MINISTRY OF CHEMICALS AND FERTILIZERS
DEPARTMENT OF CHEMICALS AND PETROCHEMICALS

CHAPTER : I

Hindustan Organic Chemicals Limited

Manpower Analysis

Highlights

The Company had suffered a total loss of Rs.459.19 crore in the operation of the Rasayani unit during the last five years up to 2003-04 mainly on account of old technology and high cost of manpower in comparison to industry norm.

(Para 1.3)

The Company due to uneconomic operations, marketing and other problems closed the operations of seven plants of the Rasayani unit from 1999 to 2003. The Company had not reviewed plant-wise requirement of manpower and their effective utilisation after the closure of seven plants.

(Para 1.4.1)

The delay in implementing the rolling back of retirement age from 60 years to 58 years after its clearance by the Board in August 1999 resulted in additional outgo of Rs.59.92 lakh.

(Para 1.4.2)

The Company could not derive the benefit of annual savings to the extent of Rs.77 lakh pending acceptance of voluntary retirement scheme (VRS) applications received from 33 employees in April 2002 for want of financial assistance amounting to Rs.3.26 crore from the Government of India.

(Para 1.4.3)

The Company identified (April 2004) surplus manpower to the extent of 500 employees in Rasayani on which it had been incurring recurring expenditure of Rs.14 crore per annum, however, the final decision to reduce the surplus manpower so as to minimise the cost of labour for improving the profitability was still awaited (October 2004).

(Para 1.4.5)

The value addition per employee, which was Rs.1.66 lakh in 1999-2000, had come down to Rs.1.27 lakh in 2003-04 in-spite of the need to control increased cost of labour and overheads.

(Para 1.4.6)

Due to non-formulating of any suitable VRS for certain categories of workers like Mathadi, Society and Canteen workers, the Company had to pay idle wages to the extent of Rs.3.21 crore during the last three years.

(Para 1.4.8)

Against the industry's norm of about six to seven per cent of manpower cost to sales realisation, the percentage of manpower cost in Rasayani unit ranged between 24 and 40 percent resulting in an extra expenditure of Rs.126.98 crore.

(Para 1.4.9)

The increase in variable and fixed costs in Rasayani unit during the period from 2001-02 to 2003-04 resulted in substantial increase in operating loss from Rs.17.47 crore in the year 2001-02 to Rs.28.68 crore in the year 2003-04.

(Para 1.4.9)

The payment of Productivity Linked Incentive (PLI) amounting to Rs.50.54 lakh for the year 2001-02 and 2002-03 made in October 2003 was in violation of the scheme approved by the Board of Directors / DPE guidelines.

(Para 1.5.1)

The Company's failure to exercise proper control over the appointment of staff through the Company's representatives in the Advisory committee of the management of the school in the earlier years resulted in an avoidable expenditure of Rs.1.53 crore during March 2001 to December 2003.

(Para 1.5.2)

1.1 Introduction

Hindustan Organic Chemicals Limited (HOCL) was incorporated in December 1960 with the main objective of manufacturing, buying, selling and dealing in several organic and inorganic chemicals for the pharmaceuticals, fertilizers, rubber processing chemicals and other allied industries. The Company has two manufacturing units located at Rasayani (Maharashtra) and Cochin (Kerala). The Rasayani unit produces various chemicals viz. aniline, nitrobenzene, hydrogen, acetanilide, formaldehyde, monochlorobenzene, nitrochlorobenzene, nitrotoluene, concentrated nitric acid and sulphuric acid and Cochin unit produces phenol, acetone and hydrogen peroxide, which are essential for industries like drugs and pharmaceuticals, dyes and dye-intermediates, rubber, chemicals, laminates and solvent industries.

1.2 Scope

The review aimed at evaluation of the economy, efficiency and effectiveness of the manpower and its impact on the profitability of the Company. The present review covers the manpower employed in Rasayani unit of the Company for the period from 1999-2000 to 2003-04.

1.3 Working Results

The working results of the Company for the last five years upto 31 March 2004 along with unit-wise performance are indicated in the Annexure - 1.

Review of performance of the Company indicated the following position:

(i) Unit-wise performance indicated that there was a total loss of Rs.459.19 crore in the operation of the Rasayani unit, which eroded the profit of Rs.77.75 crore earned from the Cochin unit during the last five years upto 2003-04. This loss was despite the fact that there was increase in production from 83,398 MTs in 2000-01 to 1,32,099 MTs in 2003-04.

(ii) The efforts of the Company in the last decade to diversify into new products/projects did not yield the expected results due to faulty project formulations in Caustic soda chlorine, Monochlorobenzene, Poly Urethane System Houses, Jawaharlal Nehru Port Trust Tank Farm Project and Methylene Di-phenyl Di-isocyanate project. In fact, the negative returns on these investments were threatening the survival of the Company. With the liberalisation of the economy, the Company was unable to compete with private sector units, which had the benefit of lower manpower cost, and other overheads as discussed in the succeeding paragraphs.

