Chapter 4

Design and Approval of Revival Schemes

4.1 Features of Revival schemes

The reasons of sickness varied from one CPSE to another. In case of NTC, the cause of sickness was historical as NTC was formed after taking over sick textile units from the private sector on social consideration for protecting employment of workers. Other nine CPSEs selected in audit became sick over the years on account of technological obsolescence, high manpower cost and competition from private sector.

Features of Revival schemes

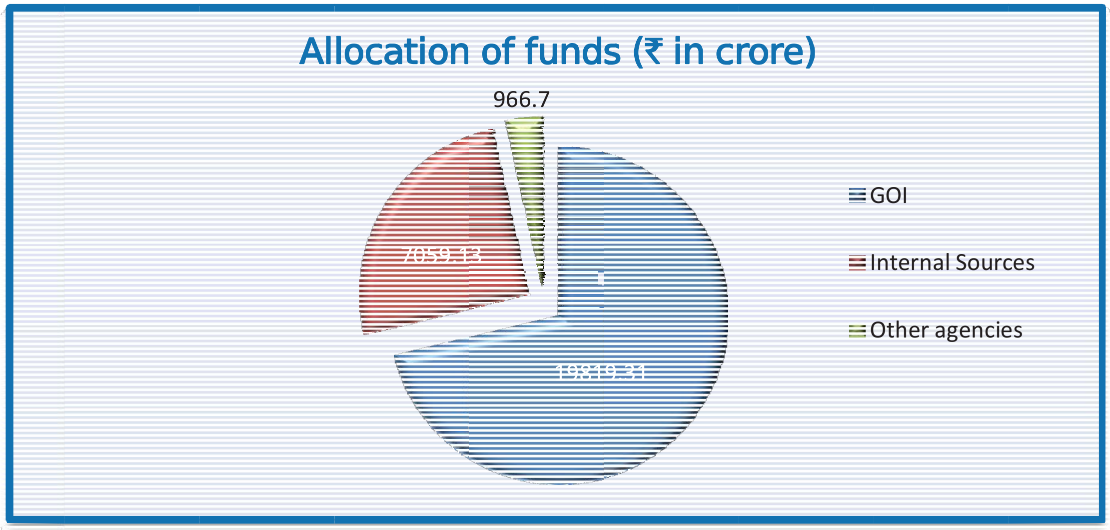
	Company	Revival schemes
1	National Textile Corporation Limited	Scheme was approved at a cost of ₹ 9102.72 crore (excluding waiver/ conversion of GOI loan/ interest). • Out of total 119 mills, 77 mills were to be closed, • 02 mills were to be transferred to the Govt. of Pondicherry. • 40 viable mills, were to be modernized (22 by NTC and 18 through joint venture). • Construction of integrated textile plaza at Ahmedabad, International trade tower at Mumbai. • Write off loan (₹ 3402.62 crore) and interest (₹ 2727.13 crore) upto 31 March 2006. • Funds from sale of surplus assets to be used in revival scheme. VRS to surplus manpower.
2	Hindustan Organic Chemicals Ltd (HOCL)	GOI approved (March 2006), • a revival package by way of financial assistance of ₹ 250 crore. • Subsequently, additional funds of ₹ 20 crore were sanctioned (March 2007) for restarting the Caustic Chlorine Plant at Rasayani (Maharashtra). The total financial assistance (₹ 270 crore) was provided in the form of non-cumulative redeemable preference shares.
3	Cement Corporation of India Ltd (CCI)	The scheme was approved in May 2006 at a cost of ₹ 2043.70 crore. • Of the 10 plants, 03 to be modernized/expanded (Rajban, Bokajan and Tandur) and 07 to be sold. • ₹184.29 crore for modernization/expansion by GoI and the balance requirement to be met from sale proceeds of 07 non-operating plants. • Waiver off of loan and interest. ₹ 1241.65 crore.
4	HMT Machine Tools Ltd	The plan was approved at a cost of ₹ 971.83 crore in June 2008 by the BIFR. • The scheme included ₹ 180 crore towards modernization, technological upgradation and training/ retraining of employees. • ₹ 100 crore was provided for VRS. • ₹ 443 crore were provided for settlement of dues. • Interest Waiver of ₹ 39.11 crore, conversion of loan into equity ₹ 122.64 crore and reliefs and concessions from state agencies ₹ 87.18 crore.

