REPORT OF THE COMPTROLLER & AUDITOR GENERAL OF INDIA : UNION GOVT. (COMMERCIAL) PART III 1992

REPORT

OF THE

COMPTROLLER

AND

AUDITOR GENERAL

OF INDIA

UNION GOVERNMENT (COMMERCIAL)

1982

PART III

SCOOTERS INDIA LIMITED

ERRATA

Page No.	Reference to line	For	Read
Table of contents	1st line	(ii–iii)	(iii–iv)
(iii)	10th line	m Members	Members
(iii)	17th line	1982%	1982
5	3rd line 4th column in the table	2 59	2.59
21	1st line heading	Stae	State
21	6th line of para 7.01	Kerala West Bengal	Kerala, West Bengal
25	Para 8 Heading	INDUSTIES	INDUSTRIES
32	3rd line last column in the table	16;500	16,500
43	8th line of para 9.08(i)	are	arc
45	3rd line under heading Cast Iron	Thus	This
68	5th line of para 14.01	Delhi Madras	Delhi, Madras
69	3rd line 7th column in the table	9.61	8.61
90	Heading at (ii)	includes	include

16 C&AG/82

REPORT OF THE

COMPTROLLER AND AUDITOR GENERAL OF INDIA

UNION GOVERNMENT (COMMERCIAL)

1982

PART III

SCOOTERS INDIA LIMITED

TABLE OF CONTENTS

PREFATORY REMARKS

A reference is invited to paragraph 5 of the Prefatory Remarks in Part I of the Report of the Comptroller and Auditor General of India—Union Government (Commercial) 1982 regarding selection of certain undertakings for appraisal by the Audit Board under the supervision and control of the Comptroller and Auditor General of India.

2. This part contains the results of the appraisal undertaken by the Audit Board of the working of the Scooters India Limited. In this case the Audit Board consisted of the following Members :—

S/Shri.

1. P. P. Dhir—Chairman, Audit Board and Ex-officio Additional Deputy Comptroller and Auditor General (Commercial) upto 9th June 1982.
2. R. C. Suri—Chairman, Audit Board and Ex-officio Additional Deputy Comptroller and Auditor General (Commercial) with effect from 10th June 1982.
3. M. K. Behl—Member, Audit Board and Ex-officio Director of Commercial Audit, Dehra Dun upto 9th August 1982 and Member, Audit Board and Ex-officio Director of Commercial Audit, Bombay, thereafter.
4. S. C. Singhal—Member, Audit Board and Ex-officio Director of Commercial Audit, Dehra Dun with effect from 9th August 1982.

5. A. K. Khosla—Chief Executive and Managing Director, English Electric Company of India, Pallavaram, Madras—Part Time Member.

6. B. S. V. Rao—Industrial Advisor (ESME & PPC Division), Directorate General of Technical Development, New Delhi—Part Time Member.

3. The Report was finalised by the Audit Board after taking into account the reply of the Ministry of Industry (Department of Heavy Industry) received in November 1982 and results of discussions held with the representatives of the Ministry and the Company at its meeting held on 27th November 1982.

4. The Comptroller and Auditor General of India wishes to place on record his appreciation of the work done by the Audit Board and acknowledges with thanks the contribution, in particular, of the members who are not officers of the India Audit and Accounts Department.

1. *INTRODUCTION*

With a view to filling up the gap between demand and supply of scooters in the country, the Government of India decided, in principle, in October 1969 to set up a public sector unit for manufacture of scooters with indigenous know-how and without involving any foreign collaboration. However, owing to non-availability of indigenously developed design and mass production technology for the planned level of production of one lakh scooters annually, tenders were invited in 1970 from foreign parties for collaboration in the proposed project. Out of the two offers received, the offer of M/s. Piaggio of Italy was considered serious and worthwhile.

In the meantime, while considering the applications of M/s. Automobile Products of India Limited (API) for expansion of their undertaking with an additional capacity of 1,00,000 Lambretta two wheeler scooters by importing the manufacturing facilities of M/s. Innocenti S. G. Milano, Italy (Innocenti), their erstwhile collaborators, and for manufacture of 24,000 Lambretta three wheelers, the Government of India decided in July 1971 to accelerate the setting up of the public sector unit. Accordingly, discussions were held with API and Innocenti to explore the possibility of jointly implementing the scheme submitted by API. It was agreed in September 1971 to set up a joint sector undertaking for manufacture of 1,00,000 two wheelers, with the Government of India holding 51 per cent and API and Innocenti 49 per cent shares in the equity capital of the new company.

The agreement for collaboration on the above lines was finally signed on 16th June, 1972 between the Government of India, API, Innocenti, and Innocenti Lambretta SPA who had since taken over the scooters operations of Innocenti. To give effect to this agreement, Scooters India Limited was incorporated on 7th September 1972 as a company under the Companies

Act, 1956. The contemplated participation in the equity capital of the Company by API and Innocenti ultimately did not materialise as discussed in subsequent paragraphs.

2. *OBJECTIVES*

According to the Memorandum of Association, the main objects of the Company are

(a) to design, manufacture, assemble, buy, sell, export, repair and/or service or otherwise deal in automobiles of all types including scooters, scooterettes, mopeds, motor cycles, bi-cycles, trucks, trolleys, buses and lorries and all components, machinery, implements, utensils, appliances, apparatus and all things capable of being used therewith or in the manufacture, maintenance and working thereof.

(b) to carry on the business as manufacturers of and dealers in all types of fans, plant and machinery, equipment and accessories required therefor and all engineering goods which may conveniently be carried on with the facilities available or which may seem calculated to advance the interest of the Company or conducive to the attainment of the objects of the Company.

(c) To carry on the business as dealers, agents of petrol, lubricants, kerosene oil, fertilizers, drugs, seeds, tractor spare parts, cloth, insecticides, pesticides, cycle tyres and tubes and generally in all kinds of merchandise, goods, materials, machinery and spare parts, accessories and equipment.

Consequent on the acceptance of the recommendations of the Administrative Reforms Commission, the Ministry of Finance, Bureau of Public Enterprises in their Office memorandum dated 3rd November 1970 requested all the Ministries to initiate action to lay down the objectives and obligations, both financial and economic, of each enterprise under their administrative control.

The objectives and obligations of the Company in terms of the above office memorandum have not been laid down so far (October 1982).

3. *DELEGATION OF POWERS*

After accepting the recommendations of the Committee on Public Undertakings contained in their Fifteenth Report (Fourth Lok Sabha—April 1968), the Bureau of Public Enterprises issued in May 1969, broad guidelines defining the main functions, responsibilities and powers of the financial heads of the public sector undertakings.

The guidelines, *inter alia*, provided that

(a) where there is no full time Finance Director, the Financial Adviser should invariably be invited to be present at the meetings of the Board of Directors; and

(b) the Board of Directors should lay down detailed powers and functions of the Financial Adviser, particularly in regard to matters which should be reserved.

(i) for concurrence of the Financial Adviser;

(ii) for consultation with the Financial Adivsor; and

(iii) those on which Financial Adviser need not be consulted.

The guidelines issued by the Bureau of Public Enterprises have not been acted upon so far (October 1982). The General

Manager (Finance and Corporate Planning) who was head of the Finance Department was invited to attend only one out of forty-six meetings held prior to 3rd May 1979.

4. *CAPITAL STRUCTURE*

4.01 The Company was registered with an authorised capital of Rs. 5.50 crores divided into 55,00,000 equity shares of Rs. 10 each. The authorised capital was raised to Rs. 8.0 crores divided into 80,00,000 equity shares of Rs. 10 each in December 1976.

The paid-up capital of the Company as on 31st March 1982 was Rs. 5.25 crores as under :

Shareholders	Number of shares (in lakhs)	Value (Rupees in lakhs)	Percentage of share-holdings
1. Government of India . .	32.60	326.00	62.1
2. Financial Institutions . .	10.90	109.02	20.8
3. General Public	8.96	89.63	17.1
	52.46	524.65	100.0

4.02 *Borrowings*

In addition to the share capital, the Government of India, from time to time, granted loans to the Company. Besides, the Company has also issued debentures and obtained loans from financial institutions.

The total loans raised by the Company amounted to Rs. 25.24 crores upto 31st March 1981, out of which Rs. 0.34 crore was repaid leaving a balance of Rs. 24.90 crores, as per details given below :—

(Rupees in crores)

	Loans raised	Loans repaid	Balance outstanding
Government of India			
Long term*	19.36	0.13	19.23
Short term	0.87	..	0.87
Financial Institutions			
Long term	2.59	..	2 59
Short term	0.15	..	0.15
Debentures	0.50	..	0.50
Banks			
Long term	0.77	0.21	0.56
Short term	1.00	..	1.00
TOTAL	25.24	0.34	24.90

*Excludes a loan of Rs. 0.25 crore which was converted into equity during 1976-77.

Out of the total interest of Rs. 9.34 crores due on the above loans as on 31st March 1981, a sum of Rs. 0.25 crore only has been paid, leaving a balance of Rs. 9.09 crores outstanding for payment.

Further, out of total loan of Rs. 20.23 crores received till 31st March 1981 from the Government of India, moratorium for repayment of principal for a period of 3 years and 2 years was granted on loans of Rs. 46.50 lakhs and Rs. 18.42 crores respectively. Owing to failure of the Company in payment of the principal and interest in time it has become liable to pay penal interest of Rs. 56.04 lakhs upto 31st March 1981. The requests of the Company for waiver of penal interest made from time to time have not been accepted by Government so far (October 1982).

Debt equity ratio of the Company for the 4 years ending 31st March 1981 was as under :—

Year	Ratio
1977–78	2.27 : 1
1978–79	3.03 : 1
1979–80	4.01 : 1
1980–81	4.25 : 1

To meet its working capital requirement, the Company had made cash credit arrangements with the State Bank of India and the Indian Overseas Bank upto a limit of Rs. 6.95 crores. The balance outstanding on this account as on 31st March 1981 was Rs. 6.48 crores.

4.03 *Re-structuring of capital*

In view of the adverse debt equity ratio, the Company had from time to time submitted proposals to the Government for re-structuring of its capital. The proposal made in September/October 1980 in this regard envisaged :

(i) Conversion of the outstanding loans of Rs. 18.70 crores into equity.

(ii) Grant of an interest holiday for a period of eight years commencing from 1980-81.

(iii) Grant of a fresh loan of Rs. 5.40 crores to repay the outstanding interest upto 31st March 1980

(iv) Waiver of the outstanding penal interest of Rs. 32.00 lakhs as on 31st March 1980.

The proposal was under consideration of the Government of India (October 1982).

5. *CAPITAL INVESTMENT DECISIONS*

5.01 *Purchase of Plant and Equipment*

(a) *Two Wheeler Project*

As a sequel to negotiations with API and Innocenti, an inspecting team of technical and financial experts of the Government of India and API was deputed to Italy in October 1971 to evaluate the life and condition of the plant offered by Innocenti and to determine the reasonable price of the equipment and also the additional machinery that may be needed by Innocenti and to determine the reasonable price of the level of production of 1,00,000 scooters anually.

The services of an appraiser in London were also availed of for the purpose. The report of the inspecting team and the independent appraiser submitted (October 1971) to Government indicated the following.

- The equipment offered was in reasonably good condition and on an average the economic life of the plant and machinery offered would extend to the production of 5 lakh scooters equivalent to around 7-8 years of production.
- While life of the special purpose machines was over 8 years, the life of the general purpose machines was 4 years and above.
- The total price $ 2.00 million demanded by Innocenti was reasonable.
- The production capacity of the individual equipment and tooling for particular operations (classified under 'good condition') was suitable for production of more than 1,00,000 scooters per annum; however, the direct production shop would require balancing equipment of Rs. 95.50 lakhs. Besides, various supporting facilities of Rs. 126 lakhs considered

essential for the commencement of production were not included in the offer.

— Considering the technological involvement, ultimate cost of production and the aspect of quality product, a provision was required to be made for shell moulding foundry alongwith forge and heat treatment shop estimated to cost about Rs. 66 lakhs.

— Shifting of the equipment to India would cost about US $ 0.5 million upto the port of embarkation and Rs. 9 million thereafter.

In view of the positive report of the experts, the Government approved the purchase of the plant including auxiliaries at a cost of $ 2 million and incurring expenditure of $ 0.5 million and Rs. 9 million on dismantling, packing, transport etc., on the following considerations :

(i) Lower total fixed investment, foreign exchange element and production cost as compared to the procurement of new plant and machinery as per details given below :—

Item	Plant with entirely new equipment (1,00,000 two wheelers per annum)	Plant offered by Innocenti (1,00,000 two wheelers per annum)
(*a*) Total fixed investment . .	Rs. 15.91 crores	Rs. 10.90 crores
(*b*) Foreign exchange element (included in total fixed investment)	Rs. 6.56 crores	Rs. 2.90 crores
(*c*) Working capital requirement .	Rs. 5.00 crores	Rs. 5.00 crores
(*d*) Production cost per scooter (Rs.) .	2,022	1,989
(*e*) Ex-factory price at assumed level of 12.5 per cent gross return on total fixed investment (Rs.)	2,321	2,225

(ii) Generation of additional resources of about Rs. 4.80 crores on the sale of 5,00,000 scooters at Rs. 2,321 in a period of 7-8 years, when the equipment offered by Innocenti would, on an average, have reached the level of its economic life. This would enable greater flexibility in replacement programme, phased modernisation, faster expansion and diversification.

(iii) Profit of about Rs. 2.00 crores due to commencement of production earlier by about 2 years with the old plant of Innocenti.

(iv) Saving in foreign exchange as payment was to be made by adjustment of $ 0.40 million towards the equity of the Company and the balance of $ 1.60 million was payable out of the export earnings over a period of 7 years; the first payment starting after a period of 2 years.

(b) *Three Wheeler Project*

A proposal was made by Innocenti in January 1973 for sale of the world rights to manufacture three wheeler Lambros, technical documentations and the plant and equipment having a capacity to manufacture 30,000 Lambros per annum. Accordingly, the Company approached (January 1973) the Government of India for approval to extend its manufacturing activities to cover the production of 30,000 three wheelers per annum and for purchase from Innocenti technical documentation, equipment, toolings etc., at a cost not exceeding 185 million lire (Rs. 25 lakhs) on the following considerations :—

(a) Likely popularity of the three wheeler as a light transport vehicle with a pay load of 600 Kgs.

(b) Greater export potential in the developed countries in Europe.

(c) Considerable economies in the initial investment and the cost of production by integrating the three wheeler and the two wheeler production.

(d) Attractive price of the technical documentation and equipment.

(e) Minimum additional investment for the three wheeler by resorting to more intensive use of the plant and equipment available for the two wheeler production.

(f) The additional investment of Rs. 47.00 lakhs would result in the Plant being able to add on a product line valued at about Rs. 16.50 crores and additional profit of about Rs. 1.50 crores per annum.

The above proposal was agreed to (9th March 1973) by the Government of India subject to the following conditions :—

(a) The cost of the plant and machinery including technical documentation and world rights not to exceed Rs. 25 lakhs (185 million lire).

