CHAPTER-III

PROFILES OF SELECT ORGANIZATIONS

An attempt is made in this Chapter to present a brief profile of the select organizations that have undergone the transformation from the public sector to private sector

A) PROFILE OF MAHINDRA AND MAHINDRA

Historically the unit under study was in public sector in the name of Allwyn Nissan Limited. It was promoted as a joint venture by Hyderabad Allwyn Limited in collaboration with Nissan Limited for the manufacture of light commercial vehicles (LCVs) with a payload up to 3 mt. The estimated project cost was Rs.52 crores, to be implemented in two phases. The first phase was implemented at a cost of Rs.24.10 crores. The commercial production of LVCs commenced in April, 1985. The licensed capacity has been increased from 10,000 units to 50,000 per year.

Plant Details:

Total Area : 343 Acres 13,89,991 Sq.Mtrs
Plant Land Area : 271 Acres 10,98,416 Sq.Mtrs
Built Up Area : 16.6 Acres 67,446 Sq.Mtrs

STATUS IN 1988-89

The first two years of operation resulted in losses, which have continued mainly due to a stagnant LCV market and yen appreciation. Due to continued fall in sales and production volume, it incurred a loss of Rs.404 lakhs in 1987-88. As of June, 1988, accumulated loss totaled Rs.1,110.98 lakhs.
REASONS FOR LOSSES:

In an automobile industry the following are the barriers to success

- Application of new technology
- Flexibility to markets by change to technology
- Economies of scope
- Range of external links

The critical difference is that the successful firms can break through the barrier by meeting not only technical and financial standards but also by supplying vital managerial competences. Entry of small firms into the main volume production is prohibitively expensive. In the case of Allwyn Nissan, the reasons for such losses are that the market of LCV has not grown as expected and the demand has stagnated. Yen fluctuations could not be countered with a faster rate of indigenization. The indigenization process was slow due to low volume and heavy tooling costs. Sale price had to be increased in view of the yen appreciation, which has adversely affected a demand that was already weak. Since the Allwyn Nissan could not overcome the barriers, it went into losses.

REHABILITATION PLAN BY GOVERNMENT

As per normal practice, the management and the Industries Department of Government of Andhra Pradesh formulated a rehabilitation plan or what has been termed a “turnaround strategy”. The turnaround strategy detailed action plans comprising short-term, intermediate and long-term measures, cost reduction process, planned break-even strategies, which covered marketing, production, indigenization and other economy measures. The proposal was under consideration for one year from April 1987, with adhoc measures of
“reserved procurement” of these vehicles for government use, irrespective of price. In 1988, ANL sought the following from the government:

a. Rs.200 lakhs financing for certain basic infrastructure facilities and funding expenditure by way of outright subsidy.

b. Support for marketing, such as directing the government departments to buy LCVs subsidizing promotional expenses etc.,

c. Support for faster indigenization, essential to counter the yen appreciation, and reduction of imports. It was suggested that the investment be provided as an interest free loan,

d. Support for a concessional sales tax to facilitate financiers and bankers in financing the purchase of LCVs, with suitable amendments to the Motor Vehicles Act, exemption for power cuts etc.,

e. Equity support of Rs.5 cores

f. Interest on loans at 11.5 per cent assured

GOVERNMENT DECISIONS

The government considered further budgetary support and decided that the activity did not warrant further financial flows from the exchequer. There was no formal decision to privatize but the options available included it, when a committee was appointed for the purpose. The significant feature of the governmental decision was clearance to approach major automotive manufacturers for collaboration in rehabilitation.

APPROACH
a. In economic terms, it was considered necessary to increase activity in general by changing the investment portfolio of the government from units already promoted in favour of new units to be promoted. At the same time, the economic objective of increasing industrial activity in the existing unit had also to be kept in view.

b. In financial terms it was desirable to ensure that further outflow of funds from the government be allocated with reference not only to benefits that could accrue to the unit, but to alternate application of government funds. In addition, the possible additional inflows to the Government through sales tax, excise, income tax etc., by a higher level of activity had also to be computed.

c. In terms of workers, it was necessary to ensure full protection of employment, expanding opportunities to improve their positions by extended industrial activity and maintenance of high morale.

d. To the extent that the government company was a promoter of Allwyn Nissan, and the shareholder has this consideration in subscribing to the unit, it was necessary to ensure that the interests of small shareholders be protected.

e. With regard to the consumers as a whole it had to be ensured that there was no scope for restrictive practices in any proposal in a changed environment.

f. Other relevant aspects to be considered. Firstly, manufacture of light commercial vehicles is not an activity reserved for public enterprises and is one in which the private sector already dominates. Secondly, this is an industry in which excess capacity also exists. Thirdly, unlike some enterprises in which private control dominates in spite of majority public ownership
in the aggregate, the proposed change in environment of ownership of these units would ensure adequate stake in the equity for the private party. Fourthly, precedents exist for moving units out of the public sector, such as A.P. Paper Mills. Fifthly, it is better to give a larger financial stake to a private party rather than to allow marketing and do the types of private involvement and sale contract to revive the unit. Finally, to the extent revival is necessary and a choice has to be made between divestiture before and after revival, the higher financial stake and uncertainties in the latter option have to be reckoned.

**PRIVATIZATION OF ALLWYN NISSAN**

Allwyn Nissan is the first case in India of privatization through divestiture. Ownership was transferred to Mahindra & Mahindra (M&M) an automobile manufacturing company in the private sector. The government, however, still holds a portion of the equity to ensure that the interests of labour are protected. Towards this end an agreement was signed with M&M that
i. Retrenchment of existing labour would not take place and
ii. Promises of benefits would be honored.

**EMERGING ISSUES:**

In any public transaction it is fully recognized that the procedures adopted should be clear and non-discriminatory. The government has very clearly indicated from the outset the objectives to be kept in view in proceeding with a change in ownership. The committee constituted for this purpose examined rehabilitation plans within the government sector but found that alternative ownership and control transfer are more
attractive. The scope for workers, takeover of the enterprise as a whole was explored but not found feasible.

Subsequently, guidelines were prepared to identify parties that might be in a position to give credible offers in terms of technical, financial and managerial competence. At the same time, the government has stated its intention of making equity capital available to the workers of Allwyn Nissan on such terms and conditions as may be decided in due course. Flexibility in considering various options i.e. merger, quantity and price for disinvestment mode and terms of payment etc., had to be given to the negotiating committee to optimize the gains. Clarity, not ambiguity, is also needed in such transactions. The objectives, including encouraging local activity, have to be clearly incorporated in a formal memorandum of understanding setting forth mutual obligations. The MOU drawn up makes clear the nature of protection for workers, the future intention of expanding activity and also freezing of tax or other concession by the state government.

However, the licensing of a number of units for LCVs and somewhat limited market opportunities created unexpected problems. Appreciation of the yen beyond reasonable expectations compounded the problems. Solutions have to be found to make the unit viable in inputs – large-scale indigenization, and effective marketing. Large-scale indigenization, meant to cater primarily to this unit alone, was found to be uneconomical at this juncture. Building up an effective marketing strategy with network in a highly competitive field was beyond the capability of this unit. Moreover the appreciation yen day by day compounded the problems. In the meantime, the funds of the government are locked up in this enterprise instead of being applied in other activities relating to industrialization.
In contrast to this, the private party has a special advantage in taking over this unit. It has a well-developed marketing network. It also has some facilities for manufacturing component parts.

The plant which was started in the year 1984 entered into commercial production in September, 1985 with a high hope of becoming one of the leading LCV manufacturers but due to poor market demand the Company has become sick and privatized in the year 1993 through BIFR. The BIFR conferred to Mahindra & Mahindra Ltd., to take over the unit.

A Government owned Company in 1980’s was made private company which is first in this state and made turn around Company in 1990’s and increase the standard of living of the employees as well as the society in and around Zaheerabad.

The Company was amalgamated with Mahindra & Mahindra Limited on 15th December 1994 and the Company re-christened as Mahindra & Mahindra Limited.

MAHINDRA & MAHINDRA LTD.,

Mahindra & Mahindra Ltd., is the flagship company of the Mahindra Group. It is one of the largest private sector companies in India with sales of Rs.44.76 billion (2000). The main business of the Company is the manufacture and marketing of utility vehicles, light commercial vehicles and tractors.

The Company was set up on October 2nd 1945 by the Mahindra brothers along with Ghulam Mohamed as Mahindra & Mohmmed. It traded steel with suppliers in England. The Company underwent a change of name as Mahindra & Mahindra in 1948 after Ghulam Mohmad migrated to Pakistan after partition. The Company started
assembling complete knock down (CKD) jeeps in 1949 at Mazagon in Bombay. Today it has six state-of-the-art factories and 33 sales offices supported throughout the country by a network of more than 500 dealers. The Implementation Secretariat has effectively pursued matters with Financial Institutional Investors (FIIS) and obtained one-time settlement as a part of debt clearance of NSL. The Implementation Secretariat also ensured that the successful bidders were financially sound with experience in management to carry out the committed business plans.