5	Eastern Coalfields Ltd (ECL)	The Plan was approved in November 2004 at a cost of ₹ 3210.65 crore. • Waiver of unsecured loan (₹ 519 crore), interest (₹ 168.65 crore) and conversion of ₹ 1532 crore current account into equity without interest. • Waiver of electricity duties for five years from 2004-05 by the State Governments. • 02 mines (Rajmahal and Chuperbhita) to be modernized and 17 unviable mines to be closed.
6	Fertilisers and Chemicals (Travancore) Ltd (FACT)	GOI sanctioned (March 2006) the financial relief package of ₹ 670.37 crore. • waiver/conversion of outstanding loans and interest of GOI (₹ 610.37 crore). • write off of non-plan loan (₹ 60 crore) for VRS.
7	Braithwaite and Company Ltd (BCL)	A revival package was approved by GOI in January 2006 at a total cost of ₹ 284.21 crore. • Infusion of capital of ₹ 4 crore, waiver of interest of ₹ 43.61 crore on GOI loan, conversion of GOI loans into equity of ₹ 69.30 crore. • Reduction of equity capital by adjustment of accumulated losses by ₹. 167.30 crore.
8	Heavy Engineering Corporation Ltd (HEC)	A revival scheme was approved in December 2005 at a cost of ₹ 2019.30 crore. • Waiver and conversion of loan (₹ 1116.30 crore), settlement of outstanding electricity dues (₹ 500 crore), waiver of CISF dues (₹ 73 crore) and generation of funds (₹ 330 crore) by transfer of buildings by the Company to the State Government. • The scheme outlay was increased to ₹ 2887.74 on various occasions between December 2007 and February 2009 due to grant of additional reliefs and concessions by the GOI and Government of Jharkhand (GOJ) and increase in unsettled electricity dues.
9	National Projects Construction Corporation Ltd (NPCC)	The scheme was approved in December 2008 at a cost of ₹ 646.89 crore. • Conversion of GOI loan of ₹ 219.43 crore and accumulated interest thereon upto 2008-09 amounting to ₹ 427.46 crore into equity share capital. • Equity share capital to be reduced to 10 per cent and the amount reduced to be adjusted against cumulative loss of the company.
10	NEPA Limited	The revival scheme was yet to be approved (October 2011).

4.2 Gaps in Financing of the Revival schemes

Cost of the nine revival schemes was ₹ 27845.14 crore which was to be funded by GOI (₹ 19819.31 crore), internal sources (₹ 7059.13 crore) and relief and concessions from State Governments and its agencies (₹ 966.70 crore) as detailed below:

Chart 4.1 – Sources of funds for revival schemes



Detailed break-up of the funding arrangements as per the approved schemes is indicated in the **table below:**

S. No.	CPSE	Funds provided by GOI			Funds from internal sources		Reliefs and concession from third parties	Grand Total
		Cash[16]	Non-cash[17]	Total	Source	Amount		
1.	HOCL	270	10.46	280.46	Internal accruals	5	-	285.46
2.	ECL	304	2219.65[18]	2523.65	Fixed Deposits and profits	651	36	3210.65
3.	FACT	200.00	670.37	870.37	-	-	-	870.37
4.	BCL	4.00	112.91	116.91	-	-	-	116.91
5.	CCI	184.29	1241.65	1425.94	Sale of non-operating plants	617.76	-	2043.70
6.	HMT	723.00	161.75	884.75	-	-	87.18	971.93
7.	HEC	-	1280.81	1280.81	Transfer of land & buildings	410.00	843.52	2534.33
8.	NTC	1699.31	10090.22	11789.53	Sale of surplus assets	5375.37	-	17164.90
9.	NPCC	-	646.89	646.89	-	-	-	646.89
	Total	**3384.60**	**16434.71**	**19819.31**		**7059.13**	**966.70**	**27845.14**

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[16] Fresh equity, loan and grant.

[17] Waiver of outstanding loans/ interest, conversion of loans/ interest into equity, reduction of equity by adjustment of accumulated losses.

[18] This includes waiver of outstanding loan of ₹ 519 crore and conversion of current account balance of ₹1532 crore into equity which was to be provided by Coal India Ltd, i.e. holding company of ECL.

As may be seen from above, 71 per cent of the funds were provided by GOI in form of cash and non-cash assistance, 25 per cent funds were to be raised by the CPSEs from internal sources such as sale of surplus assets and 4 per cent of the funds were to be provided as relief and concessions from other agencies.

Audit findings on allocation of funds for revival schemes are discussed in succeeding paragraphs:

4.2.1 Curtailment of Funds by GOI

Audit observed that, in two CPSEs (BCL and NPCC), the funds sought for by the Administrative Ministries in the revival proposals were either curtailed by BRPSE or GOI did not infuse without any valid recorded reasons as discussed below:

- The proposal of BCL submitted by the Administrative Ministry to BRPSE (March 2005) included fund requirement of ₹ 22.26 crore to meet the liabilities of pressing creditors, lease rentals payable, replacement and renewal of fixed assets, coupler project etc.

  However, GOI agreed to release only ₹ 4 crore as margin money in the form of grant. Consequently, capacity expansion of bogies and couplers could not be done by BCL which resulted in extra expenditure of ₹ 7.96 crore during 2006-07 to 2009-10 due to purchase from private parties at higher rates to meet the supply orders.

- In NPCC, the recommendations (February 2006) of BRPSE for release of cash assistance of ₹ 60 crore for discharging PF dues and arrears of salaries of employees and GOI guarantee of ₹ 20 crore to facilitate the company for bidding in new projects were not accepted by GOI. Consequently, the company could not participate in bidding for new projects and was forced to work as a sub-contractor.

4.2.2 Non Infusion of Funds by the GOI

Audit observed that there was a deficit funding of ₹ 1243.02 crore (4.45 per cent) as indicated below:

- Out of the total cost of ₹ 27845.14 crore, GOI was to provide cash assistance of ₹ 3384.60 crore (12.16 per cent). However, GOI did not agree to release ₹ 304 crore (for payment of Interim Relief wages by ECL). Hence, actual cash assistance was ₹ 3080.60 crore (11.06 per cent).
- Out of nine CPSEs, five CPSEs (CCI, HEC, HOCL, ECL and NTC) were required to raise ₹ 7059.13 crore from internal sources (sale of surplus assets and internal accruals). However, ₹ 617.76 crore could not be generated by CCI and HEC could generate ₹ 228.70 crore short of the requirements from the transfer of land and buildings. This resulted in deficit of ₹ 846.46 crore.

