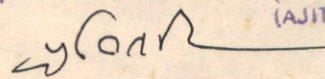


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To be laid on the Table of Lok/Rajya Sabha

नई दिल्ली
New Delhi
दिनांक
Date

अधिप्रमाणित
Authenticated
(अजित सिंह)
(AJIT SINGH)

REPORT OF THE 
उद्योग मंत्री, भारत सरकार
Minister, Ministry of Industries, Govt. of India
COMPTROLLER AND AUDITOR GENERAL
OF INDIA

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OF THE RAJYA SABHA
ON 27 MAR 89

UNION GOVERNMENT

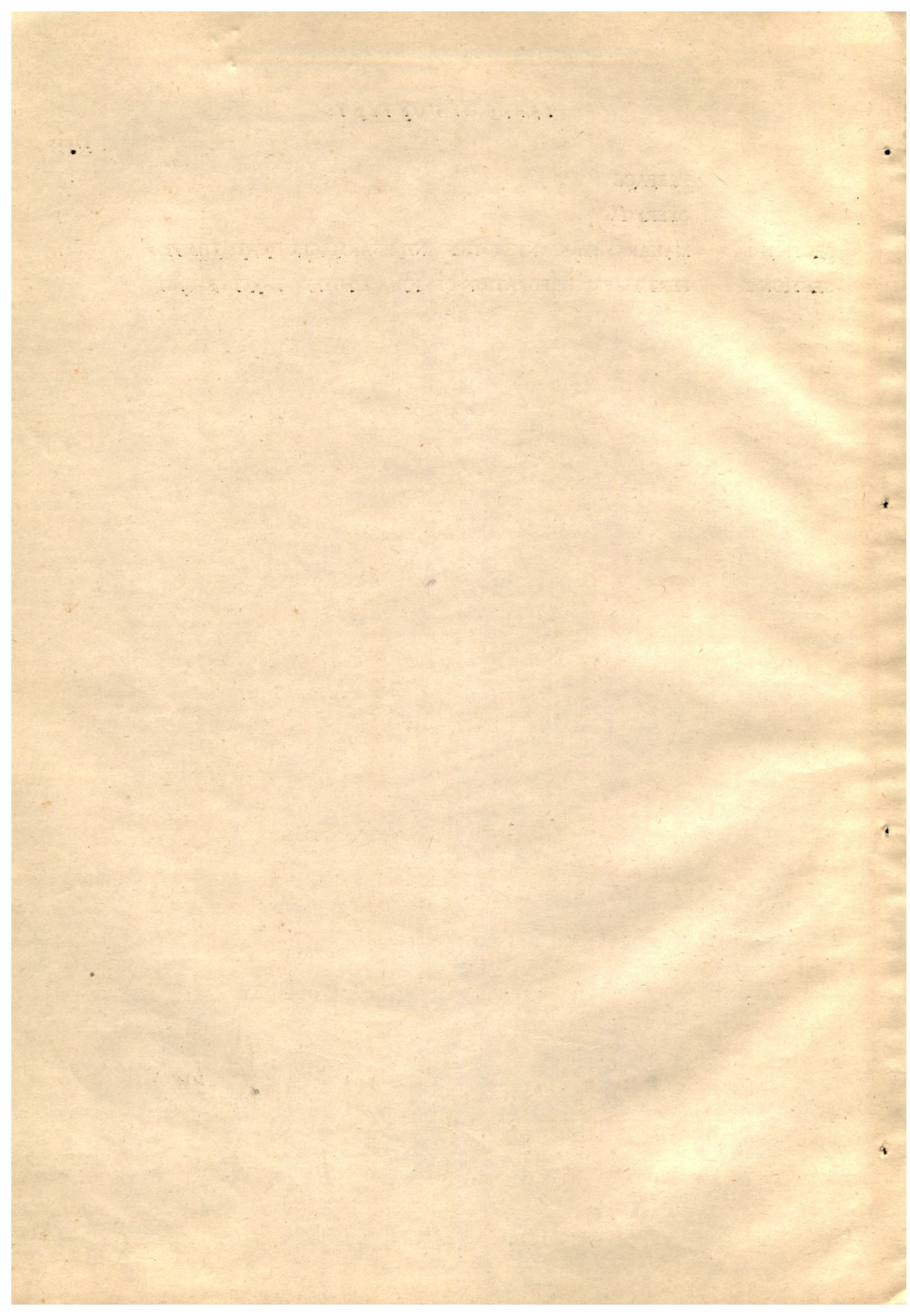
RAJYA SABHA
COMPTROLLER AND AUDITOR GENERAL
OF INDIA

NO. 4 (COMMERCIAL) OF 1989

MAHARASHTRA ANTIBIOTICS AND PHARMACEUTICALS LIMITED
FERTILISER CORPORATION OF INDIA LIMITED—TALCHER UNIT

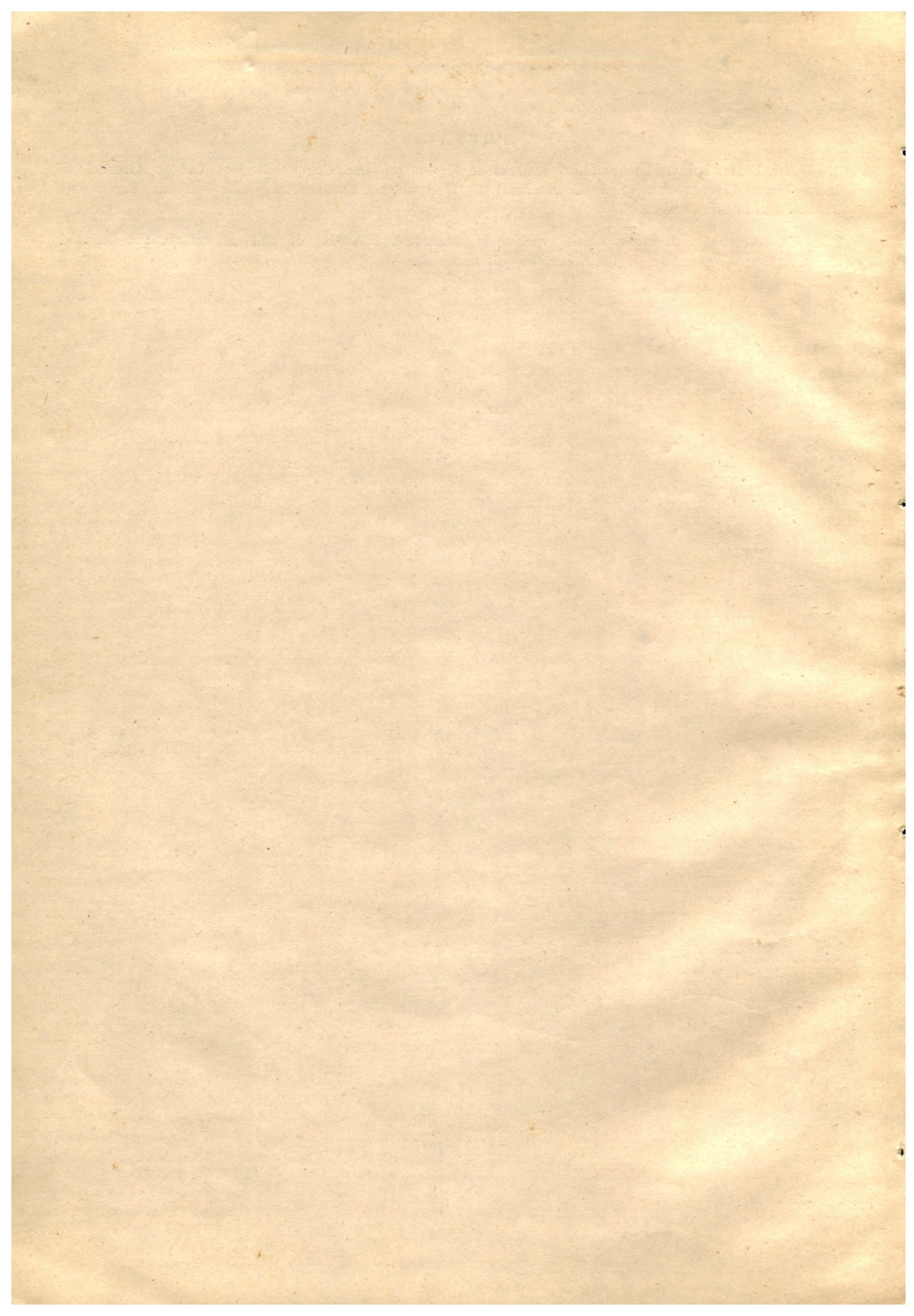
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PREFACE

1. A reference is invited to prefatory remarks in Report of the Comptroller & Auditor General of India—Union Government No. 1 (Commercial) of 1989 wherein mention was made that this Report will be presented in several parts.
2. This part contains reviews on the working of Maharashtra Antibiotics and Pharmaceuticals Limited and Fertilizer Corporation of India Limited—Talcher Unit.



OVERVIEW

This Audit Report (Com)—1989 contains two reviews. Significant Audit findings highlighted in this Report are :—

I. The Maharashtra Antibiotics and Pharmaceuticals Limited

The Maharashtra Antibiotics and Pharmaceuticals Ltd., with its registered office at Nagpur, was incorporated on 16th November, 1979 with the main objective of meeting the long felt need of making available the high quality life-saving drugs to the masses at reasonable prices. The objective was not achieved (December, 1987) owing to poor utilisation of capacity. (Paras 1.1 & 1.2)

II. The establishment of formulations plant sanctioned in August, 1978 and scheduled to be completed by September, 1980 was delayed. The tablets plant, capsule and dry syrup plant and vial plant were commissioned eight, ten and twenty-three months behind the schedule respectively. The Ampoule Section on which an expenditure of Rs. 7.04 lakhs was incurred could not be commissioned so far (September, 1988) for want of spares costing Rs. 2.95 lakhs which could not be procured reportedly due to paucity of funds. The delay in commissioning resulted in escalation in the estimated project cost from Rs. 283.86 lakhs to Rs. 370.54 lakhs against which an expenditure of Rs. 347.44 lakhs had been incurred so far. (Para 1.4)

