

133

EIGHTY-SIXTH REPORT
COMMITTEE ON PUBLIC
UNDERTAKINGS
(1983-84)

(SEVENTH LOK SABHA)

MAZAGON DOCK LTD—SHIPBUILDING

(MINISTRY OF DEFENCE—DEPARTMENT
OF DEFENCE PRODUCTION)

[Action Taken by Government on the Recommendations contained in the 67th Report of the Committee on Public Undertakings (Seventh Lok Sabha)]



Presented to Lok Sabha on

Laid in Rajya Sabha on

LOK SABHA SECRETARIAT
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COMMITTEE ON PUBLIC UNDERTAKINGS
1983-84

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Shri Madhusudan Vairale

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(iv)

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1. Shri T.R. Krishnamachari—*Joint Secretary.*
2. Shri M.K. Mathur—*Chief Financial Committee Officer.*
3. Shri S.C. Gupta—*Senior Financial Committee Officer.*

**ACTION TAKEN SUB-COMMITTEE OF THE COMMITTEE ON
PUBLIC UNDERTAKINGS**

(1983-84)

1. **Shri Madhusudan Vairale—*Chairman***
2. **Shri Kamaluddin Ahmed—*Convener***
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5. **Shri D.K. Naikar**
6. **Shri Pratap Bhanu Sharma**
7. **Shri Satyendra Narain Sinha**
8. **Shri Hari Shankar Bhabhra**
9. **Shri Syed Sibtey Razi**

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to submit the Report on their behalf, present this 86th Report on Action Taken by Government on the recommendations contained in the 74th Report of the Committee on Public Undertakings (Seventh Lok Sabha) on Mazagon Dock Ltd—Shipbuilding.

2. The 74th Report of the Committee on Public Undertakings was presented to Lok Sabha on 29 April, 1983. Replies of Government to all the recommendations contained in the Report were received by 17 January, 1984. The replies of Government were considered by the Action Taken Sub-Committee of the Committee on Public Undertakings on 20 February, 1984. The Committee also considered and adopted this Report at their sitting held on 20 February, 1984.

3. An analysis of the Action Taken by Government on the recommendations contained in the 74th Report (1982-83) of the Committee is given in Appendix. II.

NEW DELHI;

March, 1984

Phalguna 12, 1905 (Saka)

MADHUSUDAN VAIRALE,

Chairman

*Committee on Public
Undertakings*

CHAPTER I

REPORT

This Report of the Committee deals with the action taken by Government on the recommendations contained in the Seventy-fourth Report (Seventh Lok Sabha) of the Committee on Public Undertakings on Mazagon Dock Ltd.—Shipbuilding which was presented to Lok Sabha on 29 April, 1983.

2. Action Taken notes have been received from Government in respect of all the 8 recommendations contained in the Report. These have been categorised as follows :

- (i) Recommendations/observations that have been accepted by Government :

Paragraph Nos. 55 to 60 and 62 of the Report.

- (ii) Recommendation/observation in respect of which final reply of Government is still awaited :

Paragraph No. 61 of the Report.

The Committee desire that the final reply in respect of recommendation for which only interim reply have been given by the Government should be furnished to the Committee expeditiously after getting the same vetted by Audit.

The Committee has following observations to make in regard to action taken by the Government on one of their recommendations.

Delay in evolving suitable pricing formula for construction of Naval Ships

Recommendation (Paragraph 61)

3. The Committee observed that the profitability of the Mazagon Dock Limited was low in the case of ship construction for the Navy as the price was fixed on the basis of cost plus 5% profit on the original estimates. Any escalation in cost had the effect of reducing even this low percentage of profit. The question of having a satisfactory pricing formula was stated to have been taken up with the Ministry of Defence. The Committee hoped

that a suitable pricing formula would be evolved soon which would encourage to economise the production cost and allow a fair return to the Company.

4. In their reply, the Government have stated that the remarks of the Committee have been noted and efforts are being made to expedite a decision in the matter.