It’s manufacturing facilities together cover an area of over 500,000 sq.mt and employing over 17,000 technical and non-technical personnel. It has a large IT Network connecting all plants/offices running on NT platform, with over 2,500 nodes.

AUTOMOTIVE DIVISION

The Automotive Division manufactures and sells a wide range of utility vehicles. In fiscal year 2001 the Company sold 62,927 vehicles making it the market leader with a 46.13% market share in the domestic utility vehicles segment. A major portion of the automotive division’s sales is in the rural and semi-urban areas.

The manufacturing facilities for utility vehicles are located at Kandivli, Nasik and the manufacturing facilities for LCVs are located at Zaheerabad. The range of products includes: CL Range, MM Range, Commander Soft Top Range, Hard Top Range, Armada Range, Voyager Range, Pickup Range, Light Commercial Vehicle, Export Model Rang, Alternative Fuel Range, Army Range, Bolero Range.

Group companies

Mahindra & Mahindra Limited (M&M) is the flagship company of the Mahindra Group, which has a significant presence in key sectors of the Indian economy. A consistently high performer, M&M has been ranked among the top ten private sector companies in the country for several years.

Setup in 1945 to make general-purpose utility vehicles for the Indian market, M&M soon branched out into manufacturing agricultural tractors and light commercial vehicles (LCVs). The company later expanded its operation from automobiles and tractors to secure a significant presence in many more important sectors.

An organizational restructuring exercise in 1994 arising from a business process re-engineering programme resulted in the core activities of manufacturing utility and light commercial vehicles and agricultural tractors remaining with the flagship company.
All other activities were spun off into separate entities and organized under business groups, each headed by a president. These groups are in the areas of hospitality, trade and financial services, automotive components, information technology, telecom and infrastructure development.

Today M&M has two main operating divisions:

i) The automotive division manufactures utility and light commercial vehicles.

ii) The farm equipment division makes agricultural tractors and other farm implements.

M&M's outstanding manufacturing and engineering skills allow it to constantly innovate and launch new products for the Indian market. Proof of this expertise is the launch of the Bolero, a new generation utility vehicle, and the Arjun a sophisticated agricultural tractor.

The company's commitment to technology – driven innovation is reflected in the setting up of the Mahindra Research Valley, a 100-acre facility that will house, under one roof, the company's engineering research and product development wings.

The M&M philosophy of growth is centered on a belief in people. As a result, the company has put in place initiatives that seek to reward and retain the best talent in the industry. M&M is also known for its progressive labour management practices.

M&M is also working on an improved version of the Voyager which is being manufactured at the Zaheerabad plant in technical collaboration with Mitsubishi of Japan. Sales of the vehicle have been dipping over the last few months and the modification plans are expected to reverse the trend.

M&M has six state of the art manufacturing facilities spread totally over 500,000 square meters at Jaipur, Rudrapur (Uttar Pradesh),
Nagapur, Mumbai, Igatpuri (Maharastra), Satpur (Nashik) and Zaheerabad (Andhra Pradesh). The company has 49 sales offices that are supported by a net work of over 780 dealers across the country.

**CORE VALUES**

The core values are influenced by their past, tempered by the present and are designed to shape their future. They are an amalgam of what they have been, what they are and what they want to be.

The following are the values that will guide the actions of the company both in respect of personal and corporate values.

- **Good Corporate Citizenship**
  As in the past, the company will continue to seek long term success that is in alignment with our country’s needs. The company will do this without compromising on ethical business standards.

- **Professionalism**
  The company always sought the best people and given them the freedom and the opportunity to grow. It will continue to do so. The company will support innovation and well reasoned risk taking, but will demand performance.

- **Customer first**
  The company exists and prospers only because of its customers. The company will respond to their changing needs and expectations speedily, courteously and effectively.

- **Quality Focus**
  Quality is the key to delivering value for money to the customers. Company will make quality, a driving value in its work, in their
products and in their interactions with others. Company will do it “first time right”.

- **Dignity of the Individual**
  The company value individual dignity, uphold the right to express disagreement and respect the time and efforts of others. Through their actions, they nurture fairness, trust and transparency.

**MAHINDRA & MAHINDRA (ZAHEERABAD) TURN AROUND STRATEGY**

1. **Phases**
   There are Five phases in turn around strategy of this unit. They are
   
   1985-1989 : Allwyn Nissan(Public Sector)Phase
   1995-2000 : Transformation phase (M&M)
   2000-2003 : Stabilization & Consolidation phase
   2003-2005 : Take-off phase

2. **Status of Inheritance (Allwyn Nissan phase)**
   
   **a. Infrastructure**
   
   I. Basic facilities
   II. Poor communication facilities
   III. Poor road and rail connectivity

   **b. Plant**
   
   I. Poor productivity
   II. Poor work practices
   III. Militant Union
   IV. Excess Man power
   V. Demoralized officers
   VI. Illiterate workers (original land losers)

   **c. Product**
I. Single product
II. Low demand
III. Low level of indigenization

d. Social
   I. No educational and medical facilities
   II. Inadequate housing for staff and workmen
   III. Low level of involvement in social initiatives

e. Financial
   I. Accumulated loses Rs.54Crores
   II. Severe Cash flow problems
   III. Model with negative contribution
   IV. Very high fixed expenses

3. Survival phase
   Mahindra & Mahindra joined the board of directors and taken over day to day management and faced several problems. They have concentrated totally on surviving for the day and planning for future and focused on problems threatening their daily existence and addressing them.

   (a) Since yen appreciation pushed up the cost of imported material localization of parts was started. As there is severe cash crunch treasury management was started introduced incentive schemes, started educating the workmen on problems being faced by plant and started dialogue with union to work properly to improve work practices and productivity. Since the base model vehicle is making
negative contribution, variants with positive contribution were manufactured.

(b) Voluntary Retirement scheme: 43 workers opted for VRS during 1991.


- Scrapped incentive scheme which had outlived its utility
- Stopped overtime
- Introduced concept of "Effective working time"
- Introduced new work measurement system
- Introduced single piece flow and self inspection, work related activities, flexibility in working, multi operations etc.,
- Shifted all operations from Secunderabad to Zaheerabad plant (November 1996)
- Stiff resistance from unions and local politicians was overcome by offering separation package for those unwilling to relocate and 16 officers have opted for VRS during 2002.

- Brought new models
  a) FJ in September 1995
  b) SXJ in December 1995
  c) Voyager in November 1997
  d) Bijlee in July 1999
  e) RTD in September 1999

- Following investments were made for infrastructure, new models and localization
  a) Plant shop up gradation : Rs.2500 Lakhs
  b) CK cabin, dies & fixtures : Rs.4300 Lakhs
  c) Champion project : Rs.800 Lakhs
  d) Infrastructure : Rs.1056 Lakhs
e) FJ Project : Rs.110 Lakhs
f) Voyager project : Rs.3600 Lakhs

- Upgraded & added major facilities
  a) Upgraded painting lines
  b) Storage system for LPG was provided
  c) Enhanced power station capacity from 3 to 5 MVA
  d) Enhanced production capacity from 5000 to 50,000 per year
  e) New LAN, WAN were provided connecting Zaheerabad to other plants and offices of M&M (1998)
  f) Went live on SAP (1999)

- Other initiatives
  a) Became ISO 9001 Certified Company (1997)
  b) Became Process Centric Enterprise (2001)
  c) Adopted MQS methodology of working (2001)
  d) MO Ps for all employees (2001)


The following new models were introduced during this period.