III. The capacity utilisation ranged between 14 to 33 per cent in vials plant, 4 to 13 per cent in capsules plant, 10 to 20 per cent in tablets plant and 3 to 19 per cent in dry syrup plant. Despite under-utilisation of capacity, the Company off-loaded to other manufacturers jobs valued at Rs. 8.47 lakhs in 1984 which had increased to Rs. 76.02 lakhs in 1987. The off-loaded work represented 7% and 17% of sales respectively in those years. (Para 1.5)

IV. The Company, in addition to selling its own products was undertaking loan licensing jobs for other manufacturers. Sales of Company's own products was 58%, 54% and 81% of budgetted sales during the years 1983, 1984 and 1986 respectively. (Para 1.6)

V. Even though production started in 1981, no manual laying down costing system was prepared. While the cost of production of different products was worked out periodically on the basis of standard norms, cost of production of each batch was not computed. (Para 1.8.1)

VI. The Company had been incurring losses from the beginning, the cumulative loss being Rs. 446.01 lakhs as on 31st December, 1987. The losses completely wiped out the equity capital of Rs. 100 lakhs and a portion of the loans to the extent of Rs. 346.01 lakhs. (Para 1.9.2)

VII. The Company failed to repay the principal and pay interest thereon from the beginning which resulted in penal interest liability to the extent of Rs. 87 lakhs. The Company could not also maintain sufficient stocks of hypothecated goods for cash credit as per Banking norms. This resulted in stoppage of cash credit facility and opening of two current accounts with two different Banks for realisation of sale proceeds. Further, the Company continued to pay interest on frozen cash credit. (Para 1.9.3)
2
1.9.3)

2. Fertiliser Corporation of India Limited—Talcher unit

(I) The Talcher Unit estimated to cost Rs. 70.49 crores was sanctioned by Government in October 1969. It was scheduled to be commissioned in July 1974. However, the unit was commissioned only in November 1980, on a revised estimate of Rs. 223.14 crores. (Para 2.1)

(II) The Company attributed delay in commissioning to late receipt of civil construction drawings, late receipt of steel and cement/equipment and slip-pages in respect of supply cum erection contracts. (Para 2.2)

(III) The installed capacity and derated capacity of the unit were 4,95,000 and 3,30,000 tonnes per year respectively. The capacity utilisation had come upto only 37.44% of installed capacity and 56.16% of the derated capacity by 1987-88. Against the derated capacity of 3,30,000 tonnes per year, the loss of production of urea due to various problems

(iii)

(iv)

like equipment, process and power etc. ranged between 144663 tonnes (1987-88) and 285299 tonnes (1982-83).

