DEPARTMENT OF ATOMIC ENERGY

CHAPTER: I

Electronics Corporation of India Limited

Computer Education Division

Highlights

The Company had not done any detailed assessment of market before entering into the business of IT education. It got into the business of IT education without assessing its own strengths and weaknesses.

(Para 1.6.1.2)

The Company did not obtain the approval from the Board of Directors before starting this business activity.

(Para 1.6.1.5)

The Company did not formulate any strategy to meet the objective of restructuring and repositioning the products/businesses to emerge as a commercially and economically viable Company and to match with the already established players in the field of computer education. Even the modest targets it set for itself could not be achieved and the Company suffered losses during the years 2001–02, 2002-03 and 2004-05 in this business segment.

(Para 1.6.1.2 and Para 1.6.2)

The underlying rationale of setting up Computer Education Division was to productively engage surplus staff of defunct Television Division. However the Company failed to evolve any policy for utilisation of this surplus staff due to which only a small number of surplus staff could eventually be engaged in the Computer Education Division.

(Para 1.6.3.2)

The Company failed to review operations of Computer Education Division effectively during the five years ending 31 March 2005.

(Para 1.6.3.1)

It also failed to evolve and implement an effective cash control mechanism. There were no internal controls in place to monitor the functioning of the franchisees. Due to this, the franchisees operated on their own and exploited the name and repute of the Company.

(Para 1.6.3.3 and Para 1.6.4)

Due to problems in implementation of school projects, decision was taken to complete the existing school projects and not to undertake any new school projects.

(Para 1.6.5)

Gist of Recommendations

- Necessary steps to resolve the pending issues with the franchisees and Local Service Providers may be initiated immediately. All the school projects may be reviewed and the dues from Business Associates may be collected as early as possible.
- The Company has so far not been very successful in achieving the objectives envisaged at the time of entering into computer education business. This not being a core activity for the Company, it may rethink its strategy on continuing in the said business after completion of its existing obligations.

1.1. Introduction

1.1.1 The Electronics Corporation of India Limited (Company) was incorporated in April 1967 with the objective of generating a strong indigenous capability in the field of professional grade electronics. It operates under the administrative control of Department of Atomic Energy. The Chairman cum Managing Director (CMD) is the Chief Executive of the Company. Three functional directors heading technical, finance and personnel wings, respectively assist the CMD. The financial performance of the Company for the past five years were as below:

Table 1

(Rs. in crore)

Parameters	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**
Paid up capital	81.25	126.37	129.88	136.88	145.88
Reserves & Surplus	-	20.53	72.41	162.76	175.95
Net Worth	30.79	146.11	201.68	299.28	321.54
Sales	568.75	674.12	1000.56	934.55	770.67
Profit after Tax	11.81	69.29	53.25	97.68	37.13
Accumulated Losses	48.76	--	--	--	--

The operations of the Company are broadly divided into four business groups and two service groups. The groups are further divided into 16 different production divisions for operational convenience. An Executive Director/General Manager heads each group. The major products of the Company include antenna systems, telecom exchanges, Flight Data Processing Systems, control instruments, X-ray baggage inspection units for airports, computer hardware, electronic voting machines, CCTV, etc.

1.1.2 Computer Education Division

1.1.2.1 The Software Training Unit (STU) of the Company was conducting computer-training courses for the customers of the systems marketed by the Company as part of customer support and after sales service. In March 2000, the Management decided to set up a full fledged Computer Education Division (CED) for imparting computer education based on a projection made by Director (Personnel) that the computer education business had potential for 20 *per cent* growth in India as well as in the gulf countries such as United Arab Emirates and Kuwait. The rationale for setting up the division was:

i. To reposition the products/business to emerge as a commercially and economically viable Company, by entering into computer education in a big way; and

ii. ECIL being a name to reckon with and known as one of the IT players, it was time for it to enter the market as one of the important players in Computer Education as it offered excellent opportunity both in terms of income and growth.

1.1.2.2 Accordingly, with the approval of the CMD of the Company, a separate division viz. CED was set up with effect from 1 April 2000 by renaming STU. The CED had the following objectives.

i. To attain the status of a notable player in computer education like NIIT (whose turnover was about Rs.600 crore for 1999-2000);

ii. Reposition the products/businesses and help the Company to emerge as a commercially and economically viable Company;

iii. Undertake Research and Development in the field of computer education and design appropriate courses.

iv. Establish franchisee operations both in urban and rural areas and design appropriate cost for franchising; and

v. Operate own computer education centers by using the existing branch offices.

