Chapter VII

SUMMARY AND CONCLUSION

7.1 In a developing country like India, which is weeded to the mixed economy and socialistic pattern of society, public enterprises are the most effective instrument for achieving the diversified social and economic objectives. Hence, the efficient operation of public enterprises is pivotal for the optimum use of scarce human and material resources. Unfortunately the performance of public enterprises in our country has been a matter of deep concern for the last many years because of multiple problems faced in their management. As a whole, there are 246 central public enterprises with a total investment of Rs. 223047 crores as on 31.03.1998.

Hindustan Fertiliser Corporation Limited is one of such public enterprise belonging to the Government of India with negative net-worth engaged in the production and marketing of chemical fertilisers in the country. Out of the several producing units of the corporation, Namrup unit occupies a significant place because it is the first fertiliser factory in the country to use Natural Gas as the basic input in its production process. The performance of H.F.C. and the Namrup unit must be viewed on the basis of its commercial significance.
An industrial or commercial undertaking even if it is in public sector must retain its commercial character and fulfill the basic commercial obligations. Since H.F.C. and Namrup unit of H.F.C. is an enterprise with exclusive commercial character, as such, it must be managed not only to ensure its own viability and strength but also to safeguard its employees employed by it.

With this background, the study aims to evaluate the managerial attainment of Namrup unit of H.F.C. in physical and financial terms.

7.1.1 In chapter II a brief analysis of the approach for appraisal of managerial attainment of public enterprises in general and that of Namrup unit in particular has been made. This study makes it evident that the evaluation of efficiency in public enterprise is a complex issue, so far as measurement of social commitment of public enterprises are concerned. There are hardly any quantifiable techniques for measuring the questions of full employment, equitable distribution, overall balance in resource allocation etc., which the public enterprises are required to fulfill. However, the enterprises which are commercial in character must be evaluated, as such, since only through, commercial viability of such enterprise can meet the social obligations.
All management activity comprises of setting organisational goals and objectives, developing plants to fulfill the defined objectives. Another important management activity is to proper monitoring of the result to see that desired activities are met. Thus, the process of appraisal begins with the establishment of objectives. In Chapter II a brief historical accounts of emergence of Namrup unit of H.F.C. has also been made. The study reveals that, the Namrup unit of H.F.C. was the outcome of the central Governments consistent effort to make the country self sufficient in the production of chemical fertiliser and to use scare natural resources (Natural Gas) in some productive purposes.

7.1.2 Another basic objective of the study to see the organisational structure and managerial style of Namrup unit. In Chapter III a brief study is made regarding organisational structure and managerial style of Namrup unit. As Namrup unit is only a producing unit of H.F.C., the study is made both a corporate as well as at unit level. It is found that Namrup unit is a constituent part of H.F.C., and H.F.C. was incorporated as a public limited company, and Government of India has acquired majority of paid up share capital of the company and thereupon it emerged as Government Company under section 617 of the Indian Companies Act, 1956.
The study further reveals that the overall management of the unit including planning and controlling function have been performed by the corporate office. The unit management is responsible only for the day to day activities of the unit. The Corporation acts through the Board of Directors which is constituted by the President of India. The President of India has also the power to appoint one of the directors as Chairman-cum Managing Director. The Board is to act in accordance with the Companies Act and Memorandum and Articles of Association of the Corporation. The Board is also required to follow the direction and instruction that may follow from the President of India or Government of India from time to time.

The day to day management activities of the Namrup unit is performed by the Executive Director under the guidance and controlled from the corporate office. The Executive Director of the unit is appointed by the President of India. At unit level the Executive Director is assisted by different managers like finance manager, production manager etc., and different departmental heads. It is seen that due to exclusive centralised management of the corporate office, the decision making process at the unit level is very slow.
7.1.3 Another basic objective of the study is an assessment of managerial attainment of Namrup unit in conventional terms. In Chapter IV discussion has been made on operational performance and profitability of Namrup unit and H.F.C. The analysis of operational performance of H.F.C. and the Namrup unit reveals that, in most of the years under study it failed to generate any amount of surplus. In financial terms both Namrup unit and the Corporation sustained losses in menacing proportion starting with Rs. 309 lakhs in 1988 to Rs. 2863 lakhs in 1997 in case of Namrup unit. The amount of losses of H.F.C. was Rs. 2697 lakhs in 1988 and it went up to Rs. 13823 lakhs in 1997.

Leaving aside the amount of net loss sustained by the unit and the Corporation annually, it even failed to ensure operating surplus in any year to meet the non-operation expenses like interest on loan. Moreover, the return on capital employed of both Namrup unit and the Corporation is negative in all the years under the study period. The return on tangible assets has been seen negative in all the years under the study period.

The capital base of Namrup unit and the corporation has completely wiped up due to the mounting pressure of operating deficits over the years and consequently it tended to face severe financial crisis over the years. Amidst, such a financial situation the Corporation has been for a long time
carrying out its operation with the help of loans both secured and unsecured from Government of India and other commercial banks. Due to the severe adverse financial situation of the unit the employees and creditors have become the worst victims.

7.1.4 Adequate productivity is the key determinant of success of any manufacturing industry. The importance of high productivity for a fertiliser industry can hardly be over emphasised because the fertiliser industry in our country is functioning under Retention Price Scheme. In Chapter V discussion has been made on the management of production function of Namrup unit. One of the basic objective of the study is to identify the factors that work against the attainment of higher productivity of the unit.