(Paras 2.3.01&2.3.02)

(IV) The consumption of raw materials was also more than the norms fixed by FICC in June 1983. The excess consumption of raw materials ranged between Rs. 475 per tonne and Rs. 1211 per tonne during the period 1983-84 to 1986-87. The cost of production was more than the retention price by Rs. 1934 to Rs. 7262 per tonne of urea during the period 1983-84 to 1987-88. This resulted in a total loss of Rs. 2297 lakhs to Rs. 13459 lakhs per year during this period. (Paras 2.3.03 & 2.4.01)

(V) Talwar committee, appointed in October 1981 to investigate excessive downtime and consequent production loss, suggested remedial measures involving investment of Rs. 125 crores but these were not implemented due to resource constraints. (Para 2.3.04)

(VI) In July 1985, a West German firm appointed to suggest remedial measures also recommended by and large the same measures as advised by Talwar Committee involving an outlay of Rs. 253.54 crores. But due to financial constraints the Company decided to take up the work of rehabilitation only in the VIII Plan. (Para 2.3.04)

(VII) Due to non-payment of electricity bills in time, the unit had to pay surcharge amounting to Rs. 195.21 lakhs in respect of 96 bills for 1984-85 to 1987-88. (Para 2.4.02).

(VIII) Shortage of 2078.56 tonnes of urea in transit resulted in loss amounting to Rs. 71.68 lakhs to the unit during 1981-82 to 1985-86 (Para 2.4.02)

(IX) In December 1985, 24 barrels of additive were airlifted on urgency basis incurring an additional expenditure of Rs. 3.09 lakhs but they were utilised during March 1986 to March 1987. (Para 2.4.02).

MAHARASHTRA ANTIBIOTICS & PHARMACEUTICALS LTD.

1.1. Introduction

The Hathi Committee on Drugs and Pharmaceuticals Industry, 1975 emphasised the necessity of production and distribution of drugs by the State as a social responsibility. The Committee envisaged increase in demand of life-saving drugs and therefore laid stress on increase in the formulation capacity of life-saving drugs. The Committee also, *inter alia*, recommended that public sector should formulate at least 60 per cent of the bulk drugs produced in the public sector. Since the formulated drugs manufactured by public sector were already used for meeting the requirements of institutions in the States, it was felt that joint sector projects with participation of State would go a long way to meet the drug requirements of the hospitals and institutions of States and improve the position regarding availability of drugs to the people at reasonable prices. Based on the recommendations of the Committee, Government of India decided in 1975-76 to set up joint sector projects between public sector undertakings of Central and State Governments. Accordingly the Maharashtra Antibiotics and Pharmaceuticals Limited (Company) with its registered office at Nagpur was incorporated on 16th November, 1979.

1.2. Objectives

The Company was formed with the main objective of meeting the long felt need of making available the high quality life saving drugs to the masses at reasonable prices. However, this objective remained a distant goal as the Company, over the past seven years, had utilised its installed capacity upto 33% only. Some of the other objectives of the Company were :—

- (i) to manufacture and deal in surgical, electrical, photographic and other scientific apparatus, instruments, etc.,
- (ii) to manufacture medicinal, pharmaceutical, biological and other preparations and chemicals, alkaloids, extracts, drugs, antibiotics and tranquillisers useful in human therapy, veterinary use etc., and
- (iii) to prepare synthetic and other foods for human consumption, cattle and other feeds of all kinds.

None of these objectives have been achieved. The Company has also not framed its micro objectives so far (May 1988).

1.3.1 Capital Structure

1.3.1 The authorised share capital of the company is Rs. 200 lakhs. The paid up capital as on 31st December, 1987 was Rs. 100 lakhs which was contributed by Hindustan Antibiotics Limited (HAL—a Government Undertaking) Rs. 58 lakhs, State Industrial and Investment Corporation of Maharashtra (SICOM) Rs. 32 lakhs and Industrial Development Bank of India (IDBI) Rs. 10 lakhs.

1.3.2 In addition to the share capital, the Company has obtained term loans aggregating Rs. 224 lakhs from the Industrial Development Bank of India (Rs. 130 lakhs) Industrial Financial Corporation of India (IFCI Rs. 76.50 lakhs) and State Industrial & Investment Corpn. of Maharashtra Ltd. and Maharashtra Industrial Development Corpn. Ltd. (Rs. 17.50 lakhs).

1.3.3 The Company had not repaid the principal and interest thereon from the beginning. The interest amounted to Rs. 233.70 lakhs (IDBI—Rs. 150.80 lakhs, IFCI—Rs. 82.90 lakhs) upto 31st December, 1987, including penal interest of Rs. 87 lakhs.

1.3.4 The Company availed of cash credit facility from Syndicate Bank, Nagpur since June, 1981 with cash credit limit of Rs. 155 lakhs secured by hypothecation of raw materials, work-in-progress, finished goods, receivables and consumables. In 1982, the Company had overdrawn Rs. 80.28 lakhs when the Syndicate Bank stopped further cash credit facility as the Company could not maintain the stock of hypothecated goods as per the banking norms. The Company did not make any repayment of this overdrawal so far (September 1988). At the end of December 1987, the cash credit liability alongwith interest was Rs. 264.32 lakhs.

1.3.5 The Company incurred cash losses amounting to Rs. 37.25 lakhs during the years 1981—83 and there was also a cost over run in the project cost to the extent of Rs. 23.97 lakhs. Purchase of additional equipments worth Rs. 23.10 lakhs was also envi-

saged. In view of this, the Company submitted a Rehabilitation Plan to the Financial institutions i.e. IDBI and IFCI in March 1984 seeking various reliefs by way of reduction in interest rates, recovery of simple interest instead of compound interest and funding of accumulated interest etc. However, the IDBI was reluctant to consider the Rehabilitation Plan till the promoters also came to their rescue to cover cost over-run, cost of additional equipment and cash losses incurred during 1981—1983. No decision had been taken so far (September 1988) on the Rehabilitation Plan. As a result, interest liability of the Company is increasing.