1.1.2.3 The CED functioned under the overall control of Director (Personnel) at the corporate office assisted by a Vice President engaged from the open market for a period of three years from October 2002. An Assistant General Manager, three Deputy General Managers, two Senior Managers and one Accounts Manager at corporate office and five Deputy General Managers assisted the Vice President. The CED had a total staff strength of 72; of these 42 were at corporate office and the balance in field offices.

1.1.2.4 The Company offered various short-term and long-term courses in computer education under the brand name ECIT. The short-term courses e.g. MS Office, Visual Basics, Oracle, Windows NT, Accounting Tally, etc., ranged from two weeks to three months duration. Long-term courses e.g. Diploma in Computer Technology, Computer Applications, Post-Graduate Diploma in Embedded Software, Bio-informatics etc. ranged from four months to one year. Besides CED conducted courses in Computer Aided Design (CAD) and Computer Aided Management (CAM) since 2002 in association with Central Institute for Tool Design, Hyderabad (CITD).

1.1.2.5 As on 31 March 2005 CED had 11[♣] own centers and 80[♦] franchisees in four zones. This arrangement was similar to that adopted by other major players viz. NIIT and APTECH. Private individuals or corporate bodies operated centers as franchisees of the Company under the brand name ECIT. This was done under an agreement for sharing the revenue with the Company at agreed percentage. The Company was responsible for designing of course, fixing the fee structure, providing the course material, receipt books and the course diploma certificates to the students. The franchisees conducted the

[♣] ***North - 1, East - 1, West – 3 and South – 6***

[♦] ***North - 20, East - 20, West – 9 and South – 31*** courses, collected fee from the students and remitted the same in the Company's Bank Account and took tests as per the guidelines of CED.

1.2 Audit Objectives

Audit sought to assess whether:

i. the Company undertook the project of setting up Computer Education Division after due diligence;

ii. the project was implemented as per plan and with due regard to economy, efficiency and effectiveness; and

iii. the project achieved its objectives.

1.3 Scope of Audit

The review covers the overall performance of the CED for the past five years i.e. from inception to 31 March 2005.

1.4 Audit Methodology

Audit tried to seek evidence to support the expectation that:

i. the decision of setting up of CED was based on some objective data / information such as market survey or study;

ii. the objectives of the project were clearly identified;

iii. if the project involved any capital expenditure, the same was justified by some generally accepted method of investment analysis;

iv. the required legal and administrative structures were identified and worked out;

v. the milestones (both physical and financial) were identified and listed;

vi. there was a mechanism to monitor achievement of the milestones; and

vii. the project was implemented with due regard to economy, efficiency and effectiveness.

For this purpose, audit examined the records at the corporate office and four zonal offices at Delhi, Kolkata, Chennai and Mumbai during October 2004 to March 2005. The branch offices at Bangalore and Jaipur were also covered with a focus on school project.

1.5 Acknowledgement

In addition to examination of records and documents, a number of issues were deliberated on for conducting this audit by the audit team. Audit acknowledges the co-operation and assistance extended by different levels of management at various stages of performance audit.

1.6 Audit Findings

1.6.1 Project launched without objective analysis

Though the Company envisaged becoming an important player in computer education business like NIIT, the Company's efforts did not at any time match this goal. To begin with, the Company targeted a turnover of Rs.5 crore before the end of second year and

Rs.15–20 crore before end of fourth year from this new business activity. However the Company failed to achieve even these modest targets.

1.6.1.2 The Company undertook the project without a proper analysis of opportunities in the area of computer education. There was no evidence of any market survey or study based on which the Company decided to launch into the new business. It did not have adequate appreciation of its own strengths and weaknesses in relation to the said venture. It did not formulate any strategy to match up to the already established players like NIIT and APTECH. The STU was renamed as CED and the manpower within the Company with no previous experience in imparting education was mobilised to assist in this activity. Staff who were considered low performers but intelligent enough to absorb and deliver the concepts related to the training were to be utilised to run this division. The so-called non-performers and mediocre performers were to be offered incentives to motivate them.

1.6.1.3 It was projected that the business had potential to grow at 20 *per cent* in India and Gulf countries. However, no business strategy/operational plan was formulated to achieve the growth potential.

