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HARYANA VIDHAN SABHA

# COMMITTEE

ON

# PUBLIC UNDERTAKINGS (1983-84)

(SIXTH VIDHAN SABHA)

THIRTEENTH REPORT

ON THE

GENERAL WORKING OF

HARYANA CONCAST LIMITED HISSAR

29 MAR 1984

Presented to the House on—————

HARYANA VIDHAN SABHA SECRETARIAT
CHANDIGARH
*MARCH, 1984*

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# COMPOSITION

# OF

# THE COMMITTEE ON PUBLIC UNDERTAKINGS (1983 84)

## CHAIRMAN

1 Shri Sagar Ram Gupta

## MEMBERS

2 Shri Amir Chand Makkar

3 Shri Bahadur Singh

4 Shri Balvir Singh Grewal

5 Shri Daya Nand Sharma

6 Shri Kulbir Singh Malik

7 Shri Neki Ram

8 Shri Nihal Singh

9 Bahin Shanti Devi

## SECRETARIAT

1 Shri G L Batra, Secretary

2 Shri Chander Parkash, Deputy Secretary

# INTRODUCTION

I the Chairman of the Committee on Public Undertakings, having been authorised by the Committee in this behalf present this THIRTEENTH REPORT on the general working of the Haryana Concast Limited Hissar

2 During oral evidence the Committee examined the representa tives of the Department/Company concerned A brief record of the proceedings of each meeting of the Committee during the year 1983 84 has been kept in the Haryana Vidhan Sabha Secretariat

3 The Committee place on record their appreciation of the valu able assistance given to them by the Accountant General Haryana, and his staff and are thankful to the Secretary to Government, Haryana Finance Department, including his representatives and the representatives of the Department/Company who appeared before them from time to time The Committee are also thankful to the Secretary Deputy Secretary the dealing Officer and the staff of the Haryana Vidhan Sabha for the whole hearted co operation and un stinted assistance given in preparing this report

Chandigarh
the 25th February, 1984

SAGAR RAM GUPTA
CHAIRMAN

## REPORT

## HARYANA CONCAST LIMITED, HISSAR

### 1 Introductory

This Company was incorporated on 29th November 1973 as a Joint Sector venture by the Haryana State Industrial Development Corporation (H S I D C ) in collaboration with M/s Polysteels (India) Ltd of Bhavnagar, with HSIDC having equity capital of 26 per cent private collaborater of 25 per cent and general public of 49 per cent The Company was principally to implement an Industrial Licence granted to the Haryana State Industrial Development Corporation for production of steel ingots/billets with a capacity of 50 000 tonnes per year Later another industrial licence was also procured by the Company for putting up a Wire Rod Mill for production of 40 000 tonnes of High Carbon rods per year as a part of an integrated steel mill The integrated project was intended to be executed in two phases namely the following

*Phase I* Putting up of the steel billets/ingots project with two 15/17 tonnes capacity Electric Arc Furnances and a continuous casting Machine and

*Phase II* Installation of the Wire Rod Mill

Two HBB BKD Electric Arc Furnaces of the capacity of 15/17 tonnes were installed and the first furnace started operation in Nov 1975 The Second furnace became operational in Dec 1977 The Company installed a continuous Casting Billet Machine which was commissioned in September, 1977 The setting up of phase I of the project was delayed as a result of which the cost escalated from Rs 360 lakhs to 412 71 lakhs Later the collaborator did not pay call (Rs 4 37 lakh) on his shares and his obligations under the agreement were also not being performed well Hence the collebo ration agreement was terminated in January 1976 by forfeiting his shares which were subsequently allotted to HSIDC thereby making it a subsidiary of HSIDC

### 2 Objects

The objects of the Company mainly were as under —

(1) To carry on business as manufacturers producers of and dealer in billets, ingots blooms squares slabs sheets and to manufacture and produce all kinds of products, articles and things therefrom and particularly to manufacture buy sell and deal in bars flats, rods pipes tubes angles channels strips, plates sheets rails nails pins, coils circles nuts bolts, fastners, wires, wire ropes whether in India or elsewhere

(2) To manufacture, produce prepare, sell purchase and deal in all kinds of iron and steel and particularly sponge iron, pig iron stainless steel alloy steel special steels and all products articles and things therefrom

(3) To manufacture produce alloy refine, prepare sell, purchase, import, export and otherwise deal in iron copper steel, tin lead zinc, aluminium nickel, cobalt, bismuth gunmetal antimony bronze or any other metal or metals and for the purposes of which to purchase acquire erect set up or establish factories furnaces rollingmills foundaries casting machines extrusion plant sheet and rod rolling mills drawing mill and other plant and machinery for the purposes of the Company