- In three CPSEs, reliefs and concessions were to be given by third parties like State Governments, banks, etc. as per sanctioned schemes. However, the sanctioned relief and concessions were not received by two CPSEs (HMT Machine Tools & ECL) which resulted in deficit funding by ₹ 92.56 crore.

4.2.3 Lack of alternative strategy for financing Revival schemes

Audit observed that in NTC, CCI and HEC, the cost of the revival schemes was to be met primarily from sale of surplus land, which generally required the consent of respective State Governments. The schemes did not provide alternative strategies to fund the schemes in case of denial of permission. Notable cases are discussed below:

- In NTC, the implementation process could not proceed further (2002 to 2006) due to delay in grant of permission by the State Governments which led to increase in the cost of scheme by ₹ 1330 crore. GOI had to provide funds of ₹ 1643.84 crore for discharging the liability of salary and wages even during such delays.

- The revival scheme of HEC approved by BIFR initially in August 1996 could not succeed due to non-achievement of projections. The revised proposal submitted by the Ministry of Heavy Industries which envisaged generation of funds from disposal of surplus land could not fructify due to denial of permission by the Government of Jharkhand State for sale of land. The scheme did not provide any alternative source of funding for such eventuality. Consequently, BIFR passed winding up orders in July 2003 after which alternative strategy had to be explored for revival of the Company by GOI.

- Manufacturing capacity of Bokajan and Tandur plants of CCI could not be expanded as envisaged in the scheme as the non-operating plants could not be disposed off till July 2011. Consequently, against the targeted production of 1286.78 MT and 1480.30 MT for 2008-09 and 2009-10, the actual production (956.21 MT and 968.22 MT) was far less than as expected.

The Department of Public Enterprises stated (November 2011) that GOI provides alternative strategies based on the facts of each case. GOI may approve to provide bridge loan/ preference share capital pending sale of land to fund the revival package as envisaged.

The fact, however, remains that no alternative strategies were provided to fund the revival packages of the above mentioned cases due to which there were avoidable delays in implementation of scheme in NTC and CCI and revision of scheme in HEC after 1 year.

4.3 Core issues not addressed adequately

Analysis of reasons for sickness in the nine approved CPSEs covered in audit has revealed that main reasons for sickness were:

- lack of modernisation and diversification/ integration,
- excessive manpower and operational inefficiencies such as failure to meet delivery schedule,
- disqualification from lucrative orders,
- poor debt management, inadequate working capital,
- high interest burden, high rate of cess charged by State Governments, high cost of production/ services and
- increase in competition due to liberalisation, etc.

Audit observed that in the revival schemes, the above issues were not addressed adequately as discussed below:

4.3.1 Inadequate financing provision for modernization

The Table below indicates the various components of the financial packages *viz.* modernisation, rationalisation of manpower, and financial relief approved by the Government of India for revival of the nine selected sick CPSEs:

Table 4.2 – Allocation of funds in the revival schemes

(₹ in crore)

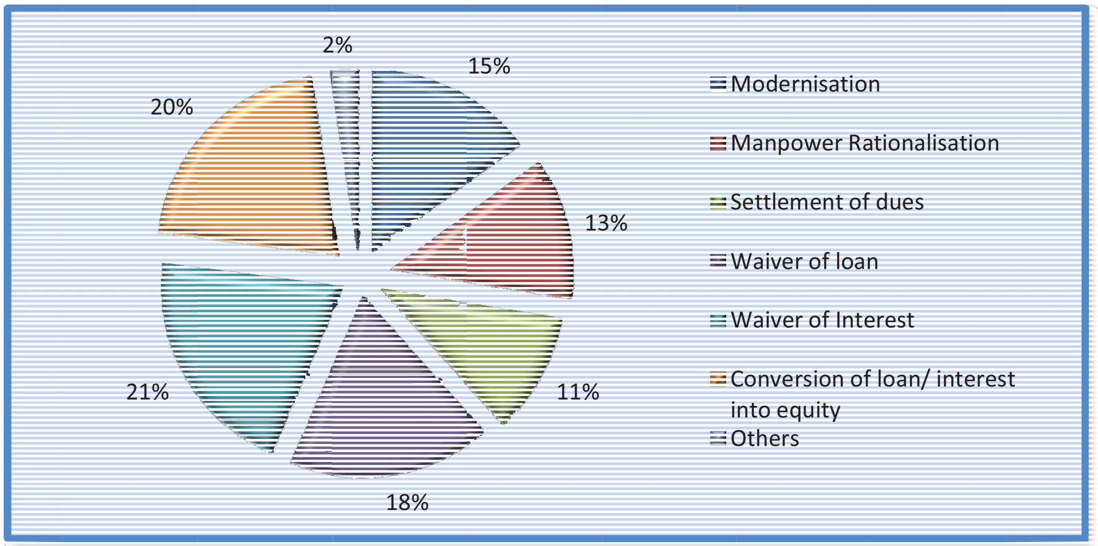
	NTC	CCI	HOCL	FACT	BCL	HEC	HMT	ECL	NPCC	Total
1. Cost of Modernisation	2878.92	141.11	25		4.00		170.00	955		4174.03
2. Manpower Rationalisation (VRS/ MVRS)	3349.43	25.00	36				100.00			3510.43
3. Settlement of outstanding dues	846.33	635.94	214	200.00		673.51	443.00			3012.78
4. Waiver of loan	3402.62	-	-	292.30		786.40	-	555		5036.32
5. Waiver of interest	4172.81	886.22	10.46	85.77	43.61	314.63	39.11	168.65		5721.26
6. Conversion of loan/ interest into equity	2514.79	355.43	-	292.30	69.30	179.79	122.64	1532	646.89	5713.14
7. Others						580.00	97.18			677.18
Total	**17164.9**	**2043.70**	**285.46**	**870.37**	**116.91**	**2534.33**	**971.93**	**3210.65**	**646.89**	**27845.14**