1.3.6 Against the cash losses of Rs. 31.33 lakhs (as per accounts of the Company) incurred during 1981 to 1983, the Company had sought (February 1984) recoupment of cash losses of Rs. 37.25 lakhs from Government of India through Hindustan Antibiotics Ltd. However, Government had not agreed for the recoupment.

1.3.7 According to the Management (November 1987) due to non-recoupment of cost over-run, cost of additional equipment and cash losses upto 1983, the company had landed in a vicious circle of continued paucity of working capital since 1981, leading to under-utilisation of available capacity and manpower.

1.4. PROJECT IMPLEMENTATION

1.4.1 *Project Schedule*:—Government of India accorded approval to the establishment of a formulation unit by the Company at Nagpur in August 1978 at a total cost of Rs. 283.86 lakhs (including foreign exchange component of Rs. 39.78 lakhs). The Hindustan Antibiotics Ltd. (HAL) commenced the work of project implementation in May 1979 with the scheduled date of completion in September 1980. However, the Tablets Plant was commissioned in May 1981 (8 months delay), Capsules and dry syrup plants in July 1981 (10 months delay) and Vials Plant in August 1982 (23 months delay). The Ampoule Section of the formulation unit, had not however, been commissioned so far (September 1988).

1.4.2 *Project Cost*:—The original cost of Rs. 283.86 lakhs of the Project sanctioned in August, 1978 was revised to Rs. 370.54 lakhs in 1984 against which an expenditure of Rs. 347.44 lakhs was incurred.

The increase of Rs. 86.68 lakhs in the revised Project cost over the original project cost was attributed (1984) by the management to inclusion of items left out in the original estimates (Rs. 26.79

lakhs); provision of Quality Control Department not included in the original estimates (Rs. 23.10 lakhs); appointment of Consultants (Rs. 7.55 lakhs); increase in interest burden due to delay in commissioning of the plant (Rs. 10.45 lakhs); and increase in working capital margin (Rs. 18.79 lakhs).

1.4.3 However, the Government of India in February, 1988 conveyed approval to the revised cost estimates of Rs. 347.44 lakhs, which represented the actual expenditure incurred by the Company on the project including margin money (working capital) of Rs. 74.47 lakhs. The additional cost of Rs. 63.58 lakhs was to be met by additional equity by HAL (Rs. 23.97 lakhs) and loan from financial institutions (Rs. 39.61 lakhs). The equity of Rs. 23.97 lakhs was contributed by HAL (Rs. 15.44 lakhs) in May 1988 and SICOM (Rs. 8.53 lakhs) in June 1988. As regards loan of Rs. 39.61 lakhs by Financial Institutions, the Company informed Hindustan Antibiotics Ltd in February 1988 that there was no scope for such assistance as the Company had already availed of this assistance at the project implementation stage itself and requested HAL to persuade Government to sanction additional funds (Rs. 60.35 lakhs) either in the form of equity or interest-free loan. No decision in this regard had been taken so far (September 1988).

1.4.4 The actual expenditure incurred on project included expenditure of Rs. 7.04 lakhs in respect of Machinery for Ampoule Section acquired during 1979 and 1980. However, the Ampoule section had not been commissioned so far (September 1988) and the machinery was lying idle for want of spare parts valuing Rs. 2.95 lakhs. Provision of spare parts worth Rs. 2.95 lakhs was made in revised cost estimates (1984) sent to Government of India in 1985. However, the Government's approval of February 1985 to the revised cost of Rs. 347.44 lakhs did not include spare parts for the Ampoule Section.

According to Management (February 1984) the Products manufactured in Ampoule Section had potential demand in the market and commissioning of the Section was a viable proposition as capital invested in the Section would be paidback in five years.

1.5. Production Performance

1.5.1 *Capacity Utilisation*:—The Company has four plants viz., Vials, Capsules, Tablets and Dry syrup. The table below indicates the installed capacity

budgeted and actual production during the years 1983 to 1987 :—

(in lakhs)

	Year	Installed capacity	Budgeted production	Actual production	Percentage of actuals to	
					Installed Capacity	Budgeted Production
1. VIALS	1983	302.65	94.65	42.43	14.02	44.83
	1984	302.65	156.43	86.96	28.73	55.59
	1985	302.65	90.25	101.07	33.40	111.99
	1986	302.65	99.74	79.78	26.43	79.99
	1987	302.65	88.00	89.88	29.70	102.14
2. CAPSULES	1983	656.00	143.29	80.35	12.25	56.08
	1984	656.00	84.30	37.58	5.73	44.58
	1985	656.00	86.35	72.07	10.99	83.46
	1986	656.00	87.55	27.61	4.21	31.54
	1987	656.00	128.00	86.72	13.22	67.75
3. TABLETS	1983	2580.00	807.71	450.75	17.47	55.81
	1984	2580.00	1419.16	401.56	15.56	28.30
	1985	2580.00	161.01	502.35	19.47	311.99
	1986	2580.00	412.50	252.31	9.78	61.17
	1987	2580.00	459.40	510.99	19.81	111.23
4. DRY SYRUP	1983	12.00	5.94	0.99	8.25	16.67
	1984	12.00	—	2.24	18.66	—
	1985	12.00	—	0.33	2.75	—
	1986	12.00	—	—	—	—
	1987	12.00	12.00	1.00	8.33	8.33

Over the years 1983 to 1987 the capacity utilisation of vials plant ranged from 14 (1983) to 33 (1985) per cent, of capsules plant from 4 (1986) to 13 (1987) per cent, of tablets plant from 10 (1986) to 20 (1987) per cent and of drysyrup plant from 3 (1985) to 19 (1984) per cent.

The Management attributed the low production to scarcity of bulk raw material etc., rise in the cost of bulk, unremunerative prices, critical financial position and paucity of working capital.

1.5.2 *Off-loaded Production*:—Every year the Company off-loaded some of its production to other manufacturers. The value of such production increased

from Rs. 8.47 lakhs in 1984 to Rs. 76.02 lakhs in 1987 and represented 7 & 17 per cent of total sales of the Company in these years respectively.

The Management stated (July 1987) that Company's plant capacity remained idle mainly due to shortage of bulk raw materials and paucity of working capital and that the arrangement made by the company for undertaking trading activities had helped the Company to recoupe at least part of the fixed overheads, which the Company even otherwise had to bear by keeping the plant idle.

