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COMMITTEE ON PUBLIC UNDERTAKINGS

(2003 - 2004)

(THIRTEENTH LOK SABHA)

**FORTY-EIGHTH
STUDY TOUR REPORT**

ON

HINDUSTAN SHIPYARD LIMITED

Laid in Lok Sabha on 19.12.2003

LOK SABHA SECRETARIAT

NEW DELHI

December, 2003 / Agrahayana 1925 (S)

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COMPOSITION OF COMMITTEE ON PUBLIC UNDERTAKINGS
(2003 – 2004)

CHAIRMAN

Prof. Vijay Kumar Malhotra

MEMBERS

LOK SABHA

2. Shri Mani Shankar Aiyar
3. Shri Ram Tahal Chaudhary
4. Smt. Reena Choudhary
5. Smt. Sangeeta Kumari Singh Deo
6. Shri C. K. Jaffer Sharief
7. Shri K. E. Krishnamurthy
8. Dr. Ramkrishna Kusmaria
9. Shri Vilas Muttemwar
10. Shri Shrinivas Patil
11. Shri Prabhat Samantray
12. Shri Tarit Baran Topdar
13. Prof. Rita Verma
14. Shri A.K.S. Vijayan
15. Shri Dinesh Chandra Yadav

RAJYA SABHA

16. Shri Suresh Kalmadi
17. Shri Lalitbhai Mehta
18. Shri Kalraj Mishra
19. Shri Satish Pradhan
20. Shri K. Kalavenkata Rao
21. Shri Jibon Roy
22. Smt. Ambika Soni

SECRETARIAT

- | | | |
|----|--------------------|----------------------|
| 1. | Shri John Joseph, | Additional Secretary |
| 2. | Shri S.Bal Shekar, | Director |
| 3. | Shri C.S.Joon, | Deputy Secretary |
| 4. | Shri Raj Kumar, | Under Secretary |

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INTRODUCTION

In pursuance of the procedure adopted under Rule 281 of the Rules of Procedure and Conduct of Business for laying the Forty Eight Study Tour Reports on the Tables of both the Houses of Parliament, I, the Chairman, Committee on Public Undertakings have been authorised by the Committee to lay the Forty Eight Study Tour Report on their behalf, lay the Study Tour Report of the Committee on their discussions with the officials of Hindustan Shipyard Limited.

2. The Committee held discussions with the officials at Vishakhapatnam on 14.4.2003. A copy of the tour programme is annexed (Annexure-II).

3. The Committee considered and approved the Report at their sitting held on 17 December, 2003.

4. The Committee wish to express their thanks to. Hindustan Shipyard Limited for providing facilities during the visit of the Committee and for supplying necessary material and information required in connection with the Study Tour.

5. They would also like to place on record their sense of appreciation for the invaluable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

New Delhi
17 December, 2003
26 Agrahayana, 1925(S)

PROF. VIJAY KUMAR MALHOTRA
CHAIRMAN
COMMITTEE ON PUBLIC UNDERTAKINGS

STUDY TOUR NOTES OF THE COMMITTEE ON PUBLIC UNDERTAKINGS

DISCUSSION WITH THE REPRESENTATIVES OF HINDUSTAN SHIPYARD LIMITED AT VISAKHAPATNAM ON 14.4.2003

At the outset, the Chairman, Committee on Public Undertakings (COPU) made opening remarks and requested the Chairman and Managing Director (CMD), Hindustan Shipyard Limited (HSL) to introduce himself and his colleagues to the Committee and also requested him to give a brief account of the working of the Company.

2. Following the introduction of officials of the Company, CMD, HSL briefed the Committee on the performance and business activities of the Company. Briefing the Committee on the functioning of the Company, the CMD, HSL informed that Hindustan Shipyard Limited at Visakhapatnam was set up in 1941 by the Scindia Steam Navigation Company. Major shares of Scindia Shipyard were taken over by the Government of India in 1952 and HSL becomes fully owned Government of India Enterprise in July, 1961. HSL is the first Shipbuilding yard in the country for getting accreditation under ISO:9001 for shipbuilding and structural fabrication from LRQA, London. The Company is engaged in activities relating to shipbuilding, ship repairs, retrofit, offshore platform construction, structural fabrication, etc. These activities are performed by the various Divisions of the Company, the details of which are given below :-

SHIPBUILDING DIVISION

The rated capacity of HSL is reckoned at 3.5 Pioneer vessels of 21,500 DWT each i.e. 75,250 DWT/annum with an order book of 10-12 Standard Pioneer ships at any point of time. The shipbuilding facilities include steel shops, slip ways, a covered building dock, wet-basin, outfit and engineering shops and other infrastructural facilities. HSL can build ships upto 50,000 DWT in covered building dock and vessels upto 30,000 DWT on building berth due to the Port Channel restriction. HSL so far, built 120 vessels such as

Bulk Carriers, Passenger Vessels, Drill Ships, OPVs, OPSSVs, Tugs, Dredgers etc., contributing about 1.25 million DWT to the nation's maritime industry.

SHIP REPAIR DIVISION

HSL established full –fledged ship repair division with the commissioning of Dry dock during the year 1971. It has capability for handling vessels upto 70,000 DWT. HSL's ship repair department has accomplished intricate repair jobs on variety of Naval vessels including submarines, merchant ships, oil rigs, foreign & Indian flag vessels totalling about 1600 ships. The dry dock with all its infrastructure is one of the modernised repair dock in the East coast of India. In addition to the public and private shipping company vessels, a number of foreign flag ships are also undertaken for repairs, thus earning foreign exchange.

OFFSHORE PLATFORM DIVISION

HSL set up an exclusive offshore platform yard (OPF) adjacent to main shipbuilding yard during the year 1985, as a captive yard to construct well-head platforms for ONGC. The OPF yard has facilities for fabrication of two platforms per year. OPF division has so far delivered 11 well-head platforms to ONGC. As HSL could not secure orders from ONGC, since 1990, HSL is presently utilising the yard for fabrication of structures of shipbuilding, steel plant, etc. The manpower exclusively trained for fabrication of platforms was diverted to main yard to carry out shipbuilding / ship repair works.

