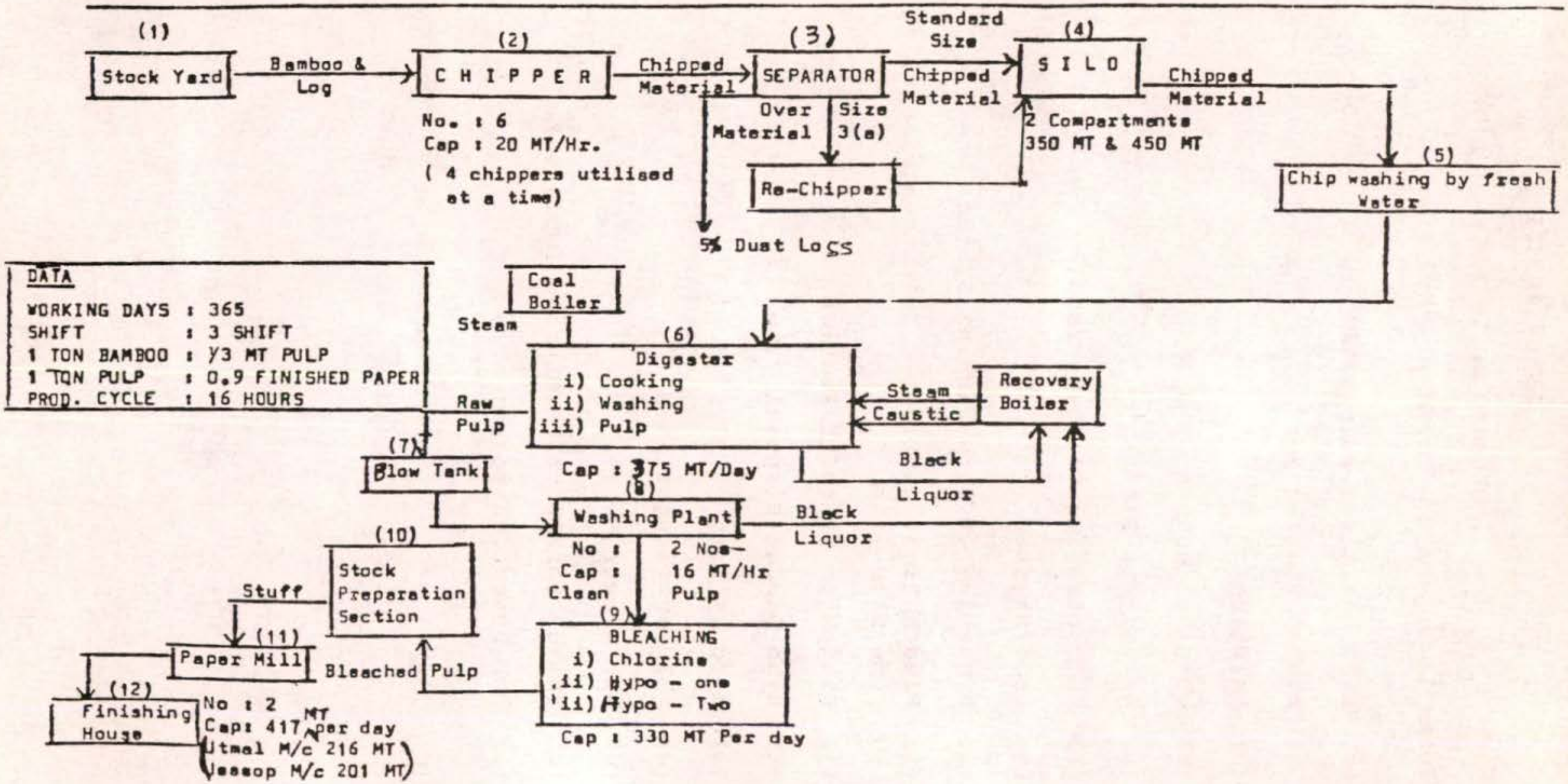
(n) Air Blower

(o) Valves for Chlorine Storage(Imported)

(p) ORP Redux Controller

Annexure -IV
(Referred to in paragraph 6.1,

PROCESS FLOW CHART



ANNEXURE-V (i)

(Referred to in Paragraph 11)

(RS. PER MT)

[FOR NPM ONLY]

PARTICULARS		1989-90			1990-91			1991-92		
		Actual	Standard	Variance	Actual	Standard	Variance	Actual	Standard	Variance
A.	Total Realisation									
	i) Sales (Paper)*	14137	13386	751 F	15347	14692	655 F	16889	15562	1327 F
	ii) other Income	533	160	373 F	576	233	343 F	1249	220	1029 F
	Total :	14670	13546	1124 F	15923	14925	998 F	18138	15782	2356 F
B.	Variable Cost	7841	8125	284 F	9916	7785	2131 A	11509	10420	1089 A
C.	Contribution(A-B)	6829	5421	1408 F	6007	7140	1133 A	6629	5362	1267 F
D.	Fixed Expenses	2708	1977	731 A	3203	2886	317 A	4915	2572	2343 A
E.	Profit before charging Depreciation, Interest & Other Expenses	4121	3444	677 F	2804	4254	1450 A	1714	2790	1076 A
F.	Depreciation & Deferred Revenue Expenses	3269	2546	723 A	3540	2865	675 A	4069	2606	1463 A
G.	Profit before charging Interest	852	898	46 A	(-)736	1389	2125 A	(-)2355	184	2539 A
H.	Interest Charges :									
	i) Government Loan	2066	2389	323 F	2450	2203	247 A	2704	1939	765 A
	ii) Cash Credit iii) Other Loans	184	-	184 A	189	-	189 A	407	144	263 A
I.	Profit (G-H)	(-)1398	(-)1491	93 F	(-)3375	(-)814	2561 A	(-)5466	(-)1899	3567 A
J.	Production (MT)	70232	90000	19768 A	66125	85000	18875 A	57544	90000	32456 A

* Sales represents value of production of paper , Sale of Caustc & Cholrine including accertion/decretion of stock of Caustic & Cholrine has been included under other income for the purpose of comparison between target and actual.