Despite the fact that, non-modernisation and technological obsolescence were the main reasons for the sickness of these CPSEs, in the revival packages approved by the GOI a major proportion i.e. ₹ 20160.68 crore (72 per cent) out of the total cost of ₹ 27845.14 crore of the resources were allocated to the financial restructuring and only

₹ 4174.03 crore (15 per cent) were provided for modernization of the CPSEs. In three CPSEs (HEC, FACT and NPCC), the schemes did not include any provision for modernisation.

The allocation of funds amongst the various components of the revival schemes is summarized in the chart shown below:

Chart 4.2 – Allocation of funds in the revival schemes



In case of CCI, although the problem was addressed by providing ₹ 141.11 crore for modernisation/ expansion of three viable plants (Rajban, Tandur and Bokajan), the measures taken were not adequate as the funds provided for modernisation constituted only 7 percent of the total cost of the revival scheme due to which the capacity increased from 13.96 lakh MT per annum (2005-06) to only 16.43 lakh MT per annum (2009-10).

> The Parliamentary Standing Committee on Industry also pointed out (November 2006) that there was limited chance of long-term viability of CCI even after rehabilitation as there was limited addition to the capacity. The Administrative Ministry, however, had not taken cognisance of the recommendations of the Parliamentary Standing Committee.

The schemes as approved by the GOI, thus, lacked long term vision in the backdrop of liberalised economy and stiff competition from the private players.

The Department of Public Enterprises stated (November 2011) that financial restructuring is a pre-requisite for revival of any sick CPSE. However, revival packages also provide funds for modernization and organizational restructuring. GOI has approved revival of 42 CPSEs upto September 2011 at a total cost of ₹ 24306 crore including funds of ₹ 802 crore for capital expenditure.

The reply of the Department only supports the fact pointed out by Audit that the funds provided for modernization of sick CPSEs to ensure their long-term sustainability were largely inadequate.

4.3.2 Deficiencies in consultants' reports

Audit observed that there existed no guidelines for appointment of consultants and for defining their scope of work and as such out of nine CPSEs, in two cases (HOCL and CCI), the reports of the Consultants were found inadequate to address the problem of sickness:

- In case of CCI, the report submitted by the consultant (M/s Holtec Consultancy Private Limited) for expansion/ modernisation of three operating units was based on obsolete technology. The defect was subsequently noticed at the time of implementation of the project. This resulted not only in delay in implementation of the scheme from May 2006 to September 2010 but also caused increase in the original estimates for expansion of Rajban and Bokajan plants by ₹ 81.65 crore.

- In case of HOCL, as its Rasayani plant was purchasing power from State Electricity Board at higher tariff, it became unviable to operate. However, the report of consultant did not address this core issue for reducing the cost of production to make the products competitive and self-sustaining. Consequently, the unit continued to incur losses in the years 2007-08 to 2010-11 and the accumulated losses further increased by ₹ 306.66 crore.

The Management stated (December 2010) that the scope of work was comprehensive in view of the then prevailing conditions. The reply is incorrect as the issue of heavy accumulated losses in the unit existed even at the time of initial planning.

The DPE confirmed (November 2011) that it has not issued any guidelines for appointment of consultants and for defining their scope of work.

4.3.3 Non diversification of business activities

In case of NTC, though it required diversifying of its activities to cope with the problem of low margin in existing activities of spinning and weaving, the Company decided to continue with the existing activities in the revival schemes without exploring the possibility of entering into more profitable activities such as garmenting. Consequently, 18 mills modernized by the Company upto October 2011 continued to incur operating losses of ₹ 63.98 crore during 2010-11.

Management argued (May 2011) that the strategy was to consolidate the existing activities rather than diversifying into garmenting and the operating losses were due to heavy depreciation.

Audit found the reply not convincing as 8 out of 18 modernized mills revived by NTC itself had suffered cash losses during 2010-11. It was also observed that, 5 mills revived through Joint Venture routes which diversified into garmenting activities were earning profits after implementation of revival scheme. The continuance with the low-margin activities was thus not a prudent strategy.

4.3.4 Competitiveness of products of restructured Companies

After liberalization of the economy, two CPSEs (FACT and HOCL) faced the problem of operational inefficiencies due to high cost of production and absence of level playing field as discussed below:

- The revival package of FACT aimed mainly at restructuring of balance sheet and did not address the core issue of cost effectiveness of the products which had become uncompetitive due to withdrawal of subsidy by the Government.

  While agreeing with the audit, the Management admitted that the package did not address the core issue of under recovery due to the subsidy policy that existed at that point of time.

- The pricing of HOCL products became uncompetitive in view of influx of imported products. This resulted in decrease in customer base and increase in inventory from ₹ 1.84 crore (March 2008) to ₹ 12.08 crore (March 2011). This issue was not foreseen in the revival plan.