RETROFIT DIVISION

An exclusive division was added in 1997 to undertake medium repair of F – class (I 641) submarines. This facility undertakes survey of pressure hull, defecation of equipment

& systems and total retrofitting of INS Vagli. The Government of India / Ministry of Defence (MoD), has nominated HSL as the shipyard for undertaking medium repairs and modernisation of 877 EKM submarines and thereafter graduate to construction of submarines at HSL.

STRUCTURAL FABRICATION

This activity was taken up in 1985 to gainfully utilise the steel to the extent possible. HSL has plans to strengthen this activity into full-fledged work centre.

3. When enquired about the number of shipyards functioning in the public and private sector, the Committee have been informed that there are 7 public sector shipyards and over 30 small shipyards in the private sector in the country. Out of 7 public sector shipyards, 4 shipyards are under the administrative control of the Ministry of Shipping and the remaining 3 are under the Ministry of Defence. The Shipyards under the administrative control of the Ministry of Shipping are :-

- i) Hindustan Shipyard Limited, Visakhapatnam
- ii) Cochin Shipyard Limited, Kochi
- iii) Hooghly Dock & Port Engineers Limited, Kolkata
- iv) Central Inland Water Transport Corporation Limited, Kolkata

The following Shipyards are the Defence Shipyards under the Department of Defence Production and Supplies – Ministry of Defence :-

- i) Mazagon Dock Limited, Mumbai
- ii) Garden Reach Shipbuilders & Engineers Ltd., Kolkata
- iii) Goa Shipyard Limited, Goa

4. As per the information furnished to the Committee, the physical performance of the Shipbuilding Division during the years from 1992-93 to 2002-03 is given below :-

S.No.	Year	Order Book Position		Production DWT		Capacity Utilisation %	No. of Ships Delivered
		Target	Actual	Target	Actual		
1.	1992-93	10 to 12 Std. Pioneer Vessels	3.51	24885	22950	30	1
2.	1993-94	- do -	2.62	15189	14960	20	2
3.	1994-95	- do -	1.93	17590	10730	13	1
4.	1995-96	- do -	4.33	33810	32255	43	1
5.	1996-97	- do -	6.05	34730	33000	44	-
6.	1997-98	- do -	4.64	28435	28330	38	2
7.	1998-99	- do -	1.91	39775	28335	37	-
8.	1999-00	- do -	0.95	10114	14975	20	2
9.	2000-01	- do -	2.47	38857	20038	27	2
10.	2001-02	- do -	3.38	17357	13478	18	2
11.	2002-03	- do -	2.80	23650	12428	16	2

5. When asked the reasons for low capacity utilisation in the Shipbuilding Division, the Committee have been informed that as per the studies conducted by the British Consultant in 1984, the annual production capacity of HSL is reckoned at 3.5 Standard Pioneer Class vessels of 21,500 dwt each i.e. 75,250 dwt per annum. To achieve the above capacity utilisation, HSL should have 10 to 12 ships of same series at any point of time. But HSL is suffering from low order book position for the last several years and lack of series orders of large ships of 40,000 to 50,000 dwt.

The major reasons for low capacity utilisation are as follows :-

- i) World-wide recession since 1980
- ii) Unremunerative pricing formula
- iii) Heavy under quoting by Japan, Korea, China, etc.
- iv) Heavy interest burden
- v) Non-availability of cash credit facility from Bank or any financial institutes
- vi) Absence of series of orders of same design
- vii) Absence of earlier Pari-Passu obligation
- viii) Non-patronization by ship owners
- ix) Lack of continuous upgradation of Technology and non-adoption of developments obtaining in the good shipbuilding yards of Korea, Japan and China.

6. When enquired about the reasons for not achieving the lower targets, the Committee have been informed that shipbuilding is a 'complex' assembly industry. It handles, shapes, assembles and welds large masses of steel to precision shapes and standards to achieve a sequential production flow. The industry combines in itself almost all the processes and technologies of the engineering spectrum and calls for high standards of engineering practices involving inspection, handling, installation and proving of a variety of engines, machinery, electrical and electronic equipment, control systems and computers.

It involves a complex combination of technology, materials and labour-intensive processes which require highly skilled labour / technicians to work in teams and undertake technologically sophisticated tasks to roll out of a final ship.

Ships are built against specific orders placed by the shipping companies / owners. Even when the basic requirements of ship owners in terms of cargo-carrying capacity, draught, speed and other characteristics are common, there can be large variations in a ship design as well as in the specifications of ship-borne equipment and systems.

Ships cannot be mass-produced unless they are of same series, sizes, capacities, etc. Each ship is to be treated as a separate project. For this reason, ship builders cannot be expected to achieve complete standardisation though attempts are being made all over the world to 'standardise' ships to reduce costs.

The ship builder has to keep his facilities and equipment ready to build ships of various types and sizes, according to the owners requirements and preferences. The maximum size of a ship that can be built in a particular yard is governed by physical

factors such as dimensions and capacity of the slip-ways, building docks, wharves, access to sea and entrance channel dimension of Port.

The hull is fabricated out of steel plates and sections obtained from the steel mills. All the equipment, machinery and systems in a ship are also bought out.

Since construction of a ship can commence only after reaching complete understanding on design and construction features as well as specifications of all ship-borne equipment and systems, shipyards are not in a position to keep ready-stocks of materials. They have to be bought after the contract with the owners is signed.

The nature of ship-building materials, including steel, is such that they cannot be bought off the shelf. The ship-builder has to place orders and await arrival of the materials. This 'lead time' is inevitable in Indian conditions. Another factor which has a bearing on the 'lead time' is whether a Slipway or dock is occupied or vacant, on the basis of orders already on hand. Thus 'forward delivery' with long 'lead time' is an important feature of ship-building contracts. It is not an unusual phenomenon to sign a contract for one or more ships with deliveries extending upto three or four years into the future.

