MINISTRY OF HEAVY INDUSTRY AND PUBLIC ENTERPRISES

CHAPTER XI

HMT Limited

Mid term Review on Turnaround Plan

Highlights

The Company entered into a Memorandum of Understanding (MOU) with Government of India (GOI) in August 2000 for the implementation of the Turnaround Plan. In the MOU, GOI agreed to provide 'One time, Last time' support to the Company and in return the Company unequivocally undertook to seek no further financial support.

(Paras 11.1.1 and 11.1.2)

Tractor business has been retained with HMT Limited (Company) though HMT Tractors Limited (Subsidiary) was incorporated in November 1999. The Company decided (November 2003) to close the Subsidiary.

(Para 11.3.1)

Disinvestment in subsidiaries as envisaged in the Turnaround Plan has not been achieved.

(Para 11.4.1)

Contrary to the decision taken in the Turnaround Plan to close unviable units, Food Processing Machinery Plant, Aurangabad is being operated despite incurring huge losses.

(Para 11.5.1)

In the context of continuous steep decline in demand for mechanical watches, the decision in the Turnaround Plan to (i) revive Ranibagh Watch Division and (ii) convert unviable Watch Factory, Srinagar into a separate subsidiary and implement revival plan was not judicious.

(Paras 11.5.3 and 11.5.4)

The projections in the Turnaround Plan were overly optimistic and were not supported by actual trends preceding the period covered in the Turnaround Plan and concrete action plan to achieve them.

(Para 11.6.1)

An unwritten objective of the entire subsidiarisation process was to avoid a reference to the BIFR.

(Para 11.6.4)

Though GOI agreed that the Turnaround Plan projections were no longer valid and the MOU targets for the year 2002-03 and 2003-04 were scaled down to be more realistic, the Company and its subsidiaries could not achieve even the reduced targets.

(Para 11.7.5)

Even though the Company agreed in the MOU not to seek further financial assistance/concessions from GOI, the Company obtained loans, amounting to Rs.190.02 crore till October 2004 for settlement of Voluntary Retirement Scheme payments and Rs.87.38 crore for payment of arrears of salaries and wages of the subsidiaries upto July 2004.

(Para 11.8.4)

The Company could realise revenue of only Rs.58.98 crore through sale of Non-performing assets during the four years ending 31 March 2004 as against the target of Rs.209 crore fixed for the period.

(Para 11.9)

The Ministry has not given due importance to the implementation of the Turnaround Plan in the Company. The posts of important functional Directors of HMT Limited and other Directors of the Subsidiaries were kept vacant during the crucial period of implementation of the TAP.

(Para 11.10)

Various Committees constituted in the Company, either specifically to oversee the implementation of the Turnaround Plan or monitor the performance of the Company in the normal course of business were not effective.

(Para 11.11.2)

11.1 Introduction

11.1.1 HMT Limited (Company) was incorporated in 1953 to produce machine tools and later it diversified its activities into production of watches, lamps, tractors, printing machines, die casting, dairy machinery, presses and press brakes, plastic injection moulding machines, horological machinery, food processing machinery and miniature battery for watches. There was sporadic improvement in the performance of the Company upto 1991-92. The Company, however, started incurring losses since 1992-93 due to new industrial policy which aimed at ushering in a freer economy and welcoming the flow of foreign capital. After taking into account economic and technological changes and the competition emerging in different businesses, the Company contemplated substantial infusion of funds into modernisation and expansion. However, these efforts during the early nineties, did not succeed and the Committee on Public Undertakings (COPU) directed the Company (October 1996) to keep all piece-meal proposals in abeyance and submit an overall revival plan for the approval of the Government. The first comprehensive revival plan was submitted to the Government in June 1998 and the Government of India (GOI) finally approved a Turnaround Plan (TAP) in August 2000. The Company entered into a Memorandum of Understanding (MOU) with GOI in August 2000 for the implementation of the TAP. Meanwhile, its loss increased more than tenfold from Rs.23.94 crore during 1997-98 (before submission of revival plan) to Rs.296.91 crore during 1999-2000 and the accumulated losses went up to Rs.436.51 crore in 1999-2000 and its net worth turned negative.

11.1.2 In the MOU, GOI agreed to provide 'One time, Last time' support to the Company and in return the Company unequivocally undertook not to seek further financial support. The MOU broadly envisaged (i) conversion of Machine Tools, Watches and Tractor Business groups into subsidiaries for eventual disinvestment, (ii) closure of five unviable units, (iii) revival of 10 units, (iv) Voluntary Retirement Scheme (VRS) to reduce surplus manpower (v) GOI guarantee to raise bonds for making VRS payments and to meet working capital requirements (vi) conversion of loan into equity and waiver of interest thereon and (vii) infusion of funds in the form of equity from GOI to settle statutory dues and dues to financial institutions. These measures envisaged in TAP were to be implemented during the period 2000-01 to 2004-05. A scheme of arrangement (Scheme) was approved by GOI (March 2001) envisaging transfer of assets and liabilities of the Company to its newly formed subsidiaries.