1.6.1.4 The proposal only highlighted the mode of operations of NIIT, but the Company did not work out the relative costs and benefits nor did it work out legally defensible modalities for franchisee arrangements. As the Company did not work out proper arrangements for franchisees, it had to face several problems, which are discussed under paragraphs 1.6.3 to 1.6.5 below.

1.6.1.5 Considering that CED was set up with a view to be a big player in computer education and as part of restructuring the Company's products and businesses, the management should have taken the approval of the Board of Directors of the Company. The Management did not approach the Board for approval at the time of venturing into new business segment of CED and it was only in the year 2004 that the Board discussed the issue of collections of outstanding fees by CED after it was pointed out by the Statutory Auditor.

The Management stated (September 2005) that

i. Comparison with other notable players was to be a benchmark for only computer education. The business targets were set by taking into account the market situation. The objective of setting up CED was to utilise part of surplus manpower so that enough revenue could be earned to cover their wage bill;

ii. The proposal for setting up CED was based on special reports on education and detailed study of courses offered by other computer education players. Strategic plans were made based on the market conditions;

iii. CED operations including appointment of Vice President, were discussed in several Board meetings; and

iv. It agreed with audit observations about the target turnover being low considering the lofty objectives of the project.

Management's reply is not tenable for following reasons:

i. The Management's contention contradicts the projections made at the time of making the proposal. While the stated objective of setting up CED was to be a major player in IT education, the Management's present stand was that the objective was to utilise surplus manpower of TV division. Audit could not see evidence of any special reports or studies based on which the decision to set up CED was taken.

ii. The Management did not put before the Board the proposal to start CED much less obtain its approval and entered into a new business segment with the approval of the CMD alone. The fact that the Board discussed performance of CED along with that of other divisions did not amount to approval.

1.6.2 Poor financial performance

The budgeted income vis-à-vis the actual income and the financial performance of the division during the last five years were as below:

Table 2

(Rs. in lakh)

	2000-01	**2001-02**	**2002-03**	**2003-04**	**2004-05**
Budgeted Income	-	-	3600.00	1000.00	2500.00
Actual Income	265.43	922.20	841.01	2315.94	979.10
Expenses	262.77	940.52	1080.99	2156.87	1252.04
Profit (+)/Loss (-)	2.66	(-) 18.32	(-) 239.98	159.07	(-) 272.94

It can be seen from the above that the CED incurred losses during the years 2001–02, 2002-03 and 2004-05. The income for the year 2003–04 included Rs.893.25 lakh towards supply of hardware and software made by Business Systems Division (BSD) of the Company in respect of School Projects undertaken in Karnataka. Similarly, expenses for the year included the expenditure incurred by BSD amounting to Rs.684.35 lakh on the school projects. Thus the profit of Rs.159.07 lakh for the year 2003-04 would in fact be a net loss of Rs.49.83 lakh as it included profit of Rs.208.90 lakh earned by BSD.

The Management stated (September 2005) that if the income of Business System Division was excluded, the corresponding overhead (in expenditure) would also be reduced which would result in a marginal loss to the CED.

1.6.3 Own Centers and franchisee operations did not yield expected results

1.6.3.1 The Company decided to run its own centres at places where it had its own space and ability to manage the centres with its own staff, while for other places franchisee centres were established. As on 31 March 2005, the Company had 11 own centers and 80 franchisees. This arrangement was similar to that adopted by other players viz., NIIT and APTECH. The Company however, adopted these models irrespective of the place and type of course to be conducted. It had not reviewed the performance during the first five years of its operations to see which model was faring better in terms of place and type of courses.

1.6.3.2 The TV Division (whose operations were discontinued from 1996) branches were converted into own centers. As stated by the Management one of the objectives of entering into the area of IT education was utilisation of the surplus manpower. However, the Company failed to evolve any policy for utilisation of the surplus manpower on account of which only a small number of surplus staff could eventually be engaged in CED. Only 25 employees of the closed TV Division could be utilised in CED and 258 employees had to be deployed in other different divisions. Due to this the Company continued to depend on market talent for running CED business even in its own centers.

The Management replied (September 2005) that a player in IT education market could not survive on only one model to the exclusion of others. Further, the Company had now decided that only high-end courses would be conducted through its own centers and other courses would be run through franchisees.