  Management stated that price of the product became uncompetitive due to global meltdown during 2008-09 and 2009-10. As this was unprecedented, it was not foreseen in the revival scheme.

  Audit, however, observed that the uncompetitiveness of the product was not unprecedented as the threat from imported products existed even at the time of finalisation of the revival scheme (2006).

In essence, the schemes were not adequately structured as these basically involved financial restructuring only. Major portion of the funds (about 72 percent) were marked for financial restructuring such as waiver of loans and interests, conversion of loans into equity and settlement of dues. In fact, a very small proportion of the package was allocated for modernization and, diversification for long term sustainability of the operations of these CPSEs. Thus, the schemes did not address the core issues of sickness which would have yielded the sustainable revival of these companies.

Also, the fact remains that these companies have substantial tangible assets in the form of land holdings which have hidden values. Hence, fair values of the land holdings should have been factored into the design of the revival schemes.

Department of Public Enterprises stated (December 2011) that BRPSE has prescribed a comprehensive format for submission of revival proposal by the Administrative Ministry/ Department of a sick CPSE. However, Audit observed that prescribing a format does not ensure addressing of all the core issues of sickness in the sanctioned revival packages. Detailed guidelines need to be framed to ensure that suitable remedies are provided to cover all aspects of sickness.

4.4 Inordinate delays in approval of schemes

Due to the weaknesses in the processes and procedures for approval of revival schemes as discussed in Chapter 3, Audit observed that there were inordinate delays in approval of schemes, lack of consensus among various agencies, non-compliance by various agencies to the directions of BIFR etc.

SICA did not specify any time frame for approval of revival schemes. In the absence of specific time limit, there were inordinate delays in approval of the schemes. Besides, the procedure followed for approval of schemes was time consuming due to involvement of multiple agencies like consultants, companies, Administrative Ministries, BRPSE/BIFR, Committee of Secretaries, other Ministries/ Departments and Cabinet Committee on Economic Affairs. The process involved prolonged deliberations at every stage and was thus, flawed.

Table 4.3 – Time taken in approval of revival schemes

PSE	Identification of Sickness	Approval of Scheme	Time taken in approval of Scheme
NEPA	1996-97	Not yet approved	
NPCC	1990-91	2008-09	18 years
HEC	1991-92	2005-06	14 years
CCI	1994-95	2005-06	11 years
NTC	1993-94	2002-03	10 years
HMT	2000-01	2006-07	6 years
ECL	1998-99	2003-04	5 years
BCL	2002-03	2005-06	3 years
FACT	2004-05	2005-06	1 year
HOCL	2004-05	2005-06	1 year

The delayed finalisation of the revival schemes not only resulted in inadequate utilisation of their resources and incurring of unproductive expenditure but also cost the sick CPSEs heavily as their financial health was allowed to deteriorate further with the passage of time and as such the accumulated losses of these CPSEs increased from ₹ 7,342.93 crore to ₹ 22,503.91 crore as may be seen from the table below:

Table 4.4 – Increase in accumulated losses of the CPSEs

(₹ in crore)

CPSE	Accumulated loss at the time of sickness		Accumulated loss at the time of approval of Scheme		Increase in Accumulated Loss	Percentage increase in Accumulated loss (%)
	Year	Loss	Year	Loss		
NPCC	1990-91	37.53	2008-09	826.78	789.25	2102.98
NEPA*	1996-97	94.15	2009-10	528.25	434.10	461.07
CCI	1994-95	527.16	2005-06	2152.86	1625.70	308.39
HEC	1991-92	482.16	2004-05	2106.98	1624.82	336.99
HMT	2000-01	96.17	2006-07	618.09	521.92	542.71
NTC	1993-94	3003.76	2002-03	10714.25	7710.49	256.69
BCL	2002-03	179.97	2005-06	225.48	45.51	25.28
ECL	1998-99	2201.07	2003-04	4789.30	2588.23	117.59
FACT	2004-05	506.28	2005-06	270.62	(235.66)	(46.55)
HOCL	2004-05	214.68	2005-06	271.30	56.62	26.37
Total		7342.93		22503.91	15160.98	206.47

* The scheme is yet to be approved by GOI.

Further, during the period of delay, Government had to provide budgetary support to these CPSEs to sustain their operations.

Notable cases for inordinate delays in approval of schemes are discussed below:

(i) NEPA became sick in March 1997 and was referred to BIFR. Meanwhile, GOI decided (March 1997) to sell the Company through operating agency (OA). However, no action was taken on this decision. Consequently, BIFR directed (March 2004) GOI to revive the Company through Joint Venture. In 2005, the Company was referred to BRPSE which also recommended the revival of the Company through JV. On failure to form a JV, a bill for disinvestment was introduced in November 2007. However, the Parliamentary Standing Committee did not recommend the bill and instead recommended (November 2007) revival of the Company as a CPSE.

> ***Reasons for sickness (NEPA)***
> Newsprint import and allocation policy liberalised, technological obsolescence, high cost of production, low efficiency, poor paper quality and low margins.

Consequently, the Company appointed (August 2009) a consultant for preparing a detailed report on the reasons of sickness and suggesting remedial measures for removing the sickness. The report of the consultant was submitted (May 2010) by the Company to Administrative Ministry which included fund requirement for capital expenditure, conversion of GOI loan into equity, waiver of interest on GOI loan and waiver of statutory dues. The proposal was revised subsequently in December 2010 at a total cost of ₹ 827.80 crore.