- Champion January 2001
- NEF in March 2001
- Tourister bus in February 2002
- Max/Marshal December-2004/August-2003
- ALFA – April-2005

Table-3.1
Details of staff working in Zaheerabad (M&M) plant

<table>
<thead>
<tr>
<th>Year</th>
<th>Officers</th>
<th>Workmen</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-2000</td>
<td>184</td>
<td>495</td>
<td>679</td>
</tr>
<tr>
<td>2000-2001</td>
<td>197</td>
<td>451</td>
<td>648</td>
</tr>
</tbody>
</table>
At present there is one (1) Vice president, three (3) General Managers, Seven(7) Deputy General Managers, Five(5) Senior Managers, Thirty four(34) Managers, Fifty Two (52) Deputy Managers, Ninety two (92) Assistant Managers, and nine(9) executives. There are 421 Workmen present in the plant. Organizational chart is appended as annexure - 1

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Light Commercial Vehicles</th>
<th>Utility Vehicles</th>
<th>Three wheelers</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>7278</td>
<td>249</td>
<td>10279</td>
<td>17806</td>
</tr>
<tr>
<td>2004</td>
<td>7364</td>
<td>639</td>
<td>17794</td>
<td>25797</td>
</tr>
<tr>
<td>2005</td>
<td>8774</td>
<td>2182</td>
<td>23230</td>
<td>34186</td>
</tr>
<tr>
<td>2006</td>
<td>6805</td>
<td>4852</td>
<td>21973</td>
<td>33630</td>
</tr>
<tr>
<td>2007</td>
<td>8811</td>
<td>4188</td>
<td>26302</td>
<td>39301</td>
</tr>
</tbody>
</table>

The above table reveals the production performance of the Zaheerabad plant for the latest 5 year. There has been a steady increase in the production of LCVs, utility vehicles, and also Three wheelers during 2003 to 2007. The total production increased from 17,806 vehicles in 2003 to 39,301 vehicles in 2007

Table 3.3
Details of sales at Zaheerabad Plant

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Light Commercial Vehicles</th>
<th>Utility Vehicles</th>
<th>Three wheelers</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>7600</td>
<td>-</td>
<td>10273</td>
<td>17873</td>
</tr>
<tr>
<td>2004</td>
<td>7418</td>
<td>470</td>
<td>17528</td>
<td>25416</td>
</tr>
<tr>
<td>2005</td>
<td>8522</td>
<td>2126</td>
<td>23118</td>
<td>33766</td>
</tr>
<tr>
<td>2006</td>
<td>7128</td>
<td>4620</td>
<td>22136</td>
<td>33884</td>
</tr>
<tr>
<td>2007</td>
<td>9062</td>
<td>4398</td>
<td>26476</td>
<td>339938</td>
</tr>
</tbody>
</table>

As seen from the above table the sale of vehicles increased from 17,873 during 2003 to 3,39,938 during 2007. This shows that the unit is performing well.

Table 3.4
Financial Performance of Zaheerabad Plant

<table>
<thead>
<tr>
<th>(Rs. in Crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
</tr>
<tr>
<td>2001-02</td>
</tr>
<tr>
<td>2002-03</td>
</tr>
<tr>
<td>2003-04</td>
</tr>
<tr>
<td>2004-05</td>
</tr>
<tr>
<td>2005-06</td>
</tr>
<tr>
<td>2006-07</td>
</tr>
</tbody>
</table>

During 2001 – 2002 the unit sold vehicles valued at Rs.281.01 crores. The Zahirabad unit has started manufacturing of International Tractors in 2005-06. The sales on this sector has increased from Rs.83.58 crores during 2005-06 to Rs.405.35 crores during 2006-07. Thus this unit has increased the sale of vehicles from Rs.281.01 crores during 2001-02 to Rs.862.12 crores during 2006-07.
Hyderabad Allwyn Limited was a leading Engineering Industry in Andhra Pradesh, with a turnover of over Rs.100 crores and having its manufacturing facilities at several places of the state.

Allwyn today is mainly known for its watches and refrigerators but it came into existence by way of manufacturing steel furniture, builder’s hardware and cutlery.

The birth of Hyderabad Allwyn Metal Works (as a public limited company) took place in 1942 when the company brought over the assets and liabilities of two small companies existing at that time, namely Nizam Knife Factory situated in Hyderabad and Allwyn Steel Equipment Company situated at Mumbai.

M/s Khan Sahab Dost Mohammed Alladin & Co. who was the promoter for the Company acted as its Managing Agents till 1956. Subsequently, Birla brothers under the corporate name of M/s Hyderabad Agencies were in effective management of the Company till 1959 under the Managing agency system. Thereafter the Government of Andhra Pradesh took over the management of the Company in August 1969 and progressively Allwyn became a Government company by 1975. The name of the Company was changed to Hyderabad Allwyn Ltd., in the year 1990.

Hyderabad Allwyn Limited has a long history of 48 years as an engineering industry pioneering several new products in various sectors of the national economy. It was a multi product, multi technology and multi location group. The diversity of the product range was from domestic appliances like Refrigerators, Office equipment and systems to
bus body fabrication on the one hand, to precision engineering products like watch, watch cases and industrial sewing machines on the other.

The Company was engaged in manufacturing and selling of the following products:

a. Domestic Refrigerators
b. LPG Cylinders
c. Bus bodies for RTC
d. Shaktiman cabs & floors required by Defense establishments
e. Furniture items
f. Watches / Watch Cases
g. Industrial Sewing Machines
h. Bottle Coolers
i. Deep Freezers

Hyderabad Allwyn was the result of a synergistic effort of in-house Research & Development reinforced by the technological support provided by international giants, such as M/s. Mitsubishi Electric Co., M/s Seiko and M/s Hitachi Ltd., of Japan.

Starting from a humble beginning in 1942, with a turnover of about Rs.6.35 lakhs, the company has attained turnover of Rs.196 crores in 1989-90. The company, which started with about 100 employees, has grown up and employed 11,300 persons. The company’s assets have jumped during 1992 – 93 up to Rs.204 Crores. The annual turnover of the company has jumped to over Rs.200 Crores. The company has also paid dividends uninterruptedly for one decade and the maximum dividend paid was 15%.

Financial performance prompting privatization
The profit making company started making losses from the year 1990-91. As a result of losses, the net worth of the company was eroded and it became sick.

Table-3.5
The Capital Structure, Profitability of Hyderabad Allwyn during 1990-2000:

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Total Equity</th>
<th>Total Debt</th>
<th>Total Investment</th>
<th>Accumulated Loss</th>
<th>Revenue earned</th>
<th>Net Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>27.64</td>
<td>198.33</td>
<td>225.97</td>
<td>30.29</td>
<td>155.36</td>
<td>-35.90</td>
</tr>
<tr>
<td>1991-92</td>
<td>27.64</td>
<td>225.85</td>
<td>253.49</td>
<td>91.12</td>
<td>159.44</td>
<td>-60.83</td>
</tr>
<tr>
<td>1992-93</td>
<td>27.64</td>
<td>316.26</td>
<td>343.91</td>
<td>184.76</td>
<td>47.74</td>
<td>-93.64</td>
</tr>
<tr>
<td>1993-94</td>
<td>27.64</td>
<td>316.26</td>
<td>343.90</td>
<td>184.75</td>
<td>47.75</td>
<td>-93.62</td>
</tr>
<tr>
<td>1994-95</td>
<td>27.64</td>
<td>316.26</td>
<td>343.90</td>
<td>4.41</td>
<td>47.75</td>
<td>-93.62</td>
</tr>
<tr>
<td>1995-96</td>
<td>27.64</td>
<td>316.26</td>
<td>343.90</td>
<td>4.41</td>
<td>47.75</td>
<td>-93.62</td>
</tr>
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<td>316.26</td>
<td>343.90</td>
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<td>27.64</td>
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<td>4.41</td>
<td>47.75</td>
<td>-93.62</td>
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<td>343.90</td>
<td>4.41</td>
<td>47.75</td>
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<td>1999-00</td>
<td>27.64</td>
<td>316.26</td>
<td>343.90</td>
<td>4.41</td>
<td>47.75</td>
<td>-93.62</td>
</tr>
</tbody>
</table>


The Board of Directors of the Company reviewed the position and informed the Government of Andhra Pradesh. Confronted with the need for financial support to M/s. Hyderabad Allwyn Ltd., the Government felt that there is no certainty even after investing required funds. Hence the Govt decided to disinvest in the company by transferring majority of its share holding to a prospective purchaser and constituted a high power committee to finalize the modalities for the transfer of majority shares including the manner of obtaining offers and to make suitable recommendation to the Government.
The High Power Committee recommended to the Government to take over of Refrigerator and Watch division of the Company by M/s. Voltas and M/s. BPL Ltd., respectively and to entrust the Auto division to APSRTC. This recommendation of entering into MOU with M/s. Voltas and M/s BPL for redeployment of personnel etc., was accepted by the Government on 18-11-1992.

Sick Industrial Companies Act (SICA) was amended to include Government companies in November 1991. The case of Hyderabad Allwyn Ltd., was registered before BIFR on 24-12-1992 and the Board declared the company sick and appointed IDBI as operating agency to present a rehabilitation plan.

M/s Hyderabad Allwyn Ltd., (HAL) was trifurcated into 3 companies in accordance with the suggestion made by the operating agency and under the orders of BIFR. The BIFR scheme envisaged inter alia, transfer of the watch division and auto division of HAL either by sale or lease to the newly formed companies viz. Allwyn watches Ltd., (AWL) and Allwyn Auto Ltd., (HAL) respectively under Government of Andhra Pradesh. The refrigeration division was taken over by M/s. Voltas Ltd., with 5,000 employees. There were no private parties willing to take over the other two units. The Government has transferred all assets like land, buildings pertaining to Auto division to M/s Volta Ltd.,

VOLTAS Ltd

Tata Sons Limited and Volkhart Brothers, a Swiss firm that had been operating in India since 1851, promoted Voltas Limited in 1954. Voltas was incorporate as a Public Limited Company on 6th September 1954. Established in 1954, Voltas is India’s premier air conditioner and engineering services provided. It offers engineering solutions for a wide spectrum of Industries in areas such as heating, ventilation and air
conditioning, refrigeration, climate control, textile machinery, machine tools, mining and construction, materials handling, water management, building management systems, pollution control and chemicals.