(4) To carry on business as manufacturers of and dealers in ferrous and non ferrouss castings of all kinds and particularly precision castings continuous castings chilled and malleable castings, special alloy castings steel castings gun metal, copper brass and aluminium castings and to carry on business of foundry work of all types and kinds

(5) To conduct and carry on business of rolling rerolling casting welding, extruding stretching, reducing forging pressing drawing, achiming grinding processing working or finishing in any manner of all kinds of metals and alloys

The Company had so far undertaken the manufacture and sale of billets and ingots Besides this Company also carried on the business of rolled material after getting the ingots/billets rolled from outside

### 3 Capital Structure

As per the information furnished by the Company the authorised capital of the Company was Rs 4 crore and the subscribed capital of the Company was Rs 219 96 lakhs In addition the Company had raised long term and short term loans from various financial institutions the details of which are as under —

*Long term loans* —

| Institution | Principal amount |
|---|---|
| IDBA | 60 00 000 |
| IFCA | 45 00 000 |
| ICICI | 30 00 000 |
| BOI | 30 00 000 |
| GBL | 30 00 000 |
| | 1,95 00,000 |

*Short term loans* —

| Institution | Principal amount |
|---|---|
| BOI | 35 00 000 |
| NBI | 25 00,000 |
| BOM | 30 00,000 |
| | 90 00 000 |

An amount of Rs 1 29 37 lakhs was payable by the Company as interest on the above loans upto 1981 82

**4 Physical performance**

The Company has been facing numerous difficulties internal as well as external, from its very inception As a result it has not been able to utilise any substantial portion of its licenced/installed capacity of 50 000 tonnes per year

The year wise position as regards capacity utilisation was as under —

| Year (April March) | Production (in tonnes) incl bones and trumpets | Capacity utilization |
|---|---|---|
| 1975 76 (4½ months) | 4 559 | 48 6* |
| 1976 77 | 9,429 | 37 7* |
| 1977 78 | 18 994 | 38 0 |
| 1978 79 | 27,773 | 55 5 |
| 1979 80 | 13 258 | 26 5 |
| 1980 81 | 23,692 | 47 3 |
| 1981 82 | 24 800 | 49 6 |
| 1982 (upto Dec ) | 19 574 | 52 2% |

*Calculated on the basis of single furnace operation

Year wise the principal bottle necks in raising the production level of the Company were the following —

| Year | Principal bottle necks |
|---|---|
| 1975 76 | Unfavourable period for the mini plant as a whole |
| 1976 77 | Frequent power shut down scarcity of graphite electrodes scaring prices of various grades of scrap and acute shortage of working capital |
| 1977 78 | Scarcity of graphite electrodes rising prices of melting scrap and lack of working capital |
| 1978 79 | Lack of working capital and disturbed industrial relations |
| 1979 80 | Irregular and inadequate power supply lack of working capital disturbed industrial relations and fast turn over in staff and workers |
| 1980 81 | Inadequate and irregular power supply disturbed industrial relations fast turnover of staff and workers and uncertainty created by the State Govt Proposal to lease the undertaking |

The Company's present production comprises various grades of steel billets/ingots namely Mild Steel Carbon Steel and Alloy Steel After the Company became wholly Government undertaking things started looking up and the capacity utilisation increased to the level of about 50% in 1981 82 The production of the Company had increased to the level of 27 000 M Ts per annum and the management expected the production to further increase during the current financial year (1983 84) to 30 000 M Ts The Company possessed an industrial licence of the capacity of 40 000 M Ts per annum for setting up a roll ing mill in the first phase of the implementation of the Wire Rod Mill Project The Company has got prepared a feasibility project report for setting up a Rolling Mill with an installed capacity of 28 000 M Ts per annum The Company has filed an application with the licensing authorities for revalidation of the licence

## 5 Financial Results

The Company since its inception incurred losses till the year 1979 80 Thereafter it made some profit during the years 1980 81 and 1981 82 But during the year 1982 83 again downward trend was visible The following table shows the losses/profits every year —

| Accounting year | Loss | Profit |
|---|---|---|
| | Rs | Rs |
| 1974—75 | — | — |

| Accounting year | Loss | Profit |
|---|---|---|
| | Rs | Rs |
| 1975—76 | 38,24 043 | — |
| 1976—77 | 80 92,982 | — |
| 1977—78 | 89 56 113 | — |
| 1978—79 | 87 90 262 | — |
| 1979—80 | 61 69,950 | — |
| 1980—81 | — | 19 69,477 |
| 1981—82 | — | 18 22 716 |
| | 3 58 33,350 | 37 92 193 |
| Net loss since the date of inception | 3,20 41 157 | |