(iii) As the accumulated loss as on 31 March 2003 had eroded more than 50 per cent of its networth, a reference was made to BIFR as required under the Sick Industrial Companies (Special Provisions) Act, 1985. The decision of BIFR was awaited (October 2004). The Company was beset with problems of idle investment, underutilized capacity, high cost of production, high interest burden on market borrowings, wide product portfolio and idle labour.

1.4 Manpower analysis

The Rasayani unit started making loss from the year 1993-94 due to old technology and high cost of manpower as compared to industry norms. The details of manpower employed in the Rasayani unit and other relevant details during the five years ended 31 March 2004 were as under:

Sl. No.	Particulars	1999-2000	2000-01	2001-02	2002-03	2003-04
1.	Average number of employees	1679	1630	1106	1098	1089
2.	Total employee cost:					
	(a) Salary & wages	30.99	27.85	27.84	24.73	25.54
	(b) Staff welfare expenses.	6.08	5.01	5.27	6.06	6.51
	(c) Total (Rs. in crore)	37.07	32.86	33.11	30.79	32.05
3.	Per employee cost (Rs. in lakh)	2.21	2.02	2.99	2.80	2.94
4	Total production (in MTs)	183522	83398	96158	124604	132099
5.	Value of production (Rs. in crore)	142.67	80.61	89.85	117.26	125.29
6.	Value added (Sales realisation less raw materials & utilities (Rs. in crore)	27.89	13.61	24.01	22.16	13.85

7	Value added per employee (Rs. in lakh)	1.66	0.83	2.17	2.02	1.27
8	Percentage of value added to value of production	20	17	27	19	11
9	Overtime wages paid (Rs. in lakh)	149.53	31.64	18.29	36.79	35.75
10	Overtime hours	190769	47756	29030	34493	31356
11	Employee cost @ seven per cent of value of production (Rs. in crore)	9.99	5.64	6.29	8.21	8.77
12	Extra expenditure on employee cost with reference to industrial norms (column 2(c) – 11)	27.08	27.22	26.82	22.58	23.28

The review of manpower employed in the Rasayani unit revealed the following:

1.4.1 Retention of surplus manpower

The Company closed seven plants of the Rasayani unit due to uneconomic operations, marketing and other problems during the period from 1999 to 2003, rendering the manpower engaged in these plants, surplus. The Company did not review plant-wise availability of manpower and its effective deployment after closure of these seven plants**.** In the absence of data relating to plant-wise recruitment of manpower and its actual deployment, effectiveness in the utilisation of manpower could not be ensured.

1.4.2 Delay in rolling back of retirement age

Keeping in view the Department of Public Enterprises (DPE) notification dated 19 May 1998 raising retirement age of employees to 60 years, the Board in its meeting held in May 1998 extended the retirement age of employees from 58 years to 60 years. Considering the financial position and to bring down the manpower cost to industry norms, the Board approved (August 1999) the rolling back of retirement age from 60 years to 58 years. The Management forwarded the above proposal in January 2000 to the Ministry for approval, which was approved by the Ministry on 9 February 2001. Thus, there was delay of one year and four months in the implementation of rolling back of retirement age after its approval by the Board. This resulted in additional outgo of Rs.59.92 lakh towards pay plus dearness allowance for 14 months (excluding two months for complying with the procedural requirements).

1.4.3 Incomplete implementation of VRS

All the 118 and 55 employees who had opted for voluntary retirement scheme (VRS)-I & II in operation during the period from January 1999 to April 1999 and from August/1999 to October 1999, respectively, were relieved of their duties and responsibilities after payment of the necessary compensation.

However, in VRS-2001, which was in operation during the period from 8 March 2001 to 23 March 2001 the Company relieved 512 employees out of 522 employees who opted for VRS.

Under VRS-2002, VRS notified in 2001 was reintroduced and was kept open from 25 March 2002 to 10 April 2002 and the operation of the scheme was further extended upto 30 April 2002. The 33 applications (i.e.27 from the Rasayani unit and six from the Cochin unit) received under VRS-2002 were kept pending for want of financial assistance amounting to Rs.3.26 crore from the Government of India. Consequently, the Company could not derive the benefit of saving of Rs.77 lakh per annum.

1.4.4 No scheme for deployment of surplus manpower

The Company identified surplus manpower in October 2002 to the extent of 184 (i.e. 38 in officer's cadre and 146 in non-officer's cadre) through a committee constituted for the purpose in the Rasayani unit. The committee recommended that surplus manpower be utilised for specific purpose till separated through VRS. However, no specific proposal for the deployment of these 184 surplus employees was available in the records made available for audit.