The company's strengths lie in the design and manufacture of industrial equipment, the management and execution of air conditioning and public work projects, the procurement, installation and servicing of technology based systems, and in being a representative of global technology leaders.

All these capabilities are ISO 9001-2000 certified.

**Areas of business:**

1. **Electro-Mechanical Projects & Services**
   - Air Conditioning & Refrigeration
   - Electrical, Mechanical & HVAC Solutions (International)
   - Water Management & Treatment

2. **Engineering products & Services**
   - Textile Machinery
   - Mining & Construction Equipment
   - Machine Tools
   - Materials Handling solutions

3. **Unitary Cooling products**
   - Cooling Appliances
   - Commercial Refrigeration

4. **Others**
Each of these divisions has independent facilities for market coverage and customer servicing.

**b) Manufacturing:**

Voltas manufactures industrial air conditioning and refrigeration equipment, air conditioners, water coolers, freezers, commercial refrigerators, forklift trucks and large water supply pumps. These products bear the stamp of State-of-the-art automated manufacturing plants, resulting in consistently high quality and reduced costs.

Voltas has partnered with international companies viz, LG Electronics of Korea and Fedders International of USA, for 'manufacture only' alliances producing low-cost, high quality, refrigerators and room air conditioners.

c) **Projects:**

The company is also well known in the field of engineering procurement and construction, and electro-mechanical projects, specializing in heating, ventilation and air conditioning, building management system, power and lighting, communication systems, water management and pollution controls. It has successfully undertaken project works in the Middle East, South East Asia, the Far East, Africa and the CIS countries.

d) **Marketing:**

Voltas’s extensive procurement and marketing operations cover air conditioner, textile machinery, machine tools, mining and construction equipment and industrial chemicals.
e) **Collaborations:**

In its pursuit of latest World-class technologies Voltas has established International tie-ups with Hitachi (Japan), Standard Refrigeration (USA), Dunham Bush (USA), Siemens Building Technologies (Asia Pacific), Ruks Engineering (Canada) and Costan of Italy for refrigerated cabinet display units for hyper markets. Voltas also represents a number of leading International manufacturers.

f) **Community Initiatives:**

Voltas has consciously laid emphasis on corporate social responsibilities and also on ecology and environment protection. Exemplary corporate citizenship is demonstrated in a numerous social welfare projects, whether independently undertaken or in support of the Tata Council for community initiatives.

g) **Location:**

Voltas has its head office in Mumbai and zonal head quarters in Mumbai, Kolkata, New Delhi and Chennai. It has territorial offices in Ahmedabad, Bangalore, Chandigarh, Hyderabad, Jamshedpur, Lucknow, Pune and Kochi. While the overseas offices are located in Abu Dhabi (UAE), Hong Kong and Singapore. Voltas has factories at Thane (Maharashtra), the Union Territory of Dadra and Sanathnagar (Andhra Pradesh).

**Vision:**

“Company will be among the 10 most admired industrial corporation in the country with leadership focus on :

1. Delivery of products and services which are globally competitive
2. Continuous improvement of our products, processes and people
7. A learning organization of committed and contributing employees who share the competitive agenda.
8. Continuing satisfaction of our customers and all our stakeholders.
9. Sensitive concern for society, environment and our values of justice, fair play and integrity.
10. Expansion in our areas of core competencies and development of competencies for our new product – market – growth opportunities.

**Company Culture**

1. Company strongly believes that it can rise only to the level its people take it to. For them their people are their strength and destiny.
2. Company believes that the only thing that is constant in this world is Change and so change is must with the changing times. For their growth, for their survival, to be the best and the fittest. They encourage every employee of theirs to participate whole heartedly in this change process.
3. Company has a very healthy concept of working in Teams. To term team signifies
   - Together
   - Everyone
   - Achieves
   - More

   Company believes that they build on this strength of theirs and make the Company a better place for working towards their goals.

**Voltas subsidiaries**

- Metrovol FZE
- VIL Overseas Enterprises B.V.
Voice Antilles N.V.
Simto Investment Company Limited
Auto Aircon (India) Limited
Simtools Ltd
Weathermaker Limited

Joint Ventures

- Universal Comfort Products Private Limited, Dadra, India
- Universal Voltas Air-conditioning & Refrigeration co., Abu Dhabi, UAE
- Saudi Ensas Company Ltd., Jaddah, Saudi Arabia

ADOPTION OF TATA BUSINESS EXCELLENCE MODEL (TBEM)

The Company’s adoption of the Tata Business Excellence Model, having been well institutionalized, continued to yield improvements in several targeted areas. These include Customer Relationship Management Employee Productivity, as well as lower process cycle times in Sales, Planning, Manufacturing, supply Chain operations and Services.

The Company has taken several steps to improve the organizational response to challenges emerging from the new environment. Major businesses reformulated their Mission and Value statement. All businesses have redefined their purpose in line with more demanding market conditions. These now form the basis of further improvement in action plans. In order to create business,
leadership commensurate with challenges, well structured mentoring and monitoring bodies and process are put in place.

Air conditioning & Refrigeration, Cooling Appliances and Handling businesses have upgraded quality systems and thus qualified for ISO 9001 / 2000 certification. Other businesses are well on course for achieving the certification.

INFORMATION TECHNOLOGY (I.T) INITIATIVES

During the year, the thrust was on setting up various IT driven systems selectively for various businesses, to expedite decision making in Strategic and Operational Planning. These include Project Management System(PMS), ERP(Sales, a daily Management Information Systems(MIS) for tracking dispatches, stocks and accounts receivables and for stocks of non-moving /obsolete items, and Employee Performance Management System, among others. These initiatives have resulted in reduction of Accounts Receivables and inventories in relation to business volumes, apart from standardization of processes. The company continues its efforts by implementing the ERP software in other areas as well.

COMMUNITY DEVELOPMENT AND ENVIRONMENTAL PROTECTION

In further once of its commitment to developing a strong self community, the company formulated a well defined framework for implementing its Community Development Philosophy. The framework envisaged applying the Company’s core competencies towards social development, and organizing the activities of its over 500 volunteers in locally relevant activities across the Company.
Towards end, a number of projects and activities were carried out. These included a programme to impart hands on and technical education in air conditioning and refrigeration to the underprivileged and under educated, through the Joseph Cardijn Technical School at Mumbai, and with LABS in Hyderabad.

The Voltas Organization of Women (VOW) continued to spearhead volunteer activities at institutions and NGOs like Bal Asha Ghar, shepherd’s Window’s Home, the ANZA special school in Akanksha.

The Company also extended financial support to institutions including Tata Council for Community initiatives. Donations of Rs.5 lakhs each were given to Cancer Aid Association and to VOW. An amount of Rs.3 lakhs was donated for the “Bal Bhavan Project” undertaken by TCCI in Bangalore.

GLOBAL COMPACT

As part of the overall commitment of the Tata Group, the company has recently signed the Global Compact with United Nations. The compact lays down nine key principles based on universally agreed and internationally applicable values and goals in the areas of Human rights, labour Standards and Environment.

Building and capitalizing on its consolidated resources and activities, the company has successfully entered into a phase of active growth. In this Endeavour, it draws on the positive results of earlier consolidation efforts, namely (a) restructuring and reorganization (b) technology acquisition (c) business alliances and (d) enhancement of operational efficiency through IT and HR practices.
The above consolidation, especially, the setting up of self independent cluster groups, had a direct impact on the direction and nature of growth. There has been (a) growth in all major existing and established domestic businesses (b) growth in the Company’s thrust into the international arena (c) higher cost savings from greater efficiencies and synergies and (d) growth in productivity of newly streamlined resources.

One of the benefits of the consolidation measures is an increase in the company’s ability, and in responsiveness to changing market and economic conditions and new opportunities.

ELECTRO MECHANICAL PROJECTS AND SERVICES

The Indian Heating, Ventilation, Air conditioning and Refrigeration HVACR market had a Compound Annual growth Rate CAGR of over 5% during the last three year period. Different market segments have shown different growth trends. Industrial air conditioning segment has shown a steep decline, steel, power, petroleum, fertilizer and chemical sectors had no major investments whereas sectors like pharmacy, cement and textile have shown promise of investments. In the Service sector, the need for central air conditioning is steadily rising particularly in the shopping malls, multiplexes, show rooms, departmental stores, banks, insurance and software parks.