ANNEXURE V (i)

(RS. PER MT)
[FOR NPM ONLY]

PARTICULARS	1992-93 Actual	1992-93 Standard	1992-93 Variance	1993-94 Actual	1993-94 Standard	1993-94 Variance
A. TOTAL REALISATION						
i) Sales (Paper)*	18124	16621	1503 F	18267	16758	1509 F
ii) Other Income	2845	295	2550 F	2230	591	1639 F
Total:	20969	16916	4053 F	20497	17449	3148 F
B. Variable Cost	12462	10473	1989 A	11086	11550	464 F
C. Contribution (A-B)	8507	6443	2064 F	9411	5799	3612 F
D. Fixed Expenses	5445	3094	2351 A	5849	4734	1115 A
E. Profit before Charging Depreciation, Interest & Other Expenses.	3062	3349	287 A	3562	1065	2497 F
F. Depreciation & Deferred Revenue Expenses	4247	3141	1106 A	3487	3642	155 F
G. Profit before Charging Interest	(-)1185	208	1393 A	75	(-)2577	2652 F
H. INTEREST CHARGES:						
i) Government loan	2733	2043	690 A	18230	2364	15866 A
ii) Cash Credit iii) Other Loans	526	173	353 A	366	354	12 A
I. Profit (G-H)	(-)4444	(-)2008	2436 A	(-)18521	(-)5295	13226 A
J. Production (MT)	55643	75000	19357 A	67482	65000	27482 F

ANNEXURE-V (ii)
(Referred to in Paragraph 11)
(RS. PER MT)
[FOR CPM ONLY]

	PARTICULARS	1989-90 Actual	1989-90 Standard	1989-90 Variance	1990-91 Actual	1990-91 Standard	1990-91 Variance	1991-92 Actual	1991-92 Standard	1991-92 Variance
A.	Total Realisation									
	i) Sales (Paper)*	13980	12464	1516 F	15400	14712	688 F	17474	16703	771 F
	ii) other Income	581	261	320 F	609	290	319 F	1373	487	886 F
	Total :	14561	12725	1836 F	16009	15002	1007 F	18847	17190	1657 F
B.	Variable Cost	10430	8820	1610 A	10036	9276	760 A	11867	10244	1623 A
C.	Contribution(A-B)	4131	3905	226 F	5973	5726	247 F	6980	6946	34 F
D.	Fixed Expenses	3130	2260	870 A	3823	2934	889 A	4883	3359	1524 A
E.	Profit before charging Depreciation, Interest & Other Expenses	1001	1645	644 A	2150	2792	642 A	2097	3587	1490 A
F.	Depreciation & Deferred Revenue Expenses	5818	4234	1584 A	4895	4257	638 A	5177	3552	1625 A
G.	Profit before charging Interest	(-)4817	(-)2589	2228 A	(-)2745	(-)1465	1280 A	(-)3080	35	3115 A
H.	Interest Charges :									
	i) Government Loan	4610	3571	1039 A	3851	3309	542 A	3608	2689	919 A
	ii) Cash Credit iii)Other Loans	331	-	331 A	180	-	180 A	372	180	192 A
I.	Profit (G-H)	(-)9758	(-)6160	3598 A	(-)6776	(-)4774	2002 A	-7060	(-)2834	4226 A
J.	Production (MT)	47160	70000	22840 A	57623	70000	12377 A	54455	80000	25545 A

* Sales represents value of production of paper, Sale of Caustc & Cholrine including accertion of stock of Caustic & Cholrine has been included under other income for the purpose of comparison between target and actual.

ANNEXURE V (ii)
(RS PER MT)
[FOR CPM ONLY]

PARTICULARS	1992-93			1993-94		
	Actual	Standard	Variance	Actual	Standard	Variance
A. TOTAL REALISATION						
i) Sales (Paper)*	18707	18043	664 F	18601	17300	1301 F
ii) Other Income	2801	385	2416 F	2959	741	2218 F
Total:	21508	18428	3080 F	21560	18041	3519 F
B. Variable Cost	11831	10860	971 A	12988	11192	1796 A
C. Contribution (A-B)	9677	7568	2109 F	8572	6849	1723 F
D. Fixed Expenses	5650	3538	2112 A	6746	4435	2311 A
E. Profit before Charging Depreciation, Interest & Other Expenses.	4027	4030	3 F	1826	2414	588 A
F. Depreciation & Deferred Revenue Expenses	4764	4648	116 A	5967	4751	1216 A
G. Profit before Charging Interest	(-)737	(-)618	119 A	(-)4141	(-)2337	1804 A
H. INTEREST CHARGES						
i) Government loan	3293	3068	225 A	19146	3020	16126 A
ii) Cash Credit iii) Other Loans	467	169	298 A	406	308	98 A
I. Profit (G-H)	(-)4497	(-)3855	642 A	(-)23693	(-)5665	18028 A
J. Production (MT)	59150	65000	5850 A	51432	65000	13568 A