1.4.5 Recurring expenditure on non-productive employees

The review of the Audit Committee report on the working of the Company revealed that the Company was still carrying the burden of 500 non-productive employees on whom it had been incurring recurring expenditure of Rs.14 crore per annum in the Rasayani unit despite three rounds of VRS. The Audit Committee submitted its report to the Board in its meeting held on 15 July 2004. A decision to reduce the surplus man-power so as to minimise the cost of labour for improving profitability, was still awaited (October 2004).

1.4.6 No system for monitoring idle labour time

There were reduced sales realisation due to tough competition from domestic as well as international market, but the Company did not evolve any suitable system/procedure to effectively monitor the deployment of manpower so as to identify the surplus manpower in time for taking prompt remedial action. In the absence of any system to analyse and report the impact of manpower on Company's overall performance the Company had to suffer loss on employment of excess manpower in the Rasayani unit.

The value addition per employee, which was Rs.1.66 lakh in 1999-2000, came down to Rs.1.27 lakh in 2003-04 inspite of implementation of VRS. Corrective measures were needed in the Rasayani unit of the Company to increase its sales realisations and to control the cost of labour and overheads.

1.4.7 Overtime allowance in spite of surplus manpower

In spite of surplus manpower the Company paid overtime allowance to its employees to the extent of Rs.2.72 crore during the period from 1999-2000 to 2003-04. The payment was not justified in the absence of any policy to regulate overtime wages.

1.4.8 Non-formulation of VRS for excess categories of workers

The Company continued to engage certain categories of workers viz., Mathadi workers (59 workers), Society workers (172) and Canteen employees (113) despite the fact that there was no adequate work for them, on account of certain compulsion arising out of protection under the relevant statute and court orders and had to pay wages to the extent of Rs.3.21 crore during 2001-02 to 2003-04. However, the Company did not formulate any suitable VRS so as to avoid the extra expenditure in this regard.

1.4.9 Comparison of manpower cost

(i) The comparison of manpower cost in the Rasayani unit with that of the Cochin unit of the Company revealed that percentage of manpower to sales realisation in the Rasayani unit ranged between 24 and 40 as against four to 10 in the Cochin unit as per details given below:

(Rs. in crore)

Particulars	1999-2000	2000-01	2001-02	2002-03	2003-04
Sales					
Rasayani	133.93	81.75	93.43	119.88	129.90
Cochin	194.94	272.70	153.11	282.29	299.41
Manpower Cost.					
Rasayani	37.42	33.02	28.82	30.98	30.76
Cochin	11.86	12.14	15.44	15.43	17.61
Percentage of man-power to sales:					
Rasayani	28	40	31	26	24
Cochin	6	4	10	5	6

It would be seen from the above table that as against the industry's norm of six to seven per cent, the percentage of manpower cost in the Rasayani unit ranged between 24 and 40 per cent during the years from 1999-2000 to 2003-04 resulting in extra expenditure on employee cost to the extent of Rs.126.98 crore.

(ii) Besides this, based on the average cost incurred towards fixed cost (excluding interest on borrowings) and profit-volume ratio (P/V ratio) during the last three years ended 31 March 2004, the Rasayani unit had to increase the annual sale value from the present level of Rs.129.90 crore to at least Rs.289.05 crore to achieve break even sales level as detailed below:

(Rs. in crore)

Sl. No.	Particulars	2001-02	2002-03	2003-04
1	Sales	93.43	119.88	129.90
2.	Variable cost	71.05	99.01	117.02
3.	Contribution (1-2)	22.38	20.87	12.88
4.	Fixed cost (employees remuneration & administrative overheads	39.85	43.11	41.56
5.	Operating profit (+)/Loss (-) (3-4)	(-) 17.47	(-) 22.24	(-) 28.68

6.	P/V ratio (3/1) x 100	23.95	17.41	9.92
7.	Break-even sales (4/6) x 100	166.39	247.62	418.95
8	Shortfall in sales to break-even (7-1)	72.96	127.74	289.05

It would be seen from the above table that increase in variable and fixed costs during the period from 2001-02 to 2003-04 resulted in substantial increase in operating loss from Rs.17.47 crore in the year 2001-02 to Rs.28.68 crore in the year 2003-04. It also indicated that the Rasayani unit was not able to recover its fixed cost in any of the three years ended 2003-04.

The Management, while accepting the fact that manpower cost in the Rasayani unit, as a percentage of turnover, was high, stated (October 2004) that the Company had been carrying out review of manpower after the VRS on a continuous basis by carrying out internal exercise. It also added that status of surplus manpower had been put up to Audit Committee/ Board for their consideration and final decision in the matter. As regards payment of overtime, it stated that the statutory payment of overtime as per the Factory Act had been dispensed with and presently overtime wages were paid to the employees who were working on holidays. The Company was finding solution to reduce the cost incurred on casual labourers like Mathadi workers, society and canteen workers.