The company’s Air Conditioning & Refrigeration business, with a CAGR of 7.6% over the last three years in order booking, has out performed the industry by approximately 2%. Revenue growth during the year was 12% in all product segments. In terms of unit sales, the Ductable split Units have grown by 15% and have sizably exceeded the Conventional floor Mounted Package Chillers, including Reciprocating
and Scroll Chillers, have grown by 31% over last year. The Screw Chiller segment has grown by 28%.

Electric Chillers have been preferred over Vapour Absorption Chillers, primarily due to a steep rise in fuel costs as against a stable electricity tariff. The Vapour Absorption business nevertheless shows promise, particularly in the co-generation segment as well as in industrial waste heat recovery applications.

In the new lines of businesses, which consist of Low Temperature Refrigeration, Process Cooling and Indoor Air Quality Improvement through controlled ozone injection, revenue has doubled. The Company now has entered into energy management in the HVACR field, another potential growth area.

The investment in IT for development and implementation of both Project Management System and Service Management System customized for HVAC operation is showing positive trends. Apart from better Customer Relationship Management it has facilitated cutting costs through better control and lean manpower structure. It is also geared to handle larger volumes of business without increase in manpower.

**Performance of the Company**

The HR, sales, services and financial performance of the company can be understood from the following table.

Table 3.6

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of employees</th>
<th>Sales and Services (Rs. in Lakhs)</th>
<th>Profit (Loss) after Taxation (Rs. in Lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>10,269</td>
<td>1,09,907</td>
<td>(955)</td>
</tr>
<tr>
<td>1998-99</td>
<td>8,796</td>
<td>98,428</td>
<td>1279</td>
</tr>
<tr>
<td>1999-00</td>
<td>5,807</td>
<td>82,434</td>
<td>550</td>
</tr>
<tr>
<td>2000-01</td>
<td>5,136</td>
<td>85,372</td>
<td>558</td>
</tr>
<tr>
<td>2001-02</td>
<td>4,329</td>
<td>94,066</td>
<td>1683</td>
</tr>
</tbody>
</table>
1. As far as HR is concerned, there has been a steady attempt to downsize the workforce. There were 10,269 employees in 1997-98, while their number was reduced to 2,905 in 2006-07.

2. A steady improvement of sale performance also can be noticed. From Rs.1,09,907 lakhs in 1997-98, it declined slightly to Rs.98,428 lakhs in the next year 1998-99. However, it gradually increased thereafter to Rs.2,45,078 lakhs by 2006-07. Financial performance in terms of profits is quite encouraging during this period.

3. The profit after taxation has considerably increased from Rs.1,279 lakhs in 1998-99 to Rs.18,608 lakhs in 2006-07.

HUMAN RELATIONS

In order to build a robust organization, various initiatives have been taken in the areas of Leadership Development and Succession Planning. The Company continues to focus on development of its Human Capital and imparts training to employees to enhance their skills and capabilities. The training process has been customized to suit the specific needs of the company, its customers and also all round development and growth of employees. The On – line Performance Management System of the Company helps in monitoring and encouraging individual and organizational performance.
Industrial Relations remained satisfactory. As part of the restricting exercise and the need to rightszie manpower, the Company had, with the permission of the concerned government authorities, closed down certain inactive units attached to the Company's establishment namely Compressor Repair Shop, Service Station and Warehouse. The employees attached to these units were retrenched and compensation due to them has been paid.

During 1999 Voltas Limited undertook a major restructuring and implemented a voluntary retirement scheme for its general employees costing an estimated amount of Rs.24 crores. First phase should see 600 employees taking premature retirement. The company also wants to give a golden hand shake to 1700 of its work force of 8000 that includes 2000 in managerial and supervisory categories. The Company also offered VRS in 1993 when it took over the refrigerator business of Hyderabad Allwyn which was accepted by 550 people costing an amount of Rs.12 crores.

During 2001-2002, 204 employees separated under VRS. This coupled with retrenchment and natural attritions, has brought down the overall number of employees from 4329 to 3935. The company still has excess manpower units of its operations at Thane Main Plant and Chinchpokli establishment. This situation needs to be corrected to safeguard the overall viability of operations at this location. The Management has time and again expressed its concern to the Union / Federation and sought their cooperation / suggestions for reduction of surplus staff cost, to which no positive response has been received. However, with the joint efforts of the Management and the Union, the Hyderabad Unit of the Company has signed a Productivity Linked Wage Settlement, which has improved the performance of the Unit in terms of quality and productivity.
The Company continues to make efforts to upgrade the skills and effectiveness of all its employees irrespective of their cadre, through various training and development initiatives. Employee ‘Satisfaction surveys are conducted and actions taken to improve the employee satisfaction levels.

OUTLOOK, OPPORTUNITIES AND THREATS

The renewed plans and allocations for infrastructure development over 5-7 years in the current national and state budgets offer a significant opportunity in Construction equipment. These include the Rs.58,000 crores budget for national highway construction and Rs.2,500 crores allocation for State road development in Karnataka, Gujarat and Kerala. Sizeable opportunities for mining equipment lie in the Rs.14,000 crores allocation for developing the Coal mining sector. With its strong tie-ups with world-renowned principals, the Company is in a position of strength to exploit these openings. The company’s expectations in all these areas are contingent on allocation and disbursement of the proposed funds and scoring of the relevant contracts.

In Electro – mechanical projects, opportunities wait in the continued thrust in new overseas markets and in high – value contracts. Some specific opportunities are increasing construction activity in

a. Quatar for the Asian Games in 2006
b. China for the Olympic Games in 2008
c. Iraq for post-war reconstruction and
d. UAE.

Other new overseas markets being sought are Africa, Europe and Egypt. The company is well placed to realize these prospects, due to its record of successful execution of such projects. However, exploiting these opportunities will depend upon
a. Expanding the Company’s skilled manpower base
b. Enhancing present capabilities for assessing risks and implanting processes and systems for their mitigation and
c. Detailed understanding of and compliance with local, legal, social, environmental and cultural requirements.

The market for household and commercial/institutional air conditioners continues to represent a large opportunity, especially the former segment. Growth in the overall market stands at 20% respectively, with a potential rose to 40% in household air conditioners. The optimistic outlook is based on

a. Low current market penetration of 2%
b. Upwardly mobile lifestyles and income levels and
c. The prevalence of climatic heat and pollution, along with a growing market emphasis on maintaining a healthy environment.

The Company’s prospects have been substantially strengthened by its strong leadership presence and the growth awareness and popularity of its brands. The key requisites for capitalizing on these opportunities are strategies for growth in a crowded and competitive market, coupled with measures to constantly lower per unit costs.

The revival of the manufacturing sector in India, and especially its growing importance as an off-shore manufacturing base, represents opportunities in capital goods, primarily Machine Tools and Textile Machinery.

The Finance Act, 2003 has included in the ambit of service tax new areas of services and has also increase the rate of service tax from 5% to 8%. The additional burden of service tax may have to be absorbed by the Company.
PERFORMANCE OF HYDERABAD (SANATHNAGAR) PLANT

Hyderabad Allwyn was amalgamated with Voltas with effect from 1\textsuperscript{st} April 1993 with the approval of BIFR on 4\textsuperscript{th} April 1994 retrospectively. Voltas has re-started the refrigerator and LPG cylinder units. It was proposed to manufacture furniture with new product designs through a Swiss Collaborator. The Voltas has not made any investment during 1993-94 to recommission the plant, as there was procedural delay in the amalgamation.

The Allwyn unit incurred large losses during 1993-94 when Voltas was not effective control of the unit. (Source: 40\textsuperscript{th} Annual Report for the year 1993-94)

During 1995-96 Allwyn unit was hard hit by the intense competition in the industry as it is largely dependent on refrigerator business and its revival did not make the expected progress. Its production levels have shown a commendable increase with the introduction of new products such as Visicoolers, freezers and food preserving equipments, which enabled profitability to improve. The delayed receipt of the new paint line slowed the regular output of the modular furniture line to the Swiss Lista design. (Source: Annual Report 1995-96)

During 1998-99 the Allwyn Brand refrigerators etc and its operations were transferred to Electrolux Voltas Limited (EVL) on 31\textsuperscript{st} March 1999.

The Allwyn unit was able to increase its production and sales for the previous year by 10% and 20% respectively. In 1998-99 3,00,000
refrigerators were sold. Contract manufacturing contributed 1,46,337 units (48% of the total sales). In commercial coolers Allwyn introduced new 175 Ltr. and 255Ltr Visi Coolers. Furniture operations showed substantial increase in volumes. (Source: Annual Report 1998-99)

During 1999-2000, the Hyderabad unit firmly established as a leader in the manufacture of refrigerators. With multinational partnership for the supply of 5,40,000 refrigerators valued at Rs.4000 million it has bagged single largest order of its kind in the industry so far. The Hyderabad unit of the company was able to substantially increase production by 44% over the previous year. It also retained its position as the undisputed leader in commercial refrigeration, supplying and servicing coolers and freezers to reputed companies like Pepsi, Nestle, Cadbury and Amul. (Source: 46th Annual Report 1999-2000)

During 2002-2003 the Hyderabad Plant achieved 28% growth in the manufacture of refrigerators. The added volumes cater to the company’s tie-up with Samsung for refrigerator supply for which three new models have been developed. The new tie-up helped offset the reduced off-take from LG, which has set up its own manufacturing unit.