11.2 Scope

The projections made in the TAP, its implementation as per MOU signed with the GOI and actual performance of the Company and its newly formed subsidiaries during the years 2000-01 to 2003-04 were reviewed in Audit and resultant observations are included in succeeding paragraphs.

11.3 Conversion of Business Groups into subsidiaries

11.3.1 As envisaged in the TAP, Machine Tool and Watch Business groups and Tractor Division were converted into four subsidiaries viz. HMT Machine Tools Limited (August 1999), HMT Watches Limited (August 1999), HMT Chinar Watches Limited (May 2001) and HMT Tractors Limited (November 1999). As specified in the Scheme, the Company transferred the assets and liabilities of the units of Machine Tool and Watch Business groups to the concerned subsidiaries effective from 1 April 2000. However, the Company did not transfer Tractor business to HMT Tractors Limited as per the Scheme and applied for closure (November 2003) of the subsidiary (HMT Tractors Limited), being a non-functioning company.

The Management stated (July 2004) that in view of the delay in the disinvestment process, this subsidiary remained defunct and to avoid additional investment without any consequential benefits it was decided to close the subsidiary.

11.3.2 Under the Scheme, certain lands and buildings of the Company located at Bangalore were allocated to HMT Machine Tools Limited and HMT Watches Limited. Their value was appearing in the books of these subsidiaries. The sale of some of these assets yielded profit of Rs.15.41 crore and Rs.37.12 crore during the years 2002-03 and 2003-04 respectively which was retained by the Company in its books instead of transferring the same to the subsidiaries, which was a clear violation of the Scheme.

The Management stated (July 2004) that it was a considered decision to record the profits and cash flow from such disposal in the books of the Company to meet the pressing commitments on account of overdue liabilities and to retain the profitability of the Company. The action of the Company vitiated the financial performance of the subsidiaries as they were deprived of funds required for their operations.

11.4 Disinvestment

11.4.1 As per the TAP, the Company was to disinvest upto 74 per cent of its equity in all its new subsidiaries, generating a profit of Rs.180 crore during the year 2001-02. In addition, Computer Numerical Control (CNC) Systems Division, the profit making division under HMT Machine Tools Limited, was to be hived off and Rs.50 crore was projected as income during the year 2001-02. The sale proceeds from disinvestment were to be used for liquidating bonds issued for working capital requirement, VRS, upgradation of technology and capital availability. Expressions of Interest (EOI) were invited (July 2002) from interested parties for all subsidiaries except HMT Tractors Limited. No EOI was received for HMT Machine Tools Limited. EOIs received (August 2002) in respect of other two companies, viz., HMT Watches Limited and HMT Chinar Watches Limited were vetted and forwarded to the Ministry for clearance during April 2003. The valuer appointed (April 2004) for valuation of assets of HMT Watches Limited submitted a report on valuation for disinvestment purposes in June 2004. Action to hive-off CNC Systems Division was yet to be taken (July 2004).

11.4.2 The Management stated (July 2004) that the delay in disinvestment could not be attributed to the Company as the action taken by Company regarding the disinvestment was as per the directives of the Inter-Ministerial Group appointed by the Government. They further stated that efforts initiated for locating joint venture partner for CNC Systems Division were not successful. It added (November 2004) that there was no further progress in disinvestment and a policy decision was awaited from the Government.

The fact, however, remains that delay in disinvestment of the subsidiaries and CNC Division deprived the Company of profits as envisaged under the TAP.

11.5 Closure of unviable units/ Revival of loss making units

11.5.1 The TAP envisaged closure of five unviable units viz., Central Metal Forming Institute, Watch Case Unit, Lamp Factory, all in Hyderabad, Food Processing Machinery Unit (FPA) at Aurangabad and Miniature Battery Unit at Guwahati. Except FPA, all unviable units were closed by December 2000. The Company did not close FPA and instead proposed to manufacture automotive gears for tractors in the plant, which did not come through due to financial constraints. FPA had been incurring losses continuously for 11 years and its cumulative loss was Rs.7.86 crore (August 2000). The key factors affecting FPA's performance were low level of product technology and saturation of dairy industry particularly in the co-operative sector. The reason for sudden change in the stand of the Company to revive FPA, which had been chronically running under losses for more than a decade, was not on record.

The Management stated (December 2003) that the issue of closure of FPA had been pending with the Deputy Labour Commissioner, Aurangabad and FPA generated revenue to meet salary requirement of around 88 employees. However, the fact remains that even the TAP had concluded that existence of FPA as a separate unit was not feasible and its closure was approved. FPA continued to incur losses during 2000-01 to 2003-04 also and the accumulated loss rose to Rs.12.99 crore as on 31 March 2004.

11.5.2 Further, UTI Bank Limited, which was appointed (December 2003) to identify failure/shortcoming in the implementation of the TAP and to suggest corrective action, was also entrusted with the specific task of examining the viability of FPA afresh. The report submitted (May 2004) did not contain any recommendations on FPA.