(b) Total capital cost for setting up the plant would be approximately Rs. 72 lakhs including foreign exchange element of Rs. 35 lakhs.

(c) Profitability of the integrated scooter project to be re-calculated and the Detailed Project Report already prepared to be suitably modified and submitted to the Government for approval.

The acceptance of the offer was conveyed to Innocenti in April 1973 by the Company. In regard to re-calculation of profitability of the integrated project and modification of the Detailed Project Report, the Ministry of Heavy Industry stated (November 1982) as follows :—

> "SIL has stated that a project report (capital investment plan) for the integrated scooter project with profitability analysis was prepared and approved by the Board of Directors in March 1973 and submitted to Government of India. Based on this, an investment of Rs. 1,190 lakhs was approved by Government."

(c) *Participation in equity by Innocenti and API*

In terms of the agreement with Innocenti, the payment of \$ 2 million for the purchase of plant and equipment was to be made by adjustment of \$ 0.40 million towards the equity of the company and the balance of \$ 1.60 million was payable out of the export earnings over a period of 7 years. In respect of the payments to be spread over a period of 7 years, the vendors insisted upon a guarantee which could be discounted in Italy. As no bank in Italy was willing to discount a guarantee payable over a period of 7 years, the vendors agreed to accept a cash payment of \$ 1.45 million in lieu of the payment of \$ 1.703 million (\$ 1.6 million increased to \$ 1.703 million due to devaluation of dollar). The cash payment of \$ 1.45 million was approved by Government on 15th March 1972. In the meantime, Innocenti went into voluntary liquidation. No shares, therefore, could be issued to the vendors. The vendors, however, agreed for cash payment of \$ 0.2 million in lieu of share equivalent of \$ 0.4 million in order to compensate the Company for delay on their part in supplying certain technical and other documents.

Similarly, when API, on being asked in January 1973 for subscription to the share capital, declined (July 1973) to do so on the grounds that the Company had :—

(i) not accepted API as technical collaborators; and

(ii) decided to take over the three wheeler project which was to be taken up by API in terms of an understanding between API and the Government of India.

The Ministry, however, stated (November 1982) that the Company did not envisage any technical collaboration with API.

In this connection, the following points are of interest :

(i) As against the capital investment of Rs. 12.28 crores envisaged on two wheeler and three wheeler projects

(Rs. 10.90 crores for two wheeler plus Rs. 0.66 crore for shell moulding foundry and forge and heat treatment shop and Rs. 0.72 crore for three wheeler) on the basis of which the projects were approved, the actual investment as on 31st March 1981 amounted to Rs. 21.42 crores (Paragraph 6.02 also refers).

(ii) The financial participation by Innocenti by adjustment of part payment towards equity and disbursement of the balance on deferred payments did not materialise.

(iii) The actual capacity of the plants was later found to be much less than 1,00,000 two wheelers and 30,000 three wheelers per annum envisaged at the time of the purchase of the plants (Paragraph 9.02 refers).

(iv) The actual investment in the old plant (two wheeler) having a service life of 5 to 8 years has exceeded the investment anticipated on erection of an entirely a new plant having a full rated economic life.

(v) One of the factors that weighed in the acceptance of the offer of Innocenti was that the time required for commencement of production would be 24 months of taking the decision as against 42 months required for erection of a new plant. While the decision to purchase the old plant was taken in November 1971 actual production started only in February 1975.

5.02 *Investment in the equity capital of State Undertakings*

(i) *U.P. Instruments Limited, Lucknow*

In August 1974, the Company decided to form a new company jointly with the U.P. State Industrial Development

Corporation Limited (UPSIDC) by taking over the fixed assets of the Government Precision Instruments Factory (a departmentally managed unit of Government of Uttar Pradesh) which was incurring losses year after year. The facilities available in the unit were to be utilised for manufacture of speedometers and magnetos required for the two wheeler and three wheeler vehicles. U.P. Instruments Limited came into existence in January 1975. In March 1977, Government of India approved Company's participation to the extent of 49 per cent out of its internal resources in the equity capital of Rs. 32 lakhs of the new Company.

The Company's investment in the equity capital of U.P. Instruments Limited was Rs. 15.50 lakhs as on 31st March 1981. In this connection, it may be mentioned that one of the reasons attributed to shortfall in production of two wheelers and three wheelers during 1978-79 and 1979-80 by the Management was non-availability or inadequate supply of magnetos by U.P. Instruments Limited [Paragraph 9.03(b) refers].

(ii) *U.P. Tyres and Tubes Limited*

The UPSIDC, which was holding a letter of intent from the Government of India for setting up a plant for manufacture of 5 lakh tyres and tubes for scooters annually, approached the Company with a proposal to form a joint sector company to undertake the manuafcture of tyres and tubes. The proposal was accepted by the Company in June 1975 mainly on the grounds that major manufacturers of tyres and tubes were giving low priority to the manufacture of two wheeler tyres and tubes and the Company was facing problems in their procurement.

The approval of the Government for participation in the equity capital to the extent of 49 per cent out of the internal resources of the Company was received in February 1977.

In the meantime, the new Company, U.P. Tyres and Tubes Limited, was established at Rai-Bareilly in January 1976 jointly by Scooters India Limited and UPSIDC for manufacture of 5 lakh sets of two wheeler/three wheeler tyres and tubes per annum.

The actual participation by the Company in the equity of the new company as on 31st March 1981 was Rs. 34.19 lakhs, which was partly met by obtaining a loan of Rs. 17.90 lakhs from UPSIDC entailing payment of interest at the rate of 14 per cent.

As against the Company's requirement of 2,05,536 tyres and tubes each during 1980-81 and 1981-82, the actual supply was to the extent of 43,780 tubes and 35,201 tyres only.

(iii) *Lease-hold of an Electrical Unit*

The management of Ganesh Flour Mills Limited, Delhi (a private company having five units) was taken over by Government under Section 18AA of the Industries (Development and Regulation) Act on 3rd November 1972 for a period of 5 years and Industrial Re-construction Corporation of India (IRCI) appointed as the Authorised Controller of the Undertaking. The four units engaged in the manufacture of food items were re-started by the IRCI and the fifth unit, engaged in the manufacture of fans was not re-started as it was not considered economically viable.

On 5th February 1975, IRCI approached the Company to consider whether the electrical unit could be of any assistance to it as an ancillary unit. The proposal was considered by the Board of Directors in its meeting held in July 1975 and a sub-committee consisting of the Chairman and two Directors was set up to conduct an on the spot-study of the facilities available in the unit.

On the recommendation of the sub-committee, it was decided by the Board (August 1975) to take on lease the electrical unit alongwith the facilities for the manufacture of a new product namely Moped. On the request of the Company, the Government of India issued (November 1975) to it an industrial licence for the manufacture of 50,000 mopeds per annum in the Union Territory of Delhi.

A lease deed was executed by the Company with the **Ganesh Flour Mills Limited on 6th February 1976 for a period of 5 years commencing from 1st February 1976** containing, *inter alia*, the following terms and conditions :—

(i) Payment of monthly rental of Rs. 25,000 to the lessor.

(ii) Electric fans, semifinished fans, accessories and raw materials valued at Rs. 10.82 lakhs (subsequently reduced to Rs. 10.19 lakhs) lying at the premises to be purchased by the lessee.

(iii) The purchase price of the aforesaid item to be paid in three equal yearly instalments, the first such instalment to be paid by June 30, 1977 and the **last by 30th June 1979.**

Though the Company took possession of the premises of the Unit on 6th February 1976, the power connection remained disconnected upto 21st May 1976. At the time of taking over of the unit the idea was to manufacture mopeds. Subsequently it was decided to go in for manufacture of fans, since the employees had also to be taken and the equipment were suitable for manufacture of fans. Accordingly, in August 1976, the Company approached the Mills for permission to utilising the industrial licence granted to them for manufacture of fans under the brand name "Ganesh" which was granted in November 1976, on the payment of royalty of Rupee 1 per fan. In the meantime, the Company started manufacturing fans with effect from September 1976. In 1978-79, the Management decided to commence production of magnetos (one of the items required for manufacture of scooters) also at this unit.

In this connection the following points deserve mention :—

(i) The decision to have the unit on lease for production of mopeds was taken without ensuring the suitability of the machinery for the purpose as subsequently the idea of manufacturing mopeds had to be dropped owing to the unsuitability of the plant and machinery.

(ii) The Company informed the lessor in May 1978 that, on detailed examination of the stores, they were faced with the following difficulties in utilising them for production purposes :

(a) Un-matched inventory of major high value items such as stampings, regulators, components, coverings, etc.

(b) 40 to 50 per cent inventory of raw materials was meant for table fans, exhaust fans, air circulators and FHP motors which were suitable for the old, obsolete and un-economical designs and, as such, the Company was left with no choice but to dispose of such items as scrap.

(c) Rubber components, insulating material, condensers had lost their shelf life because they had been lying un-utilised for the last 8 to 10 years.

It was also indicated by the Company that as against the book value of Rs. 10.19 lakhs (Rs. 10.82 lakhs agreed to in the lease deed minus Rs. 0.63 lakh reduced by the lessor on account of difference in the value of finished/semi-finished fans), the realisable value of materials worked out to Rs. 6.36 lakhs only. This contention of the Company has not been accepted by the lessor so far (August 1982). The Company has, however, made a payment of Rs. 4.42 lakhs upto March 1982.

The lease for the period of five years commencing from 6th February 1976 was extended upto 2nd May 1981.

Although the period of extension has also expired, the lease has not been extended as the case for takeover of the unit was under consideration of the Government (August 1982).

6. Detailed Project Report and Project Estimates

6.01 *Detailed Project Report*

In 1972, the Government of India requested API to prepare a Detailed Project Report (DPR) for the two wheeler project. The terms and conditions and the fee payable for the work were, however, not settled in advance. The DPR was prepared by API in 12 volumes but only 2 volumes (volumes I & II) were submitted to the Government. While forwarding the DPR, API claimed a fee of Rs. 40 lakhs subsequently reduced to Rs. 30 lakhs. The Government, however, informed API that the cost of preparing the DPR was a matter for the Scooters India Limited to decide. The Board of Directors to whom the matter was put up in December 1972 decided that the Managing Director should go through all the volumes of the DPR and make his recommendations with regard to the extent of payment to be made. It was also decided that the payment for DPR would be made only after the same had been accepted and investment decision taken. The Managing Director, while recommending a fee of Rs. 15 lakhs for the preparation of DPR, informed the Board on 10th January 1973 that the information and data contained therein, though useful for the setting up of the manufacture of scooters, could not be considered complete owing to non-inclusion of—

— the manufacture of J-Series scooters ;

— detailed layout of machine tools in the main plant, and the layout of services ; and

— the ordering specifications for the various balancing equipment and machine tools.

The Board decided to entrust the preparation of the DPR on the lines indicated in the Managing Director's note on a fee of Rs. 15 lakhs.

The matter was discussed by the Managing Director on 11th January 1973 with the representatives of API who agreed to carry out the modifications etc., in the DPR. It was also agreed that a sum of Rs. 15 lakhs would be paid to API for this work as detailed below :—

(i) Rs. 5 lakhs by the end of January 1973 ;

(ii) Rs. 5 lakhs on completion of the detailed layouts for machine tools and their production services—expected to be completed by March 1973 ;

(iii) The balance of Rs. 5 lakhs on completion of all the rest of technical documentation forming part of the DPR—expected to be completed by June 1973.

The first and second instalment of Rs. 5 lakhs each were paid on 15th March 1973 and 29th May 1973 respectively. The last instalment of Rs. 5 lakhs was not released as certain items of work were not completed by API. The latter filed a suit in August 1978 for non-payment of this amount. The case is sub-judice (October 1982).

6.02 *Project Estimates*

A Capital Investment Plan involving an expenditure of Rs. 1,200 lakhs for the two wheeler and three wheeler projects was prepared by the Company and sent to the Government in March 1973 for approval. The approval of Government to the said plan was accorded for Rs. 1,189.98 lakhs in March 1974. The estimate was further revised to Rs. 1,270 lakhs by the Company in November 1974, which was approved by Government in September 1975/June 1976. A further sum of Rs. 75.00 lakhs was sanctioned by Government in April 1976 for the Foundry Project thereby increasing the estimate to Rs. 1,345.00 lakhs. As against the total sanctioned estimate of Rs. 1,345.00 lakhs, an expenditure of Rs. 1,947.86 lakhs was incurred on the project upto March 1980 as per details given below :—

(Rupees in lakhs)

Item of expenditure	Cost as per capital Invest-ment plan	Original cost as approved by Govern-ment in March 1974	Revised cost approved (Sept-ember 1975, April 1976 and June 1976)	Actual expen-diture incurred upto 31st March 1980
1	2	3	4	5
1. Land and land develop-ment including boundry walls, outside drainage and roads.	27.00	27.00	29.60	18.10
2. Main factory building, sto-rage shed, mezzanine floor for office, drainage, water supply and horticulture.	223.00	223.00	281.13	339.97 (including electric ins-tallations amounting to Rs. 101.25 lakhs).
3. Machinery imported from Innocenti for the two-wheeler plant including freight, customs duty etc.	289.00	289.00	354.75	402.80
4. Machinery imported from Innocenti for the three-wheeler plant including freight, customs duty etc.	50.50	50.50		
5. Balancing machinery for the two wheeler and three wheeler plant.	350.00	350.00	391.02	339.15
6. Installation cost and cost of capital repairs to plant and machinery obtained from Innocenti prior to their installation.	30.00	30.00	35.00	(included in item 3 and 4).
7. Furniture, fixtures, office equipment and vehicles.	35.00	35.00	35.00	44.15

1	2	3	4	5
8. Pre-production expenses to be treated as deferred revenue expenditure.	75.00	75.00	100.00	106.00
9. Installation of diesel generating set for total power of 3000 KVA.	40.00	40.00	33.50	20.95
10. Residential colony for staff.	70.00	60.48	..	..
11. Development of land and other municipal facilities for workmen's colony.	10.00	10.00	10.00	1:12
12. Foundry project approved by Government in April 1976.			75.00	54.78
13. Fan unit, ancillary estate and tool and equipment for retail outlet managers (not contemplated in the Capital Investment Plant).	..	..	..	55.92
14. Supporting facilities in tool room, tool regrinding and inspection areas (Rs. 104.50 lakhs) and renewal and replacement programme. (Rs. 460.02 lakhs).	..	..	..	564.92
1199.50 or say	1200.00	1189.93	1345.00	1947.86

(Actual expenditure upto March 1981 was Rs. 2142.35 lakhs. However, item-wise details of expenditure were not furnished by the Company).

The excess of expenditure of Rs. 602.86 lakhs (upto 31st March 1980) over the revised sanctioned estimates was primarily owing to the expenditure on the items 13 and 14 in the table above which were not included in earlier estimates.