While discussing the revised proposal in March 2011, BRPSE also observed that inconsistencies in the Government policy and lack of timely and appropriate intervention by the Government have affected the Company and de-controlling the newsprint industry as per the liberalisation policy without providing a level playing field to the Indian players has impacted the performance of the Company adversely. BRPSE, therefore, advised (March 2011) the Administrative Ministry/ Company to submit a revival plan taking into account gainful utilisation of surplus assets, rationalisation of manpower, measures to reduce expenditure especially on water, electricity and other township maintenances etc. The revised revival plan was yet to be approved by GOI (October 2011).

Thus, the process of approval of the revival scheme was not completed even after elapse of 14 years from the sickness of the Company.

(ii) The revival scheme of NPCC was approved after 18 years from its sickness. Although it became sick in 1991, it could not be referred to BIFR as it was not an industrial concern. GOI adopted inconsistent approach for its revival. In September 1997 it was proposed to revive the Company which could not be implemented due to

> ***Reasons for sickness (NPCC)***
> Erosion of work orders, excessive manpower, absence of diversification, lossess due to low profit margin on contracts, high financial costs, high operating costs and lack of administrative control.

change in Government. Efforts to disinvest were initiated in July 1998. However, the proposal could not be implemented due to closing down of Disinvestment Commission in 2003. After the formation of BRPSE in December 2004, the case of revival of this company was referred to BRPSE in August 2005, which was approved in December 2008 at the cost of ₹ 646.89 crore. The delay was attributed to repeated references to the Administrative Ministry, Committee of Secretaries and other Ministries and Departments.

Thus, the scheme was approved after 18 years from its sickness due to prolonged deliberations at every stage and frequent changes in GOI strategies to revive the CPSE.

(iii) HEC became sick in February 1992 and referred to BIFR which approved a rehabilitation/ revival scheme for the Company in August 1996. The scheme was approved by the GOI in February 1997 at a cost of ₹ 663.04 crore. However, due to late receipt of reliefs and concessions, the Company could not achieve the projections given in the revival package. BIFR ordered (May 2003) for change of management of the Company in response to which the Ministry submitted another revival proposal in 2004. As per the revised proposal, the major part of the finance was to be generated from the sale of Company's surplus land at Ranchi which could not materialise as the Government of Jharkhand did not give its consent for sale of land. Consequently, BIFR ordered (July 2004) for winding up of the Company. The Company and the Administrative Ministry filed (August 2004) appeals before Appellate Authority/ Hon'ble High Court of Jharkhand for staying the order of BIFR which was finally quashed in November 2009 by the latter.

> ***Reasons for sickness (HEC)***
>
> Old technology, huge manpower, poor debtor management and high inventory level, lack of management continuity, poor work culture, high interest burden, excessive overheads, high employee costs, working capital crunch, etc.

Meanwhile, the Company prepared and submitted (August 2004) a new revival scheme which after being recommended by BRPSE was approved by the GOI in December 2005 at the cost of ₹ 2019.30 crore. In September 2008, GOI granted additional relief and concessions, thus, raising the total cost of the scheme to ₹ 2534.33 crore.

Thus, the revival package of the Company was finalised after 13 years from the date of sickness due to failure of the earlier scheme. This resulted in infructuous expenditure of ₹ 663.04 crore on the revival scheme approved by BIFR.

(iv) CCI became sick and referred to BIFR in 1994-95. BIFR appointed Industrial Finance Corporation of India (IFCI) as Operating Agency (OA) in August 1996. The OA submitted the draft rehabilitation scheme (DRS) in November 1999. During November 1999

> ***Reasons for sickness (CCI)***
>
> Obsolete technology, non modernization of plants, deficient infrastructural facilities, shortage of working capital, short term borrowings, and recessionary conditions in the cement industry.

to May 2006, the DRS was repeatedly deliberated by GOI, BIFR and creditors on the issues of infusion of funds by GOI and one-time settlement for creditors. The scheme was ultimately approved only in May 2006 at a cost of ₹ 2043.70 crore.

Thus, the process of approval was completed after more than nine years from its sickness.

(v) The subsidiaries of NTC were declared sick by BIFR during 1992-94. Till January 2002, the revival schemes of these subsidiaries were under deliberation amongst GOI, BIFR, State Governments and creditors on the issues of:

> ***Reasons for sickness (NTC)***
>
> Obsolete technology, excessive manpower, poor layout of plants, low value product mix, low level of man-machine productivity, management constraints, general recession in textile industry and acute competition from unorganized power loom sector.

- Permission of the State Governments for sale of surplus land and concessions in stamp duties and
- Provision of bridge finance by GOI.

Ultimately, revival schemes of these subsidiaries were finally sanctioned by BIFR during February-July 2002 at a total cost of ₹ 3937.49 crore.

One of the features of the schemes was to generate funds from the sale of surplus assets (mainly land and buildings) to be utilised for modernisation of viable mills. However, modernisation of the mills could not take place due to delay in sale of land, which resulted in increased cost of modernisation with the passage of time. While reviewing the status of implementation of these schemes, Administrative Ministry directed (January 2005) the Company to submit a modified scheme which was approved by BIFR in March 2006.

