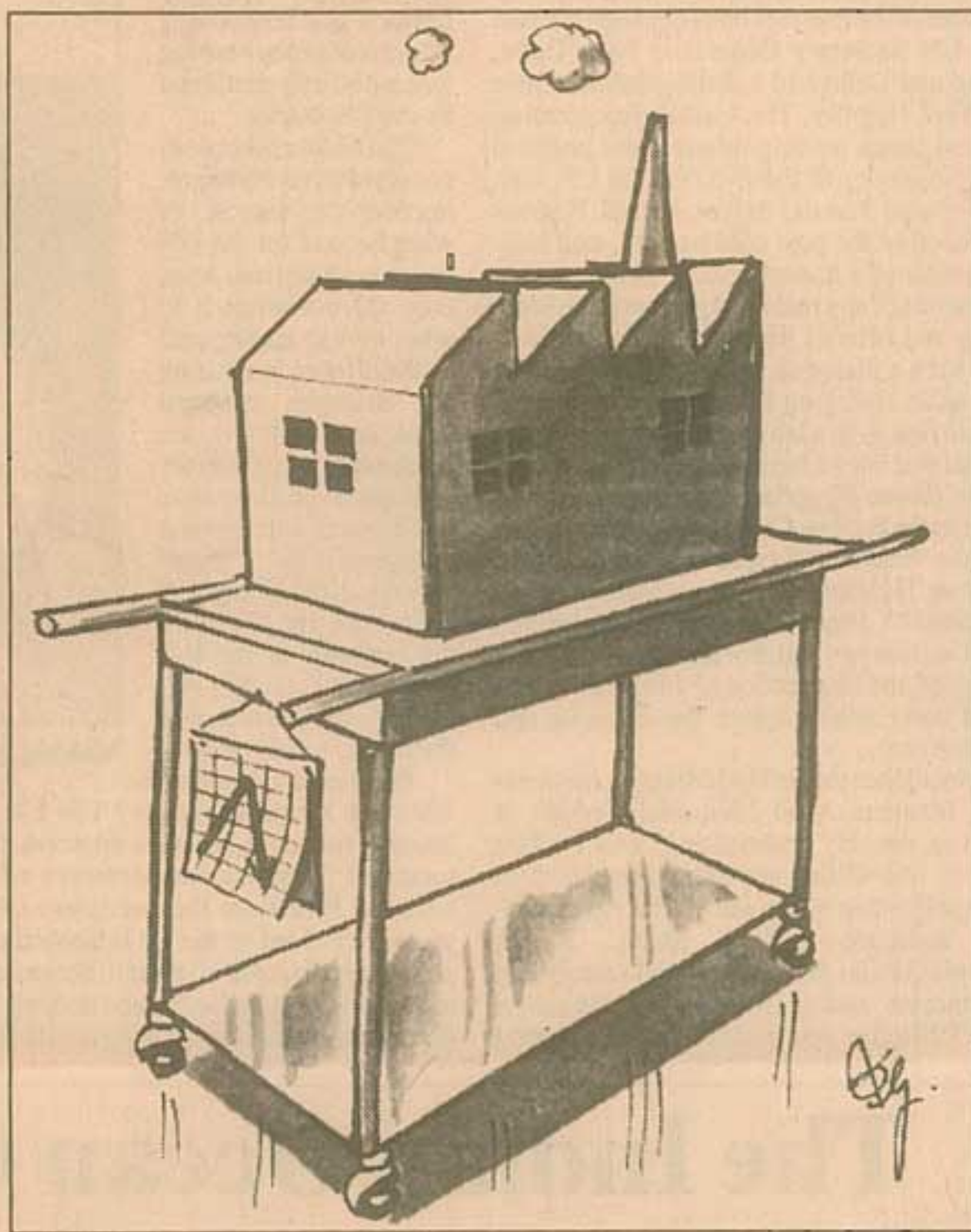


# Chasing a mirage

The govt should take action on sick fertiliser units before it is too late, says Uttam Gupta



FERTILISER Corporation of India (FCI) and Hindustan Fertiliser Corporation (HFC), both Government of India undertakings - were referred to the BIFR in June 1993 which in turn declared them sick in November 1993 and directed the Department of Fertiliser (DOF), under whose jurisdiction the companies operate, to work out and submit appropriate packages for their rehabilitation. Even as the latter was unable to come up with any worthwhile package (reportedly both the DOF and the company management seem to be convinced that except one or two units i.e. HFC, Namrup-III and FCI Sindri, no other plant can be made economically viable without heavy investment) the BIFR has now appointed ICICI as the operating agency for these companies.