11.5.3 Watch Factory, Srinagar, manufacturing only mechanical watches, was a 'loss making unit but capable of revival' as per the TAP. Its accumulated loss as on 31 March 1999 was Rs.82.53 crore. During 1999-2000, a further loss of Rs.15.57 crore was incurred. In view of the declining trend of demand for mechanical watches and surplus capacity at Bangalore unit, the decision in the TAP to revive and convert the unviable Watch Factory, Srinagar into a separate subsidiary viz. HMT Chinar Watches Limited and to implement revival plan was injudicious. The loss of Rs.52.96 crore incurred during 2000-01 to 2003-04, despite receipt of grant of Rs.34.13 crore from GOI to meet actual cost of wages and salary was, thus, avoidable.

The Management has not offered (July 2004) any remarks on the audit point.

11.5.4 As per the TAP, Bangalore and Ranibagh units, manufacturing mechanical watches, were also proposed to be revived. The installed capacity for manufacture at Bangalore and Ranibagh was 15 lakh and 20 lakh watches per annum respectively. The demand for mechanical watches in India has been showing sharp decline in view of customers' preference for technologically improved and reasonably priced quartz watches. The demand came down to 12.59 lakh watches in 1999-2000 out of which the Company's share was 70 per cent. This further declined to 1.30 lakh during 2003-04, almost wholly contributed by sale of HMT watches. The Company could have met the demand from Bangalore unit itself and in view of the declining demand, could have closed the Ranibagh unit. Therefore, the decision in the TAP to persist with Ranibagh unit was not judicious and further losses to the tune of Rs.105.28 crore incurred during 2000-01 to 2003-04 were avoidable.

The Management has not offered (July 2004) any remarks on the audit point.

11.6 Projections in the Turnaround Plan

11.6.1 The projections in the TAP were mainly based on the anticipated turnaround in economy, general improvement in sentiment for investment, increased plan outlay for Defence, Agriculture and allied activities in the Union Budget for 1999-2000 and the opportunities envisaged in the expansion proposals/ additional investment outlay of some major customers like Bajaj Auto, TVS Suzuki, Punjab Tractors, Railways etc. The projections in the TAP were overly optimistic and were not supported by actual trends preceding the period covered in the TAP and concrete action plan to achieve them.

The Management accepted (July 2004) that the TAP, among other things, had not addressed the effect of economic liberalisation measures of the Government of India and contingencies of likely changes in business environment.

11.6.2 The Company's own projections for sales in July 1998 and February 1999 for the year 1999-2000 were Rs.1316.40 crore and Rs.1158.60 crore, respectively. However, actual sales which were Rs.956.79 crore in 1996-97, came down to Rs.752.38 crore in 1999-2000 and further reduced to Rs.384.46 crore in 2003-04. All three business groups showed declining trend during the same period. Actual sales of machine tools, tractors and watches which were Rs.331.29 crore, Rs.408.82 crore and Rs.193.40 crore in 1996-97 respectively, came down to Rs.262.73 crore, Rs.386.39 crore and Rs.92.94 crore in 1999-2000 respectively. There was a steep decline in domestic sales of mechanical watches from 22.87 lakh in 1998-99 to 12.59 lakh in 1999-2000 in which the Company had 70 per cent market share. Despite these declining trends, the Company did not revise its projections for 2000-01 and onwards, based on actuals of 1999-2000.

11.6.3 Evidently, the sales projections of Rs.1001.51 crore for 2000-01, with projected increase to Rs.1515.41 crore in 2004-05, and resultant contributions and Profit before tax (PBT) in the TAP were not realistic and should not have been taken as the basis for approval of the TAP in August 2000 for implementation.

The Management stated (July 2004) that the projections in the TAP were arrived at after taking into account the market conditions prevailing at that time and projections were vetted by M/s. A. F. Ferguson (consultants). The reply of the Management contradicts its own statement (refer para 11.6.1) that the TAP did not consider the effect of economic liberalisation measures of the Government on the operations of the Company and the contingencies of likely changes in business environment. Further, the reply is not tenable as the projections of the consultant were subject to the following:

(i) The Company would need to invest and increase its ability to meet demands for improved technology in machine tools.

(ii) The actual performance in tractors would need to be linked to the agricultural sector and aggressive marketing and extensive service support would have to be undertaken.

(iii) The Company was to be able to meet the sales projections for watches, based on inputs of much needed working capital. The other key inputs required to achieve the projection were aggressive marketing and brand building.

However, the Company did not take any action to address the above issues.

11.6.4 Further, the TAP mainly focused on closure of unviable units, subsidiarisation of business groups, assistance from GOI towards equity, waiver of loans etc. The immediate aim of the TAP was to ensure that the Company was kept out of the purview of Board for Industrial and Financial Reconstruction (BIFR) by financial restructuring with assistance from GOI. A similar view was expressed (April 1999) by the Controller General of Accounts (CGA) (Ministry of Finance) in an appraisal of the TAP that the unwritten objective of the entire subsidiarisation process was to avoid a reference to the BIFR, which would have the effect of damaging the brand equity of HMT and render its business prospects even more difficult.

The Management stated (July 2004) that the reasons for the TAP were primarily to give focus and disinvest the individual business groups of HMT viz., Machine Tools, Watches and Tractors. The Management's reply underscores the fact that the focus of the TAP mainly was to restructure the business and not to turnaround the fortunes of the Company. Even the stated primary objective of the TAP was not achieved as the subsidiarisation of Tractors Division did not happen and disinvestment in other subsidiaries did not materialise.