All these factors make the ship building industry susceptible to several problems particularly in the areas of planning and scheduling, cost estimate and cost control, formulating marketing strategies, diversification plans and development programmes on the basis of long-range projections, which may go hay-wire due to unforeseen factors. Apart from the above, targets are set after discussions with Ministry and Ad-hoc Task Force, appointed by Deptt. of Public Enterprises based on market conditions, constraints, capacity etc. and thus an MoU is signed between Ministry of Shipping and HSL.

Other factors which play role in non-achievement of targets :-

- i) Lack of adequate working capital for completion of projects on hand
- ii) Lack of adequate series orders
- iii) Low technology
- iv) Design changes
- v) Delayed procurement / Receipt of materials
- vi) Low productivity

7. As intimated to the Committee, the Order Book Position as on 1.04.2003 is as follows :-

S.No.	Yard Nos.	Type	No.	Owner
1.	11105-12	100 Passenger Vessels	8 Nos.	Andaman & Nicobar Administration
2.	1173	45 ton Bollard Pull Tugs	1 no.	Mormugao Port Trust
3.	11113	500 Cu. M. Dredger	1 no.	Visakhapatnam Port Trust
4.	11102	700 PAX	1 no.	Union Territory of Lakshadweep
5.	1177	17.5 T Floating Crane	1 no.	Sarat Chatterjee & Co.
6.	1178	50 ton Bollard Pull Tug	1 no.	Visakhapatnam Port Trust
7.	1179	Oil Recovery & Pollution Control Vessel	1 no.	Visakhapatnam Port Trust

8. When enquired whether the Company is facing any problems / difficulties in securing the orders from the customers, the Committee have been intimated that shipbuilding industry has been performing under an environment of stiff competition both in term of price and delivery schedule competitiveness. In order to have a competitive edge, shipyard has to keep the cost of its products at the barest minimum ensuring high standards of quality and strict adherence to delivery schedule. HSL is unable to have a competitive edge and therefore unable to secure export orders due to the following constraints :-

- i) Continued world-wide recession
- ii) Heavy incidence of interest on borrowings from Government & Financial Institutions
- iii) Lack of working capital
- iv) Heavy incidence of local Taxes such as Sales Tax, Excise Duty, etc.

- v) Lack of continuous upgradation of Technology
- vi) Absence of international marketing agents & modern infrastructural facilities like cranes, computer aided systems, etc.

9. When enquired about the orders from Indian Navy, the Committee have been apprised that Hindustan Shipyard under the Ministry of Shipping does not get dedicated ship construction works from the Indian Navy. However, the Yard had over the years built INS Darshak, a Survey Vessel, INS Dhruvak, a mooring vessel, TS Rajendra, a Training Ship, 4 Offshore Patrol Vessels viz. INS Sarada, INS Savitri, INS Saryu and INS Sujata and hulls of LST(L), INS Gharial and a few other ships. These ships have given satisfactory service to the Indian Navy. The Shipyard has the capacity, capability and know-how, infrastructural facility for undertaking construction of various Naval Ships and HSL has been requesting Naval Headquarters for placement of orders for construction of Naval Ships. Presently the yard is working to obtain an order for construction of a Fleet Tanker for the Indian Navy.

10. In the Annual Report (2001-02) it has been stated that Ministry of Defence has nominated Hindustan Shipyard Ltd. on June 25, 2002 for undertaking repairs and modernisation of one 877 EKM class submarine of Indian Navy (Yard No.01415). HSL has been asked to submit the Draft Contract including the conditions of Technical Assistance of Collaboration Agreement with Russian Agency FSUE "Rosoboronexport" for the Medium Refit-cum-Modernisation of the subject submarine. When asked whether the draft contract has been submitted by the Company, the Committee have been informed that in accordance with the activity schedules drawn up for upgradation of HSL and preparation for MR-cum-Modernisation of INS Sindhukirti, a 877 EKM submarine, FSUE Rosoboronexport forwarded draft contract on General Terms and Conditions,

Elaboration of Documents for upgradation of HSL and deputation of FSUE Rosoboronexport delegation for defect survey. These draft contracts were studied by the HSL, the Headquarters Eastern Naval Command, the Naval Dockyard, Visakhapatnam and the Submarine Headquarters. Further, FSUE Rosoboronexport visited HSL from 2 March, 2003 to 14 March, 2003 to negotiate and finalise the contract.

11. On the question of comparison of cost of the ship with countries like Japan, Korea and China, the Committee have been intimated that internationally shipbuilding industry is a highly competitive one. With the vigorous entry of Japan into the world market over two to three decades ago, a chain reaction had set in and the process still continues. Then South Korea entered and China has been forging ahead in recent years. In the final analysis, one sees a highly subsidised ship-building industry all over the world. Some countries do not conceal the fact and publish information about their direct and indirect subsidies. In some others, the industry is assisted indirectly by visible and invisible means.

The reasons for continuation of Government subsidies for Shipbuilding industry are as follows :-

- The necessity to compensate ship-builders for higher local costs outside their control in order to put the domestic industry on an equal footing with foreign competitors.
- Social and strategic importance of the industry.
- To help the industry adjust itself to changing / changed market conditions.
- To help an emerging industry in the early stages of development.

Low productivity is one of the factors contributing to the cost of construction and delayed delivery in the Domestic shipbuilding industry. Shipbuilding industry is not a process industry or an industry where manufacture of one type of equipment or product is

involved. Ship building industry has variety of equipment and systems depending upon the choice of the owners and safety regulations.