Based on the discussions held and decisions taken in the Group of Ministers (GOM) meetings (December 2006/ April 2008), the Company submitted another modified scheme after taking into account cost escalation. The same was again approved by BIFR in September 2008 at a cost of ₹ 9102.72 crore (excluding cost of waiver/ conversion of GOI loan and interest).

Thus, prolonged deliberations and failure to formulate a viable scheme for 16 years resulted in cost escalation of ₹ 5165.23 crore which included budget support of ₹ 1643.84 crore provided to sustain the operations during this period.

(vi) The losses incurred by HMT Machine Tools exceeded its net worth in the first year (2000-01) of its operation. The Company was referred for disinvestment in the year 2002 for which an inter-ministerial group (IMG) was formed. Expression of interest was sought with Joint venture offer of equity holding up to 74 per cent, which received no response. Subsequently,

> ***Reasons for sickness (HMT Machine Tools)***
>
> Inadequate working capital, high interest burden, obsolete technology, competition from imports, surplus manpower in non-core areas and non-induction of fresh technical talent.

Company submitted (September 2004) a draft revival plan to the Administrative Ministry which was forwarded to BRPSE in August 2005. However, GOI approved the plan only in February 2007 at a cost of ₹ 880.80 crore mainly due to delayed decision of merger of Praga Tools Ltd with the Company and delayed receipt of the views on the scheme from Ministry of Finance. The Company was also referred to BIFR in December 2005 and the cost of revival scheme approved (February 2007) by the GOI was enhanced to ₹ 971.83 crore in June 2008 by the BIFR.

Thus, revival scheme was approved after a delay of six years of the Company becoming sick in its very first year of operation.

(vii) ECL, which is a subsidiary company of Coal India Limited (CIL), was referred to BIFR in March 1997 when its accumulated losses exceeded its net worth. In the meanwhile, CIL carried out (1997-98) financial restructuring of the Company by converting its loan into equity (₹ 1179.45 crore) and as such the Company came out of the purview of BIFR as on 31 March 1998. However, due to its inherent operational problems, the Company continued to suffer losses and was thus again declared sick by BIFR in February 2001.

Reasons for sickness (ECL)

Low productivity of underground mines, high rate of cess, extensive manual loading of coal requiring higher manpower, resistance by trade unions for transfer of surplus manpower from one mine to another etc.

The draft rehabilitation scheme (DRS) of ECL was circulated by BIFR in March 2004 to the stakeholders. However, against the prescribed time limit of 60 days for giving views on the DRS, the Administrative Ministry (Ministry of Coal) did not respond till November 2004 and thus BIFR sanctioned (November 2004) the revival plan on deemed consent basis[19].

But the Administrative Ministry did not agree (October 2006) to provide the grant of ₹ 304 crore for payment of Interim Relief (IR) wages as envisaged in the scheme taking a plea that Company had sufficient internal sources to this liability. Besides, the Ministry also did not implement the directions (November 2004) of BIFR regarding unconditional waiver of loan (₹ 519 crore) and conversion of current account balance[20] into equity (₹ 1532 crore) stating that the same would be granted after the Company achieves the scheme projections. BIFR pointed out (September 2006) and that the condition for grant of relief after achievement of the projected parameters was not in line with the approved scheme and would hamper the revival of the Company and thus directed the Ministry to submit a fresh revival plan which was submitted in August 2007. The same was still under deliberation in BIFR (March 2011).

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[19] *As per Section 19 (2) of SICA, every revival scheme shall be circulated to every person required by the scheme to provide financial assistance for his consent within a period of 60 days from the date of such circulation or within such further period, not exceeding 60 days, as may be allowed by BIFR, and if no consent is received within such period or further period, it shall be deemed that consent has been given.*

[20] *Current Liabilities towards CIL (holding company)*

Thus, due to divergent views of BIFR and the Administrative Ministry on the revival of the Company and inconclusive deliberations in BIFR, the revival scheme of the company has not reached its finality despite the elapse of more than 10 years from its sickness (February 2001).

(viii) BCL became sick in 1992 and was referred to BIFR which approved the scheme at a cost of ₹ 26.68 crore in October 1995. However, the scheme was declared unsuccessful by BIFR in January 2003 due to failure of timely technological upgradation and inadequate working capital, etc. Consequently, it was referred to BRPSE in February 2005 and a revival scheme was approved by GOI in January 2006. Hence, expenditure of ₹ 26.68 crore on BIFR scheme approved in October 1995 became infructuous due to unsuccessful implementation.

Reasons for sickness (BCL)

Old technology, dependence on Railway, stiff competition, shortage of working capital, depletion of skilled manpower, non-diversification.

Thus, GOI approved a fresh scheme only after three years of declared failure of the revival scheme sanctioned by BIFR in 1995.

The Department of Public Enterprises (DPE) stated during the exit conference (November 2011) that timely approval of revival schemes can be achieved as it involved approval at the level of the Cabinet only. As far as JVs/ merger/ closure are concerned, it would not be possible to prescribe any time frame as the matters are decided by the High Courts/Parliament.

Audit emphasized that there is a need for treating the activities of revival schemes of sick CPSEs as project with specific start date and end date for a meaningful revival. BRPSE may have to play a more active role in monitoring the status of approval and implementation of revival schemes through web-based MIS.