With joint efforts of the management and trade union, the Hyderabad unit of the company has signed a productivity linked wage settlement, which has improved the performance of unit in terms of quality and productivity. (Source: 49th Annual Report 2002-2003).

Financial Performance

The Hyderabad unit incurred losses sharply after 2002 and currently the unit is burdened by accumulated losses of over Rs.170 crores.
Table 3.7

Statement showing the profitability

<table>
<thead>
<tr>
<th>Year</th>
<th>Profits (in Rs.)</th>
<th>Loss (in Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993-94</td>
<td>16,92,48,737-00</td>
<td></td>
</tr>
<tr>
<td>1994-95</td>
<td>22,52,86,424-00</td>
<td></td>
</tr>
<tr>
<td>1995-96</td>
<td>24,68,30,588-00</td>
<td></td>
</tr>
<tr>
<td>1996-97</td>
<td>36,62,87,968-00</td>
<td></td>
</tr>
<tr>
<td>1997-98</td>
<td>26,70,26,195-00</td>
<td></td>
</tr>
<tr>
<td>1998-99</td>
<td>18,35,76,731-00</td>
<td></td>
</tr>
<tr>
<td>1999-00</td>
<td></td>
<td>4,58,60,092-00</td>
</tr>
<tr>
<td>2000-01</td>
<td>6,53,67,707-00</td>
<td>--</td>
</tr>
<tr>
<td>2001-02</td>
<td>64,53,003-00</td>
<td>--</td>
</tr>
</tbody>
</table>

After the stoppage of contract manufacturing orders, over 450 of the 800 plus work force has become redundant. Due to lack of orders, the company has been paying salaries without work to 250 employees for several months in 2004 for the past five months (Asian Age –May 3, 2004). After several years of losses upto 1999-2000, the company made profits for two years 2000-01 and 2001-02 only. After 2002, once again it has gone into red.

Table 3.8

THE STAFF POSITION AS ON 2003

<table>
<thead>
<tr>
<th>SLNo</th>
<th>Division</th>
<th>No. of Workers</th>
<th>Commercial Staff</th>
<th>Supervisors</th>
<th>Executives</th>
<th>Apprentices</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Commercial Cooler lines</td>
<td>279</td>
<td>2</td>
<td>42</td>
<td>73</td>
<td>55</td>
<td>451</td>
</tr>
<tr>
<td>2</td>
<td>Common Manufacturing Services</td>
<td>130</td>
<td>5</td>
<td>36</td>
<td>54</td>
<td>12</td>
<td>237</td>
</tr>
<tr>
<td>3</td>
<td>Common Support Services</td>
<td>14</td>
<td>9</td>
<td>29</td>
<td>26</td>
<td>0</td>
<td>78</td>
</tr>
<tr>
<td>4</td>
<td>Refrigerator Division</td>
<td>399</td>
<td>3</td>
<td>13</td>
<td>13</td>
<td>62</td>
<td>490</td>
</tr>
<tr>
<td>5</td>
<td>Total</td>
<td>822</td>
<td>19</td>
<td>120</td>
<td>166</td>
<td>129</td>
<td>1256</td>
</tr>
</tbody>
</table>
By 2003, the total number of employees in the organization is 1256. Out of this 166 were executives, 120 were supervisors and 822 were workers. The organizational chart is appended in Annexure-II.

C. NIZAM SUGAR FACTORY LIMITED

The Nizam Sugar Factory Limited was incorporated on 17th April, 1937 in the Private Sector and was under the management of Raja Dhanraj Girji Narasing Girji, Landlord, Hyderabad after the completion of Nizam Sagar Project 1933. The initial installed crushing capacity was 1000 tones per day. Later in 1952 a second unit was installed at the same place. Due to financial difficulties the concern could not be managed and it was taken over by the Industrial Trust Fund of the then H.E.H., The Nizam's Government. The Management was entrusted to M/s Hyderabad Construction Company Limited who was appointed as the representatives of the Managing Agents.

The Hyderabad Construction Company Limited as representative of the Managing Agents exercised control over the affairs of the Company till 16th October, 1958 when it was taken over by the Government of Andhra Pradesh under their control. The Government of Andhra Pradesh scrapped the Managing Agency with effect from 15th August 1960 and thereafter; the Board of Directors is managing the affairs of the Company.

Existing Units / Activities

The Company has made rapid progress over the years. Nizam Sugar Factory which was established with a single unit of 1000 Tonnes capacity at Shakarnagar in 1937 has expanded its capacity over the years. The present day aggregate capacity of all the eight sugar units owned by the Company is 11950 Tones Crushing Capacity per Day (TCD). The
company provides direct and indirect employment to over 32,000 people while directly sustaining over 35,000 families. Apart from the sugar units, the company owns extensive farmland of about 16,000 acres in Nizamabad District, a Machinery Division and a Carbon-di-oxide plant.

The company was acting as the Agent of the State Government for the two Government distilleries at Shakamagar and Chagallu. The State Government transferred the ownership of the two distilleries to the Company with effect from 1st October 1987. The details of the various units of the Company are furnished below:

1. Sugar Units

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Units</th>
<th>Location</th>
<th>Installed Capacity (in TCD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Shakamagar</td>
<td>Nizamabad District</td>
<td>3500</td>
</tr>
<tr>
<td>2</td>
<td>Madhunagar</td>
<td>Medak District</td>
<td>2000</td>
</tr>
<tr>
<td>3</td>
<td>Amruthnagar</td>
<td>Miryalguda, Nalgonda Dt</td>
<td>1250</td>
</tr>
<tr>
<td>4</td>
<td>Sudhanagar</td>
<td>Hindupur, Anantapur Dt.</td>
<td>1250</td>
</tr>
<tr>
<td>5</td>
<td>Muthyampet</td>
<td>Metpally, Karimnagar Dt.</td>
<td>1250</td>
</tr>
<tr>
<td>6</td>
<td>Bobbilli</td>
<td>Vizianagaram Dist.</td>
<td>850</td>
</tr>
<tr>
<td>7</td>
<td>Seethanagaram</td>
<td>Vizianagaram Dist.</td>
<td>600</td>
</tr>
<tr>
<td>8</td>
<td>Mombojipalli,</td>
<td>Medak Dist.</td>
<td>1250</td>
</tr>
</tbody>
</table>

**TOTAL** 11950

II. Plantation Farms  Nizamabad Dist.  About 16,000 Acres

III. Machinery Division: Nagarjunasagar, Nalgonda Dist  1000 tonnes per annum

IV. Carbon-di-oxide Plant: Nizamabad Dist.  1 tonne per single shift

V. Distilleries:

1. Shankarnagar, Nizamabad District  31,500 ltrs of Rectified Sprit per day
2. Chagallu, West Godavari Dist. 20,000 ltrs. of Rectified Sprit per day

1. Share holder Pattern

The details of the Authorized Share Capital and Paid – up capital of the company as on date 24.12.2005 are as under:

Table 3.10

<table>
<thead>
<tr>
<th>Capital components</th>
<th>(Rs. In lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Capital</td>
<td>2464</td>
</tr>
<tr>
<td>8% Cumulative Preference Capital</td>
<td>36</td>
</tr>
<tr>
<td>Total Authorised Capital</td>
<td>2500</td>
</tr>
<tr>
<td>Equity Capital</td>
<td>1706</td>
</tr>
<tr>
<td>8% Cumulative Preference Capital</td>
<td>35.80</td>
</tr>
<tr>
<td>Total Paid up Capital</td>
<td>1742.13</td>
</tr>
</tbody>
</table>

Out of total paid-up share capital, the share of the State Government works out to about 98%.

NEW/EXPANSION PROJECTS

1. New Projects – Distillery at Medak:

As a part of diversification programme, the Company is establishing a new Distillery of 6000 K.L. per annum capacity at Medak at an estimated cost of about Rs.537 lakhs near the sugar unit constructed in 1987-88.