In this connection it may be mentioned that actual expenditure of Rs. 564.92 lakhs on supporting facilities in tool room, tool regrinding and inspection areas (Rs. 104.90 lakhs) and renewal and replacement programme (Rs. 460.02 lakhs) includes Rs. 309.00 lakhs incurred upto March 1980 on an unapproved power pack project, subsequently treated as an expenditure on supporting, tool/inspection area facilities and renewal and replacement of machinery (Paragraph 9.06 refers).

7. Collaboration Agreements with Stae Government Undertakings

7.01 On the request of various State Governments to assist them in setting up of plants for the manufacture of 150 cc DL model two-wheelers in their respective States, the Company entered into agreements (called licence agreements) during 1973-74 and 1974-75 with the State Government Undertakings of Andhra Pradesh, Bihar, Kerala West Bengal, Punjab, Karnataka and Tamil Nadu, called licensees, for supply of engines and gear boxes (commonly known as power packs) and technical know-how etc. to them.

The annual production capacity of these undertakings was 30,000 scooters each except in the case of Punjab and Karnataka whose capacity was 24,000 and 60,000 scooters respectively. Tamil Nadu Industrial Development Corporation Limited decided not to go ahead with the project, and paid a sum of Rs. 50,000 to the Company as compensation for the work undertaken by it.

The salient features of the licence agreements entered into with the various licensees were as under :—

(a) In consideration of the sale and transfer of know-how, each licencee would pay to the Company Rs. 20 lakhs in 4 annual instalments on or before the dates specified in the respective agreements.

(b) The Company shall supply power packs (engine and gear box) at such prices and in such quantity as may be mutally agreed upon. The Company will also ensure that the delivery schedules for the engines and gear boxes agreed with the licensees are maintained.

(c) The agreement would be for a period of 9 years commencing on the effective date of the agreement.

7.02 *Implementation of agreements*

The data regarding the supply of power packs to the licenseesand licence fee received by the Company are given below :—

Particulars		Names of Licencees						Total
		Punjab Scooters Limited PSL	Andhra Pradesh Scooters Limited APSL	Bihar Scooters Limited BSL	Karnataka Scooters Limited KSL	Scooters Kerala Limited SKL	West Bengal Scooters Limited WBSL	
1		2	3	4	5	6	7	8
1. Amount of licence fee received upto 31st March 1982 (Rs. in lakhs) . .		9.00	20.00	20.00	20.00	20.00	7.50	96.50
2. Amount of licence fee due but not received as on 31st March 1982 (Rs. in lakhs)		11.00	Nil	Nil	Nil	Nil	12.50	23.50
3. *Supply of power packs (in Numbers)*								
1975–76 . .	Requirement	Nil	N.A.	Nil	Nil	Nil	Nil	
	Actual	Nil	1,250	Nil	Nil	Nil	Nil	
1976–77 . .	Requirement	2,600	12,000	9,000	2,000	2,700	2,100	
	Actual	1,345	5,810	225	2,045	300	1,445	
1977–78 . .	Requirement	16,500	20,000	18,000	17,000	15,000	17,900	
	Actual	1,606	7,057	325	2,387	Nil	Nil	
1978–79 . .	Requirement	25,500	27,000	30,000	25,000	24,000	28,000	
	Actual	1,425	10,723	1	3,415	50	150	
1979–80 . .	Requirement	30,000	30,000	30,000	30,000	30,000	30,000	
	Actual	Nil	9,125	150	2,800	Nil	Nil	
1980–81 . .	Requirement	Nil	15,000	N.A.	N.A.	N.A.	N.A.	
	Actual	Nil	11,625	Nil	900	Nil	Nil	
1981–82 . .	Requirement	Nil	14,400	N.A.	N.A.	N.A.	N.A.	
	Actual	Nil	9,125	Nil	1,150	Nil	Nil	

In this connection the following points deserve mention :—

(i) The Company had entered into agreements for supply of power packs to State Undertakings when its own machinery was still in the process of installation and it had not established its own production.

(ii) The supply of power packs by the Company was much below the quantity required by the licensees.

(iii) Punjab Scooters Limited rescinded the contract in 1979-80 on the grounds that the supplies made by the Company were not found upto the mark and had resulted in heavy rejections.

(iv) The Company entered into 'Work and Labour' contracts with Bihar Scooters Limited, West Bengal Scooters Limited, Scooters Kerala Limited and Jammu & Kashmir Industrial Development Corporation Limited in December 1978, May 1979, April 1978 and April 1979 respectively and supply of power packs to these licensees was stated to have been suspended. Under the "Work and Labour" contract licensees were to assemble the scooters from the Complete Knock-down sets (CKD) including power packs supplied by the Company on a payment of Rs. 400 per Scooter.

(v) "Work and Labour" contracts were entered into with State licensees even though the capacity of the assembly shop of the Company remained under-utilised.

(vi) The table below indicates the number of CKD units supplied by the Company to the State licensees :—

(Figures in numbers)

Year	Bihar Scooters Limited	West Bengal Scooters Limited	Scooters Kerala Limited	Jammu & Kashmir Industrial Development Corporation Limited (Tawi Scooters Limited)
1	2	3	4	5
1978-79 . . .	Nil	Nil	575	Nil
1979-80 . . .	100	Nil	1,225	Nil
1980-81 . . .	Nil	251	750	150
1981-82 . . .	Nil	Nil	650	500

The Ministry stated (November 1982) as follows :—

"......the licencees could not establish letters of credit for supplies as per their targets. Supplies were made to them to the extent funds were made available through letters of credit..Rejections made by M/s. Punjab Scooters Limited were not acceptable to Scooters India Limited. They were, therefore, asked to post their own Quality Standard. The licensees, however, did not send their representative to SIL".

7.03 Licence agreement for manufacturing 125 cc J model scooters

In March 1976 the Company entered into an agreement with Jammu & Kashmir Industrial Development Corporation Limited, subsequently assigned to Tawi Scooters Limited, for supply of know-how required for successful implementation of the project for the manufacture of 125 cc Lambretta J model two wheeler scooters on the following terms and conditions :—

(i) The engines and gear boxes (power packs) to be supplied by the Company at a price to be determined on the basis of actual cost of raw materials and labour plus profit margin not exceeding Rs. 130 each.

(ii) A total fee of Rs. 12 lakhs towards know-how and technical assistance to be paid by the licensee in 4 instalments.

(iii) Rs. 1.50 lakhs to be paid by the licensee in lump sum immediately after receipt of detailed project report.

As the Company could not start production of J-125 cc scooters, the agreement for the supply of power packs remained un-executed. Instead, "Work and Labour" Contract was executed by the Company in April 1979 with Tawi Scooters Limited for assembly of 150 cc model scooters out of CKD components supplied by the Company.

It would be seen that in March 1976 the Company undertook to supply J-125 cc power packs when the production thereof had not even started in the Company. The Company continues the manufacture of DL model scooters only and the production of J-125 cc scooters has not been started so far (August 1982).

8. GROWTH AND DEVELOPMENT OF ANCILLARY INDUSTIES

(i) In early 1973, the Company in consultation with the nationalised banks and U.P. Small Industries Corporation Limited (UPSIC) formulated a "Package Assistance Scheme" for establishment of small scale ancillary units with a view to ensuring supply of components of approved quality at reasonable rates and to provide avenues for self employment to technically qualified personnel. The scheme envisaged financial assistance by way of loans from banks upto 90 per cent of the total cost of plant and machinery.

In the first phase, 30 entrepreneures were selected and assigned work of manufacturing components required by the Company. 23, 5 and 2 units commenced supply during 1975-76, 1976-77 and 1977-78 respectively. In the second phase, 5 units were allotted to the ex-engineer employees of the Company.

Out of the 35 ancillary units, 3 units were closed during 1979-80 due to financial difficulties.

(ii) Long-term tripartite contracts between the Company, the entrepreneures and the UPSIC valid for a period of seven years were entered into during 1973 and 1974 (30 units of 1st phase) and 1977-78 (5 units of 2nd phase). Under the aforesaid agreements, the Company has provided infrastructural facilities (*e.g.*, power, water, tool room and weigh bridge etc.) at a capital cost of Rs. 40.49 lakhs upto March 1982 and the UPSIC procured land, constructed sheds, roads, drains and culverts etc. for the ancillaries.

No papers were made available to show whether economics of establishing the ancillaries, especially with reference to its own ways and means position and availability of components from already established sources of supply, was worked out by the Company.

(iii) *Recovery of common services*

The cost of providing common services is initially borne by the Company. The expenditure incurred, however, is indirectly recovered by excluding the proportionate cost of common services from prices payable for supply of components by the ancillary units.

The table below indicates the annual expenditure incurred by the Company on the maintenance of common facilities in the ancillary units *vis-a-vis* actual recovery made thereagainst.

(Rupees in lakhs)

Year	Amount of expenditure incurred	Value of components purchased by the Company	Percentage of expenditure on common facilities to cost of production of ancillaries (based on 2/3rd utilisation of installed capacity)	Amount of expenditure recovered through purchases made from ancillary units by the Company	Amount recovered on the value of outside sale	Total of columns 5 & 6	Under recovery (Difference of columns 2 & 7)
1	2	3	4	5	6	7	8
1976-77	6.75	104.34	2.91	3.03	..	3.03	(—)3.72
1977-78	6.75	86.63	2.89	2.50	0.44	2.94	(—)3.81
1978-79	7.53	149.02	5.63	8.38	0.51	8.89	(+)1.36
						TOTAL	(—)6.17

From 1st April 1979, the Company has started recovering the actual expenses on common services in the ancillary units.

9. PRODUCTION PERFORMANCE

9.01 The main products of the Company are two and three-wheeler vehicles with power packs. The manufacture of the two-wheeler and three-wheeler vehicles is basically accomplished by means of assembly of the various types of components. The finished product comprises two-major assemblies, *viz.*, engine assembly and vehicle assembly. Each of these two assemblies comprises a number of sub-assemblies. The manufacturing process commences with the various sub-assemblies, some of which are manufactured with/from the raw materials and the others by using various bought out components. After the final assembly, the finished product undergoes a road test and final inspection.

9.02 *Determination of capacities*

As mentioned in paragraph 1 of the Report, the plant and machinery purchased from Innocenti had a capacity of manufacturing 1,00,000 two wheelers and 30,000 three wheelers per annum subject to addition of certain balancing facilities. The cost of installing the balancing facilities amounted to Rs. 3.39 crores upto 31st March 1980 and Rs. 3.54 crores upto 31st March 1982. In addition, an expenditure of Rs. 5.65 crores has been incurred upto 31st March 1980 on supporting facilities in tool room, tool regrinding and inspection areas and renewal and replacement programme. The Company has, however, been varying its installed capacity from time to time as will be evident from the following.

(i) In the Capital Investment Plan of March 1973, on the basis of which project estimates were sanctioned by Government in March 1974, the following programme of production was envisaged.

	Two-wheeler	Three-wheeler
1974-75	40,000	Nil
1975-76	60,000	10,000
1976-77	1,00,000	20,000
1977-78 . . .	1,00,000	30,000

(ii) In November 1977, the Company intimated the Government that since many of the machines were of 1952—54 vintage, the capacity of the plant could be taken as 80,000 two-wheelers and three-wheelers.

(iii) Again, in July 1978, it was clarified to the Government that "while the capacity for powerpacks is 1 lakh per year, the capacity for the complete two-wheeler vehicle is 60,000 based on two shift production, the capacity of three wheeler is 6,000 per year".

(iv) In the Annual Reports of the Company for the years 1976-77 and 1977-78 to 1980-81, the installed capacity of the two wheelers had been indicated as 60,000 and 80,000 respectively. Similarly, in the Annual Report of the Company for the years 1977-78 to 1980-81, the installed capacity of three wheelers has been indicated as 6,000 per annum.

(v) In February 1982, the Company informed the Government of India, as under :—

(a) There appears to be some lack of clarity with regard to the installed capacity of the Company. As the capacity of bulk of the special purpose machines procured from Innocenti, was about 1,00,000 two wheelers and 30,000 three wheelers, it seems that based on the assumption that the balancing facilities would be provided, the installed capacity had been equated to its licenced capacity.

(b) According to a detailed machine by machine study made by the Company (August 1981) and approved by the Board in December 1981, the following capacities were achievable in the existing plant, with marginal balancing facilities involving an investment of Rs. 1.75 crores.

Two wheeler scooters	60,000
Two wheeler power packs	20,000
Three wheelers	2,500

The approval of the Government to these revised capacities has not been received (October 1982).

(vi) During the meeting with the Audit Board on 27th November 1982 the representatives of the Ministry informed that a further detailed study of the plant capacity has been carried out after February 1982 and based on the existing manufacturing programme of components, the installed capacity has been assessed as follows:—

Two wheelers	45,000
Two wheeler power packs	15,000
Three wheelers	2,000

In this connection, the following points are of interest :—

(i) The basis on which the capacities have been revised from time to time was not made available to Audit.

(ii) The economic viability of the plants in the light of the reduced capacities has not been worked out.

(iii) Even after an investment of Rs. 9.04 crores (Rs. 3.39 crores on balancing facilities; Rs. 1.05 crores on supporting facilities and Rs. 4.60 crores on renewal and replacement) upto March 1980, the Company expects to achieve a capacity of 45,000 two wheelers, 15,000 two wheeler power packs and 2,000 three wheelers only.

9.03 *Two-wheeler vehicle*

(a) *Commencement of production*

The Company developed a prototype scooter—150 cc (Vijay Deluxe) and sent it to Vehicle Research and Development Establishment (VRDE), Ahmednagar, in November 1974 for technical trials. Certain technical defects were reported by VRDE to the Government (after trial run upto about 7,000 Kms.) who in turn, intimated these defects to the Company in February 1975 and simultaneously authorised the Company to go ahead with commercial sale of the scooter after removing these defects.

Subsequently, in October 1975, the VRDE reported on the basis of a trial run conducted in July 1975 as follows :—

— There were no major defects during trials and endurance test.

— The scooter gave starting trouble and its piston rings were worn out after a run of 10,242 Kms.

— The above defects were not rectified and the performance of the scooter in this regard was unsatisfactory.

During the meeting with the Audit Board on 27th November 1982, the representatives of the Ministry stated that the defects mentioned above were removed by the time the new model 'Vijay Super' was introduced in September 1977.

(b) The table below indicates the capacity, targets and actual production for the period from 1975-76 to 1981-82 :—

(Figures in numbers)

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
Licensed capacity—two wheelers . .	1,00,000	1,00,000	1,00,000	1,00,000	1,00,000	1,00,000	1,00,000
Installed capacity—two wheelers (as per annual accounts)	60,000	60,000	80,000	80,000	80,000	80,000	80,000
Original targets							
Power Packs	..	25,000	68,000	22,000	21,000	16,500	16,500
Vehicles	60,000	40,000	60,000	27,000	41,000	42,000	48,000
Revised targets							
Power Packs	..	25,000	18,350	22,000	16,500	18,000	14,500
Vehicles	30,720	40,000	30,800	31,500	40,000	40,000	40,500
Actual Production							
Power Packs	1,253	11,173	11,408	15,773	12,079	12,540	10,278
Vehicles	16,024	25,617	16,314	23,027	33,304	35,502	31,769
Percentage of actual production to installed capacity							
Power Packs	29	61	35	48	57	60	53
Vehicles	27	43	20	29	42	44	40
Percentage of actual production to revised targets							
Power Packs	56	45	62	72	73	70	71
Vehicles	52	64	53	73	83	89	78

NOTE : There is no separate installed capacity of power packs. The utilisation percentage of power packs includes power packs used in vehicles also.