The above contention of the management is not tenable as the Company had not evolved any suitable system/procedure to effectively monitor the deployment of manpower so as to identify the surplus manpower in time for taking prompt remedial action. Further, the Company could not succeed in formulating any suitable scheme to implement VRS in the absence of sufficient funds to avoid/ minimise the additional cost incurred on surplus manpower/ casual labourers. As regards payment of overtime wages the Company had not framed any guidelines to regulate it, considering the availability of huge surplus manpower.

1.5 Other topics of interest

1.5.1 Irregular payment of productivity-linked bonus.

As per productivity-linked incentive (PLI) scheme approved by the Board in January 1997 in line with DPE guidelines, the amount of incentive was to be worked out based on (a) production performance index (PPI) (b) material utilisation index (MUI) and (c) manpower index (MPI).

The review of payment of PLI for the years 2001-02 and 2002-03 revealed that MPI was worked out at 129 per cent in 2001-02 and 122 per cent in 2002-03 based on the sanctioned manpower without deducting the sanctioned manpower in respect of closed/ inactive plants. Further, the Director (Finance) of the Company while according financial concurrence to the above cited proposal pointed out (16 October 2003) that as per scheme circulated by the Government of India, the installed capacity of the plant was to be taken as base to assess the productivity bonus. However, in computation of productivity-linked bonus the budgeted/target production had been adopted which should be brought to the notice of the Board. He added that pending approval by the Board the amount could be released as an advance. The Chairman & Managing Director of the Company, while accepting the above proposal, directed that the same be put up to the Board for consideration and approval (17 October 2003). However, the payment was made without the approval of the Board, as envisaged.

Thus, the payment of PLI amounting to Rs.50.54 lakh for the years 2001-02 and 2002-03 made in October 2003 was in violation of the scheme approved by the Board of Directors/ DPE guidelines.

The Management stated (October 2004) that the Company had not violated any rules in the calculation of PLI. The above contention of the Management is not tenable as also observed by the Director (Finance) of the Company.

1.5.2 Avoidable expenditure on surplus manpower in HOC School

The Company established Hindustan Organic Chemicals (HOC) school in the year 1968 for providing facilities of education to the wards of the employees. The Company entrusted (June 1974) the management of HOC school to the Deccan Education Society, Poona. During the period from June 1974 to January 2001, in the absence of proper control over the appointment of qualified teaching/non-teaching staff with reference to the norms of the Department of School Education, Maharashtra, 51 teaching/ non-teaching staff were rendered surplus to the actual requirements.

In January 2002, the Company made an attempt to retrench the 51-teaching/ non-teaching staff members. It could finally relieve/ dismiss the surplus staff only in January 2004 after settlement of compensation to the extent of Rs.26.68 lakh as per orders of the school Tribunal (December 2003). Pending final decision on legal remedy sought by the aggrieved staff, the Company had to pay their salaries during the period from the date of retrenchment (January 2002) to the date of final order (December 2003). Thus, the Company’s failure to exercise proper control over the appointment of staff through the Company’s representatives in the Advisory committee of the management of the school resulted in an avoidable expenditure of Rs.1.53 crore during March 2001 to December 2003.

The Management stated (October 2004) that the Company had taken due care for the functioning of the school within the framework of rules and resolutions of the Government, through the Deccan Education Society and that the role of the Company’s representatives was restricted only to be advisory in nature and the affairs of the HOC school were in the hands of the Deccan Education Society.

The above contention of the management is not tenable in view of the fact that in terms of the agreement with the Society, the Company could have exercised proper control over the appointment of the staff as the financial commitment on account of appointment of additional staff required the approval of the advisory committee in which two representative’s of the Company were included.

1.6 Conclusions

The review of manpower analysis of the Company revealed that the high incidence of expenditure on employee cost over and above the industry norm in the Rasayani unit and lack of any system to monitor and deploy surplus manpower coupled with non-implementation of VRS after April 2002 due to financial constraints impinged heavily on the economic running of the unit. There is urgent need for taking steps for optimum and economical utilisation of manpower to revive the Rasayani unit.

1.7 Recommendations

(a) The Company should review the strategies pertaining to manpower especially in the backdrop of significant number of plants/projects undergoing closure.

(b) The Company needs to initiate urgent steps to bring down the high cost of manpower utilisation in the Rasayani unit in line with the industry norm.

(c) There is urgent need to reduce cost of operation of the Rasayani unit by modernisation/ up-gradation of plants and to increase its sales realisation, optimisation of facilities available under inactive/closed plants, with specific strategies to effectively counter the competition along with a programme of financial restructuring, as the continuation of the Rasayani unit in the present form would be a further financial drain on the exchequer.

The review was issued to the Ministry in November 2004; its reply was awaited (March 2005).