11.7 Performance of subsidiaries

11.7.1 The targets vis a vis achievements in respect of Tractor Business Group for the years 2000-01 to 2003-04 were as under :

Details	**2000-01**		**2001-02**		**2002-03**		**2003-04**	
	Target under TAP	**Actual**	**Target under TAP**	**Actual**	**Target under TAP**	**Actual**	**Target under TAP**	**Actual**
Sales (Rs. in crore)	474.76	341.63	534.50	284.61	603.81	181.86	690.23	154.22
Profit (Rs. in crore)	45.21	5.28	196.22	1.85	29.25	(43.71)	27.09	(51.09)

	Target as per one time MOU with subsidiaries	**2000-01**	**2001-02**	**2002-03**	**2003-04**
Sundry Debtors (in days of sales)	90	185	254	318	237
Stock of raw material (in days of consumption)	40	71	45	88	90
Work-in-progress (in days of production)	10	26	25	36	37
Stock of finished goods (in days of production)	5	34	22	20	25

Though the industry's sales came down during 2001-02 and 2002-03 by 17 per cent, the Company's sales came down drastically by 35 per cent and the Company's market share declined from 5.36 per cent to 4.20 per cent. Sundry debtors which were 52.47 per cent of sales as on 31 March 2001 increased to 84.28 per cent as on 31 March 2004. This resulted in working capital crunch. Further the Company's material procurements were high and it could not convert its work in progress into finished goods within a reasonable period. The stock held by the Company was also above the targeted level. The Company received (December 2003) Rs.two crore as equity and Rs.two crore as loan (at the rate of 12.50 per cent) from the GOI towards budgetary support for capital expenditure.

The Management stated (July 2004) that sundry debtors appeared to be high in terms of percentage due to reduction in turnover. The decline in production and sales was mainly due to sluggish market demand, quality problems and unsuitable product portfolio for wet farming. The Management further stated that the inventory should be viewed considering the number of bought-outs, assembly operations in three different locations, geographically dispersed stockyards and widespread dealer network. The reply is not tenable as the decline in the performance was mainly due to non-introduction of new models of tractors as per market need and non-modernisation of the facilities. This is evident from the fact that during 1998-2003 even though industry's sales came down by 36 per cent, the Company's sales came down by 64 per cent. Decline in acceptability of Company's products due to imported products launched by the competitors also contributed to the poor performance.

The Committee appointed by the Ministry (August 2000) to inquire into diversion of funds meant for payment of statutory dues of the employees for other purposes and setback in the performance of the Company during 1999-2000, observed (November 2000), that the position of sundry debtors of the Tractor Business Group was alarming and almost half of the sales had not been realised during 1999-2000. The increase in sundry debtors was largely contributed by pushing the finished stock inventory to the dealers to show higher sales. The Tractor Business Group let debtors and inventories pile up leading to cash crunch. Necessary capital expenditure for modernisation/ expansion/quality improvements did not take place due to the diversion of funds of Rs.4.96 core in 2000-01 to the Watch Group. Despite the indictment by the Committee, there was no improvement. On the contrary, there was further deterioration in the position of sundry debtors.

The Management stated (July 2004) that the inventory with dealers increased due to advance selling of tractors and higher dealer credit. Also no efforts were made for capital investment due to uncertainty of business in view of disinvestment. The reply of the Management is not tenable as the Company continued the practice of dumping of tractors with dealers, which was fraught with risk in recovery. Though the Company took up expansion of Tractor Assembly at Hyderabad, after investing (July 1999 – July 2000) Rs.98.84 lakh, the work was abandoned in March 2001 in view of low production levels and cash crunch rendering the expenditure infructuous.

11.7.2 The targets vis-a-vis achievements in respect of HMT Machine Tools Limited for the years 2000-01 to 2003-04 were as under:

Details	**2000-01**		**2001-02**		**2002-03**		**2003-04**	
	Target under TAP	**Actual**	**Target under TAP**	**Actual**	**Target under TAP**	**Actual**	**Target under TAP**	**Actual**
Sales (Rs. in crore)	300.00	209.28	320.00	260.98	340.00	229.38	365.00	198.21
Profit (Rs. in crore)	(9.93)	(96.17)	56.32	(70.65)	8.50	(102.17)	9.69	(119.08)

	Target as per one time MOU with subsidiaries	**2000-01**	**2001-02**	**2002-03**	**2003-04**
Sundry Debtors (in days of sales)	96	102	127	120	123

Stock of raw material (in days of consumption)	96	186	166	191	173
Work-in-progress (in days of production)	78	112	89	88	90
Stock of finished goods (in days of production)	74	111	81	64	66

The subsidiary could not achieve most of the targets fixed under the TAP. The Committee appointed (August 2000) by the Ministry observed (November 2000) that the losses were due to low productivity, technological obsolescence and quality problems. The consultant who vetted the projections in the TAP observed that the subsidiary was expected to achieve the sales projections by investments to enhance its ability to meet demands for improved technology in machine tools. Though the TAP had projected capital expenditure of Rs.37.10 crore (Rs.12.10 crore out of budgetary support and balance of Rs.25 crore to be met out of internal resources) during the years 2000-01 to 2003-04. The subsidiary could get Rs.4.20 crore only as budgetary support.