The Management further replied (September 2005) that CED would take steps to review the performance of its staff and consider suitable steps to motivate them. The reply of the Company shows that it reviewed the position only after five years.

1.6.3.3 The franchisees are responsible for conducting the courses and taking tests as per guidelines of CED, for collection of fees from the students and for remitting the same to the Company's Bank Account. The following shortcomings were noticed in the working of franchisees:

i. Private individuals or corporate bodies operated centers as franchisee of the Company under an agreement for sharing of the revenues with the Company at agreed percentages. The Company had not set any criteria for selection of a franchisee.

ii. The Company failed to evolve and implement an effective cash control mechanism. While the agreement with the franchisees provided for remittance of the fee collected from students within 48 hours, there were delays ranging from three to thirteen days, in remittance of fees by these franchisees.

iii. In East Zone, the Master Franchisee agreement♠ with M/s. RDL was terminated (July 2003) but the account had not been settled (November 2005). The Company had not considered the risk of misuse and potential loss in franchisees still holding some receipt books, course material, etc.

iv. One of the franchisees viz. M/s. Maharaja Incorporates at Jamshedpur appointed (April 2001) by M/s. RDL, the master franchisee, sold off (February 2002) its center to M/s. SIMS without prior approval. M/s. SIMS continued the operations and collections made by M/s SIMS were not deposited to the Company account. Only in March 2003 the CED approved the transfer of business between M/s Maharaja and M/s SIMS and permitted continuation of operations by M/s SIMS subject to signing of an agreement. However, M/s SIMS neither executed the agreement nor paid dues amounting to Rs.4.64 lakh. Consequently the Company filed (February 2004) a case for recovery of dues and the same is pending in the court.

v. The Company did not reconcile the number of the total receipts books printed, issued and balance retained by own centers/franchisees. Similarly the course materials printed and disbursed to own centers / franchisees were not reconciled

♠ ***Master franchisees appointed by the Company were authorised to establish their own centres as well as appoint sub-franchisees for imparting computer education.***

with the total number of students (course-wise) who had undergone training. There were no systems in place for routinely checking these matters.

The Management replied (September 2005) that:

i. Capacity to invest and experience in computer education field were adopted as guiding principles for selection of franchisees in the beginning of the business. Further a set of detailed guidelines was issued in the year 2004.

   The Company had to cancel as many as 63 franchisee agreements, which shows the selection criterion was not stringent. The reply clearly indicates that the guidelines were adopted after four years. Had this been done earlier, the Company could have avoided unproductive franchisee arrangements.

ii. It agreed with audit on the need to have an effective internal control mechanism to oversee the functioning of franchisees.

iii. Action had been initiated to ensure that there was no risk of misuse of unused stationery by the franchisees whose agreements had expired.

iv. CED had control over receipt books and the monitoring was being made more stringent.

1.6.4 Fallout of business tie-up with M/s Bureau of Data Processing Systems

The Company in association with M/s Bureau of Data Processing Systems (BDPS), Mumbai started in December 1998 (i.e. prior to setting up of CED) computer training courses under the name of ECIL-BDPS. BDPS was responsible for imparting computer education. The Company was to receive 10 *per cent* of the course fee collected by BDPS as royalty in respect of its own centers and 7.5 *per cent* in respect of centers under franchisees appointed by BDPS. In addition the Company was to receive a one-time payment for Licensee Fee (ranging from Rs.25,000 to Rs.75,000) for each center opened in rural, municipal and metropolitan area. The certificate for the completion of the course was to be issued by the Company in the name of ECIL-BDPS. The agreement was valid for five years.To overcome the various shortfalls in the agreement with BDPS such as lack of Company's control over business, non-reporting and non-payment of amounts collected by BDPS and to bring the business relationship on par with other franchisees after formation of CED, an amended agreement was entered into with BDPS in June 2001 with retrospective effect from 1 April 2000. BDPS did not adhere to the amended agreement and the Company suffered due to various shortcomings as detailed below:

i. New Centers/Franchisees were started by BDPS without any tripartite agreement. No data was furnished regarding students' strength, attendance, faculty, cost of compliance of all requirements etc.,

ii. BDPS/franchisees were not remitting the amount in Company's account. BDPS even requested for postponement of presentation of the post-dated cheques issued by it.

iii. BDPS had given new nomenclature to the courses and course material, reduced fee structure without any notice or permission and continued to issue their certificates instead of the Company's certificates.

iv. BDPS did not inform the Company of the details of closed centers.

v. BDPS failed to generate any business after April 2001.

