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CABINET APPROVES CLOSURE OF HINDUSTAN FLUOROCARBONS LIMITED (HFL), A CENTRAL PUBLIC SECTOR ENTERPRISE (CPSE) UNDER DEPARTMENT OF CHEMICALS & PETROCHEMICALS

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Industry & Services Sector incl. MSMEs and PSUs

Cabinet Committee on Economic Affairs (CCEA)

Cabinet approves Closure of Hindustan Fluorocarbons Limited (HFL), a Central Public Sector Enterprise (CPSE) under Department of Chemicals & Petrochemicals

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The Cabinet Committee on Economic Affairs, chaired by Prime Minister Shri Narendra Modi, has given its approval as under:

(i) Shutting down the operations of the plant/unit of Hindustan Fluorocarbons Limited (HFL) and closure of the company.

(ii) Separating the employees rendered surplus through VRS/VSS, after payment of all their outstanding salary/wages and statutory dues, except for the skeletal staff required to implement the closure of the company. Employees not opting for VRS will be retrenched as per Industrial Disputes Act.

(iii) Grant of interest free loan of Rs.77.20 crore by the Govt. to HFL for expenditure exclusively on closure of HFL viz. implementation of VRS/VSS, payment of outstanding salary & statutory dues, etc. and salary/wages and administrative expenses of HFL's skeletal staff to be retained for implementing the closure of HFL.

(iv) Above interest free loan of Rs.77.20 crore is to be repaid to GoI from the disposal of land and other assets of HFL after settling all closure related liabilities. If the land/ assets sale proceeds are not sufficient to repay the loan amount, then the balance loan amount is to be written off.

(v) After repayment of the loan of Rs.77.20 crore and settlement of all other closure related liabilities of HFL, surplus proceeds from disposal of land and assets will be used for repayment of HFL's outstanding GoI loans (Rs.15.80 crore) and interest, with freezing of interest up to 31.03.2019. Full or part of the principal loan amount and interest thereon remaining unpaid due to insufficient sale proceeds is to be written off/waived.

(vi) Appointment of NBCC (India) Ltd. as Land Management Agencies (LMA) for facilitating disposal of HFL's land assets subject to outcome of the decision of Telangana Govt./TSIIC on purchasing land of HFL.

(vii) Disposal of plant/machinery and movable assets will be done by HFL through e-auction by MSTC Ltd.

HFL has only one plant/unit located at Rudraram, District Sangareddy in Telangana.

Financial Implications:

Financial implications of the proposal for closure of HFL involves providing financial support of Rs.77.20 crore (cash) to HFL in the form of interest free loan for settling closure related liabilities of HFL viz. (a) implementation of VRS/VSS, payment of outstanding salary & statutory dues, payment of suppliers/contractors/utilities dues and repayment of SBI working capital credit and (b) salary/wages and administrative expenses of HFL skeletal staff to be retained for implementing the closure plan for two years. Above interest free loan is proposed to be repaid from the proceeds of the disposal of land and other assets of HFL after settling all the liabilities relating to closure of the company. If the land / assets sale proceeds are not sufficient to fully repay the loan amount, then the balance loan amount is to be written off.

Implementation schedule:

Taking date of receipt of CCEA approval as **'T'**-

i. Notice to Employees for VRS/VSS: **T+10 days.**
ii. Request for budgetary support / bridge loan from D/o Expenditure: **T+15 days.**
iii. Approval by HFL and HOCL Board and shareholders and information of the decision to BSE: **T+80 days.**

iv. Settlement of salaries/ wages and statutory dues of employees and separation of employees through VRS/VSS (except skeletal staff and those not opting for VRS/VSS): **T+120 days.**

v. Retrenchment of employees not opting for VRS/VSS: **T + 180 days.**

vi. Disposal of movable assets/ plant & machinery through e-auction by MSTC: **T+ 180 days.**

- vii. Disposal of land assets through NBCC (LMA) subject to decision of Telangana Govt. on purchasing the land: **T+ 240 days.**

viii. Application to SEBI/BSE for exit option to shareholders and Voluntary winding up and Delisting under provisions of Companies Act, Insolvency & Bankruptcy Code and SEBI regulations: **T** + **400 days.**

Impact:

With unviable scale of operations, very old plants & technology and only one revenue earning product (HCFC-22) but of no strategic significance, sustainable revival of HFL is not economically viable. Moreover, the inevitable reduction in HCFC-22 quota of HFL in 2020 will make the company's operations completely non-viable from March, 2020 onwards. Closure of the company's operations will not only avoid any future risks / liabilities but also protect the interest and welfare of HFL employees by separating them through VRS/VSS. Thereafter, disposal of the company's land assets will enable their redeployment for more productive use which can attract both domestic and foreign investments. However, interest and welfare of employees rendered surplus will be protected by payment of all their outstanding salary & statutory dues and giving VRS / VSS compensation to them as per DPE guidelines.

Background:

Hindustan Fluorocarbons Limited (HFL) is a subsidiary company of Hindustan Organic Chemicals Ltd. (HOCL), a Central Public Sector Enterprise (CPSE) under the administrative control of the Department of Chemicals and Petrochemicals. HFL is engaged in the manufacture of Poly Tetra Fluoro Ethylene (PTFF) and Chloro Di Fluoro Methane (HCFC-22 or CFM-22). The company has been making losses since 2013-14 and has negative net worth. As on 31.3.2019, it had accumulated losses of Rs.62.81 crore and negative net worth of (-)Rs.43.20 crore. It was also registered with the erstwhile Board for Industrial and Financial Construction (BIFR) as a sick company.

HFL manufactures HCFC-22 and also uses the same for conversion to PTFE. Due to uneconomic plant capacity and old technology, conversion of HCFC-22 to PTFE is not financially viable and the company is constrained to sell higher quantity of HCFC-22 directly as refrigerant gas. Under the provisions of Montreal Protocol on phasing out of ozone depleting substances, HFL's HCFC-22 non-feedstock production quota is only about 392 MT per calendar year which was enhanced to 1100 MT during the last 3 years by the Ministry of Environment Forest & Climate Change (MoEFCC) based on the exemption request of this Department. The HCFC-22 quota is to be reduced further by 25% from calendar year 2020 and the MoEFCC is not likely to agree to any further exemptions for HFL. The reduced HCFC-22 quota of about 282 MT would be sufficient for plant operations only up to March / April, 2020, and, thereafter, HFL would be forced to shutdown its plant for the remaining months of the year. Since HFL's operations are not likely to be sustainable after March, 2020 onwards, it is necessary to expeditiously close down the operations of the company and separate its employees through VRS/VSS.

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VRRK/SC

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