12. When enquired whether the Company is getting foreign orders, the Committee have been apprised that since the Company do not possess skills to utilise the methods which are being followed by advanced countries in Ship-building, the cost of production is higher. Steel, propulsion machinery, electronic equipment, deck machinery, Air conditioning equipments, etc. are being imported from foreign countries and hence the transportation and insurance costs also add to the higher cost of production. As the ship construction activity is low in India in terms of volumes, the foreign suppliers do not give due priority in supplying equipment in time and high cost of their specialists. Ship-building Industry is labour incentive and the low productivity of labour also contributes towards higher cost of production. Considerable time is required to be spent in design office in perfecting the designs and enable advance outfitting, arrange bill of materials, etc., for construction of ships according to schedules. Large overheads, various taxes of State and Central Governments add to higher costs of construction. In view of the above problems / constraints being faced by HSL in general Shipbuilding yards in the country, it is becoming extremely difficult to bag foreign orders.

13. When asked whether the shipbuilding yards in the other countries are facing any difficulties / constraints, the Committee have been intimated that global shipbuilding is reeling under recession during last two decades. In fact, a number of shipyards had to be closed down in the European and other parts of the world due to lack of continuous orders and unremunerative price. Viability of any Industry depends essentially upon the cost of production and the price realized. In the case of HSL, the prices fixed for the ships

produced are not within its control. Further, costs and prices do not have any meaningful relationship because the market forces acting upon the cost and the price are quite different. Prices of ships are artificially pegged down in many countries. Some countries like Japan, Korea and China quote very low prices which in many cases barely cover the cost of materials. Under these extraordinary circumstances prevailing all over the world in Shipbuilding and Offshore constructions, the prices fixed for HSL built vessels and structures on the basis of International Parity Price (IPP) or International Competitive Bid (ICB) are disproportionately low, leaving no room for bridging the gap between the cost and the price.

Shipping, Shipbuilding and Offshore Construction Industries, all over the world, continue to be adversely affected by the severe and prolonged depression which was triggered by the oil crisis of 1973. Even prior to 1973, profitability of the Shipbuilding Industry was low. Until the 1970's shipbuilders were accustomed to fixed price contracts which were based upon an estimated cushion for inflation. When the inflation rose to unexpectedly higher levels, many shipbuilders were stranded without any margin. Later, escalation clauses or a higher cushion for inflation were sought to be introduced. This phase was very brief as the all pervading depression engulfed the industry and shipbuilders were compelled to accept orders at any price, in order to get whatever work that could be found.

The very fact that shipbuilding is subsidised in many countries, much before 1973, is an indication of the negative profitability of the industry. The fact that a truly Multi-national Shipbuilding Corporation has not so far come into existence even during the boom period, is also an indication of the industry's, negligible profit-making potential. If it were

to be a growth-oriented profitable business, multi-national companies would have exploited the opportunities.

14. On the question of standardisation of design, the Committee have been apprised that standardisation in the shipbuilding industry has not gained momentum in our country. Rapid standardisation is perhaps the only way for all our shipyards to survive economically in this industry, especially under the prevailing market conditions. Standardisation in shipbuilding can be broadly classified into the following two areas : (a) Standardisation of DESIGNS for various types of vessels ; and (b) Development of standards for various types of EQUIPMENT & MACHINERY for ships.

Though HSL has the potential to develop its own designs, being an ISO 9001 Company, but the potential talent could not be made use of to a large extent on account of owners preferring the types of ships already with them, or insisting on a particular prototype working satisfactorily elsewhere. So far HSL has produced 22 designs with in-house efforts and construction of vessels with these designs can be undertaken and completed much faster than with a new design. A number of modifications are also being carried out on repeat construction of these designs to satisfy the changing needs of owners from time to time, such as fitting engines of higher power, changing the hold arrangements and changing the location of engine room, etc.

15. The Committee have been informed that the capacity of Ship Repairs Division is 365 dry docking days per annum. The dry docking days achieved in this division for the last 10 years against targeted docking days are as follows :-

YEAR	DRY DOCK OCCUPANCY DAYS	
	TARGET	ACTUAL
2001-02	365	526
2000-01	365	773
1999-00	366	679
1998-99	365	922
1997-98	365	811
1996-97	365	545
1995-96	366	520
1994-95	365	533
1993-94	365	427
1992-93	365	540

From the above it is apparent that in ship repair, HSL never under utilised its capacity. Instead through multiple docking and better management, HSL is increasing its capacity year after year.

16. On the question of repair of Naval Ships, the Committee have been intimated that the Company has regularly undertaken repairs of Naval Ships since the creation of ship repair facility at the Shipyard in 1971. The yard has undertaken navigation, current and medium repairs of ships of different classes. The Shipyard has refitted a total of about 350 ships for the Indian Navy over the years. As work for the Navy has been increasing year after year, a look at ship repair work for Indian Navy over the 10 years will show that Navy contributed to over 25% of total ship repair work carried out in Shipyard. The percentage now stand at approximately 50% during the last three years. Major repairs to damaged Tanker – INS Jyothi, 1999-2000 and the first ever major refit from Navy floating Dock FDN-1 during 1998-99 were real land mark in the history of ship repair works for the Indian Navy by HSL. Repairs of LSTs, OPVs, SDBs, LCUs, Survey Vessels, etc. are regularly being undertaken by HSL for the Indian Navy. Indian Navy is regularly patronising by sending vessels to HSL for repairs.

17. When asked what efforts are being taken by the Company to attract ship repair orders to meet global competition, the Committee have been informed as under :-

- a) Aggressive marketing with Indian Navy, Coast Guard, Dredging Corporation of India, Shipping Corporation of India, ONGC, A & N Administration etc., placement of orders.
- b) Improvement in docking and undocking time through advance planning
- c) Offering most competitive price
- d) Technology improvement to reduce repair time
- e) Waiting time of ship for docking is practically made zero
- f) Engaging marketing agencies to secure foreign vessels for repairs
- g) Accreditation of Ship repair division to ISO-9002 quality standardisation to meet global competition
- h) Introduction of I.T.

