CHAPTER III: DEPARTMENT OF CHEMICALS AND PETROCHEMICALS

Hindustan Insecticides Limited

3.1.1 Irregular payment to employees

The Company made irregular *ex-gratia* payments of Rs.3.10 crore to its employees for the period 1998-99 to 2005-06.

As per the DPE's instructions (20 November 1997), no *ex-gratia*, honorarium, reward, *etc.*, was to be paid by the Public Sector Enterprises (PSEs) to their employees, over and above their entitlements under the provisions of the Payment of Bonus Act, 1965 unless the amount was authorised by the Government under a duly approved incentive scheme.

In November 1998, the Company decided to discontinue with its existing[1] PLI scheme and introduce a revised scheme. However, the Company continued to make an annual *ex-gratia* payment at a flat rate of Rs.2,000 *per* employee during 1998-99 and 1999-2000 calling it 'Festival allowance/non-recoverable advance' and between 2000-01 to 2002-03 as 'PLI advance' aggregating to Rs.2.08 crore. In March 2004 the Board of Directors of the Company decided that since the Company had been referred to BIFR[2] it would not be possible to introduce or review any incentive scheme at that stage. The payments already made in the interim were however, regularised. However, the Company continued to make an *ex-gratia* payment at the same rate to all employees during the period 2003-04 to 2005-06 aggregating to Rs.1.02 crore.

It was observed in Audit (February 2006) that the Board in approving the payment of 'Festival Allowance' for the year 1997-98 as a special case, observed that such payments in future would be made only on the basis of approved PLI scheme. Despite the observations of the Board and abandonment of the original scheme in 1998 followed by the decision of the Board not to introduce a new or revised scheme the Company continued to make irregular *ex-gratia* payments to its employees amounting to Rs.3.10 crore during the period 1998-99 to 2005-06.

The Management stated (June 2007) that the Company had a duly approved incentive scheme in operation since 1981. The revised scheme was under consideration of the Board and it had not rejected (March 2004) the PLI scheme. It felt that the proposal could be reviewed afresh only when the performance of the Company improved and the Company would be in a position to pay PLI. The Ministry endorsed (July 2007) the reply of the Management.

The reply was not tenable as the scheme of 1981 had been discontinued from 1997-98 due to change in operations of the Company. The payment of *ex-gratia* was approved by

[1] ***The PLI scheme had been in operation since 1981***
[2] ***Board for Industrial and Financial Reconstruction***

the Board of the Company (January 1999) as a special case with the condition that in future no such payment would be made otherwise than on the basis of approved PLI scheme. The payments were irregular as these were neither made under any approved PLI scheme nor were the recipients covered under the Payment of Bonus Act, 1965.

Thus, the *ex-gratia* payment of Rs.3.10 crore made by the Company to its employees was irregular.

Indian Drugs and Pharmaceuticals Limited

3.2.1 Avoidable expenditure due to non-reduction in Contracted Maximum Demand from CPDCL

Failure on the part of the Management in taking timely decision for reduction of Contracted Maximum Demand resulted in extra expenditure of Rs.66.39 lakh towards the minimum billing charges from April 2004 to May 2007.

The Synthetic Drugs Plant (the unit) of the Company had a power supply connection with a Contracted Maximum Demand (CMD) of 5,000 KVA. As per the tariff applicable, if the actual consumption was less than 80 *per cent* of the CMD, there was a liability to pay demand charges for a minimum of 80 *per cent* of CMD. The unit applied (March 2002) for reduction of CMD from 5,000 KVA to 1,500 KVA which was approved by the Central Power Distribution Corporation Limited of Andhra Pradesh (CPDCL) in December 2003 with effect from January 2004. During the period April 2002 to March 2004 the actual consumption showed a further declining trend. The actual consumption decreased from 1,184 KVA to 388 KVA. Despite the declining trend the Company did not assess its power requirement/consumption and did not initiate action to further revise the CMD to 500 KVA before April 2004.

The monthly consumption bills during the period April 2004 to March 2007 revealed that the actual consumption of electricity ranged between 219 KVA to 370 KVA, far lower than 1,200 KVA[*] and the Company incurred an avoidable expenditure of Rs.66.39 lakh considering the CMD as 500 KVA.

The Ministry in its reply stated (July 2007) that:

(i) revival of the plant was being contemplated by Government; and

(ii) Government of Andhra Pradesh had agreed to waive outstanding dues of the unit to the extent of Rs.206.77 crore, including Rs.140.05 crore to be paid to CPDCL.

The Ministry reply was not acceptable in view of the following:

(i) The unit has very few employees on its rolls. The revival of unit when undertaken would be over a period of time including recruitment and start of any substantial activities. As such notwithstanding the revival plan the Company had a

[*] ***Eighty per cent of Contracted Maximum Demand of 1,500 KVA***

compelling need to reduce CMD as there was continuous decline in its demand for electricity and thereby save on avoidable expenditure.

(ii) The CMD charges have already been paid and hence could not be part of outstanding arrears. The benefit of waiver of dues cannot logically be extended to payments already made.

The Company had subsequently applied (May 2007) for reduction in CMD from 1,500 KVA to 500 KVA to CPDCL.

Thus, failure to take timely action for reduction of CMD resulted in avoidable extra expenditure of Rs.66.39 lakh.