The Management accepted (July 2004) that internal resource generation was inadequate and as such the capital expenditure as envisaged in the TAP could not be put through.

11.7.3 The targets vis a vis achievements in respect of HMT Watches Limited for the years 2000-01 to 2003-04 were as under:

Details	**2000-01**		**2001-02**		**2002-03**		**2003-04**	
	Target under TAP	**Actual**	**Target under TAP**	**Actual**	**Target under TAP**	**Actual**	**Target under TAP**	**Actual**
Sales (Rs. in crore)	220	108.64	247.50	80.57	275.00	45.35	302.50	26.92
Profit (Rs. in crore)	(14.15)	(59.18)	1.74	(106.29)	49.82	(112.92)	18.20	(134.81)

	Target as per one time MOU with subsidiaries	**2000-01**	**2001-02**	**2002-03**	**2003-04**
Sundry Debtors (in days of sales)	60	229	304	392	635
Stock of raw	90	266	446	1076	993

material (in days of consumption)					
Work-in-progress (in days of production)	45	95	139	253	288
Stock of finished goods (in days of production)	60	188	231	356	480

The subsidiary could not achieve any of the targets fixed in the TAP. Its turnover decreased and loss increased year after year. While reacting to the revised Road Map submitted by the subsidiary (March 2003), the Ministry accepted (August 2003) that the TAP had failed to produce any improvement in the working of the subsidiary. It also observed that since its inception the proposals appeared to be ad-hoc in nature and requested the Company to undertake a quick study to ascertain the reasons for the poor performance of the TAP and take quick corrective action. The committee constituted in this connection observed (December 2003) that major factors contributing to the poor performance were (i) overambitious projections, (ii) cash losses suffered prior to the TAP, (iii) inadequate working capital for operational purposes, (iv) outsourcing of complete watches and components leaving the inhouse capacity idle, (v) non-availability of marketable watches, (vi) lack of professional marketing; and (vii) existence of spurious HMT Watches.

The Company wanted (February 2002) a mid-course correction for the targets set for (i) Machine Tools, due to the drastic change in the macro business environment, (ii) Tractors, due to negative growth of the industry since 2000-01 resulting in lower levels of production, consequent loss from operations and liquidity crunch and (iii) Watches, due to cumulative losses, and unbridged gap of working capital leading to unsustainable operations.

11.7.4 The targets vis a vis achievements in respect of HMT Chinar Watches Limited for the years 2000-01 to 2003-04 were as under:

(Rs.in crore)

	2000-01		**2001-02**		**2002-03**		**2003-04**	
	Target as per TAP	**Actuals**	**Target as per TAP**	**Actuals**	**Target as per TAP**	**Actuals**	**Target as per TAP**	**Actuals**
Sales	6.75	1.94	9.00	2.02	11.25	1.21	13.50	1.32
Profit	(3.90)	(7.95)	(4.01)	(10.16)	(4.42)	(6.31)	(14.77)	(28.54)

It could be seen from the above that though the annual sales ranged between Rs.1.21 crore and Rs.2.02 crore, the losses ranged between Rs.6.31 crore and Rs.28.54 crore per annum.

11.7.5 The Ad hoc Task Force formed under the Ministry to discuss the MOU, observed (February 2002) that the Company should have a mechanism to forecast future challenges and amend business plans in time to be profitable. As it was agreed that the TAP projections were no longer valid, the MOU targets were scaled down for the years 2002-03. Even the proposed targets in the draft MOU for 2003-04 pending for approval were also scaled down. The table below indicates the targets as per the TAP, reduced targets as per MOU with GOI and actual achievements in respect of subsidiaries and Tractor Business Group for the years 2002-03 and 2003-04.

(Rs. in crore)

		MTL[♣]		**HWL[♦]**		**TBG[♥]**		**CWL[♠]**	
	Year	**Sales**	**PBT**	**Sales**	**PBT**	**Sales**	**PBT**	**Sales**	**PBT**
Target as per TAP	2002-03	340	9	275	50	604	29	11	(4)
	2003-04	365	10	303	18	690	27	14	(15)
Target as per MOU	2002-03	289	(7)	234	37	440	(3)	9	(5)
	2003-04	300	(32)	200	2	348	4	9	21
Actual	2002-03	229	(102)	45	(113)	182	(44)	1	(6)
	2003-04	198	(119)	27	(135)	154	(51)	1	(29)

It would be seen from the above that even the revised MOU targets were not achieved. Thus, the projections in the TAP were overly optimistic and un-achievable and the Company had not been able to set for itself achievable targets.

11.8. Financial Restructuring

11.8.1 An important aspect of financial restructuring was to reduce annual interest outgo by restructuring of debt through additional equity from GOI, sale of assets and concessions from creditors.