The Company served a show-cause notice on BDPS in October 2001. As there was no improvement, the Company terminated the agreement with effect from March 2002 stating that all individual franchisees under BDPS would automatically come under the direct control of the Company. The Company served a legal notice (June 2002) on BDPS to pay the dues within 21 days along with interest at the rate of 18 *per cent* per annum failing which it would initiate appropriate legal proceedings. BDPS intimated in March 2003 that Income Tax (IT) authorities had attached their properties on account of non-payment of the arrears for the year 2001-02. The Management stated (November 2004) that resorting to arbitration/legal proceedings, which might cost Rs.3 lakh – Rs.4 lakh, was not prudent as the assets of BDPS were sealed by the Income Tax Department. It further stated (January 2005) that a registered notice demanding the payments due was issued to BDPS in January 2005.

Hence, the Company incurred a loss of Rs.67.13 lakh♥ due to lack of adequate and timely steps for checking the accounts at centers of BDPS and franchisees at regular intervals and follow-up of demand and collections.

The Management further stated (September 2005) that after adjusting Rs.27 lakh towards reimbursement of expenditure to BDPS, the Company proposed to treat the balance Rs.40.13 lakh as irrecoverable.

The reply is not tenable as though the Company was incurring only overhead expenditure, it did not mean that it could allow a private operator to exploit its name to earn income for himself. The Company could have minimised its loss had it realised the amount from the franchisee.

1.6.5 School Projects

The CED undertook School Computer education projects under agreements with the State Governments from 2001–02. The scope under these projects covered installation and commissioning of the infrastructure and providing computer training in the school premises selected by the respective Governments.

The Company had five school projects in different states operated through agreements with franchisees / Business Associates (BAs) who in turn appointed Local Service Providers (LSPs) / sub franchisees to actually deliver the computer education in the schools. The business generated from these projects for the last four years is given below.

Table 3

(Rs. in lakh)

Year	**2001-02**	**2002-03**	**2003-04**	**2004-05**
Himanchal Pradesh	267.65	366.59	281.57	30.24
Delhi	65.32	102.85	82.85	45.75
Rajasthan	--	--	173.53	326.91
Karnataka	--	--	215.00	490.07
Uttaranchal	--	--	2.77	0.67
Total	**332.97**	**469.44**	**755.72**	**893.64**

♥ ***As worked out by the Management, the loss was Rs.13.74 lakh for 2001-02 and Rs.53.39 lakh for 2002-03***

Audit observed the following:

i. The Company relied totally on the local franchisee / BAs for execution of the project. Although, the Company had entered into agreements with Himachal Pradesh and Uttaranchal States in May/June 2001 and July 2003 for execution of School Projects, it appointed BAs/franchisees in August 2001 and October 2003 respectively. Thus, there was a delay of about three months in implementation of the scheme.

ii. Franchisees/BAs collected the fee from the schools based on the number of students enrolled and in the first instance deposited the amount in the Company's account. The Company paid back the share of franchisee / BAs from the amounts collected by BAs from the customer as per the rates agreed. However, in the absence of the details of the number of students in each class and school, the collections shown by the BAs could not be verified and the Company had to totally rely upon the receipts furnished by them along with the remittance.

iii. In Rajasthan, the BAs after receiving their share from the Company did not pay the amounts due to the LSPs. The LSPs were demanding their share from the Company. The Company although not bound contractually to pay the moneys due to LSPs, found itself in a fix because if it did not pay, the LSPs would stop providing the services and the Company would be liable to the Rajasthan Government for deficiency in service.

The Management replied (September 2005) that:

i. The delays were because the sites were not ready or for other reasons;

ii. As for the absence of details of students enrolled and the correctness of the collection (revenue) the management offered no comments; and

iii. It was directly regulating payments to LSP where the BAs had defaulted.

On account of the problems faced, the Company had decided that it would not undertake any new school projects.

Conclusions

The Company had not conducted any objective and detailed assessment of the business potential and its own strengths before setting up CED. The modalities of franchisee arrangements were not worked out properly and as a result there were many problems in implementing the franchisee agreements. The foray into school projects also was not properly conceived and implemented. Thus, the CED failed to achieve the objectives with which it was set up.

The review was issued to the Ministry in January 2006; its reply was awaited (February 2006).