Low capacity utilisation has had a serious impact on the working results of the Company It has over the period resulted in eroding the entire equity resources of the the Company and making it completely dependent on borrowed money with the consequent crippling burden of interest charges

The sales of the Company have not kept pace with the production

The inventory of Rs 32 91 lakhs as on 31st March, 1982 included the dead inventory items valuing approximately Rs 13 lakhs the details of which are as under —

| | | |
|---|---|---|
| 1 | Copper Mould Tubes | Rs 6 lakhs (approximately) |
| 2 | Graphite Electrodes (Broken) | Rs 3 lakhs (approximately) |
| 3 | Other items such as Stopper Heads Nozzels magnesite peas bricks sleeves APC powder fluxes etc etc | Rs 4 lakhs (approximately) |

The scrap inventory amounted to Rs 24 lakhs at the close of the said financial year The inventory of the finished goods stood at 2839 100 M Ts

## 6 Observations/Recommendations

(1) The Company was started as a joint venture in collaboration with M/s Polysteels (India) Ltd Bhavanagir Mr Mehta of that

concern was the Managing Director till 1976 when the collaboration agreement was terminated Even thereafter Shri G S Musafir remained the Managing Director till 1978 The Company had undergone huge losses during this entire period Obviously there was mis management and mis appropriation The Company representative, when questioned about the huge losses during the said period and the action taken in that behalf gave an evasive reply The Committee observe that no action was taken against Mr Mehta the collaborator and the matter was simply left out saying that no action could be taken against the person who had himself left the Company The Committee fail to understand as to why the persons belonging to the collaborator concern like Shri G S Musafir and Shri Kejriwala were allowed to manage the affairs of the Company even after the collaboration agree ment had been terminated in 1976 Many cases of mis management and misfeasance appear to have taken place during the said period upto 1978 The special audit report as well as the report of the Vigilance Department lend weight to this feeling of the Committee The Committee strongly feel that during that period the Board of Directors which mainly consists of the senior functionaries of the State Govern ment did not perform their duty well **The Committee do not want to go into details of the issues at this stage but vehemently recommend that the State Government should set up a high powered Committee to probe into the entire episode starting from the very appointment of the collaborators till 1978 when the Company was taken over by the H S I D C The enquiry should be conducted expeditiously fixing individual responsibility of the persons concerned and also to find out ways of taking punitive action against the outsiders A report in this behalf should be sent to the Committee within six months**

**The Committee further observe that the monitoring cell of the Finance Department also failed in taking cognizance of the situation obtaining in the company as a result of the joint venture deed In this connection the Committee would like to draw the attention of the Finance Department to para 7 of its Eleventh Report and reiterate the need for evolving an efficient system for proper control and appraisal of the Government Companies/Corporations**

(2) During oral examination the Company representative inform ed the Committee that power supply was one of the constraints in the way of the company in increasing production and averting losses It was explained that on account of unannounced cut in power supply the material of the company in running furnaces got spoiled and it caused huge losses to the company In fact in the process of manufac turing the Company required continuous power supply and preferential treatment in that behalf The Committee were pleased to know that the negotiations of the Company with the H S E B in this respect had proved successful and the H S E B had agreed to give preferential treatment to the company in the matter of power supply Both the Company and the H S E B being State Public Undertakings the Committee find no reason as to why H S E B should not taken steps to ensure regular required power supply to this Company to save it from losses

Further the Committee were informed that as on 31st March, 1983 the Company had to pay the following amount to H S E B —

| | | |
|---|---|---|
| Over due electricity charges (SOP) including sur charge | Rs | 61,27 571 77 |
| Electricity duty which has been deferred by the Government till the payment of last installment of the dues of the financial institutions on their long terms loans | Rs | 73 63 856 06 |
| TOTAL | Rs | 1 34 91 427 83 |

It was further stated by the management that there existed dispute between the company and the H S E B regarding the demand of Rs 60 lacs (approximately) by H S E B on account of alleged slow running of the meter of the Company for which the matter had been referred for arbitration to the Chief Electrical Inspector to the Government of Haryana The Committee recommend that the matter may be got finalis d expeditiously so that this contingent liability does not linger on The final out come of the case may be intimated to the Committee in due course

It was also brought to the notice of the Committee during the oral examination that H S E B had agreed to purchase its structural steel requirements from the Company in future The Committee feel that this arrangement of supplying requirements of H S E B can help both ways it can help the company in reducing its liability towards H S E B and the H S E B will also be benefited by taking the material from the company at an appropriate price from a sister undertaking