1.5.3 *Procurement of raw materials*:—The Company procured its requirements of Streptomycin Sulphate through the State Trading Corporation of

India Limited and of Benzyl Penicilline and Fortified Procaine Penicilline bulk from HAL, Pune and/or M/s. Alembic Chemicals, Vadodara. The table below

indicates the quantity of raw materials, required, quantity received, shortfall and quantity actually utilised during the year 1984 to 1987.

Years	Particulars	Quantity required as per installed capacity	Quantity indented based on budgeted production	Quantity received	Quantity short received (4-5)	Percentage of quantity short received to indented quantity	Quantity actually utilised
1	2	3	4	5	6	7	8
1984	(i) Streptomycin (in Kgs.)	24500	1560	3472	—	—	4225
	(ii) Fort Procaine (in billion units)	4000	850	855	—	—	958
	(iii) Benzyl Penicillin (in billion units)	3326	1100	1164	—	—	1133
1985	(i) Streptomycin (in Kgs.)	24500	1000	821	179	18	1109
	(ii) Fort Procaine (in billion units)	4000	775	216	559	72	Nil
	(iii) Benzyl Penicillin (in billion units)	3326	1000	1255	—	—	1277
1986	(i) Streptomycin (in Kgs.)	24500	2350	Nil	2350	100	Nil
	(ii) Fort Procaine (in billion units)	4000	1770	935	835	47	929
	(iii) Benzyl Penicillin (in billion units)	3326	2300	1930	370	16	1850
1987	(i) Streptomycin (in Kgs.)	24500	1300	660	640	49	660
	(ii) Fort Procaine (in billion units)	4000	1800	1211	589	33	1212
	(iii) Benzyl Penicillin (in billion units)	3326	2400	1981	419	17	1981

While the quantity received was more than the quantity indented in 1984 (all items) and 1985 (Benzyl Penicillin), the quantity received fell short of the quantity indented during 1985 (Streptomycin and Fort Procaine) and 1986 and 1987 (all items); the extent of shortfall ranged from 18 to 100 per cent in the case of Streptomycin, 33 to 72 per cent in the case of Fort Procaine and 16 to 17 per cent in the case of Benzyl Penicillin.

As regards non-receipt of Streptomycin during 1986, the Management stated (November 1988) that this was due to late allocation by STC Limited, and

non-availability of funds when the allocation was received.

1.5.4 Drug policy of the Government of India, 1986, *inter alia* laid down that public sector will continue to have an important role particularly in the production of basic bulk drugs, which are essential to the needs of the National Health Programme. Considering the projections of requirement of Penicillin, it was decided to expand the capacity of penicillin in the existing public sector units along with induction of more advanced technology and to open this product for production by all sectors and to imports. Despite this, the Company could not utilise its installed capacity for want of bulk.

1.6. Sales and Credit Control

1.6.1 *Sales Performance*:—The sales of the Company comprise sales of its own production and loan

licencing jobs for others. The table below shows the sale performance of the Company during 1983 to 1987:—

Year	Budgeted Sales			Actual Sales			Percentage of actual to budgeted
	Own	Loan licencing job for others	Total	Own	Loan Licencing job for others	Total	
1	2	3	4	5	6	7	8
(Rupees in lakhs)							
1983	166.93	23.14	190.07	97.56	34.67	132.23	70
1984	212.43	—	212.43	115.17	96.81	211.98	100
1985	194.45	90.00	284.45	214.43	92.24	306.67	108
1986	284.80	134.00	418.80	229.38	24.39	253.77	61
1987	410.00	48.00	458.00	435.14	37.31	472.45	103

The budgeted sales were not achieved during 1983 and 1986 to the extent of 30 and 39 per cent respectively. Further, while the budgeted sales were more or less achieved during 1984, shortage to the extent of 46 per cent occurred in respect of sales of the Company's own production. Actual sales of the Company's own production was only 58 per cent, 54 per cent and 81 per cent of the budgeted sales during 1983, 1984 and 1986 respectively.

1.6.2 *Sundry Debtors*:—The Company had not laid down any credit policy. However, in practice, sales were being effected with 60 days credit for which no security or bank guarantee was obtained from the customers. The sundry debtors of the Company increased from 68.15 lakhs at the end of 1983 to Rs. 264.62 lakhs at the end of 1987 as shown below:—

Year	Sales during the year	Sundry debtors as on 31st December	Percentage of debtors to sales
(Rupees in lakhs)			
1983	97.56	68.15	69.85
1984	115.17	93.60	81.27
1985	214.43	155.66	72.59
1986	229.38	179.16	78.11
1987	435.14	264.62	60.81

The percentage of debtors to sales was thus consistently high. The debtors in terms of months sales ranged between 5.30 (1984) and 8.47 (1986) during the five years ended 1987. The low realisation of sales had adversely affected the liquidity position of the

Company which according to the Management was major factor responsible for low utilisation of installed capacity (para 5 supra).

The Management stated (August 1986) that the Company mainly deals with the Government institutions from whom payment was not forthcoming as promptly as expected. It was also seen that debts amounting to Rs. 1.66 lakhs (individually below Rs. 2,500) outstanding from various parties due to short receipts, difference in rates, excess charge of sales tax etc., were written-off in November, 1987.

The following table indicates the details of debts outstanding for more than one year as on 31st December 1987:

	Government Departments	Others	Total
(Rupees in lakhs)			
(a) Debts outstanding for more than one year but less than two years.	9.62	6.46	16.08
(b) Debts outstanding for two years and more but less than three years	4.27	2.55	6.82
(c) Debts outstanding for three years and more	5.74	5.00	10.74

Against this, provision for doubtful debts amounting to Rs. 8.59 lakhs only had been made in the accounts.

1.7 *Inventory*.—The following table indicates the position of inventory and its distribution at the close of the last three years ended 31st December, 1987:—

Particulars	1985	1986	1987
	(Rupees in lakhs)		
Raw materials	16.38	9.10	20.51
Stores & Spares, packing materials and loose tools	0.41	0.67	0.16
Stock of work in process	14.12	4.13	2.25
Finished stock	20.45	26.96	33.63
Total	51.36	40.86	56.55

While the work-in-process had declined from 0.48 months value of production at cost in 1985 to 0.05 month's value, the stock of raw materials, stores and spares etc., had increased to 1.54 month's consumption for production requirement in 1987 from 0.99 month's in 1986 and 1.17 month's in 1985.

