

# Chapter-1

## INTRODUCTION

### 1.1 Industry Profile

The Indian defence industrial base and production capacity is one of the largest in the world. It constitutes 31 Ordnance Factories and 10 Defence Public Sector Undertakings under the Ministry of Defence producing a wide range of armaments, vehicles, fighter aircrafts, and sophisticated electronics equipment, *etc.* The era of liberalization which commenced in 1991, coincided with the commencement of the role of the private sector in defence sector too. Presently, Indian defence industry is in transition with increased private participation and consequent competition.

### 1.2 Company Profile

Bharat Electronics Limited (Company), established in April 1954, is a Government of India undertaking under the administrative control of the Ministry of Defence (MoD). The Company is engaged in designing, developing and manufacturing wide range of electronic equipment/components such as radars, communication systems, naval systems and broadcasting & telecommunication equipments etc for the use of defence services, para military organizations and other government users such as All India Radio, Doordarshan, Bharat Sanchar Nigam Limited, Police wireless, Meteorological department and Indian Space Research Organisation etc. Since 2007 the Company is enjoying Navaratna status.

The Company has nine production units located at Bangalore, Chennai, Ghaziabad, Hyderabad, Kotdwara, Machilipatnam, Navi Mumbai, Panchkula and Pune and six<sup>1</sup> Regional offices spread across the country. In addition, two overseas offices have been established at New York and Singapore as technological windows of the Company for importing material / components. The Company has also set up two Central Research Laboratories at Bangalore and Ghaziabad to carry out their Research & Development activities.

### 1.3 Organisational Set Up

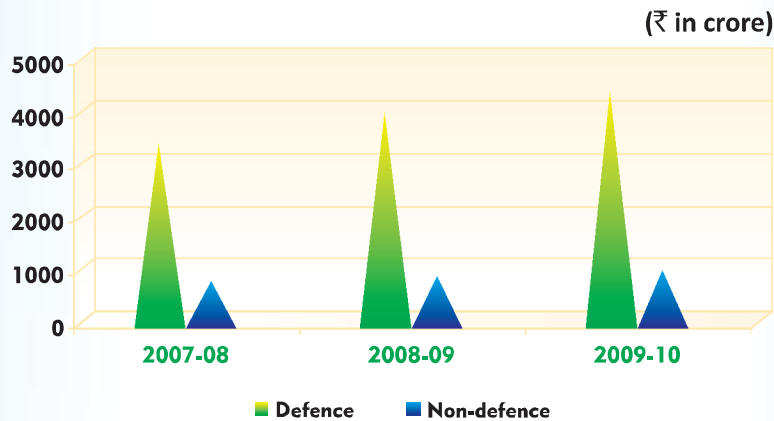
The Company is managed by a Board of Directors headed by the Chairman and Managing Director (CMD) who is assisted by six functional Directors and four Part-time independent Directors.

The purchase policies and procedures are framed at Corporate Office level. Two Directors at Corporate office viz. Director Bangalore Complex and Director Other Units monitor the purchase functions of the units which is de-centralised at Unit level. The production units are headed by General Managers who are assisted by Additional General Managers /Senior Deputy General Managers and Deputy General Managers heading Material Management in discharging the procurement related functions.

<sup>1</sup> Chennai, Delhi, Hyderabad, Kolkata, Mumbai, Vizag

## 1.4 Dependence on orders from defence services

Major procurement by the Company is to meet the orders from defence customers as more than 80 percent of the total sales were to the defence sector as witnessed from the graph explained below.



## 1.5 Operational Performance

As is evident from the table below, despite rise in the turnover of the Company, the profitability declined during this period.

Table 1

(₹ in crore)

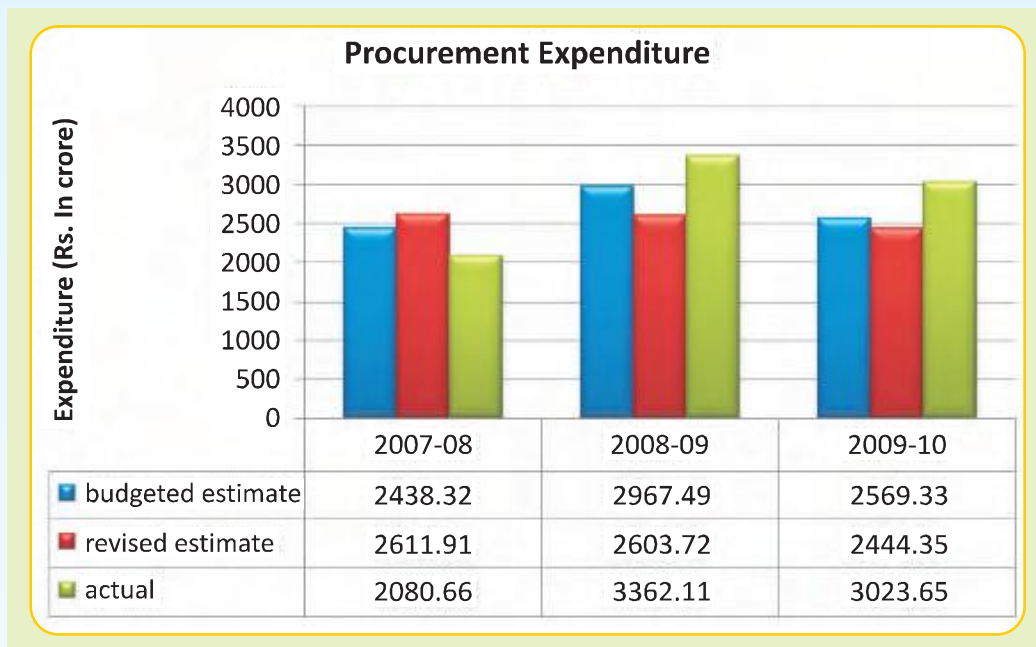
|                       | 2007-08 | 2008-09 | 2009-10 |
|-----------------------|---------|---------|---------|
| Sales & service       | 4102.54 | 4623.69 | 5219.77 |
| Profit before tax     | 1171.30 | 1096.84 | 1045.02 |
| Earning per share (₹) | 103.34  | 93.22   | 90.11   |

One of the major reasons for declining profitability was increase in the cost of material vis-à-vis value of production.

## 1.6 Procurement Budget and Expenditure

The Company prepares the Annual Budget including the procurement budget in the beginning of the calendar year, based on the order book position, orders to be executed during the year, anticipated orders, scheduled delivery date etc.

The graph below indicates budgeted and actual procurement expenditure of the Company during the period 2007-08 to 2009-10:



It may be seen from above that in all the three years under review, the actual expenditure deviated by more than 20 percent from the planned expenditure which indicated that the Company failed to make realistic assessment of its upcoming business and corresponding expenditure.

The Management replied (December 2010) that the variation in expenditure was due to variation in the anticipated orders from the customers and such variation materially did not affect the operational plans of the Company. The Ministry stated (March 2011) that Company has been directed to conduct a detailed analysis and furnish actual reasons for such huge variations

The fact remains that variations of more than 20 percent each year from the plans, highlight the weaknesses in the planning process of the company which needs to be reviewed for taking corrective measures.