18. When enquired about the Submarine repairs, the Committee have been apprised that refit of Submarine is a very Hi-Tech job and HSL due to its geographical location, infrastructural facilities, location of Naval Dock Yard and Submarine Headquarters, has been involved with the refit of Submarine from 1970 onwards. In 1970, HSL undertook major repairs of two Egyptian Submarines and successfully refitted and handed over to the owners. Later on the Shipyard continued to undertake current repairs of Indian Naval Submarines of Kalvari Class. Having gained experience in this Hi-Tech field, the Navy reposed confidence in HSL and off loaded medium refit repairs of INS Vagli in 1997. The refit is now under final stage of completion. Having developed skills in this area, the Shipyard is now in advanced stage of undertaking medium repairs cum modernisation of 877 EKM Submarine at HSL. More than 100 Welders have been trained and qualified for pressure hull welding of submarine and their work has been certified by the Indian Navy

and the Team of Warship Overseers. The Shipyard is also giving help to the Naval Dock Yard at Visakhapatnam as and when required.

19. The financing performance of the Company during the years from 1992-93 to 2002-03 is as follows :-

(Rs. in Crore)

S.No.	YEAR	TURNOVER		NET PROFIT / (LOSS)	
		TARGET	ACTUAL	TARGET	ACTUAL
1.	1992-93	169.16	101.26	(76.00)	(113.94)
2.	1993-94	174.49	204.40	(87.90)	(110.25)
3.	1994-95	244.23	255.95	(75.80)	(51.89)
4.	1995-96	242.10	180.07	(140.68)	(118.17)
5.	1996-97	208.92	132.86	(122.39)	(150.80)
6.	1997-98	182.22	104.99	(39.28)	(62.19)
7.	1998-99	219.45	169.67	(53.42)	(29.67)
8.	1999-00	123.00	207.00	(66.98)	13.61
9.	2000-01	205.00	166.60	(38.89)	(18.98)
10.	2001-02	216.00	180.80	(26.72)	(15.42)
11.	2002-03	200.00	200.00	(25.32)	(3.73)

20. When asked about the reasons attributable to the losses incurred by the Company, the Committee have been informed that the following are the reasons for the losses :-

- i) Excess manpower
- ii) Non-receipt of major shipbuilding orders
- iii) Lack of Working Capital
- iv) No cash credit facility available from Banks / Financial Institutions
- v) Low productivity

The Committee have also been informed that the following steps have been taken for improvement :-

- i) Thrust is given on ship repair and retrofit business which is generating good contribution
- ii) Implementation of Voluntary Retirement Scheme to downsize manpower
- iii) Vigorous efforts are put in to take over of SBI Liability by Government

21. On the question of financial restructuring of the Company, the Committee have been informed that HSL had submitted a Financial Restructuring proposal to the Ministry of Shipping on 18.6.2002 and the same is under active consideration with the Government of India. On implementation of revival plan, HSL net worth would be positive and HSL need not depend on Government any longer and will start earning net profits and generate internal resources. The salient features of the proposal is furnished below :-

S.No.	ITEM	AMOUNT Rs. in Cr.	REMARKS
1.	Funds for Voluntary Retirement Scheme	128.00	To stabilise the strength at 2200 (present strength – 3710)
2.	Grant-in-aid assistance for liquidating SBI outstanding loan	229.48	Old outstanding pertaining to the period 1985-86 to 31.3.1990
3.	Waiver of Government guarantee fees against SBI term loan	33.96	--
4.	One time Grant-in-aid assistance	47.00	For completion of on going projects
5.	Write off Government loans and interest	56.77	--
6.	Assistance for meeting MAT liability and a direction to Chief Commissioner Income Tax, Visakhapatnam to waive interest on MAT	49.66	To pay tax on book profits arising out of incorporation of revival plan
	TOTAL	544.87	

22. The Committee have also been informed that lack of working capital is coming in the way of meeting production schedules. In this regard, the Company has requested the

Ministry of Shipping for sanctioning Rs.50 crore to enable the Company to complete the on-going projects and to avert industrial relations problems.

23. It has also been intimated to the Committee that at the request of Company, JS(Shipping) has written a DO letter No.SY-13018/1/201-HSL dated 26.7.2002 to JS(Ports) requesting them to issue a directive to all Port Trusts / DCI etc., to consider to extend an inter corporate loan of Rs.30 crore out of the surplus available for investment. Port wing of the Ministry has written to all Port Trusts on 18.9.2002 duly recommending to consider for inter corporate loan to HSL. The Company has submitted a detailed proposal for loan vide letter dated 19.10.2002 with terms and conditions. Port Trusts response is awaited.

24. Regarding waiver of Sales Tax, the Committee have been apprised that the Andhra Pradesh Government exempted Sales Tax on Shipbuilding upto 1971-72. From 1972-73, the State Government treated shipbuilding as "SALE" and levied Sales Tax. HSL disputed the liability of Sales Tax and requested the State Government for waiver. HSL represented to Ministry several times to recommend to the State Government for the waiver of Sales Tax. CCEA twice recommended State Government to write-off of past arrears and exemption of Sales Tax for a period of 5 years, in 1993 and 1997. The Government of Kerala, has reduced the rate of Sales Tax to 3%. HSL has vigorously pursued with local authorities for concessional rate of 3% as prevailed in the Kerala State. Accordingly, the local Sales Tax authorities also recommended to the Government of Andhra Pradesh for levy of Sales Tax at a flat rate of 3% for the period upto 31.3.99. As per these recommendations, State Government has to write-off of past arrears to the tune of Rs.45.84 crore. The Commissioner Commercial Taxes, Government of Andhra Pradesh

recommended to the Government of Andhra Pradesh for wavier of Rs.45.16 crore (4.6.1999). On 5th April, 2003, the Andhra Pradesh Government has rejected the waiver of Sales Tax arrears and raised demand for payment of Sales Tax arrears within 20 days. HSL is approaching MoS to take up the above issue with the State Government of Andhra Pradesh to reconsider the decision of Government of Andhra Pradesh for waiver of Sales Tax arrears.