**The Committee, therefore recommend that both the undertakings should finalise negotiations in this behalf and should see that almost all the steel requirements of the Board are met with by this company to their mutual advantage This will help the company to keep the inventory level at a minimum and release the money unnecessarily blocked in finished goods In any commercial concern the control of inventory is of prime importance and has got to be given due importance while planning financial and administrative arrangements to ensure proper running of the concern**

3 During the oral examination it came to the notice of the Committee that some liability towards Sales tax/interest had been raised against the company by the Sales Tax assessing authorities It was explained to the Committee that the Company s intention was that the material was to be transferred to the branches located in various states as stock transfer but the assessing authority on account of lack of various documentary proofs had rejected the stock transfers and had held them as inter State sales subject to Central Sales Tax In the case of stock transfers, the material is transferred to the branches and the same is sold therefrom to registered dealers against the declaration forms (in practice in the respective States) and the dealer is not required to pay any sales tax - Central or State But if the Sales are

made from Hissar (Head Office of the Company) to various dealers in other States the same are subject to Central Sales Tax against the production of C forms The details of sales tax dues for completed assessments for the years 1975 76 to 1978 79 were Rs 58,837 00 Rs 2,43,894 00, Rs 8 52,006 00 and Rs 21 83,302 00 respectively It was stated that appeals of the Company against the assessments for the years 1977 78 and 1978 79 were pending with the Sales Tax Authorities When questioned about the individual responsibility for this liability of the sales tax the Committee was informed that the main reason for this liability was the absence of some documents which were not properly maintained by the Company staff In the absence of proper documents the Company s case of stock transfer could not be justified before the Sales Tax authorities **The Committee recommend that responsibility in this behalf should be fixed on the concerned staff member(s) and necessary action be taken against him/them for this lapse The Committee further recommend that the Sales Tax rules should be scrupulously followed so that such type of lapses do not recur**

(4) On account of huge losses having been caused to the Company during the past several years the management of the Company framed rehabilitation scheme to revive the financial health of the Company which mainly contemplated re scheduling of payment of loans and consequent reduction of liability of the Company The scheme embraced the grant of following reliefs/ concessions in respect of the institutional loans for which IDBI ICICI and IFCI have since agreed —

i) Funding of (a) interest on the term loans that fell due upto 31st March 1977 (earlier agreed to be postponed) and also (b) interest accrued and due for the period from 1 4 77 to 31 3 81 re worked at the applicable net document rates on simple basis the funded interest to carry further interest there on at the original net document rate w e f the 1st April 1977 for (a) and w e f the 1st April 1981 for (b) above

ii) waiver of penal interest on the existing term loan w e f the 1st April 1977 and commitment charge on the additional loans

iii) re schedulding of the principal amount of the term loans as also the funded interest as mentioned at (i) above and to charge interest at original net document rate

**The Committee recommend that since the rehabilitation scheme is a very vital solution for restoring the health of the company, expeditious steps should be taken to implement the scheme already agreed to by certain financial institutions and further steps should be taken to negotiate with other financial institutions for seeking similar reliefs**

(5) It was brought to the notice of the committee during oral examination that the rolling work was got done by the company from outside like Mandi Gobindgarh on job basis It was also informed by the Company that if rolling was done by them it would reduce the cost to the tune of about Rs 1000/ per toune The Committee feel that it

is necessary for the company to make arrangements for doing the rolling work themselves For this purpose setting up of a wire rod mill is necessary It was also intimated to the Committee that the company held a licence for setting up this mill and that the company had also applied for loans from financial institutions for the purpose **To enable the Company to restore its financial health and to reduce the cost of production as also to produce structural steel the Committee recommend that the wire rod mill should be set up by the company as early as possible**

(6) The Committee observe that the annual accounts of the company for the years from 1981 to 1982 83 are still in arrears **The Committee view this delay in the completion of audit as frought with risk of financial irregularity and embezzlement The Committee, therefore recommend that the annual accoumts should be got audited by the Statutory Auditors expeditiously**

(7) As a result of examination of the general working of this and other companies i e Haryana Television Ltd and Haryana Matches Ltd the Committee have noted that the joint ventures of the State Governm nt with private collaborators were not taken up after thorough examination and far sightedness and these have resulted in eroding the financial r sources of the State Government causing loss to a large extent and consequently such ventures had either to be wound up or to be taken over by the Government **The Committee strongly feel that the concept of joint venture has not worked successfully and therefore, recommend that this should be discontinued forthwith**

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