It will be seen from the foregoing table that not only were the targets fixed generally far below the installed capacity, the actual production was also far below even the targets fixed.

The following main reasons have been attributed by the Management for shortfall in production :—

1975-76

- — Short supply of bought out components.
- — Non-availability of inplant components.
- — Labour absenteeism.
- — Delay in supply of material.
- — Heavy rejections of cylinder castings, rear brake adjuster and silent block.

1976-77

- — Poor supply of bought out castings.
- — 1650 crank case castings supplied by a firm were rejected for high iron content.
- — Heavy rejections of connecting rods supplied by a firm.

1977-78

- — Restricted production due to demand recession.
- — Change over to new model from "Vijay Deluxe" to "Vijay Super" with changes in the design of the engine.
- — Non-availability of aluminium alloy L.M. 24 resulting in low production of crank case.

1978-79

- — Non-availability of magnetos from U.P. Instruments Limited.
- — Non-availability of various bought-out components.
- — Non-availability of crank shaft, forgings.

1979-80

— Imposition of power cut.

— Non-utilisation of diesel generating set fully due to shortage of diesel.

— Non-supply of components by various parties.

— Tool down strike in Delhi unit of the Company affecting the supply of magnetos.

— Low power supply to U.P. Instruments Limited resulting in inadequate supply of magnetos from that unit.

1980-81

— Non-availability of raw materials and components in time.

— Severe power cut in U.P. and other States causing production and supply bottle-necks.

1981-82

— Non-availability of raw materials and components in time.

— Heavy absenteeism.

— Reduction in manpower input on account of severe cut in overtime.

— Frequent power failure.

The non-availability of components is to be viewed in the light of the fact that the Company had invested Rs. 40.49 lakhs in the ancillaries and Rs. 49.69 lakhs in two U.P. State Undertakings for ensuring availability of quality components at reasonable rates (paragraph 5.02 refers).

9.04 *Three-wheeler vehicles*

According to the project report prepared by the Management in February-April 1974 the production of three-wheelers was to commence from the year 1975-76. The production, however, actually started from November 1977. The delay in production was attributed by the Management to the following reasons :—

(i) Most of the machines were not having adequate spare parts and it took almost a year or so to arrange them.

(ii) The production of three-wheelers was taken up in 1977-78 after thoroughly checking the quality of the vehicle.

The table below indicates the capacity, targets fixed and the actual production of three-wheelers during the years 1977-78 to 1981-82 :—

(Figures in numbers)

	1977-78	1978-79	1979-80	1980-81	1981-82
(*i*) Licensed capacity—Three wheelers	30,000	30,000	30,000	30,000	30,000
(*ii*) Installed capacity—Three wheelers (as per annual accounts)	6,000	6,000	6,000	6,000	6,000
(*iii*) *Original targets*					
Power packs .	Nil	2,400	Nil	Nil	Nil
Vehicles .	5,000	1,400	3,000	1,500	2,500
(*iv*) *Revised targets*					
Power packs .	1,600	2,100	Nil	Nil	Nil
Vehicles .	500	1,300	1,000	2,000	1,400
(*v*) *Actual production*					
Power packs .	347	373	Nil	10	23
Vehicles .	34	102	284	530	711
(*vi*) *Percentage of actual production to installed capacity*					
Power packs*.	6.35	7.92	Nil	9.00	12.23
Vehicles .	0.57	1.70	4.73	8.83	11.85
(*vii*) *Percentage of actual production to revised targets*					
Power packs .	21.69	17.76	Nil	..	..
Vehicles .	6.80	7.85	28.40	26.50	50.79

*Includes power packs used in vehicles.

It will be seen from the data given above that the actual production was not only insignificant but was also far below the targets which were lower than the capacity.

The shortfall in production has been attributed by the Management to the following reasons :—

1977-78

Non-availability of dynastarter and V. belt.

1978-79

Non-availability of dynastarter, gear boxes and P.T. wheel castings.

1979-80 *to* 1981-82

Same as indicated against the shortfall in production of two wheelers.

The Ministry stated (November 1982) as follows :

> "Governments' approach to any scheme of recovery of SIL is that it should ensure enduring viability of operations. Mere financial adjustments in the equity or debt will not enable the attainment of this objective unless the productivity is increased, production bottlenecks removed, the production volume increased to optimum level, product quality upgraded and product diversification attempted. Ageing machinery has to be replaced. . . . . .
>
> A Recovery Plan has been formulated by the Company and is presently under examination."

9.05 *Company's participation in Country's production*

The table below indicates the Company's share in the country's total production of two-wheelers and three-wheelers during the years 1977 to 1981.

	1977	1978	1979	1980	1981
Two-wheelers					
API Lamby	21,610	26,722	25,337	22,531	21,284
APSL Allwyn Pushpak	8,281	9,503	9,453	10,564	10,580
ASVL Aravali	675	884	N.A.	N.A.	N.A.
BAL Vespa/Bajaj	83,199	77,604	81,150	1,37,445	1,30,498
EL Rajdoot	552	361	N.A.	N.A.	N.A.
GSIC Girnar	192	177	763	3,417	5,953
KSL Falcon	3,362	3,325	2,873	1,374	1,098
MSL Priya	23,199	28,193	N.A.	N.A.	N.A.
PSL Vijay Kesri	2,016	2,280	N.A.	N.A.	N.A.
SIL Vijai	16,489	18,985	32,485	36,195	32,373
WBSL Digvijay	720	N.A.	N.A.	N.A.	N.A.
TOTAL	1,60,295	1,68,034	1,52,061	2,11,526	2,01,786
Company's share in the total production of the Country (in percentage)	10.29	11.30	21.36	17.11	16.04
Three-wheelers					
API Lambretta/Lamby	878	2,049	3,376	4,465	5,771
BAL Vespa/Bajaj	17,423	17,060	13,332	21,538	18,364
SIL Vikram	16	42	381	516	698
TOTAL	18,317	19,151	17,089	26,519	24,833
Company's share in the total production of the country (in percentage)	0.09	0.22	2.23	1.95	2.81

It would be seen from the above that the Company's contribution to the total production in the country ranged from 10.29 per cent to 21.36 per cent in the case of two wheelers and from 0.09 per cent to 2.81 per cent in the case of three wheelers during the period 1977 to 1981.

9.06 *Expansion of the capacity of power packs*

As mentioned in paragraph 7, in view of the unmet demand for scooters in the country, the Government of India issued letters of intent and licences to a number of State Industrial Development Corporations, private organisations and individuals. The letters of intent stipulated that the production should be established on the basis of indigenous know-how only.

Even though the plant and equipment purchased from Innocenti had not been installed and commissioned, the company offered (May 1973) technical collaborations to the units sponsored by various State Industrial Development Corporations. The licensed capacity of each of these units varied between 24,000 and 30,000 scooters per annum except in the case of Karnataka Scooters Limited whose capacity was 60,000 scooters per annum. It was, therefore, anticipated that the capital cost of the Project would be very high if each of these units were to set up complete facilities for manufacturing the engine and the transmission as well as other components of the vehicle. Therefore, a proposal for a unit to manufacture power packs centrally to meet the requirements of the various units was discussed with the representatives of the State Industrial Development Corporations in a meeting convened by the Government of India in May 1973.

In pursuance of the above discussions, a Detailed Project Report for establishing additional facilities for manufacture of 2,00,000 power packs per annum was prepared by the Company and submitted to Government of India in March 1976 with the request that the same may be approved by 15th September

1976 so that orders for machine tools etc., could be placed sufficiently in advance. Subsequently on the basis of detailed discussions with the State licensees, IDBI's officials and Government, a revised Detailed Project Report for the manufacture of 1.65 lakh (instead of 2 lakhs) power packs per annum (1.50 lakh for State licensees and 0.15 lakh as spares) at an estimated cost of Rs. 9.25 crores was prepared and approved by the Board in November 1976, and the Chairman and Managing Director was advised to take necessary action to execute the project. As the Company had entered into certain advance commitments for supply of certain tool room and inspection equipment essential for manufacture of sophisticated die-casting dies and other fixtures provided for the project a sum of Rs. 94.36 lakhs was released by the Government in 1976-77 as loan to clear the suppliers' bills for these equipment.

In July 1977, the Board was informed that surveys conducted by certain agencies revealed that the demand for scooters in the country was stagnant and accordingly, it was proposed to have an additional capacity of 0.65 lakh power packs per annum only (as against 1.65 lakh) at an estimated cost of Rs. 6.41 crores, to be financed as under :—

	Rupees in crores
(*i*) Own funds	2.71
(*ii*) *Government of India*	
(*a*) equity	2.00
(*b*) loans	0.95
(*iii*) Financial Institutions—loans	0.75
	6.41

The proposal was approved by the Board (July 1977) and discussed with the representatives of the State Licensees, financial institutions and IDBI in August 1977. During discussions it was, *inter alia*, pointed out by the representative of IDBI and other members of the financial institutions that the demand for scooters including those manufactured by the Company and its licensees in the near future would not exceed one lakh per annum for which the facilities already existed in in the Company. It was also felt by them that the additional demand of 0.65 lakh per annum projected by the Company was on a very high side. The representative of IDBI was of the view that the expansion of capacity involving an expenditure of Rs. 6.41 crores should be undertaken only when the actual off-take was somewhere near one lakh vehicles and that additional investment would only lead to increase in interest and make the working of the Company more uneconomical. Government of India decided in January 1978 that in view of a fall in demand for scooters manufactured by the Company arising from several factors including the technical performance of the vehicles, the proposed power pack project should be kept in abeyance.

Even though the project was not approved by the Government, the Company had placed orders upto July 1977 for plant and machinery valued at Rs. 3.68 crores for the project. The equipment valued at Rs. 3.09 crores was received and installed till March 1980. The balance equipment of Rs. 0.59 crore was yet to be received.

The Management stated (February 1981) as under :—

> "... the Government felt that erection of additional capacity for manufacture of power packs should wait till June 1978 or so, when a clear picture of the demand of two wheelers in the country was likely to emerge. The Project, however, has not been abandoned. It has been deferred for further consideration in the foreseeable future. The capital equipment ordered against this project have been utilised as a balancing equipment requirement and for renewal and replacement of machines to achieve production level of 1,00,000 power packs per annum."

It is not clear how the funds were released by Government without sanction of the project.

9.07 *Die-casting Shop*

(i) The die-casting shop has the facility of manufacturing various components required for the assembly of power packs, two wheelers and three wheelers. Light metal aluminium is used for manufacturing all components except head light and rim for which zinc alloy is used. Commercial production in die-casting shop started from April 1975.

The installed capacity of the die-casting shop is 1129.80 tonnes per annum. The data available for the years 1978-79 to 1981-82 given below would indicate that the utilisation of the capacity was much below the installed capacity : —

Year	Capacity (tonnes)	Production (tonnes)	Percentage of production to capacity
1	2	3	4
1978-79	1129.80	559.904	49.6
1979-80	1129.80	615.372	54.5
1980-81	1129.80	644.555	57.1
1981-82	1129.80	596.224	52.8

The shortfall in production was attributed (April 1980) by the Management to trimming down of requirement as it was not considered desirable to have imbalanced inventory of die cast components.

(ii) *Rejections*

No norms of rejections of die casting components have been fixed by the Management. However, a standard rejection of 3 per cent was taken into account by the Management while working out the unit material cost in July 1979. The actual rejection of various components manufactured in the die-casting shop ranged from 3 per cent to 13 per cent in 1976-77, 4 per cent to 14 per cent in 1977-78, 3 per cent to 26 per cent in 1978-79, 3 per cent to 25 per cent in 1979-80, 4 per cent to 19 per cent in 1980-81 and 3 per cent to 26 per cent in 1981-82. The loss on account of rejections during 1976-77 to 1981-82 over and above the standard rejection of 3 per cent adopted by the Management for working out the unit material cost works out to Rs. 25.16 lakhs. The Management stated (August 1982) that rejection upto 12 per cent in die casting components is normal considering the type of components and precision required therein. The loss on account of rejections over and above 12 per cent considered to be normal by the Management works out to Rs. 5.10 lakhs during 1976-77 to 1981-82.

The higher rate of rejection was attributed (April 1981/August 1982) by the Management to :

— in-experienced and untrained workmen ;

— ignorance about level of acceptance ;

— use of scrap generated from vendors' supplies ;

— deteriorated/outlived condition of the dies.

The Management's contention of high rate of rejections owing to inexperienced and untrained workmen is to be viewed in the light of the fact that rejections in successive years have not shown a decreasing trend.

(iii) *Process loss*

No norms for loss of metal in process have been fixed by the Management. Further, neither reconciliation of material input and output was made nor any process loss was worked out upto March 1978.

Process loss during the years 1978-79, 1979-80 and 1980-81 worked out to 7.5 per cent, 7.96 per cent and 6.96 per cent respectively.

The Management stated (April 1981) as follows :—

"Process loss generally found by leading die casters in the country ranges between 7 per cent to 10 per cent. The loss was, therefore, well within limits. This loss was inclusive of sale recovery value of the dross generated which is about 2 per cent of the total metal input."

9.08 *Iron Foundry*

(i) Owing to difficulties faced by the Company in procurement of castings, *viz.*, cylinder block, crank case flange and big sprocket etc., the Company prepared a Detailed Project Report in March 1975 for setting up a captive foundry at a total cost of Rs. 75.00 lakhs and accordingly approached the Government of India in May 1975 for its approval. The approval of the Government was received in April 1976. In April 1975, the Company acquired a second-hand 1.5 tonne arc furnace from the U.P. Government and installed and commissioned the same in September 1976 at a cost of Rs. 16.60 lakhs.

In the meantime, an induction furnace (1.3 tonnes) valued at Rs. 12.18 lakhs for which an order was placed by the Company in December 1974 was received by July 1976. This was commissioned in May 1978 with the result that the arc furnace purchased from the U.P. Government became redundant. Accordingly, the arc furnace (depreciated value Rs. 9.30 lakhs as on 31st March 1980) was disposed of for Rs. 11.50 lakhs in October 1981. Another mechanical unit of induction furnace was purchased at a cost of Rs. 4.89 lakhs and installed in July 1981 as standby.

(ii) The Company had obtained a loan of Rs. 44 lakhs upto 1977-78 from the Government of India (Rs. 21.00 lakhs) and IDBI (Rs. 23.00 lakhs) for financing the Iron Foundry Project. However, payment for the arc furnace referred to above was made to the U.P. Government in instalments between 12th April 1980 and 18th February 1981. Owing to the delay in payment, the U.P. Government claimed interest charges amounting to Rs. 8.62 lakhs which have not been paid by the Company so far (October 1982).