The finished goods were equivalent to 0.85 month's sales during 1987 as compared to 1.27 month's in 1986 and 0.80 month's in 1985.

1.8 Costing System

1.8.1 Although the company had commenced production in 1981, no cost manual laying down the costing system to be followed had been prepared so far (October 1988). While the cost of different products was periodically worked out on the basis

of standard norm, the actual cost of each batch was not computed. The Internal Auditors of Company (a firm of Chartered Accountants) in their report of August 1988 had observed that actual cost of each batch should be calculated to find out profit or loss of each batch of production and for fixation of selling prices. The Management stated (August 1988) that when there was any major deviation in the cost of any input, the standard cost for that particular product was revised to ensure that the realisable value for finished product was in a position to absorb the increase in cost. As regards batch costing, the Management felt that batch costing was not warranted in view of small volume of production.

It would, thus, be observed that analysis of variances between standard cost and actual batch cost was not done since actual cost was not worked out at all.

1.8.2 *Processing Loss*.—No records of process loss were maintained by the Company till December, 1987. From January 1988, a register had been maintained wherein the batch size (theoretical) and actual yield thereagainst were recorded. A review indicated that the process losses ranged between 2.6 and 19.61 per cent against the stipulated norm of 7 per cent in the case of Ampicillin, and between 0.33 and 10.42 per cent against the stipulated norm of 5 per cent in the case of Tablets.

1.9 FINANCIAL POSITION AND WORKING RESULTS

1.9.1 *Financial Position*.—The table below summarises the financial position of the company under the broad headings for the last five years ended 31st December, 1987:—

	1983	1984	1985	1986	1987
	(Rupees in lakhs)				
Liabilities					
(a) Paid up capital	100.00	100.00	100.00	100.00	100.00
(b) Borrowing from Banks	413.68	479.87	556.11	597.10	650.79
(c) Trade dues and other current liabilities (including provisions)	45.94	48.00	73.16	125.79	253.08
	559.62	627.87	729.27	822.89	1003.87
Assets					
(d) Gross Block	265.72	270.98	272.17	269.90	270.08
(e) Less Depreciation	24.37	33.62	42.29	49.83	58.39
(f) Net fixed assets	241.35	237.36	229.88	220.07	211.69
(g) Capital work-in-progress	7.04	2.19	2.19	2.19	2.19
(h) Current assets, loans & advances	141.22	162.49	221.27	227.82	342.78
(i) Misc. expenditure (to the extent not written-off)	170.01	225.83	275.93	372.81	447.21
	559.62	627.87	729.27	822.89	1003.87
Capital employed	276.25	251.39	238.97	322.10	301.39
Net worth	(-)-70.01	(-)-125.83	(-)-175.93	(-)-272.81	(-)-347.21

Notes :

- (1) Capital employed represents net fixed assets plus working capital.
- (2) Net worth represents paid up capital plus reserves and surplus less intangible assets.

It would be seen that due to continued losses, the net worth of the Company had gone down year after year.

1.9.2 *Working Results.*—The Company incurred losses right from the beginning. The following table summarises the working results of the Company for seven years ended 31st December, 1987 :—

Year	Loss before prior period adjustments	Prior period adjustments	Total loss
(Rupees in lakhs)			
1981	29.70	—	29.70
1982	56.04	0.94	56.98
1983	72.80	10.27	83.07
1984	53.29	2.67	55.96
1985	45.40	4.83	50.23
1986	93.07	2.43	95.50
1987	61.32	13.25	74.57
		Total	446.01

As on 31st December, 1987, the Company had a cumulative loss of Rs. 446.01 lakhs which had completely wiped-off its equity capital of Rs. 100 lakhs and also a portion of its loan capital to the extent of Rs. 346.01 lakhs.

1.9.3 *Cash Management*—A cash credit limit of Rs. 155.00 lakhs was sanctioned by Syndicate Bank,

Bombay in favour of the Company in April 1981 and an agreement to this effect was entered into between the Company and the Bank in June 1981. As per recommendations of Tandon Committee, the Bank allowed withdrawals from cash credit after keeping margin of 30 per cent against the hypothecated goods. As the Company could not maintain adequate stock of hypothecated goods as per the banking norms, the Bank prohibited the Company from operating the cash credit since November, 1982. The overdrawing from cash credit as per banking norm as on 31st December, 1982 was Rs. 36.72 lakhs. For operation of this cash credit, the Company had either to deposit in cash Rs. 36.72 lakhs immediately or to increase inventory which according to Management was not possible for the Company due to low level of production and cash losses incurred.

Under these circumstances, the Company was operating two current accounts one each with the Syndicate Bank and the State Bank of India for realisation of cheques/drafts etc., received towards sales of Company's products. Thus, while the Company was liable to pay interest on frozen cash credit, there always remained some credit balance in current account on which no interest was earned.

The Management stated (December 1987) that had current account not been operated, the Bank would not have permitted the Company to withdraw the amount deposited in cash credit account till such time as the overdrawn amount was paid up.

The above mini-review was issued to the Ministry in December, 1988. Reply has not been received so far (April 89).

FERTILIZER CORPORATION OF INDIA LIMITED — TALCHER UNIT

2.1. Introduction

In February 1968, the Government of Orissa had approached the Company for preparing a feasibility report for establishment of a large Fertiliser Plant, based on Talcher coal. Accordingly, a report was prepared in July 1968 which was submitted to the Government of India by the Orissa Government. The Government of India entrusted the project to the Company which had prepared a revised feasibility report in December 1968 envisaging production of 900 tonnes of ammonia and 1,500 tonnes of urea per day, *i.e.*, an annual rated capacity of 4,95,000 tonnes of urea per annum. The Report incorporated coal gasification technology mainly to utilise locally available coal and also to develop an alternative feed-stock to Naptha and other petroleum products. The Project, estimated to cost Rs. 70.49 crores, was sanctioned by the Government in October 1969

and Industrial Licence was issued on 19th January 1971.

The project had been commissioned in November 1980 but the production performance of the plant has not stabilised even after 7 years, the utilisation of installed capacity being only 37.44%, the cost over-run also had been about 152.65 crores.