The productivity of Namrup unit is far better than the other producing units of the Corporation, but it is owefully poor in comparision to international and national standards. The overall performance of Namrup unit over the years shows wide fluctuations. Micro analysis of the unit's performance reveals that non functioning of Namrup II and low capacity utilisation of Namrup III are primarily responsible for such a dismal production performance of the unit. The most important factors which are responsible for poor production performance may be summarised as bellow:
i) Aging of the plants,

ii) Low capacity utilisation,

iii) Short supply of Natural Gas,

iv) Improper planning on repairs and maintenance and expansion,

v) In sufficient inputs in the operation and

vi) Managerial inefficiency in maintenance of the plants.

7.1.5 The success of any fertiliser industry is solely determined by the factors, namely productivity and cost. If a fertiliser factory can maintain adequate productivity and can produce its finished product at reasonable cost, the profitability is assured as the fertiliser industry is functioning under assured market conditions. To achieve this, efficient management of cost and finance function is another prime determinant.

In Chapter VI discussion has been made on the efficiency of the unit in the management of cost, revenue and finance. It has been noticed that negative profitability of the unit has been the result of high cost of production per metric tone of finished product and inadequate realisation of retention price of the product of the unit. Thus the inefficiency of the Namrup unit has been very much prominent in maintaining adequate productivity and reasonable cost of production. Moreover, failure of the unit to fetch a better retention price under retention price system is another
cause of negative profitability of the unit. As a result there has always been mounting pressure of interest obligations. The inadequacy of working capital fund effected adversely in the day to day operation of the unit which in turn effected its profitability.

7.2 Suggestions

The last but not least, important objective of the study was to suggest measures that would be helpful to Namrup unit for improving its standard of management to ensure adequate profitability. On the whole, the following suggestions may prove beneficial in this respect.

i) H.F.C. should be re-organised and proper decentralisation of management functions to the unit level should be made to enable the unit management to take various decision quickly.

ii) To induct fresh management trainees immediately in both technical and non technical categories for developing them to the key executive position of the organisation.

iii) Introduction of qualified craftsman trainees for manning the operation and maintenance functions for efficient running of the plants.

iv) The Central Government should immediately sanction the revival package of Namrup II, which was approved by the Government of India in 1997.
v) At the time fixation of retention price for the product of the unit the following factors should be considered by Fertilisers Industries Coordination Committee -

a) Proper weightage on achievable capacity should be given due consideration. As the plant was based on un-proven and experimental technology and equipment, the plant could not produce name plate capacity. As a result of the procurement of most of the equipment’s from indigenous sources for the plant with the objectives to develop the indigenous fertiliser know-how and equipment’s, the breakdowns are frequent and cost on repair and maintenance was high and down time was more. Because of the location of the plant in a remote corner of the country, maintenance could not be undertaken as quickly as possible due to the local infrastructural deficiency. Though the plant has been de-rated w.e.f. 01.11.94, it is strongly felt that this de-rating should have been given effect since commissioning in view of the fact that the reasons for de-rating existed since commissioning.

b) North - Eastern Region is located in a dis-advantageous location with lack of infrastructure, such as, transport bottleneck, difficulty to access to market for spares and services and extra time required to undertake emergent jobs and accordingly the concessional price of Natural Gas was
fixed by the Government of India. However, the FICC while fixing the retention price for the unit, the element of cost of Natural Gas has been taken at net basis. As concession was given by the Government to compensate the deficiencies, the benefit should go to the industry and as such, while fixing the retention price, the notional price of Natural Gas should be taken into consideration instead of the concessional rate.

vi) In view of the huge cash losses incurred by the unit, the problem of shortage of fund should be resolved by the Government. It is felt that -

a) As the interest on Government of India loan has been rising and there is no possibility on the part of the unit to make the payment of the interest on loan, it would be better to write it off. Moreover, to improve the debt-equity position the loans may be converted into fully paid up equity shares.

b) The accumulated depreciation of the corporation has been rising tremendously. It would be better to write off the accumulated depreciation and to take the net block as the value of fixed assets.

vii) It has been observed that, the capital expenses in the unit were very low since its commissioning. Though various committees have suggested to replace various problematic plant and equipment, but it could not be undertaken by the Unit due to shortage of fund. The capacity
utilisation and production will be increased through the introduction of more capital expenses in the unit.

viii) Keeping in view the low production in different units of H.F.C., it is urgently required that easy flow of all necessary input should be ensured. At the same time proper accountability for increasing productivity be vested with the unit management.

ix) Namrup unit of H.F.C. is a commercial enterprise and strict commercial principles should be followed to ensure due return on capital invested. The Government should provide sufficient equity capital to this enterprise instead of allowing this enterprise to depend on outside borrowings.

x) There is an urgent requirement of individual development plan for each unit of H.F.C. This will lead to overall improvement of different units of H.F.C.

xi) The Central Government should settle the matter of the supply of Natural Gas from Oil India Limited and Oil and Natural Gas Commission to the unit. The commitment made by the unit to pay the outstanding amount to Oil India Limited should be paid urgently.
xii) It has been seen that there is a tendency on the part of the corporate management to divert funds to other ailing units of the Corporation from the account of Namrup unit. As the Namrup unit itself is in critical financial crisis, we feel, the practice of diverting fund from the unit to the other units should be discontinued.

xiii) In the process of this research study we found that the authorities are quite reluctant to provide the basic amenities and compensations in terms of fringe benefits to its employs and this has stood on the way of pro-active motivation on the part of the employees.

xiv) We feel that the Namrup unit of HFC is one of the major public enterprise in this remote part of the country and lot of hopes and aspirations of the people of this region are attached with enough sensitivity to this enterprise. Therefore, may we not suggest that in view of ensuring a long and prosperous lease of life of the Unit, the concern parties i.e the Government of India, Government of Assam, Corporate management, Unit management and the trade unions to come forward with pragmatic and strategic planning for restructuring the unit.