S/16 C&AG/82—4

(iii) The performance of the foundry for the four years ending March 1982 is given below :-

Year	Installed Capacity	Quantity of Iron melted			Yield of casting			Percentage of yield to metal melted		Percentage of capacity utilisation
		Cast iron	S.G. iron	Total	Cast iron	S.G. iron	Total	Cast iron	S.G. iron	
1	2	3	4	5	6	7	8	9	10	11
	Tonnes	Tonnes	Tonnes	Tonnes	Tonnes	Tonnes	Tonnes			
1978-79	2,000	689.10	445.04	1134.14	293.34	117.69	411.02	42.57	26.44	56.7
1979-80	2,000	791.20	597.50	1388.70	344.79	194.54	539.33	43.58	32.56	69.4
1980-81	2,000	824.40	687.10	1511.50	484.40	234.30	718.70	58.75	34.10	75.5
1981-82	2,000	869.30	566.40	1435.70	531.30	200.90	732.20	61.12	35.47	71.7

No norms for yield have been fixed by the Company (October 1982).

The Management stated (January 1981) as under :—

"*Cast Iron*

.... In case of cylinder castings 10 Kg. of castings come out of every 18 Kg. of molten metal poured. Thus means that the yield is about 55.5 per cent when no rejections are taken into account.

S.G. Iron

... Basically we have been making two castings in S.G. Iron, *viz.*, big sprocket and crank case flange......

The yield in case of big sprocket is hardly 50 per cent while in case of crank case flange, it is as low as 35 per cent."

The yield of casting for the years 1978-79 and 1979-80 was on the lower-side when compared with the yield percentage mentioned above.

(iv) *Rejection analysis*

No norms for rejection have been fixed by the Management (October 1982). However, the Company considered 6 per cent as standard rejection for ferrous castings for the purpose of arriving at the unit material cost of the component. The table below indicates the details of rejections in the foundry shop during the year 1978-79 to 1981-82.

Components	Production	Rejection	Percentage of rejection	Rejection over and above normal rejection of 6 per cent	Conversion rate per component	Loss due to rejection over and above the standard rejection
1	2	3	4	5	6	7
	Nos.	Nos.		Nos.	Rs.	(Rs. in lakhs)
1978-79						
1. Cylinder . .	68702	10025	14.6	5903	23.50	1.40
2. C.C. Flange . .	61136	27675	45.3	24007	7.68	1.84
3. Big Sprocket .	48044	18364	38.2	15481	9.69	1.50
4. Handle Bar Clamp	10360	3755	36.3	3133	2.12	0.07
					TOTAL	4.81
1979-80						
1. Cylinder . .	85952	19003	22.1	13846	28.73	3.98
2. C. C. Flange .	77151	22620	29.3	17991	7.68	1.38
3. Big Sprocket .	64358	17519	27.2	13657	16.16	2.21
4. Handle Bar Clamp	60066	18837	31.4	15233	2.12	0.32
					TOTAL	7.89
1980-81						
1. Cylinder . .	91202	24604	27.0	19132	39.50	7.56
2. C. C. Flange .	94512	36919	39.0	31242	8.88	2.77
3. Big Sprocket .	53736	15338	28.5	12114	13.33	1.61
4. Handle Bar Clamp	66776	33446	50.1	29439	4.06	1.20
					TOTAL	13.14
1981-82						
1. Cylinder . .	97052	38962	39.8	33139	39.50	13.09
2. C. C. Flange .	89348	36137	39.1	30776	8.88	2.73
3. Big Sprocket .	30204	14322	43.1	12510	13.33	1.67
4. Handle Bar Clamp	56488	31300	46.6	27911	4.06	1.13
					TOTAL	18.62

It would be seen from the above data that the rejections in the foundry were far in excess of the standard rejections resulting in a loss of Rs. 44.46 lakhs during 1978-79 to 1981-82.

(v) *Electricity Consumption*

As against the norms of consumption of electricity (1000 KWH per tonne in case of S.G. Iron and 720 KWH per tonne in the case of cast iron), the actual consumption of electricity per tonne varied widely from year to year as will be seen from the data given below :—

Month	Power consumption per tonne							
	S.G. Iron				Cast iron			
	1978-79	1979-80	1980-81	1981-82	1978-79	1979-80	1980-81	1981-82
	KWH	KWH	KWH	KWH	KWH	KWH	KWH	KWH
April	Nil	1145	990	1053	743	725	715	824
May	Nil	1451	1056	1016	801	690	758	912
June	Nil	1040	1036	999	649	750	769	892
July	1304	1113	1025	1050	710	749	819	869
August	1155	1008	1161	949	749	808	789	917
September	1413	1353	1075	956	604	735	768	932
October	1115	1080	1031	874	693	752	782	890
November	1167	986	932	971	742	750	791	950
December	989	1046	1020	1045	791	834	625	889
January	1061	1019	954	950	695	814	821	853
February	1022	1098	873	925	690	870	885	825
March	1098	1032	905	900	712	792	838	645

The Management attributed (July 1982) the following reasons for variation in the consumption.

— Melting equipment used.

— Variation of charge density/quality.

— Furnace lining condition.

— Number of change over from cast iron to S.G. Iron.

9.09 *Machine Shop*

Machining of the various components manufactured is done in the machine shop of the Company.

A comparison with the norms of rejections of the various components fixed by the Management in September 1980 revealed that the actual rejections were more than the norms fixed. The loss on account of the rejections over and above the norms amounted to Rs. 5.30 lakhs in 1980-81 alone.

9.10 *Assembly Unit*

No reconciliation of the sub-assemblies produced, consumed and in stock has been made by the Management. An analysis of actual production and consumption of sub-assemblies and those required for actual production of two wheelers and power packs for the years 1977-78 and 1978-79 made in Audit revealed that the consumption of sub-assemblies was either more or less than the vehicles and the power packs assembled.

9.11 *New models of the vehicle*

Even though the Company had not been able to establish its main product (150 cc—Vijay Super) in the market owing to technical problems and financial constraints, it ventured in undertaking new models of the vehicles which also did not come up, as would be evident from the following :—

(i) In June 1975 the Board of Directors decided to undertake production of mopeds with 50 cc engine on the consideration that it was suubstantially less expensive than the scooter, and some of the machines for machining the engine cylinder, connecting rods etc. purchased from Innocenti could be used for this purpose.

On the request of the Company in June 1975, the Government of India issued in November 1975 a letter of intent for the manufacture of mopeds upto 50,000 units per annum.

A preliminary project report for setting up of facilities for the manufacture of moped with 50 cc engine was prepared and approved by the Board of Directors in December 1975. It was envisaged in the report that the engines would be manufactured in the main plant at Lucknow and the rest of the items at a place where most of them could be bought out as fully finished items. The premises of Ganesh Electrical Unit of Ganesh Flour Mills Limited, Delhi, were acquired on lease at Rs. 25,000 per month from 6th February 1976 for the manufacture of the vehicle 'Moped Vinai'.

In July 1977, the Board approved the shifting of the Project from Delhi to Lucknow on the consideration that there was considerable delay in the setting up of facilities and building of an inventory of assembly of vehicles at Delhi. In April 1978 the Company approached the Government of India for approval to the above proposal which was agreed to by the latter in November 1978. The licence for manufacture of the moped was granted by Government in May 1979.

33 Prototypes of moped valuing Rs. 0.53 lakh were developed by the Company during 1977-78 and 1978-79 out of which 18 were sold for Rs. 0.28 lakh and the remaining 15 valuing Rs. 0.22 lakh, are lying with the Company (March 1981).

The commercial production of moped could not, however, be commenced. The Management stated (August 1982) as under :—

> "......the prototype vehicle faced problems of low starting torque and poor gradeability. These problems related to basic clutch design and attempts at improvement did not succeed. In view of the technical problems faced on this moped and after considering the advice of Ingersoll Engineers to concentrate on production of Vijai Super and three wheeler, it was decided at that time to keep the project in abeyance. It was later decided that it would be advantageous to get

designs of moped engines which represented the latest developments in Western technology and to indigenise these within a short period of time. With this object SIL decided to enter into technical collaboration with Steyr-Daimler Puch AG of Austria, one of the world's leading manuufacturers of mopeds. The project report is now awaiting Government's approval."

In this connection it may be mentioned that the diversification activities were started by the Company even when its main product (two wheeler scooter) had not been established in the market owing to technical problems and the Company was also facing financial constraints.

The toolings, patterns, raw material, components etc. worth Rs. 18.09 lakhs procured by the Company were lying unused (March 1982).

The Management has stated (August 1982) as under :—

"As production of mopeds is likely to take some time and as there is also likely to be some design change it has been decided to utilise the moped inventory to the extent possible for the current production of scooters and three wheelers and dispose of the remaining items."

The Ministry stated (November 1982) as follows :—

"Out of 15 mopeds with the Company, two have been dismantled and utilised for Research and Development purposes and five sent to foreign countries in connection with exhibition and fairs have been written off as their reimportation was not considered economically prudent. The rest are awaiting disposal."

(ii) *J-125 cc two wheeler Scooter*

The Board of Directors was informed in July 1977 that the Company was likely to place J-125 cc two wheeler scooter in the market from October 1977.

The Government of India was, however, approached on 12th February 1978 for sanction of a loan of Rs. 14.00 lakhs for the purchase/acquisition of indigenous and imported tools, jigs, fixtures, etc. required for the manufacture of this model of scooter. This was sanctioned by the Government in March 1978.

In May 1978 the Board of Directors was informed that development of J-125 vehicle was being held up for the following reasons :—

— Delay in the completion of jigs, fixtures and gauges etc. in the Company's own tool room.

— Non-availability/supply of cutting tools, drills, taps etc. already ordered.

However, keeping in view the need to concentrate on the production of two wheeler and three wheeler scooters and to build up adequate and safe inventory levels to reach higher levels of production of the said products, the Company, on the advice of Ingersoll Consultants decided to go slow on the development of J-series 125 cc scooters at present.

The production of J-125 cc scooters has not commenced so far (October 1982).

The Company had an inventory of Rs. 6.92 lakhs at the end of March 1980 as under :

	(Rupees in lakhs)
(*i*) Bought out finished components	4.32
(*ii*) Bought out semi-finished components	0.32
(*iii*) Work-in-progress	2.28
TOTAL	6.92

The Ministry stated (November 1982) that the inventory of J-125 cc scooters was being used in the production of a new model of J-100 cc scooters.

9.12 *Extra expendituure due to delay in commissioning of a machine*

In September 1976, the Management worked out the economics of conventional air assisted spray painting (which was being used by the Company) and painting by electrostatic equipment. The economics worked out revealed that the use of the latter would result in a saving of Rs. 16.80 per scooter. Accordingly, order for the purchase of an electrostatic painting machine at a cost of £ 35,625 (Rs. 5.46 lakhs) was placed on a foreign firm on 4th September 1976. The delivery of the equipment which had arrived at the Bombay port on 1st July 1977 could not be taken on account of paucity of funds. The Company requested (September 1977) its bankers to take delivery of the equipment on bond on its behalf and keep it in the warehouse at Bombay. The consignment was later got transferred to Customs Warehouse located in the Company's premises at Lucknow on 15th February 1980 and finally debonded on 29th March 1980 after paying customs duty of Rs. 2.62 lakhs.

On opening the consignment in April 1980, certain items of the machinery were found short. It was considered necessary to obtain these items as well as the services of the engineer of the foreign supplier for commissioning of the machine. The short supplied items were received in May 1980, but the services of the engineer could not be obtained till 26th November 1981 due to the following reasons :—

(i) Delay in settling terms and in completion of other formalities connected with the visit of the engineer to India.

(ii) Delay on the part of the Company in payment of commission of the Indian Agent of the supplier.

(iii) Delay in supplying particulars of other installations like paint booth, baking ovens and conveyer system to the foreign supplier.

The engineer of the supplier arrived at the plant on 27th November 1981 and the machine was commissioned in the first week of December 1981.

Thus, due to in-ordinate delay in arranging funds of Rs. 2.62 lakhs for the payment of customs duty and delays referred to above, the Company incurred an extra expenditure of Rs. 18.92 lakhs on the painting of 1,12,594 scooters from April 1978 to November 1981 (allowing the period from July 1977 to March 1978 for installation and commissioning of the equipment).

9.13 *Electrical Unit, Delhi*

As mentioned in paragraph 5.02(iii), the Electrical unit in Delhi was originally taken on lease for the manufactuure of mopeds but subsequently it was decided to utilise it for the manufacture of fans and magnetos. The table below indicates the targets and actual production of fans and magnetos during the last 5 years ending 31st March 1982.

Year	Fans				Actual Production	
	Licensed capacity	Installed capacity	Original targets	Revised targets	Fans	Magnetos
1	2	3	4	5	6	7
1977-78	75,000	60,000	15,000	15,000	14,005	..
1978-79	75,000	60,000	27,000	24,000	29,707	6,702
1979-80	75,000	60,000	44,000	44,000	32,890	16,477
1980-81	75,000	60,000	60,000	44,000	41,107	35,157
1981-82	75,000	60,000	60,000	60,000	45,685	39,813

9.14 *Non-use of the brand names*

(i) The agreements with Innocenti for the sale of old equipment for two wheeler and three wheeler projects conferred an exclusive world right on the Company for using the brand names of "Lambretta" and "Lambro". However, the Company, has not used these brand names for the domestic market.

The Management stated (July 1982) that the name "Lambretta" was not used because the product marketed earlier by API under this name had a bad image and the adoption of an Indian name was in line with the thinking of the Government at that time.

In this connection, it may be mentioned that immediately after finalisation of the deal with Innocenti, API, who were using the name "Lambretta" named their product as "Lamby" which bears a close similarity to the name "Lambretta". Thus, although the right of using the name "Lambretta" vested with the Company, the benefit thereof is being derived by API by using the world 'Lamby' which gives an impression that they are the successors to "Lambretta".

The Management stated (July 1982) that the Company had taken action against API's using the brand name of 'Lamby' by filing cancellation proceedings in early 1979 and that the matter was pending with the Trade Mark Tribunal.

(ii) In December 1977, the Board of Directors was informed that in USA, Serveta of Spain was using the trade mark 'Lambretta' irregularly and unauthorisedly and action was being taken against them for infringement of the Company's trade mark.

The Attorney of the Company, informed the Management in June 1982 that the petition for cancellation filed by Serveta has been dismissed and that now they could no longer claim any right in the name 'Lambretta' in USA.