11.8.2 The Company received (September 2000) Rs.250 crore from GOI in the form of contribution towards equity capital to settle statutory dues and borrowings which it utilised for the settlement of statutory dues (Rs.114.91 crore), dues of financial institutions (Rs.53.51 crore), repayment of debentures (Rs.42.53 crore) and retirement of high interest bearing bonds/ borrowings (Rs.39.05 crore). The Company obtained financial benefit to the tune of Rs.20.23 crore in the course of settlement of dues of financial institutions/retirement of high cost debts/ borrowings by way of waiver of interest. In addition, the Company also received (2000-2001) Rs.10.05 crore as equity capital for meeting capital expenditure; GOI loan of Rs.39.70 crore was converted into equity and Rs.12.74 crore of interest accrued waived. GOI further extended the guarantee on Bonds raised for Rs.40.43 crore to meet working capital requirements of the Watch subsidiary.

[♣] ***HMT Machine Tools Limited***
[♦] ***HMT Watches Limited***
[♥] ***Tractors Business Group***
[♠] ***HMT Chinar Watches Limited***

11.8.3 The above measures resulted in turning the Company's negative net-worth into positive and saving in interest cost on loans repaid/ converted into equity. The Company continued to carry high interest bearing loan of Rs.204.64 crore and cash credit loan of Rs.175.25 crore as on 31 March 2000. However, the Company's positive net-worth of Rs.54.14 crore in 2000-01 came down to Rs.11.16 crore in 2003-04 and net-worth of other newly formed subsidiaries turned negative in the very first year of their operation.

11.8.4 The financial restructuring envisaged under the TAP to turn the declining performance of the Company around was not achievable as discussed below:

(i) The Company was already burdened with annual interest charges on various bonds/loans ranging from Rs.80 to Rs.90 crore prior to 2000-01 and it further increased due to annual interest payments of more than Rs.20 crore towards VRS Bonds.

(ii) The Company required Rs.470 crore to retire 6947 employees under VRS. GOI did not give grant-in-aid to meet VRS related payments and agreed only to guarantee bonds issued to finance VRS payments and 50 per cent interest subsidy thereon. The Company received Rs.72.11 crore towards interest subsidy and Rs.14.40 crore towards subsidy for guarantee fee on bonds during the years 2000-01 to 2003-04. The projected Profit before tax also did not take into account Rs.470 crore to be paid towards regular retirement benefits and VRS compensation. This further reduced its operational performance and profitability as it had incurred Rs.22.39 crore in 2001-02 towards VRS related expenditure which further increased to Rs.54.37 crore in 2003-04 due to additional VRS given to 2204 employees. The Company had been requesting GOI for 100 per cent interest subsidy since November 2001 which had not been provided by GOI (July 2004).

(iii) Though prime lending rate was falling rapidly, the Company and its subsidiaries were raising funds through borrowings at a cash credit rate of 15.50 per cent. ICRA[♣] (Credit Rating Agency) determined (March 2002) the Company's credit rating as 'inadequate safety and timely payment of principal and interest not guaranteed'. Therefore, the Company's efforts to raise Rs.300 crore from the market against the securitisation of non-performing assets did not succeed (December 2003) and it ended up taking a loan of Rs.190.02 crore from the Government at 15.50 per cent per annum (October 2004). The interest liability of the Company prior to restructuring was Rs.94.35 crore in 1999-2000, whereas the interest liability subsequent to restructuring of the Company and its subsidiaries increased to Rs.163.20 crore in 2003-04. Though there was sharp decline in prime lending rate coupled with decrease in turnover from Rs.752.38 crore in 1999-2000 to Rs.384.46 crore in 2003-04, the interest on cash credit which was Rs.32.19 crore decreased only to Rs.29.81 crore during the same period.

(iv) As the Company failed to provide funds for repayment of the bonds (Rs.40.40 crore) with interest amounting to Rs.43.43 crore due in November 2003, UCO

[♣] ***Investment Information Credit Rating Agency***

Bank, the Trustee to the Bond issue requested (October 2003) GOI to honour the Guarantee. The Company, with the approval of GOI, obtained (January 2004) a short-term loan of Rs.56.23 crore from Bharat Heavy Electricals Limited, *inter alia* to meet the commitment to the UCO Bank. The short-term loan was subsequently repaid (March/September 2004) out of another loan from UCO Bank.

(v) Even though the Company had agreed in the MOU not to seek further financial assistance/concessions from GOI, the Company obtained loans amounting to Rs.190.02 crore at 15.50 per cent interest from GOI upto October 2004 for settlement of VRS payments. The Company subsequently requested the Government to convert the loan into equity. The decision of GOI was awaited (July 2004). In addition the Company availed of (March/October 2004) GOI loan of Rs.87.38 crore at 15.50 per cent interest for payment of arrears of salaries and wages for subsidiaries and statutory dues for the period upto July 2004. The Company also obtained (September 2004) GOI Guarantee for raising a loan of Rs.300 crore (at the rate of 6.75 per cent) for retiring high cost debts and availed loan of Rs.59.56 crore till October 2004. Thus, the Company was not able to generate own funds to come out of the debt trap.