Although the terms of reference apparently enjoin upon the ICICI to examine the possibility of rehabilitating them, that is only academic; the real mandate seems to be to work out the modalities of either selling off the units to the private parties or winding them up and realising whatever money possible by disposing the assets, including land.

The Govt. should have evolved and implemented at the right time measures to revive the plants - four each under FCI and HFC - with marginal investment and got the best from about 14.6 lakh tonne per annum nitrogen production capacity embodied in these units. Setting up of this much additional capacity through new grassroot plants would cost the country a colossal Rs 2,500 crore at current prices and would be much more at actual cost.

But, peeping into this ideal world now after allowing the problem to acquire irreparable dimensions is not only impractical, but a meaningless exercise as well. And there are pretty valid reasons for this. The problems for the plants under these companies have not come up suddenly. Nor can it be maintained that no one could anticipate them. These are primarily the consequence of bad planning, faulty implementation, consistent neglect, and irresponsible and indifferent managements. And, all these compounded by persistent labour problems.

Consider the case of HFC, Haldia. The project has a chequered history of more than two decades. Conceived in the early 70s, the plant was mechanically complete only in 1979 (three years behind schedule). And, merely because power was not available, the commissioning activity could not start until 1982 (loss of another three years). By this time, the equipment and technology suppliers would have got away scot free without having to prove the guarantees. Commissioning efforts in 1982 were a non-starter as the oxygen compressor burst. Herein then, we have a project on which about Rs 780 crore has already been sunk and has not produced even a single tonne of fertiliser.

Ironically, numerous studies have been done for this plant alone by both Indian and foreign consultants e.g., Talwar Committee, Paul Pothen Committee and Toyos and more may be in the offing. The committees have examined other ailing plants too i.e. FCI, Ramagundam, Talcher, Sindri, Gorakhpur and HFC, Durgapur, Barauni and Namrup I and II. The irony is that the problems afflicting these units and even their solutions as recommended by some of these Committees were all known much earlier.

Even the reference to the BIFR has come very late. The net worth of the FCI and HFC, which is in fact the authorised capital (as the companies have never made any profit since their incorporation in 1978) was eroded long back and presently, it is

substantially negative with the accumulated losses of the former being about Rs 1,600 crore and that of the latter about Rs 1,500 crore. Consequently, these were perfectly fit cases for being referred to the BIFR much earlier.

Soon after taking over, the new Minister for Chemicals and Fertilisers categorically ruled out closure or even privatization of the plants under FCI and HFC. Similar messages are echoed in Government's pronouncements, of late, in the context of its overall approach to restructuring of the PSUs generally. Although, this might carry some appeal from a political standpoint, specifically, in the context of the history and ground reality of these two companies, such an approach is tantamount to nothing more than chasing a mirage. It is

clear beyond doubt that these units cannot be made to run viably under the existing dispensation and therefore, nothing should be done that takes away the flexibility of the ICICI/BIFR in finding out the best alternative.

For any option to succeed, effective management, financial restructuring and work ethos are essential prerequisites. With this at the back of the mind, a possible alternative could be to sell these companies (not merger as this would turn even the better-off partner sick) to other well-run fertiliser companies in the public sector i.e. NFL or the RCF. In doing so, the Government should not aim at making money on the sale for two basic reasons. First, both the buyer and the seller being the Government itself, any attempt to make one better off at the cost of other would only be in the nature of book entry and entail no net financial implication.

Second, and most importantly, securing a price more than the financial worth of the companies would ultimately hamper the chances of the new management in successfully bringing about a turnaround. After all, the latter would need to plough substantial funds in making the plants work.

In any case, it would be illogical for the Government to think in terms of recovering the loans and the interest on these loans that were given to these companies to support their losses. That is why outright merger is not advisable. This should instead be considered as a dead loss and be liquidated by providing for a one time support from the Budget. After all, in respect of the banks already a precedent exists. And, here the situation is no dissimilar.

A second alternative could be for the government to offer these plants to the private parties on a "management contract" basis for a specified period agreed upon mutually. In this arrangement, neither the Government would be obliged to pump any funds from the exchequer nor, expect any share of the profits that the private party might generated, (except for a notional fee) for the specified period. The latter would also be completely free from any liability to service past debt or any interest thereupon.

A third alternative which may be the last resort, is to either negotiate a deal/package with the private promoter for sale or if no buyer is available, then dispose off the assets including land and use the consequential proceeds to settle the dues with the creditors, the workers/staff and other liabilities to the extent possible.

The need of the hour is to act immediately adopting one of the alternatives on a case by case basis as continued indecision would result in progressive aggravation of the problems to a point where no option will simply exist even as the plants are reduced to virtual scrap value.