10. *Technical consultancy*

(i) The financial collaboration with Innocenti and API contemplated and technical collaboration with API thought of originally did not materialise and the Company started production of scooters in February 1975 without any technical support. The Company had, however, engaged a number of technical consultants from time to time for various purposes. The purpose for which various consultants were engaged and the total expenditure incurred thereon are detailed below :—

Name of Consultants	Purpose	Period	Rupees in lakhs
1	2	3	4
1. Mr. Bianchi (former engineer of Innocenti) and Mr. Cassola of Italy.	Mr. Bianchi was engaged to advise for increasing production and product market acceptability and Mr. Cassola was engaged to review implementation of Mr. Bianchi's suggestion and to further improve the quality of scooters.	20-1-1977 to 28-2-1977 and 2-2-1978 to 7-3-1978	1.24
2. Japanese Experts	Deputed by the International Management Corporation Committee to study the technical problems in the production area.	11-10-1977 to 6-12-1977	0.22
3. Ingersoll Manufacturing Consultants of U.K.	To make an indepth study of the difficulties faced in qualitative and quantitative aspects of production and to achieve break-even level.	2-12-1978 to November 1980	66.88
4. Temple Wall Limited of U.K.	Appointed on the advice of Ingersoll Manufacturing Consultants for effecting design improvement with regard to suspension system and exhaust system to increase the performance and market acceptability of the product.	Report was submitted by Temple Wall in May 1980 whereas no report was received from Bassini Manufacturing, USA.	1.54
5. Bassini Manufacturing, USA.			0.68

(ii) *Ingersoll Manufacturing Consultants*

During discussions with the Ministry in November 1977 on inadequate development in India of the expertise required to undertake detailed design and production engineering studies on two storke engines, the Ministry introduced the Company to Ingersoll Manufacturing Consultants of U.K. On the basis of details of works handled by Ingersoll, the Company considered them as experienced manufacturing consultants. The firm was appointed as consultants to undertake an indepth study in regard to the difficulties faced by the Company both in regard to the qualitative and quantitative aspects of production and to achieve break-even level. The firm was assigned the following specific tasks :—

1. Piston and cylinder wear.
2. Vibration problems.
3. Quality and reliability of production.
4. Financial planning.
5. Sales and Marketing.

The consultants submitted reports in parts in March 1979 and June 1980. On an audit query, the Management stated (August 1982) that the following steps were taken on the recommendations of Ingersoll Consultants to effect improvement in quality and marketing of products.

(a) *Cylinder/Piston wear*

(i) Flex honing operation was added in the machining of cylinder castings.

(ii) Chrome-plated top piston ring was introduced.

(iii) A standard bench test and road trials were introduced.

(b) *Maintenance*

Preventive maintenance measures were introduced.

(c) *Tools*

Back-up tooling at each machine was being provided and sufficient stocking of tools was being done.

(d) *Marketing*

(i) An accurate picture of scooter buyers in India has emerged from an analysis by the consultants of data collected by Indian Marketing Research Bureau.

(ii) A system of delivery of scooters against advance payment was introduced.

(e) *Material and production control*

(i) Steps were taken to steadily build up inventory level to match production targets, to remove bottlenecks in procurement by developing alternative source of supply, to keep safety stocks of critical components and to gear up production.

(ii) Master production schedule has been set up as a key document for material/production control.

(f) *General*

A detailed facilities improvement plan with the object of achieving a total output of 1,00,000 two wheelers and 20,000 additional power packs with an additional investment of Rs. 15.60 crores was drawn up by Ingersoll.

The Ministry stated (November 1982) as follows :—

(i) Implementation of recommendations of Ingersoll consultants have resulted in longer engine life of vehicle.

(ii) The foreign consultants were appointed in order to carry out an indepth study of the problems faced by the Company in the qualitative and quantitative aspects of its production.

As a sequel to the deliberations of the Audit Board Meeting held with the Ministry on 27th November 1982 a note containing the benefits derived by the Company from the consultancy agreement furnished by the Ministry is reproduced in Annexure I.

In this connection following points deserve mention :

(i) The basis of selection of the consultants and fixation of their fee could not be ascertained in audit.

(ii) The object of achieving the break-even lével as contemplated by the Government while approving the appointment of consultants has not been realised so far (October 1982).

(iii) The extent to which the qualitative and quantitative improvements have resulted from implementation of the recommendations of the Consultants is not susceptible of verification in audit.

(iv) The defects pointed out in March 1977 by Mr. Bianchi were removed by the time an improved version of the vehicle, namely 'Vijai Super', was introduced in September 1977. Ingersoll Consultants were appointed in July 1978 and started the work from December 1978. By the time their reports were received between March 1979 and June 1980, the production of 'Vijai Super' has stabilised and it had also won market acceptability as no complaints were received.

11. *Machine Utilisation*

(i) Till March 1978, the Company had no system for ascertaining the extent of utilisation of machinery, idle time and analysis thereof so as to enable timely corrective action. It was only in April 1978, that the Company started compiling the data relating to machine utilisation in respect of the key machines only.

Out of the 23 cost centres, analysis of machine utilisation was made only in 11 and 21 cost centres in 1978-79 and 1980-81 respectively. The analysis for the year 1979-80 was not done by the Management.

The Management stated (December 1980) as follows :—

> "On account of numerous problems like old machines, non-availability of fully skilled labour, extensive overhauling in order to achieve quality output we could not attain the level anticipated during the period. In addition, some of the machines were common to three wheelers, J-series etc. Hence any study in initial period would not have been meaningfully representative of the real trend of their utilisation. However, a beginning was made in April 1978 to assess the machine utilisation for key machines. This has since been extended to other areas also."

(ii) The table below indicates the machine utilisation and analysis of idle hours for 1978-79 and 1980-81, based on the data furnished by the Company.

	1978-79	1980-81
(*i*) Hours available*	13,12,168	17,97,745
(*ii*) Hours utilised	7,13,948	10,20,110
(*iii*) Idle hours	5,98,220	7,77,635
(*iv*) Percentage of hours utilised to available hours	54.4	56.7
(*v*) Percentage of idle hours to hours available	45.6	43.3

*This has been worked out by the Management based on the requirement of various inplant components as per master production schedule.

Cause-wise analysis of idle time during 1978-79 and 1980-81 is indicated below :—

	1978-79			1980-81		
	Idle hours	Percentage of total idle hours	Percentage of idle hours to total hours available	Idle hours	Percentage of total idle hours	Percentage of idle hours to total hours available
1	2	3	4	5	6	7
1. Lack of material	2,57,918	43.1	19.7	1,02,983	13.2	5.7
2. Absence of operators	1,16,118	19.4	8.8	50,809	6.5	2.8
3. Mechanical maintenance	1,19,347	20.0	9.1	1,24,360	16.0	6.9
4. Machine setting	49,747	8.3	3.8	69,603	8.9	3.9
5. Lack of tools	21,974	3.7	1.7	43,549	5.6	2.4
6. Try out	6,138	1.0	0.4	19,223	2.5	1.1
7. Lack of power	1,082	0.2	0.1	39,334	5.1	2.2
8. Re-work	..	..	..	60,422	7.8	3.4
9. Others	25,896	4.3	2.0	1,27,352	16.4	7.1
10. Reasons not available	..	..	..	1,40,000	18.0	7.8
	5,98,220	100	45.6	7,77,635	100	43.3

The figures for 1978-79 do not include the data for the period mentioned below as the same was not compiled by the Company :—

Period	Cost centres
1-4-1978 to 30-4-1978	57, 59 and 61
1-5-1978 to 27-5-1978	59, 61 and 76
29-5-1978 to 1-7-1978	57 and 61
2-7-1978 to 30-7-1978	57 and 61
1-10-1978 to 28-10-1978	All cost centres

It would be seen from the above that lack of material, absence of operators, and mechanical maintenance etc. were the main factors responsible for idle time of the machines.

12. *Manpower Analysis and Labour Utilisation*

12.01 *Manpower analysis*

According to the Project Report prepared by the Company in February/March 1974, the following manpower requirement for production of 1,00,000 two wheelers and 30,000 three wheelers was envisaged during the five years ending 31st March 1981.

Particulars	1976-77	1977-78	1978-79	1979-80	1980-81
(*i*) Managerial .	23	25	25	25	25
(*ii*) *Supervisory*					
(*a*) Technical .	190	200	200	200	200
(*b*) Non-technical .	44	50	50	50	50
(*iii*) Clerical . .	25	25	25	25	25
(*iv*) *Labour*					
(*a*) Skilled .	300	300	300	300	300
(*b*) Semi-skilled	1,000	1,000	1,000	1,000	1,000
(*c*) Un-skilled.	500	500	500	500	500
(*v*) Others . .	80	100	100	100	100
TOTAL . .	2,162	2,200	2,200	2,200	2,200

The actual manpower employed by the Company during these years was as under :—

	1976-77	1977-78	1978-79	1979-80	1980-81
(*i*) Managerial .	39	41	42	44	40
(*ii*) Supervisory (Technical and non-technical) .	509	505	501	605	572
(*iii*) Clerical . .	172	192	217	228	245
(*iv*) *Labour*					
(*a*) Skilled .	74	76	91	93	89
(*b*) Semi-skilled	754	884	1,049	1,094	1,095
(*c*) Un-skilled.	1,009	1,190	1,140	1,136	1,161
(*v*) Others (including casual staff/workers) .	789	447	347	335	398
TOTAL . .	3,346	3,335	3,387	3,535	3,600

In this connection it may be mentioned that while the actual production was far below the projected level conversely the manpower employed was far in excess of that envisaged in the Project Report.

In this connection, the Management stated (April 1980) as under :—

> "In the earlier stages of the Company when the plant was installed and the production had just started, it was difficult to assess the strength of the various categories of employees. Subsequently, based on experience, it was proposed to take up new project, *viz.,* power pack project, Foundry etc..............
>
> ....
>
> Committees have already been appointed and they are meeting almost every day for the last five months. The reports of the Job Evaluation Committee are also expected to be received shortly based on which the strength of the workmen in various categories shall also be finalised. In the circumstances as mentioned above, no specific sanction for posts in different categories was accorded."

The Ministry stated in November 1982 that the Job Evaluation Committee had given its recommendations in March 1981 regarding strength of workers in grades A to D. However, from the report of the Job Evaluation Committee made available to Audit in September 1982, it was seen that the Committee had only categorised the skilled and semi-skilled workers into four categories *viz.,* A. B. C & D and no requirement for workers has been made.

12.02 *Overtime payments*

While on the one hand the Company had not only employed staff far in excess of that envisaged in the project report despite under-utilisation of capacity, on the other hand huge payment of over-time allowance was made to the workers during the years 1979-80 and 1980-81 as per details given below :—

(Rupees in lakhs)

	1977-78	1978-79	1979-80	1980-81	1981-82
Casual workers .	0.31	0.36	0.34	0.38	0.11
Regular workers .	4.01	12.54	36.20	29.34	8.75
TOTAL . .	4.32	12.90	36.54	29.72	8.86
Overtime hours (in lakhs) .	1.39	3.57	4.97	4.98	1.27

Causewise analysis of huge payment of overtime has not been made by the Company.

The payment of overtime was attributed by the Management (December 1979) to the following reasons :—

— Breakdown of the old machines purchased from Innocenti affecting production.

— Shortage of material due to financial constraints.

— Heavy absenteeism.

— Rectification of defective material supplied by various parties.

12.03 *Labour utilisation*

The system for ascertaining idle labour hours was introduced from September 1977 only.

A scrutiny of the records, however, revealed that neither available hours on various jobs (excluding forge shop, iron foundry and three wheeler) were ascertained nor reasons for idle hours analysed during 1977-78.

The following table indicates the extent of labour utilisation during 1978-79 to 1980-81.

Particulars	1978-79	1979-80	1980-81
1	2	3	4
(*i*) Total labour hours (in lakhs) . .	21.53	23.71	24.59
(*ii*) Total labour hours booked against jobs (in lakhs)	19.11	20.60	20.84
(*iii*) Total idle hours (in lakhs) . .	2.42	3.11	3.75
(*iv*) Percentage of idle hours to total labour hours	11.2	13.2	15.2
Analysis of idle labour hours (in lakhs)			
(*i*) Non-availability of materials . .	0.96	1.15	0.58
(*ii*) Machine breakdown . . .	0.24	0.47	0.74
(*iii*) Machine setting	0.49	0.51	0.58
(*iv*) Miscellaneous	0.73	0.98	1.85

NOTE : The above details do not include the figures of Fan Unit at Delhi.

It will be seen that the incidence of idle labour was on the increase from year to year.

12.04 *Efficiency Analysis*

The Company had fixed (April 1976) the standard hours required for the production of different components at various stages after making allowance (adding 35 per cent) in the Innocenti operation sheet cycle time, to suit the Indian conditions. No comparative analysis of the standard hours *vis-a-vis* actual hours utilised has been made by the Company so as to ascertain the efficiency of labour.

A test check of the records in Audit in five shops during 1977-78 and 1978-79 revealed that the actual hours utilised were much in excess of the standard hours resulting in additional expenditure to the extent of Rs. 2.14 crores as per details given below :—

Name of Production shop	Total hours as per standards	Total hours utilised	Excess hours utilised	Labour and over-head rate per hour (Rupees)	Value of excess hours utilised (Rupees in lakhs)
1	2	3	4	5	6
1977-78					
1. Sub-assembly/ Assembly-DL Model	0.56	1.91	1.35	11.30	15.26
2. Engine assembly	0.53	1.22	0.69	10.93	7.54
3. Paint shop	0.19	1.48	1.29	31.58	40.74
4. Phosphating shop	0.06	0.40	0.34	30.73	10.45
5. Welding shop	0.26	1.43	1.17	19.68	23.03
				TOTAL	97.02
1978-79					
1. Sub-assembly/ Assembly-DL Model	0.77	2.00	1.23	13.90	17.10
2. Engine assembly	0.67	1.54	0.87	11.01	9.58
3. Paint shop	0.33	1.96	1.63	26.17	42.66
4. Phosphating shop	0.09	0.40	0.31	36.93	11.45
5. Welding shop	0.44	1.59	1.15	31.30	36.00
				TOTAL	116.79
				GRAND TOTAL	213.81

NOTE : For certain components, standard hours fixed by the Management were not made available. Such cases have been excluded.

The utilisation of excess labour hours was attributed (January 1981) by the Management to the following reasons :—

(i) Standards adopted on Innocenti timings did not prove to be realistic in Indian conditions.

(ii) Lack of requisite skill to watch the standards as fresh workers had to be recruited which took some time to train them.

(iii) Shortage of materials.

(iv) Worn out dies of Innocenti necessitating extra operations.

As regards (i) above, it may be mentioned that as already stated earlier, the standard hours in April 1976 were fixed after taking into account the Indian conditions.

Based on time and motion study, the standards fixed in April 1976 were revised by the Company in 1979-80. No efficiency variance analysis has been made by the Company with reference to the revised standards.

The Management stated (August 1982) as follows :—

"As the production in various shops during the relevant years has not stabilised on account of various key factors, *viz.*, quality problems, non-availability of materials, and imbalance in plant capacities etc. we have not undertaken efficiency variance analysis."

13. *Costing System and Analysis of Costs*

In December 1975 the Company prepared a cost manual, which envisaged the maintenance of cost data on the basis of standard rates of raw material, bought out components, labour and over-heads.

In September 1977, the Company adopted 'Period-costing' to meet the statutory requirement of Cost Accounting Records (Motor Vehicle) Rules, 1969; costs are accumulated over specified periods and at the end of the periods, control is exercised taking into account the issue and use of inputs and the resultant quantities of finished components.

