

Conclusion and Recommendations

10.1 Conclusion

10.1.1 BHEL is a Maharatna CPSE, under the Department of Heavy Industry, Ministry of Heavy Industries and Public Enterprises. Being a major domestic power equipment manufacturer, BHEL planned power equipment manufacturing capacity expansion schemes in line with the increasing power generation targets envisaged in X to XII Plans. During X Plan, BHEL planned (2004-06) capacity augmentation programme to increase its power equipment manufacturing capacity from 6300 MW per annum to 10,000 MW per annum (Phase-I) to be completed by December 2007. Similarly for XI and XII Plans two more programmes comprising 22 schemes for further augmentation of capacity from 10,000 MW to 15,000 MW (Phase-II) and from 15,000 MW to 20,000 MW (Phase-III) respectively were planned during January 2007 to June 2009 for completion by December 2009 and December 2011 respectively. Though the schemes under Phase-II and Phase-III were declared completed by BHEL in March 2011 and March 2012 respectively, actual status reported by units indicated that 5 out of 22 schemes were yet to be completed (March 2013). It was necessary to expedite and complete the capacity augmentation schemes in time so as to avail the opportunity thrown open by XI Plan.

10.1.2 Capacity expansion programme also envisaged reduction in time cycle of delivery of power equipments by BHEL to meet market demand. This was not fully achieved as capacity expansion schemes were still (March 2013) under implementation. There was scope for BHEL to strengthen its preparedness in planning and implementation of capacity augmentation to effectively meet competition and requirements of the national power plans.

10.1.3 Apart from the need for better preparedness, capacity augmentation in different segments was also required to be matched with Plan requirements. Against the projected requirements of 8,200 MW and 31,860 MW for the country in supercritical thermal segment during XI and XII Plans, the capacity augmentation planned by BHEL was only 5,280 MW and 18,000 MW respectively. However, in case of subcritical thermal segment, against projected XII Plan requirements of 12,640 MW for the country, capacity augmentation in BHEL was planned at 44,898 MW indicating creation of surplus capacity. While Management stated that new machines installed under capacity expansion schemes could be used for manufacture of large size supercritical sets, details of actual utilization of the new machines to manufacture supercritical sets (other than boilers), if any, were not provided to Audit by Management. It is, therefore, likely that the capacity created for turbines and generators under sub critical segment may not be optimally utilized.

10.1.4 Implementation of capacity expansion programmes for XI and XII Plans (covered in Audit) disclosed delays between 07 months and 62 months in 17 selected schemes⁵⁷ out of 22 schemes approved in 2007-12. Apart from some uncontrollable factors, delays due to factors like non-fixation of targets for vendors for erection and commissioning of machines, replacement of damaged equipment and delay in pre-ordering activities were possible to be minimized through improvements in market research, planning and monitoring.

10.1.5 Existing installed manufacturing capacity for turbines, generators and boilers during 2007-11 remained largely underutilized. There was considerable scope for improved utilization. Though capacity utilization picked up during 2011-12, there is a need to maintain and further improve it in order to achieve the benefits of ongoing capacity augmentation. In view of inadequate orders booked by BHEL in 2012-13 as compared to manufacturing capacity created, there was a challenge for BHEL to optimally utilise its capacity. Further, Audit observed delay in delivery of equipments ranging between 7 and 68 months in 126 out of 151 sets delivered by BHEL to its customers during 2007-12 (Disaggregated details in para 6.1).

10.1.6 Market share of BHEL (based on projects commissioned/likely to be commissioned during the Plan period) declined from 65 per cent at the end of X Plan to 59 per cent at the end of XI Plan and was likely to come down to 58 per cent at the end of XII Plan (based on CEA data on projects likely to be completed in XII Plan). Despite uncertainties related to coal availability leading to dampening effect on fresh orders during 2011-12 and 2012-13 as stated by the Management, there was scope for arresting decline in the order book through timely acquisition of technology/manufacturing capacity, improvement in cost estimation for tenders and control of wage costs to increase competitiveness of products. BHEL would gain further through focused R&D efforts and increased R&D outlay.

10.1.7 There was scope for providing more appropriate and challenging targets for evaluating performance through various parameters in the MOU.

10.2 Recommendations

Ministry of Heavy Industries and Public Enterprises

1. Ministry may consider reviewing performance parameters and fix challenging targets in MOU to provide a more realistic and objective basis for assessment of performance of BHEL.

BHEL

2. BHEL may review the pricing mechanism of its equipment to make it more competitive by adopting appropriate costs including employee costs.
3. BHEL may work out a time bound programme for increasing outlays on R&D activities, particularly in core areas so as to convert these into advantages in competition.

⁵⁷ Disaggregated details in Annexure I

4. Monitoring mechanism may be strengthened to minimize controllable delays in project execution and delivery by fixing periodicity and levels of monitoring up to the Board of Directors.

In respect of the first recommendation, Management stated (April/September 2013) that setting up of targets and evaluation of performance was carried out by independent Task Force. Management accepted (April 2013) the remaining recommendations and stated (September 2013) that steps were being taken by them in that direction.



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