2. Modernisation / Expansion Projects:

a. New Sugar Unit of 2500 TCD Capacity in Vizianagaram District

The two sick sugar units at Bobbili and Seethanagaram were nationalised by the State Government and ownership was transferred to NSF in June’ 86. The plant and machinery of the two
units are very old, the units having been set up about three decades ago. The company has obtained a Letter of Intent from the Government of India for establishing a new sugar unit of 2500 TCD Capacity by restructuring the existing two units. This project is estimated to cost of Rs.2650 lakhs.

b. Expansion of Madhunagar and Metpalli Sugar Units to 2500 TCD

On account of improved availability and stabilization of cane, a need has been felt to expand the capacities of the sugar units at Madhunagar and Metpalli to 2500 TCD so as to crush all the available cane during the peak recovery period for achieving higher sugar recovery and improved profitability. The company has obtained two Letters of Intent for expanding the capacities of Madhunagar and Metpalli unit to 2500 TCD, which is estimated to cost Rs.1284 lakhs and Rs.1256 lakhs respectively.

The company obtained sanction of term loans from IFCI, IDBI and IRBI for the above three projects. The company has also requested the State Government to provide a part of the margin money, while major component of the margin money is to be obtained from the Sugar Development Fund of the Government of India.

THE NIZAM SUGAR FACTORY: SHAKARNAGAR UNIT OF NSL

NSL established its biggest and first sugar unit at Shakarnagar near Bodhan, Nizamabad district in the year 1937, after the completion of Nizam Sagar Project in 1933. The initial installed crushing capacity was 1000 tones per day. Later in 1952, a second unit was installed at the same place. The first unit was closed down in 1979, due to reasons like short rainfall in the factory zone, and consequent shortage of raw material i.e.,
sugarcane, and at the same time the crushing capacity of the NSL – Unit II was increased to 3000 to 3500 tones capacity per day (ECT). Then it became Unit –I of the NSL. The area, which comes under the unit, is called Factory Zone in this study.

FACTORY ZONE

The NSL, Shakarnagar has its own farms about 16000 acres. Basically, the factory zone covers the area of sugarcane planted in the area of the surrounding Mandals including farms. The factory zone is divided into three circles, namely – I,II and III. The circles have 12 depots and out of 12, 5 depots come under circle I. 3 under circle II and 4 under circle III.

The 5 depots in Circle I are located in 3 Mandals viz., Bhanswada, Varni and Durki. The depots are located at Rudur, Kotgir, Govoor, Durke and Bhanswada. Circle – II is the smallest of the three circles, having 3 depots at Bodhan, Yedpalli, Mosra and Ranjal. The area under the depots changes every year. Depots as well as Circles are extended. These changes occur often, mainly depending on monsoons, irrigation facilities and sugarcane support price.

Two hectares of Sugarcane area is irrigated by one tube well under the present conditions. If the position of power supply is improved, without any interruption, under one tube well, 4 hectares of Sugarcane crop can be grown. The average depth of the tube well in the Study area is around 130 ft and water is available at 110 ft during the summer season. The factory zone avails itself of the water from different sources. Irrigation facilities for one grower and farms are provided and developed by the NSL.
Cane varieties, planted area and performance:

The variety of sugarcane is crucial for both higher percentage of sugar recovery and for attaining higher yield of sugarcane. Sugarcane varieties, which are planted in farms and by farmers in the factory zone area are given uniform varieties codes for all NSL units, located in different places in Andhra Pradesh. The varieties are divided into three categories, viz., traditional improved and mid – late varieties which are planted own farms and by ryots.

Cost of Cultivation of Sugarcane

Sugarcane cultivation is not only expensive but also very complex compared with the cultivation of other crops. During the cultivation of sugarcane, continued observation of cane is essential because there are seven stages in sugarcane cultivation, each stage requiring careful attention. The first stage starts from preparation of land for planting sugarcane. The second stage involves planting of sugarcane seeds in different varieties. The third and fourth stages provide sugarcane growth with the help of inter culture and manure which is spread over the entire crop. Plant protection is the fifth and most important stage because at the stage of cane grower has to take care to get high yielding. The sixth stage provides irrigation facilities to the crop and at the last stage; the cane is harvested and transported to the factory.

REASONS FOR PRIVATISATION

The Nizam Sugars Ltd (NSL) was established in 1937 as a single unit of 1,000TCD (Tons crushing capacity per day) at Shankarnagar. The Company grew rapidly over the years and had expanded its capacity to
14,750 TCD by 1996 with 7 sugar units and 3 distilleries. Impressive growth, but capacity is not the same as efficiency. The NSL mills were overstaffed and the wage bill accounted for almost 20% of the turnover compared to the standard industry norm of 6% to 8% all over India and in the private sector mills in Andhra Pradesh. In 1995-96 NSL recorded a loss of Rs.22.65 crore, the highest in its 59-year history.

During the last five years, on an average, the Government of AP had to give a sum of Rs.50 crore per annum to NSL for the upkeep of its units. The Government of AP had to inject Rs.70 crore in 1996 alone to keep the Nizam Sugars Limited liquid. By 31st March 2000, the net worth of NSL was negative and the company faced imminent referral to BIFR (Board for Industrial and Financial Restructuring).

NSL started incurring losses since 1976-77 for a number reasons such as wrong location of sugar mills at Hindupur and Miryalaguda in 1970s, takeover of sick and loss-making private sugar mills at Bobbill, Sitangaram in mid 1980s, and uneconomic farm operations at Shakarnagar. Further, NSL’s expansion and diversification projects had suffered from substantial time and cost over runs as well as stabilization problems, which coincided with the ongoing down turn cycle in the sugar industry.

By 1993-94, NSL was at cross roads, High interest burden, low productivity, surplus labour and wage structure rendered NSL’s sugar business unviable. NSL could not catch up with other diversifications like setting up co-generation of power, distilleries, and Ethanol plants to meet the adversities of this cyclical industry. The capital structure / profitability of Nizam Sugars Ltd., from 1990-2000 is shown in table 3.11:
Table 3.11
Capital structure and Profitability of Nizam Sugars Ltd.,
Rs. in Crores

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Total Equity</th>
<th>Total Debt</th>
<th>Total Investment</th>
<th>Accumulated Loss</th>
<th>Revenue earned</th>
<th>Net Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>19.13</td>
<td>35.99</td>
<td>55.12</td>
<td>1.97</td>
<td>116.88</td>
<td>0.35</td>
</tr>
<tr>
<td>1991-92</td>
<td>21.25</td>
<td>46.06</td>
<td>67.13</td>
<td>3.06</td>
<td>147.51</td>
<td>-1.36</td>
</tr>
<tr>
<td>1992-93</td>
<td>22.25</td>
<td>57.15</td>
<td>79.40</td>
<td>7.87</td>
<td>129.26</td>
<td>-4.81</td>
</tr>
<tr>
<td>1993-94</td>
<td>33.78</td>
<td>48.49</td>
<td>82.27</td>
<td>0.37</td>
<td>88.09</td>
<td>0.34</td>
</tr>
<tr>
<td>1994-95</td>
<td>33.53</td>
<td>89.19</td>
<td>122.72</td>
<td>3.74</td>
<td>149.91</td>
<td>-3.18</td>
</tr>
<tr>
<td>1995-96</td>
<td>33.53</td>
<td>98.48</td>
<td>132.01</td>
<td>26.39</td>
<td>166.65</td>
<td>-22.65</td>
</tr>
<tr>
<td>1996-97</td>
<td>33.53</td>
<td>48.47</td>
<td>82.00</td>
<td>21.83</td>
<td>170.56</td>
<td>-4.82</td>
</tr>
<tr>
<td>1997-98</td>
<td>33.53</td>
<td>46.90</td>
<td>80.43</td>
<td>27.76</td>
<td>180.76</td>
<td>-5.92</td>
</tr>
<tr>
<td>1998-99</td>
<td>34.00</td>
<td>124.27</td>
<td>158.27</td>
<td>27.48</td>
<td>188.26</td>
<td>13.79</td>
</tr>
<tr>
<td>1999-00</td>
<td>34.00</td>
<td>71.26</td>
<td>105.26</td>
<td>84.00</td>
<td>277.61</td>
<td>25.18</td>
</tr>
</tbody>
</table>


The Government and the company felt that there is an urgent need to stop the decline and revive NSL to save the lives of cane growers, employees and other ancillary unit's dependant on NSL. For the revival of NSL, infusion of huge finances for modernization of sugar plant at Shakarnagar, stabilization of other sugar units, improvement in cane development and deployment of modern techniques were found to be a must.

As the profitability and liquidity of the company was most unlikely to show any significant improvement given the performance trends under the then management and heavy burden of financial expenses, the Government decided to privatize all the units of NSL. The decision to privatise was taken in September 2000.

The accumulated losses for Nizam Sugars Ltd., increased from 22 crores in 1997 to 151 crores in 2001.
The Implementation Secretariat adopted a strategy of privatizing NSL unit-wise independently by way of sale of plant and machinery and other properties free of encumbrances since February 2001. Since there was no response to the offer of sale of four units, a decision was taken by the Cabinet Sub Committee to form a joint venture, initially with a provision for the purchaser to acquire the shareholding of NSL over a period of time. While three sugar factories and one Distillery-Latchayyapeta, Madhunagar, Mombojipalli and Chagallu Distillery- were privatized by way of sale of assets, the four units (sugar factories at Shakarnagar, Metpalli, Mombojipalli and distillery at Shakarnagar) were privatized by way of formation of a joint venture.