The Management stated (July 2004) that the subsidiaries were struggling to achieve the projected turnover without any operating resources in the form of working capital and for further reduction of surplus manpower had to necessarily approach GOI for financial assistance to implement VRS. The reply confirms that the Company could not achieve the underlying objective of financial restructuring viz., reduced annual interest outgo, resulting in improved availability of funds for operations. On the contrary, the subsidiaries were not able to pay even salaries and wages, necessitating further GOI loan.

(vi) The TAP had envisaged financing of projected capital expenditure of Rs.62.86 crore from internal resources to be generated during 2000-01 to 2003-04, which was not realistic due to the fact that the Company could not generate funds from internal resources from 1993-94 onwards and internal resources generated were negative to the extent of Rs.281.84 crore (1999-2000). Out of Rs.15.10 crore envisaged as capital expenditure for the year 2000-01 as part of the TAP, only Rs.7.20 crore was released by the GOI and the balance Rs.7.90 crore was not released due to non-furnishing of 'Utilisation Certificates' for the earlier receipts.

(vii) Thus, the endeavours of the TAP to turn the performance of the Company around did not help in improving the performance and even in arresting the declining performance. While appraising the projections of the TAP, the CGA stated (April 1999) that infusion of GOI equity would be used for discharging liabilities with no asset creation or improvement in the business prospects and it would not result in reviving the Company. The apprehension of CGA was evidently confirmed.

The Management accepted (July 2004) that the funds infused by GOI were utilised for repayment of debts only and did not result in the availability of sufficient funds for working capital. The interest component and write-off of VRS compensation affected the bottomline of the Company. The changed business environment coupled with negative bottomline affected the Company's plans to tap funds from the market.

(viii) As the Company had not been able to service the debts, despite financial restructuring under the TAP, UTI Bank Limited (December 2003) was appointed to conduct a detailed review of implementation of the TAP to identify failures/ shortcomings, suggest corrective action along with the formulation of a financial model to determine the financial viability and to carry out further financial restructuring of the Company and its three new subsidiaries. The decision of the Management to attempt further financial restructuring is a tacit admission of the fact that the financial restructuring under the TAP failed to improve the performance and financial health of the Company and its subsidiaries.

The report submitted by UTI Bank Limited, (May 2004) suggested (i) further financial restructuring by conversion of GOI loans (Rs.192 crore availed in 2003-04) into equity, 100 per cent subsidy on VRS bonds and GOI guarantee for funds to meet working capital (Rs.200 crore), to pay statutory dues (Rs.125 crore) and debts (Rs.300 crore); (ii) infusion of Rs.400 crore by GOI by way of grants immediately to rescue the Company from debt trap; (iii) physical restructuring by reduction of manpower with GOI funds, consolidation of facilities in subsidiaries, outsourcing, revamping of marketing and receivables management and disinvestment of watches and tractors business.

The increased financial aid from GOI proposed by UTI Bank Limited, to salvage the Company is indicative of the further deterioration in the financial health during the period of implementation of the TAP. The Company has prepared a revival /restructuring plan for the Company, HMT Machine Tools Limited and HMT Watches Limited (September 2004) which has been entrusted (October 2004) to the consultants for vetting.

11.9 Disposal of Non- Performing Assets

The TAP envisaged mobilisation of funds by selling Non-Performing Assets (NPA). The Company identified surplus land and buildings valued at Rs.912.70 crore for sale as NPA (Rs.337 crore from property in Bangalore and Rs.575.70 crore in the rest of India). However, as per the TAP, land and buildings valued at Rs.218 crore only were to be disposed of during 2000-01 to 2004-05. The Company realised only Rs.57.59 crore and Rs 1.39 crore from sale of land within Bangalore and outside Bangalore respectively by 2003-04, which was 28 per cent of the target of Rs.209 crore fixed for the period upto March 2004.

The Management stated (December 2003) that shortfall in sale of NPA was due to exceptionally low demand in the market and that even the property consultants appointed could not increase the sales. The delay in disposal of NPA had a very serious implication for the Company and its subsidiaries as in the absence of funds from sale of these assets, the Company failed to liquidate high-cost debts and enhance availability of funds to finance its production activities and capital expenditure.

11.10 Role of Ministry in the implementation of the TAP

As per the TAP, the overall responsibility and accountability for the implementation of the TAP rested with Chairman and Managing Director of the Company who was to be assisted by the functional Directors during the currency of the TAP after formation of the new companies as envisaged in the TAP. However, important posts of Directors were abolished or kept vacant during the crucial period of implementation of the TAP as indicated below:

(i) The post of Director (Finance) of the HMT Limited was kept vacant since November 2000 and was abolished in September 2001.

(ii) The post of Director (Personnel) which was re-designated as Director (Tractors) in September 2001 was kept vacant since July 2002 and subsequently held as additional charge by the Chairman and Managing Director.

(iii) The post of Director (Marketing Policy, Corporate Planning and Projects) was re-designated (September 2001) as Director (Organisation and Management). The post was vacant since January 2003 and held as additional charge by the Chairman and Managing Director.