.25. The inventory levels at the end of the last 3 years (1999-2000 to 2001-02) is given below :-

<u>(Rs. in lakh)</u>			
YEAR	1999-00	2000-01	2001-02
Inventories	3900.42	8764.12	4806.56

When asked the reasons for abrupt rise in the inventory level during 2000-01, the Committee have been intimated that there is slight variation in the inventories depending on the consumption of the items based on the orders on hand and actual work progress. As per schedules the inventories are organised in consonance with norms and in the event of short fall in the work progress the material will be in the stock and as per advanced planning the inventories for the next spell will arrive which appears as excess inventory in that temporary period. The major area is ships machinery – depending on the order book position items are procured and inventory maintained.

26. The sundry debtors in the last three years (1999-2000 to 2001-02) are given below :-

<u>(Rs. in Lakh)</u>	
YEAR	AMOUNT

1999-00	6601.16
2000-01	7986.60
2001-02	9458.10

When enquired about the reasons for increase in the outstanding dues, the Committee have been informed that increase in debtors is due to consideration of income in respect of Ship repairs and VC 1135 (SCI Bulker) during the financial year ending 31 March, 2001 and amounts were realised during the next financial year. Increase in debtors during 2001-02 in comparison to year 2000-01 is due to income accrued but for which instalments are not due for billing. All efforts are made to realise the debtor and reduce the outstanding dues.

27. On the question of R&D activities, the Committee have been informed that Research projects are not undertaken by the Company during the last 5 years. However, during the last 5 years, following designs have been developed by HSL:-

- a) 25 T Bollard Pull Tug with Voith propulsion
- b) 45 T Bollard Pull Tug with Voith propulsion
- c) 50 T Bollard Pull Tug with Voith propulsion
- d) 50 T Bollard Pull Tug with Schottel propulsion

28. As intimated to the Committee, the composition of the Board of Directors of HSL is as under :-

- i) R.Adm R M Bhatia, Chairman & Managing Director
- ii) Cmde. Y. Janardhan, VSM IN(Retd), Director (Technical)
- iii) Shri R Ravichandran, Director (Finance & Commercial)
- iv) Shri Dinesh Kumar Goel, Dy Secy (SD), M/O Shipping-Govt Director

- v) Shri J Rambabu, IAS, Spl. Chief Secy to the Govt of Andhra Pradesh, Transport, Roads & Building Deptt – Part-time official Director
- vi) Air Cmde S S Motial – Part-time Non-Official Director
- vii) Shri N K Agrawal – Part-time non-official Director w.e.f. 1.04.2003

The composition of the Board is in accordance with the proportion prescribed by the Deptt. of Public Enterprises in their guidelines.

29. The total strength of the organisation as on 1.4.2003 both sanctioned and actual (in position) is as under :-

	<u>Sanctioned</u>	<u>In position</u>
Officer	471	409
Staff	1272	990
Workmen	2382	2311
Total	4125	3710

30. When asked whether any study has been conducted to find out the adequacy or otherwise manpower requirements in the Company, the Committee have been intimated that the Core Committee constituted by the Ministry of Shipping for making a restructuring proposal and viability of HSL has inter-alia recommended for bringing down the manpower of HSL to 2200. In consonance with this report, a Committee of Senior Officers of HSL has been constituted to study the Organisation structure of various Departments / Divisions and suggest revised Organisation structure duly fixing the revised stabilised strength of various categories of employees in each Section / Department for its effective functioning. The Committee after a detailed study of the functioning of various Departments recommended the following manpower rationalising the strength at 2200.

CATEGORY	Existing as on 1.4.2003	Proposed	Surplus / deficit
<u>OFFICER</u>			

Technical	298	400	- 102
Non-Technical	110	75	+ 35
<u>STAFF</u>			
Technical	447	475	- 28
Non-Technical	543	250	+ 293
<u>WORKMEN</u>	2312	1000	1312
TOTAL	3710	2200	+ 1510

The Committee also established the revised stabilised strength of each Department keeping the overall rationalised strength in view. Efforts are therefore on hand to regroup / amalgamate various sections and induce the surplus manpower to avail V.R.

31. The Committee have also been informed that a Voluntary Retirement Scheme (VRS) was introduced in 1991 and as on date 2856 employees were relived under VRS from the funds released from NRF / Grant-in-aid from the Government. In the 10th Plan period Rs.107 crore was allocated for HSL for implementation of VRS. Out of the above, the Company have already received Rs.15 crore and expected to receive further sum of Rs.19 crore during 2002-03.

32. The Vigilance Deptt. of the Company is headed by Chief Vigilance Officer. The number of complaints received, cases disposed of and pending during the years from 2000 to 2002 are given below :-

YEAR	NO. OF COMPLAINTS REPORTED	ACTION DROPPED	ACTION TAKEN	PENDING DECISION WITH MANAGEMENT
2000	11	10	1	-
2001	9	8	1	-
2002	4	-	1	3

When enquired the reasons for dropping 10 cases during 2000, the Committee have been intimated that the Vigilance Department has dropped actions on 10 complaints out of 11 received during the year 2000 due to the reasons of insubstantive allegations / lack of vigilance angle. The Vigilance Department inquired into the above mentioned 11 complaints received during the year 2000 in order to ascertain the truth or otherwise and the investigation reports were submitted to Chief Vigilance Officer / Chairman & Managing Director, HSL. The above mentioned complaints were not sent either from the office of the Prime Minister or from the CVC and most of them are either anonymous / pseudonymous in nature.

33. When enquired further about the action taken against the officials found guilty, the information furnished by the Company to the Committee is given below:-

YEAR	NO. OF CASES	NATURE OF DISPOSAL
2000	1	Reverted to E.1 from E.3
2001	4	Departmental inquiry is under progress for major penalty.
2002	3	1. Charge sheet issued. CO filed writ petition in the court. 2. Inquiry is under process.