2.2. Delay in Commissioning

The original date for commercial production was 1st July, 1974. The Plant, however, went into commercial production on 1st November, 1980 only, *i.e.*, after a delay of over 6 years. The project estimate was revised ten times and the last revision was approved by the Government in December 1980 for Rs. 223.14 crores. The details of time over-run and consequential cost over-run were as under :—

Revision No.	Date of approval by the FCI Board	Revised date of commissioning	Time overruns from original scheduled commissioning date <i>i.e.</i> (1.7.74) (In months)	Revised capital outlay	Cost overruns from the original sanctioned outlay <i>i.e.</i> Rs. 70.49 crores
1st	April, 1971	1-1-1975	6	94.60	24.11
2nd	May, 1973	1-7-1975	12	118.13	47.64
3rd	December, 1974	1-7-1976	24	142.69	72.20
4th	June, 1975	1-7-1976	24	149.62	79.13
5th	December, 1975	1-7-1977	36	161.90	91.41
6th	September, 1977	1-4-1979	57	186.09	115.60
7th	December, 1977	1-4-1979	57	184.76	114.27
8th	October, 1979	31-12-1979	66	208.63	138.14
9th	February, 1980	1-4-1980	69	214.16	143.67
10th	August, 1980	1-11-1980	76	223.14	152.65

An analysis of variation in project cost estimates of August 1980 with reference to Techno Economic Feasibility Report (TEFR) of December 1968 is given below :—

Variation due to	Cost overrun with reference to revised capital outlay
1	2
(Rs. in crores)	
(a) Change in scope	13.78
(b) Change in exchange rate	2.20
(c) Price escalation	25.19
(d) Shift in source of supply	4.98
(e) No provision in earlier estimates.	18.52
(f) Inadequate provision	9.00
(g) Modification Jobs	3.18

1	2
(h) Variation in financing charges due to	
(1) Change in cost/interest rate	5.01
(2) Delay in completion	22.69
(i) Variation in departmental charges due to	
(a) Wage/price rise	1.78
(2) Delay in completion	9.04
(j) Variation in customs duty, sales tax, ocean freight, Inland handling and insurance	11.61
(k) Others (testing and commissioning, erection, supervision and deferred revenue etc.)	25.67
	152.65

The Management stated (January 1987) that the factors contributing to the delay in commissioning of the Project were (i) late receipt of civil construction drawings, (ii) non-receipt of steel and cement in time, (iii) late receipt of equipment, (iv) slippages in respect of supply-cum-erection contracts.

2.3.01 Production Performance

After the unit went into commercial production on 1st November 1980, the installed capacity, achie-

vable capacity, actual production, capacity utilisation in comparison with installed capacity and derated capacity during 1981-82 to 1987-88 were as below :—

Year	Installed capacity	Derated capacity fixed by Govt.	Actual production	Capacity utilisation	
				in comparison with installed capacity	in comparison with derated capacity
			(Tonnes)	(Percent)	
1982-83	4,95,000	3,30,000	44,701	9.03	13.55
1983-84	4,95,000	3,30,000	81,051	16.37	24.56
1984-85	4,95,000	3,30,000	118,811	24.00	36.00
1985-86	4,95,000	3,30,000	115,127	23.25	34.89
1986-87	4,95,000	3,30,000	127,868	25.83	38.75
1987-88	4,95,000	3,30,000	185,337	37.44	56.16

It may be seen, even after seven years the unit went on stream, the utilisation with reference to installed capacity was only 37.44 per cent and 56.16 per cent with reference to derated capacity.

It was stated by the Management (July, 1987) that the performance of the plant was affected due to mechanical failure of the equipment/machineries like air compressor and re-generators in Air Separation Unit, (ASU) wasteheat boilers in gasification,

ball mills in coal preparation plant and certain heat exchangers in the Rectisol Plant. They further stated that the plants had faced deficiencies due to high ash in coal and that intermediate plant has suffered due to less purity of products from ASU.

2.3.02 Yearwise and cause-wise break-up of production loss as given by the management were as under :—

(UREA in tonnes)

Year	Equipment problem	Process problem	Power problem	Others	Total
1982-83	56,873	39,052	1,81,574	7,800	28,52,99
1983-84	94,203	31,496	1,20,058	4,192	2,49,949
1984-85	84,715	19,768	1,02,145	4,561	2,11,189
1985-86	1,40,932	39,292	22,897	11,752	2,14,873
1986-87	1,46,410	16,683	5,874	33,165	2,02,132
1987-88	98,029	21,061	18,809	6,764	1,44,663

2.3.03 Cost of Production

Cost of production per tonne of urea, the retention price as allowed by Fertiliser Industrial Co-

ordination Committee (FICC) and loss suffered (after taking into account the subsidy received) for the five years upto 1987-88 are given below :—

Year	Variable cost	Fixed cost	Cost of Production	Retention price as on 31st March of the respective year	Loss suffered per tonne of Urea	Actual production (lakh tonnes)	Total loss (Rupees lakhs)
1983-84	2935.73	5248.02	8183.75	4278.00	3905.75	81,051	3165.66
1984-85	2668.40	3591.12	6259.52	4326.00	1933.52	118,811	2297.23
1985-86	3937.61	4266.27	8203.88	4793.00	3410.88	115,127	3926.84
1986-87	3445.30	4395.88	7841.18	4980.00	2861.18	127,868	3658.53
1987-88	6621.00	5449.02	12070.02	4808.00	7262.02	185,337	13459.21

The abnormally high cost of production and huge losses could be attributed to the average utilisation of the plant having been only about 23 per cent of the installed capacity from 1983-84 to 1987-88 and excess consumption of raw-materials and utilities, compared to norms.

2.3.04 Delineation of the problem due to down time losses vis-a-vis remedial measures

(a) High level committee

To investigate excessive down time and consequent production losses, the Company appointed an expert committee (Talwar Committee) in October 1981. The Committee in its Report (March 1982) recommended the installation of the following essential items for achieving full capacity utilisation at designed level :—

- (1) Installation of 4th stream of coal preparation unit of identical capacity as the existing one.
- (2) Setting up of a captive power plant of 60 MW capacity with provision for tapping of medium pressure steam for process plants.
- (3) Modification of existing air separation plants.
- (4) Installation of a 4th gasifier.
- (5) Setting up of a 5,000 tonnes Atmospheric Ammonia Storage tank.