(iv) Even though posts of Director (Finance), Director (Technical), Director (Marketing) and Director (Human Resources) were created (September 2001) for the subsidiaries viz., HMT Machine Tools Limited and HMT Watches Limited, these posts were not filled (July 2004).

(v) The post of Managing Director of HMT Machine Tools Limited, vacant since June 2003, was filled up in May 2004. As the Managing Director of HMT Watches Limited was under suspension from 30 July 2003, the Group General Manager, Watch operations, was entrusted with that charge on ad-hoc basis by GOI. As the suspension order was set aside, the Managing Director resumed charge in May 2004.

The Management stated (July 2004) that (i) posts of functional Directors were not filled up at the instance of GOI due to the poor performance of its subsidiaries, (ii) Director (Tractors) in HMT Limited had been renamed Director (Finance) and the process of filling up of the Directors' posts had been initiated by PESB♠. No positive action had, thus, been taken by the Ministry in this regard to set the tone for better performance.

11.11 Role of Management in implementation of the TAP

11.11.1 The Committee appointed by the Ministry observed (November 2000) that (i) the Unit Chiefs/ Business Group Chief of Machine Tools Limited could have definitely made more efforts for arresting the decline, (ii) the entire Watch Business Group had been badly mismanaged financially, commercially and technically; the top management of the Watch Business Group (the unit chiefs and Business Group chief) allowed a drift in the affairs by their inaction and the top Corporate Management also

♠ ***Public Enterprises Selection Board*** failed in rectifying the situation and (iii) the Tractor Business Group Chief let debtors and inventories pile up leading to cash crunch.

11.11.2 Despite the above observations, various Committees constituted by the Company, either specifically to oversee the implementation of the TAP or monitor the performance of the Company in the normal course of business were not effective as indicated below:

(i) A Company level Committee was constituted (December 2000) to monitor the implementation of the TAP. The Committee was to meet once in a week to discuss all matters connected with the implementation of the TAP and devise suitable remedial measures. However, the Committee held only six meetings till January 2001 and no meeting took place thereafter.

(ii) The Executive Committee, at the corporate office of the Company, comprising the Chairman and Managing Director, wholetime Directors and Business Group chiefs/ Subsidiary chiefs was constituted (September 1986) to coordinate the work of the units/Business Groups and was to meet at least once in every two months to review the performance and take appropriate action. However, the Committee held only seven meetings subsequent to the commencement of implementation of the TAP, contrary to the assertion in the Annual Report of the Company that meetings were being held regularly to review the performance of the Company.

(iii) A Unit Board, a governing body at unit level, comprising the head of the unit and heads of Finance, Production, Engineering and Marketing departments of the unit and representatives from unions/officers Association, was constituted in each unit of subsidiary companies. Though time and again instructions were issued that Unit Board meetings should be held regularly once a month or as frequently as possible to formulate implementable actions to mitigate the problems, the meetings were held very sporadically with no emphasis on action plans.

(iv) The Audit Committee of the Board of Directors formed under Section 292A of the Companies Act 1956, was non-functional in HMT Limited in all the years for want of quorum. Even though it met twice in the case of HMT Machine Tools Limited and twice in the case of HMT Watches Limited during the years 2002 to 2004, it did not discuss any matter connected with the TAP.

The Management did not furnish any reply to the above observations.

11.12 Conclusions

(i) The TAP failed to turn the fortunes of the Company and its subsidiaries around due to (i) overly optimistic projection not supported by actual trends in the period preceding it, (ii) lack of plan/strategies for product diversifications, development, technology upgradation and business plans to convert loss- making units into profit making ones, (iii) failure to consider the effects of economic liberalisation measures of GOI and contingencies of likely changes in business environment, (iv) failure on the part of the Ministry/Management to consider the apprehensions (April 1999) of CGA with regard to fine tuning the projections

(ii) The unwritten objective of the TAP was to restructure the Company and avoid a reference to the BIFR and not to turn its and its subsidiaries' fortunes around.

(iii) The networth of the Company came down substantially and the networth of all the three subsidiaries turned negative.

(iv) Half-way through the implementation of the TAP, the Ministry conceded that the TAP projections were no longer valid.

(v) The Company failed to achieve the projections in the TAP for disinvestment and the slow process of disinvestment resulted in delay in liquidating bonds issued for working capital requirements, delay in technological upgradation and lack of capital availability.

(vi) The Company failed to close Food Processing Machinery Unit which was unviable as it was continuously incurring losses for more than a decade.

(vii) In view of sharp decline in demand for mechanical watches the decision of the Company to persist with Ranibagh unit and convert unviable Watch Factory, Srinagar into a separate subsidiary and implement revival plan was injudicious.

11.13 Recommendations

In the light of the foregoing, the following recommendations are made:

(a) In view of its standing in the market for over 50 years, the Company should attempt to assess the ground realities and project achievable targets. The Company should develop a mechanism to forecast the future changes and amend its business plans in time to be profitable.

(b) The Company and its newly formed subsidiaries should concentrate on technology upgradation and marketing aspects so as to withstand competition.

(c) Efforts on a war footing are needed to collect debts and dispose of non-moving inventories and non-performing assets to generate funds for investment.

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