34. On the question of disinvestment of HSL, the Committee have been apprised that as the Company is undertaking hi-tech and sensitive works of submarine repairs and modernisation works for Indian Navy, Disinvestment Commission has recommended that the views of Indian Navy may be obtained before any step for disinvestment of HSL is taken. HSL has since been taken out of the disinvestment list. Keeping in view the strategic location of HSL at the entry to Visakhapatnam Harbour and its role in supporting the maintenance and repairs of Indian Naval Ships and submarines as a supplement to Naval

Dockyard, Visakhapatnam, Indian Navy is showing interest in taking over HSL. This could be kept in view if and when any decision of disinvestment of HSL is taken.

Recommendations / Observations of the Committee

Recommendation No. 1

Financial Restructuring of Hindustan Shipyard Limited

The Committee note that due to non-receipt of major shipbuilding orders, low productivity, excess manpower, etc. the financial position of the Hindustan Shipyard Limited (HSL) has become critical. It has been brought to the notice of the Committee that a Core Committee constituted to go into the entire gamut of issues connected with the viability of the Company had given its report in November, 2001. In line with the recommendations of the Core Committee, a draft proposal for financial restructuring of HSL amounting to Rs.544.87 crore which *inter – alia* include grant-in-assistance for liquidating SBI outstanding loan (Rs.229.48 crore), MAT liability (Rs.49.66 crore), write-off of Government loans and interest (Rs.56.77 crore), waiver of Government guarantee fees (Rs.33.96 crore), VRS Funds (Rs.128.00 crore) and one-time grant-in-aid assistance (Rs.47 crore) was submitted by the Company to the Ministry of Shipping in June, 2002. The financial restructuring proposal is stated to be under the active consideration of the Ministry of Shipping. The Committee, therefore, recommend that the Ministry of Shipping should take a quick decision for

early implementation of HSL financial restructuring proposal to make the Company viable. They wish to be apprised of the decision taken in the matter.

Recommendation No.2

Working Capital

It has been noticed by the Committee that the Hindustan Shipyard Limited has not been receiving any financial support for the last few years either from the Government or from any financial institution for meeting its working capital requirement. No non-plan assistance was received for meeting the shortfall towards payment of wages and salaries. The Committee further note that the Company has been able to meet these commitments with utmost difficulty by adjusting funds from one project to the other. Due to lack of working capital, the production requirements and the projects on hands have also been adversely affected, thereby delaying the production schedules. It has been brought to the notice of the Committee that to overcome the situation, the Company has approached the Ministry of Shipping for sanctioning of Rs.50 crore to enable the Company to complete the on-going projects and also to avert industrial relations problems. The Committee, therefore, recommend that the Ministry of Shipping should provide financial assistance of Rs.50 crore as working capital as sought by the Company immediately.

The Committee have also noticed that Ministry of Shipping has requested all Port Trusts to consider extending an

inter-corporate loan of Rs.30 crore out of the surplus available for investment to HSL. However, the response of the Port Trusts is awaited. The Committee desire that the Ministry of Shipping should impress upon the Port Trusts to extend an inter-corporate loan to HSL keeping in view the critical financial position of the Company.

Recommendation No. 3

Need to award orders on nomination basis

The Committee note that the Hindustan Shipyard Limited expects orders from Indian Navy, ONGC, Andaman & Nicobar Islands Administration, Union Territory of Lakshwadeep, Dredging Corporation of Indian etc. in the areas of their business. They further note that lack of adequate series of orders and continuous orders are the main cause for low productivity in the company. In order to ensure the viability of the company, the Committee recommend that the Government should intervene in getting the orders for the Company on nomination basis from the public sector enterprises /Government Departments.

Recommendation No. 4

Waiver of Sales Tax

The Committee note that the Sales Tax on 'Shipbuilding' was exempted by the Government of Andhra Pradesh upto 1971-72. The Government of Andhra Pradesh treated Shipbuilding as sales and levied sales tax. The Committee are given to understand that Hindustan Shipyard Limited disputed the liability of sales tax and requested the State Government for waiver. The Committee further note that CCEA had recommended twice to the State Government to write-off of past arrears and grant exemption of sales tax in 1993 and 1997. It has been noticed by the Committee that the Company has pursued with the Sales Tax Authorities in Andhra Pradesh seeking levy of 3% Sales Tax as being done in the Kerala State. As a result thereof, the local Sales Tax Authorities recommended to the State Government of Andhra Pradesh for levy of Sales Tax at a flat rate of 3% for the period upto March 31, 1999. However, on April 4, 2003 the Government of Andhra Pradesh has rejected the recommendation of the local Sales Tax Authorities for waiver of sales tax arrears amounting to Rs.45.16 crore. The Committee recommend that the Union Government should take up the matter with the State Government of Andhra Pradesh at the highest level to reconsider its decision.

Recommendation No. 5

Cooperation between HSL and Indian Navy

The Committee note that out of 7 public sector shipyards, 4 shipyards are under the administrative control of the Ministry of Shipping and the remaining 3 are under the Ministry of Defence. The Committee further note that though the Hindustan Shipyard Limited is under the Ministry of Shipping, it has been regularly undertaking jobs from Indian Navy in terms of ship constructions and ship/submarine repairs. The shipyard has undertaken navigation repairs, current and medium repairs of ships of different classes. It has also been noticed by the Committee that the Company has constructed/refitted about 350 ships including OPVs, LST(L) and other hi-tech vessels for Indian Navy over the years. Besides, the Company due to its geographical location, infrastructural facilities available and proximity to Naval Dockyard at Visakhapatnam and Submarine Headquarters has been involved with the refit of submarines, a very hi-tech job, from 1970 onwards. Having gained experience in this hi-tech field, the Indian Navy reposed its confidence in the Hindustan Shipyard Limited and off-loaded medium refit repairs of INS Vogli in 1997. Having developed skills in this area, the company is now getting ready for undertaking medium repairs-cum-

modernisation of 877 EKM submarine at HSL. It has been brought to the notice of the Committee that the shipyard is also giving help to the Naval Dock Yard at Visakhapatnam as and when required. The Indian Navy has also shown its interest in taking over HSL. The Committee, therefore, recommend that the Government may examine the feasibility of merging the shipyard with Indian Navy for better utilization of its full facilities.