DPE further added (November 2011) that guidelines have been issued (September 2011) to all the Administrative Ministries specifying that the timeline of 8 weeks for obtaining the approval of Cabinet on the recommendations of BRPSE should be adhered to. In case, the Administrative Ministry/ Department fails to do so within the upper time of 4 months, the concerned Ministry/ Department would have to bring a note citing the reasons for delay for the information of the Cabinet.

Audit further observed that the above guidelines were silent on the required timeline within which the sick CPSE or the Administrative Ministry should submit a revival proposal for consideration of BRPSE. In the absence of such a specific time frame prescribed for submission of revival or closure of the sick CPSEs, delay in referring the proposal to BRPSE would continue which would have consequential adverse impact on the financial health of the sick CPSEs.

4.5 Overlapping jurisdiction and lack of synergy amongst multiple agencies

In four[21] out of 10 cases examined in Audit, it was observed that there was no consensus among various agencies involved in approval of schemes as discussed below:

- As discussed in Para 4.4 (vii), the draft rehabilitation scheme (DRS) of ECL was circulated by BIFR in March 2004 to the stakeholders. However, due to no response from the Administrative Ministry (Ministry of Coal) till November 2004 BIFR sanctioned (November 2004) the revival plan on deemed consent basis. The Ministry did not implement the directions (November 2004) of BIFR regarding unconditional waiver of loan (₹ 519 crore), grant of ₹ 304 crore for payment of Interim Relief (IR) wages and conversion of current account balance into equity (₹ 1532 crore). BIFR pointed out (September 2006) that this would hamper the revival of the Company and also directed the Ministry to submit a fresh revival plan which was submitted in August 2007. The scheme was still under deliberation in BIFR (March 2011).

  Thus, due to divergent views of BIFR and the Administrative Ministry on the revival of the Company and inconclusive deliberations in BIFR, the revival scheme of the company has not reached its finality despite elapse of more than 10 years from its sickness (February 2001).

- As discussed in Para 4.4 (i) in March 1997, NEPA Ltd became sick and was referred to BIFR. On the directions of BIFR, GOI decided (March 1997) to sell the Company. However, the Parliamentary Standing Committee did not agree and instead recommended (November 2007) revival of the Company. Subsequently, the Company was referred to BRPSE for revival. The scheme has not yet been approved.

- Similarly, in NPCC, the scheme was approved in December 2008 on the recommendations of BRPSE. However, BRPSE recommendation for release of cash assistance of ₹ 60 crore for discharging dues and salaries of employees and GOI guarantee of ₹ 20 crore to facilitate the Company for bidding in new projects were not accepted by GOI. Consequently, net worth of the Company remained negative due to which it could not participate in bidding for new projects and was forced to work as a sub-contractor.

- As discussed in Para 4.4 (iii), BIFR approved a revival scheme for HEC in August 1996. However, due to late receipt of reliefs and concessions, the Company could not achieve the projections given in the revival package. BIFR ordered (May 2003) for change of management of the Company in response to which the Ministry submitted another revival proposal. As per the proposal, the major part of the finance was to be generated from the sale of Company's surplus land at Ranchi which could not materialise as the Government of Jharkhand did not give its consent for sale of land. Consequently, BIFR ordered (July 2004) for winding up of the Company. The Company and the Administrative Ministry filed (August

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[21] *ECL, NEPA, NPCC and HEC*

2004) appeals before Appellate Authority/ Hon'ble High Court of Jharkhand for staying the order of BIFR which was finally quashed in November 2009 by the latter. Even before the High Court orders, a revival package was approved (December 2005) by GOI on the recommendations of BRPSE and the same was also implemented. Thus, there was lack of synergy amongst BIFR, State Government and GOI on the revival of HEC.

In brief, lack of synergy amongst various agencies led to delayed/non-implementation of the recommendations of the BIFR/BRPSE which ultimately had an adverse cascading impact on the revival of the sick CPSEs.

The Department of Public Enterprises stated (November 2011) that the composition of BRPSE is wide enough to cover all the agencies concerned with the revival proposals of sick CPSEs. All the proposals are discussed in details and decisions are arrived at by consensus. BRPSE has been constituted with a view to ensure transparency, independent decision-making and a broad consensus on the strategy for revival of sick CPSEs. Besides, there is a single layer i.e. the concerned Administrative Ministry/ Department which is responsible for preparing proposals for revival of its sick CPSEs, obtaining approval of the competent authority and its implementation and monitoring.

Audit however, noticed that there have been delays in approval of schemes as discussed above due to lack of synergy and divergent views amongst various agencies including BRPSE, State Governments, BIFR and GOI indicating the need for an authority empowered to finalise the proposals within definite timeframe. Further, despite its wide composition, the role of BRPSE is only recommendatory and passes through several layers from the respective Administrative Ministries to the Committee of Secretaries (COS), Planning Commission, Ministry of Finance and other Ministries. This makes the whole process open-ended due to which the revival decisions do not reach to their finality in a time-bound manner.

DPE stated that this issue can be addressed by a review of the existing policy framework.

In essence, the procedure followed for approval of schemes was time consuming due to involvement of multiple agencies like consultant, Company, Administrative Ministry, BRPSE/BIFR, Committee of Secretaries, other Ministries and Departments and Cabinet Committee on Economic Affairs.

The process involved prolonged deliberations at each stage, as a result, there were inordinate delays (upto 18 years) in the approval of schemes due to which the accumulated losses of these CPSEs increased by ₹ 15160.98 crore.