In this connection, the following observations are made :—

(i) *Material*

The Company has fixed the standard material cost on the basis of standard requirement of materials for each item and the standard rates therefor. Standard rates were not revised six monthly upto December 1978 as per cost accounting procedure of the Company. Besides, usage and cost variances between actual costs and standard costs were not analysed.

The Company stated (November 1979) that the Production Planning and Control Department has drawn the requisite material as per targetted production *i.e.* control is at the time of issue only.

(ii) *Labour*

Labour cost is calculated on the basis of actual labour hour rate during the year. As already mentioned earlier in the Report the standard time required for each operation was fixed in April 1976 and revised during 1979-80 as it was considered to be unrealistic ; variance analysis between standard and actual labour utilised has also not been done.

(iii) The statutory Auditors in their report under section 619(3) of the Companies Act, 1956 on the accounts of the

Company for the year 1978-79 have observed that the actual cost of main products was more than the standard cost except in 1976-77.

14. *Sales Management and Pricing Policy*

14.01 *Organisation*

The sales organisation of the Company is divided into three wings *viz.*, domestic sales, export sales and spares sales. The domestic sales wing is further divided into five regions *viz.*, East, West, North, South and Central with headquarters at Calcutta, Bombay, Delhi Madras and Lucknow respectively. The first four regions are headed by Regional Sales Managers and the Central Region by a Manager (Sales). The sale of spares is also effected through these regions.

14.02 *Pricing Policy*

The distribution and sale of 'Vijay Deluxe' scooters till 31st August, 1976 was regulated by Government of India under 'Scooters (Distribution and Sale) Control Order 1960'; thereafter the selling prices of all the products were fixed by the Company.

14.03 *Cost vis-a-vis Selling Price*

A comparison of the cost and the selling prices of the products of the Company during the period 1976-77 to 1980-81 has been made in Annexure II. It would be seen therefrom that the cost of production was far in excess of the selling prices during all these years (except power packs for certain period in 1976-77, 1979-80 and 1980-81).

The incidence of loss was more in the case of three wheelers.

14.04 *Sales performance*

The table below indicates the sales, loss per unit and total loss on the sale of the products of the Company :

Year	DOMESTIC SALES						EXPORTS		
				POWER PACKS					
	No. of scooters sold	Loss per scooter (cost minus average selling price) (Rs.)	Total loss (Rs. in lakhs)	No. of power packs sold	Loss per power pack (cost minus average selling price) (Rs.)	Total loss (Rs. in lakhs)	No. of scooters exported	Loss per scooter (cost minus average selling price) (Rs.)	Total loss (Rs. in lakhs)
1	2	3	4	5	6	7	8	9	10
(i) Two wheelers									
1974-75 . . .	407	..	N.A.	..	..	..	..	..	..
1975-76 . . .	14,675	N.A.	N.A.	1,253	..	..	..	..	..
1976-77 . . .	25,811	881.82	227.61	11,173	77.03	9.61	508	1,518.17	7.71
1977-78 . . .	14,175	2,186.76	309.97	11,408	514.82	58.73	1,341	1,997.12	26.78
1978-79 . . .	22,461	1,586.83	356.42	15,773	562.49	88.72	1,062	2,115.60	22.47
1979-80 . . .	32,398	1,159.61	375.69	12,079	195.96	23.67	1,237	883.19	10.93
1980-81 . . .	34,102	1,245.25	424.66	12,536	133.54	16.74	1,613	645.96	10.42
TOTAL .			1,694.35			196.47			78.31

1	2	3	4	5	6	7	8	9	10
(ii) Three wheelers									
1977–78 . . .	23	N.A.	N.A.	345	N.A.	N.A.	5	N.A.	N.A.
1978–79 . . .	46	24,882.03	11.45	373	3,269.19	12.19	23	27,441.11	6.31
1979–80 . . .	301	7,445.17	22.41	Nil	..	..	2	6,707.04	0.13
1980–81 . . .	498	6,925.49	34.49	10	305.07	0.03	30	7,027.82	2.11
TOTAL . .			68.35			12.22			8.55

NOTE : The data do not include the incidence of excise duty and are based on the Cost Auditors' Report of the respective years.

14.05 *Export Performance*

At the time of taking the decision to establish the project with the purchase of machinery from Innocenti it was contemplated to export 40,000 two wheelers out of the total production of 1,00,000 two wheelers annually. Similarly, one of the factors which weighed with the Government in taking the decision to manufacture three wheelers, was that it had greater export potential in the developed countries in Europe. As would be seen from the figures given in paragraph 14.04, actual export of two wheelers and three wheelers has been nominal.

15. *Material Management and Inventory Control*

(i) *Inventory Holdings*

The following table indicates the position of inventory at the end of each of the last 6 years ended 31st March 1981.

(Rupees in lakhs)

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
1. Raw materials	212.01	328.35	284.14	295.51	405.09	393.53
2. Stores and spares . .	37.08	39.85	33.14	31.97	56.05	76.44
3. Loose tools and consumables .	53.54	81.35	90.86	124.05	153.67	173.35
4. Work-in-progress .	160.29	169.12	150.27	165.78	261.66	307.29
5. Finished goods	59.49	36.19	74.46	62.96	53.05	45.59
6. Materials and Stores—in-transit . .	78.19	54.00	94.61	153.97	206.54	152.96
7. Other stocks .	6.37	7.16	7.49	6.44	16.36	27.36
TOTAL .	606.97	716.02	734.97	840.68	1152.42	1176.52

The stock of raw materials represented 3.32 months' consumption for production requirements in 1980-81 as compared to 3.73 months' in 1979-80, 4.02 months' in 1978-79, 5.63 months' in 1977-78, 4.95 months' in 1976-77 and 4.09 months' in 1975-76.

The stock of loose tools and consumables was equivalent to about 16.42 months' consumption for production requirements in 1980-81 as compared to 15.05 months' in 1979-80, 17.74 months' in 1978-79, 15.30 months' in 1977-78. 10.99 months' in 1976-77 and 17.90 months' in 1975-76. The work-in-progress at the end of 1980-81 represented 1.13 months' value of the production at cost as against 1.14 months' in 1979-80, 1.02 months' in 1978-79, 1.30 months' in 1977-78, 1.25 months' in 1976-77 and 1.66 months' in 1975-76.

In this connection the Management stated (December 1980) as under :—

> "The material planning was based on certain production programme updated from time to time. The production of Vijay Super was not upto the targetted figure. Also the J-125 project for which material was procured did not materialise. The production of 3-wheeler was much less compared to the targetted production."

(ii) No maximum, minimum and re-ordering levels for stores and spares have been fixed so far.

(iii) Raw materials, loose tools and consumables and other items of stock of the value of Rs. 132.00 lakhs, Rs. 45.00 lakhs and Rs. 15.00 lakhs respectively were declared surplus and lying undisposed of at the end of March 1981. The Ministry stated (November 1982) that action for disposal of surplus items was in hand.

(iv) *Payment of demurrage and wharfage*

Owing to delay in clearance of consignments valuing Rs. 62.77 lakhs, the Company had to pay demurrage/wharfage charges amounting to Rs. 21.48 lakhs during 1975-76 and 1977-78. The Management stated (April 1981) that the materials could not be got released due to paucity of funds.

(v) Raw materials, loose tools and consumables were issued to outside parties for manufacture/fabrication of components to be supplied to the Company. The balance remaining with various parties at the close of the years 1976-77 to 1980-81 are given below :—

(Rupees in lakhs)

	1976-77	1977-78	1978-79	1979-80	1980-81
1. Raw materials .	69.29	50.78	66.30	83.85	85.96
2. Loose tools and consumables .	Nil	Nil	2.78	3.06	3.15

A test check revealed that out of the value of raw materials mentioned above, materials valuing Rs. 11.77 lakhs were lying with the following 5 parties (cases exceeding Rs. 1 lakh each) for the last 3 years as on 31st March 1982.

Sl. No.	Name of the Party	Value (Rupees in lakhs)
1.	M/s. Bengal Enamel Works, Calcutta	3.48
2.	M/s. Forgings Pvt. Limited, Faridabad . . .	1.43
3.	M/s. Surgical Instruments Plant, Madras . . .	3.78
4.	M/s. Tausi Die Castings, Madras	1.45
5.	M/s. W. G. Forge & Allied Industries, Thana . .	1.63
	TOTAL	11.77

16. *Financial Position, Profitability Analysis and Credit Control*

(i) *Financial Position*

The table below summarises the financial position of the Company for the five years 1976-77 to 1980-81 :—

(Rupees in lakhs)

	1976-77	1977-78	1978-79	1979-80	1980-81
	1	2	3	4	5
LIABILITIES					
(*a*) Paid-up Capital	513.06	513.61	513.68	513.71	524.82
(*b*) Reserves and Surplus	1.82	1.82	1.82	1.82	6.72
(*c*) Borrowings :					
(*i*) Debentures	50.00	50.00	50.00	50.00	50.00
(*ii*) Secured loans from financial institutions and banks	690.41	703.87	761.75	866.59	835.29
(*iii*) Unsecured loans from Government of India and banks	966.60	1230.18	1622.73	2113.48	2253.65
(*d*) Trade dues and other current liabilities (including provisions)	761.22	919.91	1146.75	1425.98	1823.76
TOTAL	2983.11	3419.39	4096.73	4971.58	5494.24

S/16 C&AG/82—6

ASSETS					
(e) Gross block	1114.49	1405.18	1542.58	1791.72	1906.41
(f) Less depreciation	222.14	342.68	464.40	601.73	735.57
(g) Net fixed assets	892.35	1062.50	1078.18	1189.99	1170.84
(h) (i) Capital works-in-progress	282.05	106.60	173.25	50.29	120.82
(ii) Machinery and equipment-in-transit	72.81	121.58	23.13	3.53	9.12
(iii) Investment	0.01	0.01	0.01	25.01	30.01
(i) Current assets, loans and advances	973.08	963.63	1170.12	1557.41	1530.59
(j) Miscellaneous expenditure (to the extent not written off)	124.59	169.67	182.10	228.01	225.50
(k) Accumulated losses	638.22	995.40	1469.94	1917.34	2407.36
TOTAL	2983.11	3419.39	4096.73	4971.58	5494.24
(m) Capital employed*	1104.21	1106.22	1101.55	1321.42	877.67
Net worth**	(—)247.93	(—)649.64	(—)1136.54	(—)1629.83	(—)2101.32

*Capital employed represents net fixed assets plus working Capital.

**Net worth represents paid-up capital plus reserves and surplus less intangible assets.

(ii) *Profitability Analysis*

The Company has been incurring losses since inception. The following table indicates the year-wise losses suffered since inception till March 1981 together with the incidence of interest on loans.

(Rupees in lakhs)

Year	Net loss	Incidence of interest on loans
1974-75	106.92	74.29
1975-76	327.63	139.20
1976-77	266.05	198.40
1977-78	357.18	227.76
1978-79	474.54	294.31
1979-80	445.42	395.48
1980-81	490.02	495.76
TOTAL	2,467.76*	1,825.20

*This figure differs slightly from the figure in the preceding sub-paragraph because the above figure has been arrived at without making provision for development rebate reserve of Rs. 60.40 lakhs.

The cumulative loss as on 31st March 1981 amounted to Rs. 24.68 crores thereby completely wiping off the paid-up capital of Rs. 5.25 crores and loans to the extent of Rs. 19.43 crores.

The losses have been attributed by the Management to the following reasons.

1975-76

— Major constraints in supplies of castings for the engine block and certain other critical components resulting in inadequate utilisation of production capacity.

1976-77

— Under-utilisation of installed and rated capacity.

— Recession of demand for the two-wheelers.

— High incidence of interest.

— Higher depreciation due to short life span of the plant and machinery acquired from Innocenti.

— High incidence of maintenance and repair charges on old plant and machinery.

— Lack of funds.

1977-78

— Non-utilisation of available producution facilities.

— Increased material cost.

— High interest burden on loans.

— Quality complaints of Vijay Deluxe Scooters resulting in demand recession.

— Lack of funds.

— Higher depreciation due to short life span of plant and machinery acquired from Innocenti.

— High incidence of maintenance and repair charges on old plant and machinery.

1978-79 *and* 1979-80

— Under-utilisation of built-up capacity.

— Ever-increasing material and labour cost and other overheads.

— High burden of interest on loans.

1980-81

— Lower production for want of essential material supplies.

— Mounting interest burden on loans and borrowings.

In this connection it may be mentioned that apart from above, high percentage of rejctions, exccssive manpower coupled with lower efficiency of labour referred to earlier in the Report the magnitude of which could not be quantified, have also attributed to the losses of the Company.

(iii) *Sundry Debtors*

The following table indicates the value of book debts and sales during the period 1976-77 to 1980-81 :

(Rupees in lakhs)

	Total Book Debts			Percentage of debtors to sales
	Considered good	Considered doubtful	Sales	
31-3-1977 . . .	78.92	..	1,428.34	5.53
31-3-1978 . . .	77.15	..	1,008.34	7.65
31-3-1979 . . .	101.10	..	1,531.29	6.60
31-3-1980 . . .	138.21	..	2,257.75	6.12
31-3-1981 . . .	135.28	0.03	2,778.01	4.87

The sundry debtors represented about 0.66 month's turnover in 1976-77, 0.92 month's in 1977-78, 0.79 month's in 1978-79, 0.73 month's in 1979-80 and 0.58 month's in 1980-81.

17. *System of Accounting and Internal Audit*

17.01 *Accounting Manual*

Accounts manual prescribing the financial and accounting procedures for compilation and maintenance of accounts has not been finalised so far (October 1982).

17.02 *Internal Audit*

(i) The Internal Audit Cell which started functioning from June 1973, was under the direct control of the Managing Director upto May 1979 when it was placed under the control of the General Manager (Finance and Corporate Planning).

The Manual of Internal Audit, incorporating procedures, instructions, guidelines issued by the Management from time to time has not been compiled so far (October 1982).

The Committee on Public Undertakings in their Fifteenth Report (4th Lok Sabha—April 1968) on Financial Management in Public Undertakings had recommended that the functions of internal audit should include a critical review of the systems, procedures and operations as a whole, rather than merely of accounting work. The Ministry of Finance (Bureau of Public Enterprises), while accepting the above recommendation, had advised the public enterprises in September 1968 to introduce such a system.

Although the Management had stated in June 1980 that Internal Audit had been entrusted with the work of management audit from March 1980, which includes review of the system and procedures laid down by the Management, no such review has been conducted so far (October 1982).

(ii) Internal audit reports were prepared in respect of outstation units only; no reports were prepared in respect of any of the headquarter units till March 1977.

18. *Financial Management—Budgetary Control*

Although the Bureau of Public Enterprises had issued guidelines in March 1968 to the public sector undertakings for compiling a budget manual which should, *inter alia* prescribe the responsibility/cost centres in the organisation for the compilation of budgets, neither any manual has been compiled nor responsibility/cost centres established by the Company.

Overall Summary

The following are the important features emerging out of the detailed analysis given in the preceding paragraphs.

