

Chapter

I

Introduction

1.1 Company profile

Established in 1964, Bharat Heavy Electricals Limited (BHEL), is India's largest engineering and manufacturing company engaged in design, engineering, manufacture, construction, testing, commissioning and servicing of a wide range of products and services for the core sectors of the economy, viz., Power, Transmission, Industry, Transportation, Renewable Energy, Oil and Gas, Defence etc. To address the growing demand for power generation equipment, BHEL enhanced its power equipment manufacturing capability during the Strategic Plan period (2007-12) from 6000 MW per annum to 20000 MW per annum in phases with a capital investment of ₹ 6246 crore.

BHEL has three main business sectors namely, (i) Power, (ii) Industry, and (iii) International Operations, with primary marketing responsibility¹ for major system/product sales. Orders secured by all three business sectors are executed across India and abroad through a network of 17 manufacturing units, four regional offices, eight service centres and 15 business offices (*Annexure 1.1*). BHEL comes under administrative control of Department of Heavy Industry (DHI), Ministry of Heavy Industries and Public Enterprises (MHI & PE).

As on 31 March 2016, paid up share capital of BHEL was ₹489.52 crore; of which 63.06 per cent was held by Government of India (GoI), 13.95 per cent by Foreign Institutional Investors, 15.68 per cent by Banks, Financial Institutions and Insurance Companies and the remaining 7.31 per cent by others including general public. In line with its policy to grant more autonomy and delegation of power to selected public sector enterprises, GoI conferred 'Maharatna' status on BHEL in February 2013.

1.2 Working results

The working results of BHEL for the last five years ended 31 March 2016 were as under:

Table 1.1: Working results of BHEL for the last five years ended 31 March 2016
(₹ in crore)

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Turnover (Gross)	49510	50156	40338	30947	26587
Profit before tax	10302	9432	5013	2140	-1477
Profit after tax	7040	6615	3460	1419	-913

1.3 Corporate plan targets and achievements

BHEL formulated its 'Strategic Plan-2017', covering the period 2012-17, and the performance up to 2015-16 is tabulated below:

¹ Power Sector (PS) secures orders from power utilities in the country; Industry Sector (IS) secures orders for captive power plants from different industries in the country and from sectors like Transportation, Renewable Energy, Oil and Gas, Defence etc. and International Operation (IO) sector secures orders from outside the country

Table 1.2: Achievements up to 2015-16 against Strategic Plan 2012-17 targets

Description	Target	Achievement by 2015-16	Shortfall (per cent)
Turnover by 2016-17 (₹ crore)	101600	26587	73.83
Profit before tax by 2016-17 ² (₹ crore)	18012	(-) 1477	108.20
Return on Capital Employed ³ during 2012-17 (per cent)	> 35	(-) 4.87 ⁴	113.91
Contribution to India's generation capacity during 2012-17 (per cent)	60	46	23.33
Annual R&D investment by 2016-17 (₹ crore)	2625	893	65.98

BHEL could not achieve any of the strategic plan targets till 2015-16. BHEL did not prepare any document detailing year-wise milestones for implementation of strategies envisaged in Strategic Plan 2017.

Ministry stated (May 2017) that due to various unexpected developments like cancellation of coal blocks, policy logjam, delay in implementation of planned projects, Supreme Court's stay on hydroelectric projects on river Ganga *etc.* and increased volatility in business environment, BHEL depended more on annual assessment of business situation and fixed targets accordingly, which were also accepted by MOU Task Force. After the exit conference, Management provided additional information (June 2017) stating that concerted efforts and increased production coupled with faster execution have resulted in significant improvement in performance in the year 2016-17 and that the Company has achieved profit before tax of ₹628 crore against loss of ₹1164 crore in 2015-16 (Ind-AS adjusted).

However, BHEL did not formulate strategies to deal with fluctuations as part of normal market scenario. Actual turnover for the years 2014-15 and 2015-16 was short of annual budgeted targets by 32.13 per cent and 19.43 per cent, respectively.

1.4 Organisational setup

The management of BHEL is vested in a 16 member Board of Directors consisting of six full-time Functional Directors⁵ including Chairman and Managing Director (CMD), two part-time Official Directors and eight part-time Non-official (Independent) Directors. Audit observed that during the period covered in performance audit, charge of Director (Power), Director (Engineering, R&D), Director (IS & P) and Director (Finance) remained with other functional Directors for two to 20 months. Further, against the requirement under Listing Regulations and DPE guidelines of having eight independent Directors on Board, BHEL did not have more than six independent Directors during the period covered in performance audit and from June 2012 to December 2015, there were only two or three independent Directors.

Ministry stated (May 2017) that BHEL was in constant communication with DHI for appointment of requisite number of independent Directors on the Board.

² Double the Profit Before Tax of 2010-11 (₹9005.67 crore)

³ Return on Capital Employed = Gross Profit/Capital Employed x 100

⁴ Return on Capital Employed during the period: 32.78 per cent (2012-13), 15.53 per cent (2013-14), 7.10 per cent (2014-15) and (-)4.87 per cent (2015-16)

⁵ Director (Finance), Director (Human Resources), Director (Industrial System & Products), Director (Power) and Director (Engineering, Research & Development)