The implementation of the recommendations of the Committee would have involved an investment of Rs. 125 crores. After a series of meetings held between the members of the Committee, Officials of the Ministry of Chemicals and Fertilizers and the Company, it was decided that on account of resource constraints, it might not be possible to allocate such large amount. Therefore, the Ministry derated the capacity from 4,95,000 to 3,30,000 tonnes per annum from April 1982.

(b) Rehabilitation of the plant

In July 1985, services of a West German Firm were commissioned to conduct an end to end inspection study and report for rehabilitation of the plant to enable it to reach rated capacity utilisation. The firm was paid an amount of Rs. 176.61 lakhs on account of fees and other expenses upto 31st March 1987.

The report submitted by it in February 1986 suggested by and large, identical measures as recommended by the Indian Expert Committee in 1982, requiring a capital investment of Rs. 253.54 crores. However, the Company decided to take up the work in Eighth Five Year Plan due to financial constraints.

2.4.01 The consumption of raw materials and utilities viz., coal (process), coal (steam), power, fuel oil, LDO, process water and limestone was far above the norms, fixed by the FICC in June 1983. The adverse monetary impact of such excess consumption in the cost of production of one tonne of urea was Rs. 1211.33, Rs. 474.96, Rs. 884.02 and Rs. 1059.76 for 1983-84, 1984-85, 1985-86 and 1986-87 respectively.

Thus, the total extra expenditure incurred by the unit towards excess consumption for the years 1983-84 to 1986-87 worked out to Rs. 39.19 crores as detailed below :—

Year	Actual Production of urea	Excess consumption of materials and utilities per tonne	Extra expenditure
	(tonnes)	(Rupees in lakhs)	
1983-84	81,051	1211.33	981.80
1984-85	1,88,811	474.96	564.30
1985-86	1,15,127	884.02	1017.75
1986-87	1,27,868	1059.76	1355.09
Total :			3918.94

The Management attributed (February, 1987) the following reasons for excess consumption of raw materials and utilities:

- (a) During power cut/restrictions, part of steam generation had to be kept running for which inputs like coal, power and other chemicals were consumed without any positive results.
- (b) Start-up of the plants after prolonged shut-down took longer period, resulting in excess consumption.
- (c) Inherent problems in certain equipments/design imbalances resulted in loss of production for which the consumption norms achieved were poor.
- (d) Poor quality of coal also affected the consumption norms.

The reply of the Management is to be viewed in the light of the norms fixed in June 1983 for two years but not revised thereafter.

The Ministry stated (February 1989) as under :—

“It is unfortunate that due to equipment problems the coal based fertilizer plant could not stabilise. With a view to rehabilitate the plant, M/s Krupp Koppers conducted a study and recommended short term and long term measures. The study envisaged an investment of Rs. 253.54 crores in Talcher Plant. But due to financial constraints, its rehabilitation is expected to be taken up only in VIII Five year Plan. Such problems could not be visualised at the time of formulation of the project. Therefore, the actual position with regard to delay in commissioning of the project, time and cost over-runs, physical and financial performance, excess consumption of raw-material and low capacity utilisation are the factors which have contributed to the dismal picture of the Plant.”

2.4.02 Other factors contributing towards loss

(A) The unit entered into contract with Orissa State Electricity Board (OSEB) for supply of power for both factory and township. The contract stipulated payment of surcharge for delays in payment of electricity bills at the rate of 2 per cent per month. The unit failed to make payments of electricity bills within the stipulated time and therefore, had to pay Rs. 195.21 lakhs as surcharge in respect of all 96 bills received during the period from 1984-85 to 1987-88.

The Management stated (February 1987) that low capacity utilisation of plant led to adverse operational results and cash deficit for which they could not pay the energy bills in time, resulting in levy of surcharge by the Electricity Board.

The Ministry stated (February 1989) that the plant could not generate enough cash to meet its day to day requirements due to its poor performance, resulting in the payment of surcharge amounting to Rs. 195.21 lakhs due to default in the payment of electricity bills.

(B) Urea produced by the plant is despatched through Rail and Road to its different Marketing Divisions. Since the urea is bagged before despatch,

there should not be any question of handling loss. However, the unit suffered huge loss due to shortage of urea in transit, amounting to Rs. 71.68 lakhs on 2078.56 tonnes of urea during 1981-82 to 1985-86.

The Ministry stated that the shortage in transit could not be avoided for which some allowance was allowable while fixing the retention price.

(C)(i) As a measure of import substitution, the unit placed order for 5 sets of ash extractor chains in January 1981 for a total value of Rs. 20.46 lakhs on a firm of Calcutta. The chains were supplied during the period October to December 1983. The first set which was installed on 10th November 1983, gave service for 4½ months against the normal life of 4 to 6 months but the subsequent four sets failed on installation. No investigation was made to establish the causes of such failures.

The Management took up the issue for replacement of the chains with the suppliers which they disowned on the grounds that (a) the chains were manufactured in accordance with the drawing and designs of the unit, (b) materials used for the chains had the approval of the unit, (c) the sample chain was accepted by the unit and (d) all the sets were inspected and accepted by the unit before despatch.

Thus the value of four sets of ash extractor chains, amounting to Rs. 15.50 lakhs, turned out to be a total loss to the unit.

The Ministry stated (February 1989) that the Corporation as a measure of import substitution and with a view to obviating its dependence on the single foreign source made an attempt to procure this item through indigenous sources, although such action was taken on trial and error basis with an element of risk in view. It was also stated that efforts were still continuing to locate appropriate source within the country.

(ii) 58 barrels of additive required to add to Naptha were imported from USA at a value of Rs. 9 lakhs.

Out of 58 barrels, 24 barrels were airlifted in view of urgency. The materials reached Bombay by air on 3rd December 1985, were received by the unit on 27th December 1985 and utilised during March 1986 to March 1987. The fact that 24 days time was taken to receive the material from Bombay

to Talcher and further one year for use of the same indicated no urgency in the import of the material by air.

Thus airlifting of the part order incurring an additional expenditure of Rs. 3.09 lakhs was not matched with early utilisation.

The Ministry stated (February 1989) that keeping in view the prevalent problems of gas turbine which was under guarantee test runs, airlifting of portion of additive material was resorted to and the material was kept ready and was utilised as and when necessity arose.

K. Tyaga-Rajan

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