Recommendation No. 6

Need for National Policy on Shipbuilding

The Committee note that there is a National Shipping Policy with the objective of building up and operating shipping tonnage commensurate with the targets set, whereas shipbuilding in the country, which is the complementary function to shipping, has not been provided with individual status and policy. Due to this, over the years, the indigenous shipbuilding has slid down to a position of a weak-link in the infrastructure of shipping. The Committee are given to understand that countries like Japan, Korea and China have formulated their own strategy to enhance and modernize their infrastructure to meet not only the requirements for home consumption but also to harness major portion of requirements of other countries as well, by successfully competing in the international competitive bids. They are of the view that in order to improve India's position among the maritime nations of the world, the indigenous shipbuilding is required to be given the highest priority in the matter of full order book. The Committee also feel that self-reliance in shipbuilding is imperative for the growth of Indian shipping industry and exports. In order to give indigenous shipbuilding its due place, the Committee

**recommend that the Government should consider formulating a
National Policy on Shipbuilding.**

Recommendation No. 7

Reduction in Manpower

The Committee note that the manpower strength of the Hindustan Shipyard Limited as on April 1, 2003 was 3710. They further note that the Core Committee constituted by the Ministry of Shipping for making a Viability Study and Restructuring Proposal of HSL in its report has, inter-alia, recommended for bringing down the manpower of the company to 2200. The Committee are given to understand that in order to bring down the strength of the Company to 2200, the Departmental Committee appointed to study the organization structure of various Departments/Divisions of the company has suggested the revised stabilized strength of various categories of employees in each Division/Department for its effective functioning. The Committee note that with a view to stabilizing the strength at 2200, the Company has sought funds to the tune of the Rs.128 crore from the Government for meeting VRS expenses. The Committee, therefore, recommend that the Government should provide the necessary funds to the Company for meeting VRS expenses to enable them reduce its manpower.

**TOUR PROGRAMME OF THE COMMITTEE ON PUBLIC UNDERTAKINGS TO
HYDERABAD, VISAKHAPATNAM AND CHENNAI FROM 12TH TO 15TH APRIL,
2003, AS ACTUALLY PERFORMED**

(MEMBERS ASSEMBLED AT HYDERABAD)

<u>DATE AND DAY</u>	<u>TIME</u>	<u>VISIT & DISCUSSION</u>
12.04.2003 (SATURDAY)	1600 hrs	Discussion with the officers of RITES Ltd.
	1800 hrs	Discussion with the officers of Mishra Dhatu Nigam Ltd.

(NIGHT HALT AT HYDERABAD)

13.04.2003 (SUNDAY)	0615 hrs	Departure for Visakhapatnam by CD-7561 (0730 Hrs.)
	0830 hrs	Arrival at Visakhapatnam
	1030 hrs	Discussion with the officers of Rashtriya Ispat Nigam Ltd. (Audit Para Nos. 21.6.1 of C&AG's Report No. 3 of 2002)
	1200 hrs	Discussion with the officers of Bharat Heavy Plates & Vessels Ltd.

(NIGHT HALT AT VISAKHAPATNAM)

14.04.2003 (MONDAY)	0900 hrs	Discussion with the officers of Hindustan Shipyard Ltd.
	1015 hrs	Discussion with the officers of Dredging Corporation of India Ltd.
	1330 hrs	Departure for Chennai by CD 7477 (1505 hrs)
	1610 hrs	Arrival at Chennai
	1800 hrs	Discussion with the officers of Bharat Petroleum Corporation Ltd. (Audit Para Nos.16.1.1 & 16.1.2 of C&AG's Report No.3 of 2002)

(NIGHT HALT AT CHENNAI)

15.04.2003 (TUESDAY)	0900 hrs	Discussion with the officers of Chennai Petroleum Corporation Ltd. (Audit Para No.16.2.1 of C&AG's Report No.3 of 2002)
	1045 hrs	Discussion with the officers of Shipping Corporation of India Ltd.

DISPERSAL

**COMPOSITION OF THE COMMITTEE ON PUBLIC UNDERTAKINGS
WHICH VISITED HYDERABAD, VISAKHAPATNAM AND CHENNAI
FROM 12TH TO 15TH APRIL, 2003**

S. NAME
NO.

CHAIRMAN

Prof Vijay Kumar Malhotra

MEMBERS, LOK SABHA

2. Shri Ram Tahal Chaudhary
3. Shri K. E. Krishnamurthy
4. Dr. Prasanna Kumar Patasani
5. Shri Tarit Baran Topdar
6. Shri V. Vetriselvan

RAJYA SABHA

7. Sh. Kalraj Mishra
8. Shri Satish Pradhan
9. Sh. K.Kalavenkata Rao
10. Sh. Lalitbhai Mehta

SECRETARIAT

1. Shri S Bal Shekar, Director
2. Shri Raj Kumar, Under Secretary

ANNEXURE-III

**LIST OF OFFICIALS OF HINDUSTAN SHIPYARD LTD. WHO WERE
PRESENT DURING THE DISCUSSION WITH THE COMMITTEE ON
PUBLIC UNDERTAKINGS AT VISAKHAPATNAM ON 14TH APRIL,2003**

S.No.	NAME	DESIGNATION
1.	Radm. R.M. Bhatia	Chairman & Managing Director
2.	Cmdr. Y. Janardhan	Director (T)
3.	Shri R. Ravi Chandran	Director (F & C)