The Implementation Secretariat has effectively pursued matters with Financial Institutional Investors (FIIS) and obtained one time Settlements as a part of debt clearance of NSL. The Implementation Secretariat also ensured that the successful bidders were financial sound with experience in management to carry out the committed business plans.

The Nizam Deccan Sugars Ltd., has formed a joint venture with the Government and taken over the management of the Shakarnagar unit (Bodhan), Nizamabad District on 1st November 2002.

At the time of takeover of the company the following officers, staff and other contract employees are present. They are being continued. The details of officers and staff working are as furnished in table 3.12: The organizational chart is appended in Annexure-III.
<table>
<thead>
<tr>
<th>Unit</th>
<th>No. of officers</th>
<th>Job opted permanent</th>
<th>Job seasonal</th>
<th>Fixed term contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sugar &amp; Distillery</td>
<td>54</td>
<td>72</td>
<td>127</td>
<td>84</td>
</tr>
<tr>
<td>Captive generation</td>
<td>18</td>
<td>-</td>
<td>-</td>
<td>28</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>72</strong></td>
<td><strong>72</strong></td>
<td><strong>127</strong></td>
<td><strong>112</strong></td>
</tr>
</tbody>
</table>

**NURTURING OF SKILLS**

After takeover of the company by NSBL the management thought that the skill development plays vital role for mutual benefit for organization as well as employee. Many organizations suffer for want of skilled persons ultimately resulting in debacle. That is why it was felt that it is quite essential to have continuous training programmes to the employees in scheduled way so that the process gives desired results. In this direction, Management has strategically planed out the following programme so that the available personnel are constantly nurtured for effective increase of productivity.

1) **Induction Programme:** This programme is designed to make the new recruitee/new entrant known about the goals and the role he is expected to play by being in the organization.

   a) The new recruitee should be introduced to one and all of his section/dept/organization.

   b) Identify himself about his needs on the job and tools to perform his activity.
c) The details of day-to-day activities as well as terms & conditions of service shall be given with explanation if required.
d) Employee qualification needs have to be identified in case of job needs advanced Programming.
e) The employee is also to be informed of the do or don’ts while performing.
f) He must also train about the machinery/job and safety precautions to be taken.
g) His target also be informed in daily basis or yearly basis.

2) **On the job-training programme:** In the process of training, once again there are 4 phases.

a) Content  
b) Context  
c) Activity  
d) Personality Development/Organizational Development  

Here the Management representatives identify the factors affecting the performance pertaining to organization and individual.

**Organizational Variable:** This deals with the Company policies, supervision and working environment.

**Individual Variable:** Management representative/ organization always monitors the need of training.
The following are the phases of training programme

1st Phase: Imparting basic knowledge about the trade and the duties of the employees to perform. The supervisor of the section should make his juniors to learn various skills connected to the day-to-day activity. Thus a fitter should be made to learn about molding, plumbing and welding etc. The Personnel representative should draw up training programme and invite faculty from ITI from near by college and run industrial classes on a monthly basis as per the need.

2nd phase: Laboratory Approach: During this phase of the activity, technical personnel should present a case study for advanced tools and training to enhance the skill and knowledge of the employee. Personnel Representative at unit should have one to one approach with all the employees in such a fashion that the needs of the employee vis-à-vis needs of the Management would complement each other and guide the employee to come out of his mental taboo/mind set and make him ready for continuous progress and improve his knowledge about machinery as well as technology.

3rd Phase of Training: Studies relating to re-engineering, re-deployment, right sizing, good house keeping, safety training, group dynamics would taught by inviting specialist personnel from the pool and also from nearby industries.

4th Phase of Training: This phase pertaining to Personality Development and Organization development. As a part of motivation, personnel executive should identify social need of employees by announcing
gifts, awards, journals, referring to the job and circulating of advanced developments in the relevant industry.

The Personnel Representative also should call the technical faculty of each section/department and see that training classes are being conducted on quarterly basis.

Thus Management considers this activity as prime motivator and organize it as continued programme for development of human skills in the organization.

With good human resource management and continued monitoring the performance of unit has improved dramatically. This is good example of how effective privatization can be as an instrument to turn around flagging enterprise. Under Government control, NSL units were operating at half their capacity. Under new private managements the units are recording all-round improvement in performance (capacity utilization), cane recovery and quantum of cane crushed per day.

The physical performance of the company for the last 5 years is shown in table-3.13:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Cane crushed (metric tones)</td>
<td>542539</td>
<td>231124</td>
<td>214775</td>
<td>250328</td>
<td>257917</td>
</tr>
<tr>
<td>2</td>
<td>Sugar bags (quintal)</td>
<td>574095</td>
<td>255005</td>
<td>204510</td>
<td>242006</td>
<td>243401</td>
</tr>
<tr>
<td>2</td>
<td>Recovery%</td>
<td>10.34</td>
<td>10.56</td>
<td>9.45</td>
<td>9.67</td>
<td>9.46</td>
</tr>
<tr>
<td>3</td>
<td>Crop days</td>
<td>191</td>
<td>88</td>
<td>93</td>
<td>99</td>
<td>93</td>
</tr>
<tr>
<td>4</td>
<td>Down time</td>
<td>15.65</td>
<td>15.96</td>
<td>19.94</td>
<td>14.99</td>
<td>10.91</td>
</tr>
<tr>
<td>5</td>
<td>Crushing rate (inclusive of Stoppage) Tones per day</td>
<td>2850</td>
<td>2638</td>
<td>2320</td>
<td>2570</td>
<td>2804</td>
</tr>
</tbody>
</table>

Table 3.13
Physical Performance of NDSL
By implementing good management practices, the NSDL has shown all-round growth in terms of physical as well as financial performance. Under joint venture, average cane price to farmers has increased from Rs.850 per ton during 2002-2003 to Rs.1170 per ton during 2006-07. The cane crushed has increased from 2.6 lakhs tons to 5.4 lakhs tons. Capacity utilization also increased from 49.01% to 104%. Recovery rate increased gradually from 9.46% to 10.34%. Sugar production increased from 2.4 lakhs bags to 5.74 lakhs bags. The total losses have come down from 2.59 to 2.02 as shown in Table 3.14.

Table 3.14
The Financial Performance of the company
(Rs. in lakhs)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Cane Purchase</td>
<td>542539</td>
<td>231124</td>
<td>214775</td>
<td>250328</td>
<td>257917</td>
</tr>
<tr>
<td>2</td>
<td>Rate per tonne</td>
<td>1170</td>
<td>1150</td>
<td>980</td>
<td>875.90</td>
<td>850</td>
</tr>
<tr>
<td>3</td>
<td>Amount</td>
<td>6347.70</td>
<td>2657.92</td>
<td>2104.79</td>
<td>2192.62</td>
<td>2192.29</td>
</tr>
<tr>
<td>4</td>
<td>Spares</td>
<td>703.38</td>
<td>624.25</td>
<td>690.12</td>
<td>650.80</td>
<td>425.90</td>
</tr>
<tr>
<td>4</td>
<td>Wages</td>
<td>274.00</td>
<td>215.00</td>
<td>194.00</td>
<td>211.00</td>
<td>198.00</td>
</tr>
<tr>
<td>5</td>
<td>Packing</td>
<td>248.15</td>
<td>115.00</td>
<td>77.71</td>
<td>89.54</td>
<td>92.49</td>
</tr>
<tr>
<td>6</td>
<td>Admin. Exp.</td>
<td>122.61</td>
<td>52.50</td>
<td>44.71</td>
<td>29.72</td>
<td>30.62</td>
</tr>
<tr>
<td>7</td>
<td>Finance charge interest</td>
<td>703.61</td>
<td>502.75</td>
<td>492.35</td>
<td>352.65</td>
<td>202.15</td>
</tr>
<tr>
<td>8</td>
<td>Chemical consumption</td>
<td>80.37</td>
<td>33.15</td>
<td>24.54</td>
<td>29.02</td>
<td>29.20</td>
</tr>
<tr>
<td>9</td>
<td>Cost/bag (Qtl in Rs.)</td>
<td>1297</td>
<td>1337</td>
<td>1397</td>
<td>1200</td>
<td>1010</td>
</tr>
</tbody>
</table>

The joint venture unit NDSL has also improved its financial performance by turning around the units with a net profit of about Rs.2.61 crores in the second year (2003-04) of its operations. As part of
implementation of ambitious business plan involving Rs.173.36 crores over a period of 4 years NDSL has already ordered for 110 TPH Boiler and 20 MW Turbo generator for setting up a 20MW power plant at Bodhan unit and it targeted to be commissioned by Nov/Dec.04