1. *Introduction*

The Company was incorporated on 7th September 1972 with the main object of filling up the gap between the demand and supply of scooters in the country.

2. *Capital Investment Decisions*

(a) *Two-wheeler Project*

The project was set up for the manufacture of 1,00,000 two-wheelers per annum with the old plant and machinery purchased from Innocenti of Italy on the considerations that apart from generation of additional resources of about Rs. 4.80 crores on the sale of 5,00,000 scooters in a period of 7-8 years and a profit of about Rs. 2 crores owing to commencement of production earlier by two years, there would be saving of foreign exchange and lower fixed investments and production cost, as compared to installing a new plant.

(b) *Three-wheeler Project*

Similarly, it was decided to acquire the old plant and machinery of Innocenti for production of 30,000 three-wheelers per annum, *inter alia,* on the consideration that :

(i) the three wheeler vehicle had a greater export potential ;

(ii) by integrating the three wheeler and the two wheeler projects, considerable economies in the initial investment as well as cost of production could be effected ; and

(iii) the plant would be able to add on a product line valued at about Rs. 16.50 crores and an additional profit of about 1.50 crores per annum.

In this connection following points deserve mention :

(i) As against the capital investment of Rs. 12.28 crores envisaged on the two wheeler and three wheeler Projects on the basis of which the Projects were approved, the actual investment as on 31st March 1981 amounted to Rs. 21.42 crores.

(ii) The actual investment in the old plant (two wheeler) having a service life of 5 to 8 years has exceeded the investment anticipated on erection of entirely a new plant having a full rated economic life.

(iii) The actual capacity was later found to be much less than 1,00,000 two wheelers and 30,000 three wheelers per annum.

(iv) The anticipation of earlier commencement of production of two wheelers did not materialise.

(c) *Investment in Equity capital of State Undertakings*

With a view to meeting the requirement of tyres and tubes and Magnetos, the Company made investments of about Rs. 50 lakhs upto 31st March 1981 in the equity capital of State Undertakings. The purpose for which the investments were made was generally not served.

3. *Collaboration agreements with State Undertakings*

The Company entered into agreements for supply of power packs to State Undertakings even when its own machinery was still in the process of installation. The supply of power packs by the Company was much below the quantities required by the licensees.

4. *Growth and Development of Ancillary Industries*

Long term tripartite contracts between the Company, U.P. Small Industries Corporation and the entrepreneures (35) were entered into during 1973, 1974 and 1977-78 for establishment of small scale ancillary units with a view to ensuring supply of components of approved quality at reasonable rates and to provide avenues for self employment to technically qualified personnel. The Company provided infra-structural facilities at a capital cost of Rs. 40.49 lakhs upto March 1982. No papers were made available to show whether economics of establishing the ancillaries, especially with reference to its own ways and means position and availability of components from already established sources of supply, was worked out by the Company.

5. *Production Performance*

(a) *Determination of capacity*

As against the capacity of 1,00,000 two wheelers and 30,000 three wheelers per annum subject to the addition of certain balancing facilities envisaged earlier, the Company has been varying the installed capacity from time to time even after installation of balancing and supporting facilities of Rs. 4.43 crores and renewals and replacements to the extent of Rs. 4.60 crores upto March 1980. According to the latest estimates the Company expects to achieve a capacity of 45,000 two wheelers, 15,000 two wheeler power packs and 2,000 three wheelers.

(b) Even though the Project for expansion of power packs was not approved by the Government, orders for the purchase of plant and machinery therefor valued at Rs. 3.68 crores were placed upto July 1977. The equipment valued at Rs. 3.09 crores was received and installed till March 1980.

(c) Notable features of the production performance during 1975-76 to 1981-82 were as under :—

- Not only were the targets fixed generally far below the installed capacity, the actual production was also far below even the targets fixed.

- The Company's contribution towards the total production in the country ranged from 10.29 per cent to 21.36 per cent in the case of two wheelers and from 0.09 per cent to 2.81 per cent in the case of three wheelers.

— Norms of rejections and process loss were not fixed for various shops. The actual rejections were generally more than those considered normal by the Company.

— Machine utilisation was only to the extent of 54 to 57 per cent of the available hours. Similarly, idle labour hours varied between 11 and 15 per cent of total labour hours.

— Not-with-standing the under utilisation of capacity, the man-power increased from 3,346 in 1976-77 to 3,600 in 1980-81. The exact manpower requirement has not been assessed so far (October 1982).

— Actual hours utilised for production of various components were far in excess of the standard hours resulting in an additional expenditure of Rs. 2.14 crores in five shops alone during 1977-78 and 1978-79.

— The actual export of two wheelers and three wheelers was nominal.

6. *Technical Consultancy*

Owing to non-materialisation of financial collaboration with Innocenti and API contemplated and technical collaboration with API thought of originally the production of scooters was started without any technical support. However, subsequently a number of technical consultants were engaged from time to time for various purposes.

Ingersoll Manufacturing Consultants of U.K. were appointed to undertake an indepth study in regard to the difficulties faced by the Company both in regard to qualitative and quantitative aspects of production and to achieve break-even level. An expenditure of Rs. 66.88 lakhs was incurred for the services rendered by them. In this connection following points deserve mention :

— The basis of selection of the consultants and fixation of their fee could not be ascertained in audit.

— The object of achieving the break even level as contemplated by the Government while approving the appointment of Consultants has not been realised so far.

— The appointment of Ingersoll as Consultants is to be viewed in the light of the fact that an improved version of the vehicle namely 'Vijai Super' after removing the defects pointed out by Mr. Bianchi had been introduced in September 1977 and the scooter had already won market acceptability by the time the reports of Ingersoll were received between March 1979 and June 1980.

7. *Cost vis-a-vis selling price*

The cost of production was far in excess of the selling price.

8. *Material Management and Inventory Control*

— No maximum, minimum and reordering levels for stores and spares have been fixed.

— Surplus materials valuing Rs. 192 lakhs were awaiting disposal.

9. *Financial Analysis*

The Company has been incurring losses since inception. The cumulative loss as on 31st March 1981 amounting to Rs. 24.68 crores thereby completely wiping off the paid up capital of Rs. 5.25 crores and loans to the extent of Rs. 19.43 crores.

(R. C. SURI)
Chairman, Audit Board and Ex-officio Additional Deputy Comptroller and Auditor General (Commercial)

New Delhi,
The 14th December 1982

Countersigned

(GIAN PRAKASH)
Comptroller and Auditor General of India

New Delhi,
The 14th December 1982

ANNEXURE I

[Referred to in paragraph 10(ii)]

Following are the main benefits derived by Scooters India Limited, from its consultancy arrangement with Ingersoll Engineers :

(i) Immediately after taking up their assignment the consultants recommended that all resources of the Company should be concentrated on building up production of good quality scooters. For this purpose they suggested that various aspects of the Company's operations should be critically analysed by Task Forces and necessary remedial measures taken. Accordingly, 8 Task Forces of SIL Engineers drawn from technical departments were set up to look into matters relating to materials supply and control, production bottlenecks, breakdown repair and plant maintenance, material handling, housekeeping etc. These groups worked under the overall direction of the consultants and made plans and defined requirements, the implementation of which commenced by February 1979. This contributed to a significant growth in production as will be borne out by the following data of production during the quarter January—March 1979 in comparison to the output during April—November 1978 :

Average monthly production

	April—November 1978	January—March 1979
Engines	2637	4578
Scooters	1427	2803

(ii) The consultants were of the view that a suitable person should be positioned to oversee the production activities in various areas so that all relevant matters could be properly coordinated. They deputed Mr. Gordon Thomas, a Production Management expert, to SIL and he worked as General Manager (Manufacturing) from October 1979 to May 1980. During this period the consultant's representative helped in improving inter-departmental coordination, highlighted the criticality of various aspects of the Company's operations for growth of production and showed that upto 150 scooters per day could be produced using existing facilities, Consequently during the first quarter of 1980 a record production of 9692 scooters was achieved—a figure that has not been exceeded in any quarter until the current year.

(iii) The consultants carried out an in-depth study of the production facilities in the Machine Shop. They identified the unreliable machines which needed replacement and the manner in which the productivity could be improved and the investment brought down by adopting modern and improved methods of production. These recommendations are being taken into account by the Company while ordering balancing/replacement machinery and will in due course contribute to improvement in productivity and lower investment.

(iv) The consultants also identified various measures required to improve production efficiency at SIL such as introduction of a suitable planning and scheduling system, timely provision of a complete work package to each machine operator, establishment of kit-marshalling stores, provision of inspection gauges at each work station, rationalisation of codification for materials, etc. They also emphasized the need for value engineering and product development. These suggestions brought home to the Company's management the necessity for application of various management techniques for achieving growth in production, cost reduction, etc.

(v) With regard to improvement in product quality the consultants were closely associated with the identification of steps to be taken for improving the quality of the vehicle. Some of the areas they studied in depth were : life of the cylinder piston, bearing noise, piston slap, etc. They suggested introduction of flex honing operation on cylinder and chrome plating the top piston ring which has contributed to a significant increase in the cylinder piston life. For reduction in the piston slap they suggested offsetting the gudgeon pin hole in the piston which helped in achieving the desired result. They also suggested the replacement of the roller bearing on the crank shaft with a ball bearing resulting in a 75 per cent reduction in noise and also cost reduction.

(vi) The consultants also suggested that a survey of the scooter market in India should be carried out by an independent agency to bring out the reasons for the customers' brand preference. Such a study was later carried out by the Indian Market Research Bureau which gave the Company an insight into reasons for the customers' preference so that necessary measures could be taken to improve the marketability of the vehicle.

ANNEXURE II

(Paragraph 14.03)

Year	Total cost (excluding excise duty)	Total selling price (excluding excise duty but including dealers' commission & cost of stepney)	Effective dates	Profit (+)/ Loss (—) per unit	Percentage of loss/profit to cost of production
1	2	3	4	5	6
(i) Two-wheeler Vehicle					
1974-75	Not available	3,657.00	..	..	..
1975-76	5,097.35	3,657.00	Upto 31st Oct. 1975	(—)1,440.35	28.26
		3,867.44	From 1st Nov. 1975	(—)1,229.91	24.13
1976-77	4,942.62	3,867.44	Upto 31st Oct. 1976	(—)1,075.18	21.75
		3,945.00	From 1st Nov. 1976	(—)997.62	20.18
1977-78	6,226.06	3,945.00	Upto 21st July 1977	(—)2,281.06	36.64
		4,050.00	From 22nd July 1977	(—)2,176.06	34.95
		4,090.00	From 1st Oct. 1977	(—)2,136.06	34.31
1978-79	5,740.92	4,090.00	Upto 4th Aug. 1978	(—)1,650.92	28.76
		4,240.00	From 5th Aug. 1978	(—)1,500.92	26.14
1979-80	5,753.68	4,240.00	Upto 4th May 1979	(—)1,513.68	26.31

1	2	3	4	5	6
	5,669.15 (without stepney)	4,155.47	From 5th May 1979 (without stepney)	(—)1,513.68	26.70
	5,753.68	4,415.00	From 15th Aug. 1979	(—1,338.68	23.27
		4,590.00	From 1st Oct. 1979	(—)1,163.68	20.22
		5,135.00	From 24th Dec. 1979	(—)618.68	10.75
1980–81	6,481.48	5,135.00	Upto 14th July 1980	(—)1,346.48	20.77
		5,315.00	From 15th July 1980	(—)1,166.48	18.00

(ii) *Three-wheeler Vehicle (Does not includes dealers' Commission)*

1977–78	Not available	10,000.00	Upto Dec. 1977	..	..
1978–79	36,926.70	10,000.00	Upto 25th Oct. 1978	(—)26,926.70	72.92
		10,240.00	From 26th Oct. 1978	(—)26,686.70	72.28
		11,800.00	From 27th Feb. 1979	(—)25,126.70	68.04
1979–80	21,113.08	11,800.00	Upto 14th Nov. 1979	(—)9,313.08	44.11
		13,520.00	From 15th Nov. 1979 (with door)	(—)7,593.08	35.96
	20,613.08	13,020.00	Without door	(—)7,593.08	36.84
	21,113.08	14,220.00	From 1st Jan. 1980 (with door)	(—)6,893.08	32.65
	20,613.08	13,720.00	Without door	(—)6,893.08	33.44

1	2	3	4	5	6
1980–81	22,476.81	14,222.00	Upto 18th June 1980 (with door)	(—)8,256.81	36.73
	21,676.81	13,720.00	Upto 18th June 1980 (without door)	(—)7,956.81	36.70
		15,220.00	From 19th June 1980 (with door)	(—)7,256.81	32.29
		14,720.00	From 19th June 1980 (without door)	(—)6,956.81	32.09
(iii) Two-wheeler Power Packs					
1975–76	2,222.85	1,903.00	From 5th Dec. 1975	(—)319.85	14.39
1976–77	1,842.39	1,903.00	Upto 30th June 1976	(+)60.61	(+)3.29
		1,793.91	From 1st July 1976	(—)48.48	2.63
1977–78	2,224.64	1,793.91	..	(—)430.73	19.36
1978–79	2,315.88	1,793.91	Upto 30th June 1978	(—) 521.97	22.54
		1,845.45	From 1st July 1978	(—)470.43	20.31
		1,915.45	From 1st March 1979	(—)400.43	17.29
1979–80	2,098.43	1,915.45	Upto 31st July 1979	(—)182.98	8.72
		1,975.45	From 1st Aug. 1979	(—)122.98	5.86
		1,998.45	From 1st Oct. 1979	(—)99.98	4.76

1	2	3	4		
		2,038.48	From Oct. 19		2.86
		2,069.12	From 1st Nov. 1979	(—)29.31	1.40
		2,256.48	From 1st Jan. 1980	(+)158.05	(+)7.53
1980–81	2,336.92	2,256.48	Upto 1st April 1980	(—)80.44	3.44
		2,311.48	From 2nd April 1980	(—)25.44	1.09
		2,411.00	From 5th July 1980	(+)74.08	(+)3.17
		2,433.00	From 1st Aug. 1980	(+)96.08	(+)4.11

(iv) *Three-wheeler Power Packs*

1978–79	5,648.37	2,404.00	Upto 28th Feb. 1979	(—)3,244.37	57.44
		2,654.00	From 1st March 1979	(—)2,994.37	53.01
1979–80	Not available	2,654.00	Upto 20th Sept. 1979	There was no sale during 1979-80	
		2,904.00	From 21st Sep. 1979		
		2,964.00	From 15th Oct. 1979		
1980–81	3,059.93	2,964.00	Upto 11th May 1980	(—)95.93	3.13
		3,135.00	From 12th May 1980	(+)75.07	(+)2.45
		3,365.00	From 17th July 1980	(+)305.07	(+)9.97

(v) Mopeds

The cost of production of mopeds was not worked out by the Company although sales of some mopeds manufactured by the Company were made. In the absence of information relating to cost, sales realisation could not be analysed.

(vi) Spare Parts

The Company had not ascertained the profit/loss on the sale of the spare parts.

MGIPRRND—S/16 C & AG/82—T.S.S. II—11-1-83—2067