5. The Committee regret to note that in spite of their recommendation made in April, 1983, no satisfactory pricing formula for the Naval ships constructed by Mazagon Dock Ltd. has been evolved so far. They reiterate that suitable pricing formula which would encourage to economise the production cost and allow a fair return to the Company should be evolved expeditiously.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation (Paragraph 55)

The main activities of Mazagon Dock Ltd. taken over by Government in 1960 are ship repair, ship building, construction of offshore platforms, and general engineering. In terms of value of production ship building occupied the first place till 1981-82. However, as a result of diversification since 1978, the production of offshore platforms has over-taken the ship building in 1982-83. The capacity utilisation in regard to ship building, in terms of steel throughput, ranged between 25% to 106% during 1977-83. The production was particularly low during 1978-79 and 1979-80 when it is stated to have been adversely affected by recession world-over in shipping industry. The profitability of the company in this activity has been low. Even in 1981-82, when the capacity utilisation was 106% in terms of steel throughput and 95% in terms of utilisation of berths, dry docks and wet-basins, profit to capital employed was barely 1.4 per cent. There have been instances of delays in the delivery of vessels resulting in cost escalation and payment of liquidated damages. The unfavourable and expensive labour practices and production procedure and methods also affected the cost of production.

Reply of Government

The position stated in the first six sentences of the para is a statement of fact and no action on them is required on our part. As regards the remaining portion of the para, the position is explained below :

The Committee has stated that even in 1981-82, when the capacity utilisation was 106% in terms of steel throughout and 95% in terms of utilisation of berths, dry docks and wet basins, profit to capital employed (should be to value of production) was barely 1.4 per cent. In this connection, it may be pointed out that reasons for low profitability in ship building have been explained to the Committee in detail and the same have been brought out in paras 12 and 13 of the Committee's Report. The reasons for low profitability in shipbuilding include *inter alia* low profit margin allowed by Navy for the construction of frigates and lack of subsidy from the Government for

construction on Merchant Ships (other than cargo ships). Action taken in regard to these matters is dealt with in replies to para 60 and 61 of the Report.

The Committee has observed that there have been instances of delay in the delivery of the vessels resulting in cost escalation and payment of liquidated damages. In this connection it may be pointed out that MDL had by and large fulfilled commitments regarding the delivery dates in respect of almost all vessels except in a few cases where the delays in delivery were due to delays in delivery of main engines, cranes etc. by the indigenous suppliers. Liquidated damages have been paid by the Company in two cases and in another case the matter is under arbitration. This position has also been brought out in paras 9 and 10 of the Committee's Report.

It has been stated by the Committee that unfavourable and expensive labour practices and production procedures and methods also affected the cost of production. In this connection, it may be pointed out that due to historical reasons, a number of unfavourable and expensive labour practices which were prevailing in the company prior to its purchase by the Government in 1960 continued thereafter. Further in 1960, an undertaking was given to workmen that D.A. formula which was then applicable to them would continue to apply. The said formula provides for linkage of D.A. to both the basic wage and the Bombay Cost of Living Index. Consequent on the steep rise in the Cost of Living Index over the past few years, the operation of the D.A. formula has led to substantial widening of disparities in the wages of workmen, the higher brackets being benefited more. In view of this, during the discussions with the Union on their Charter of Demands, the company put forth several counter proposals including switch over to normative wage scales and standard industrial D.A. formula (providing for variation in D.A. @ Rs. 1.30 per point movement of the C.L.I) as prevailing in other Public Sector Undertakings, merger of Trades, removal of overlaps between shifts, discontinuance of unfavourable and expensive labour practices, rationalisation of holidays, etc. Presently, both the Unions' Charter of Demands and the Company's proposals are in an advance stage of adjudication by an Industrial Tribunal. The Company had strongly represented its case before the Industrial Tribunal. Further action can be taken as and when adjudication proceedings are completed and the Award is received from the Industrial Tribunal.

[Ministry of Defence, Department of Defence Production OM No. 48/42/1/82/D (SY) dated 17.1.1984].

Recommendation (Paragraph 56)

A detailed examination of the execution of an export order for six cargo vessels to a U.K. based shipping Company during 1977 to 1979 revealed

several deficiencies affecting cost efficiency and profitability. There was delay ranging from 12-15 months from the due dates in the delivery of these vessels and the Company suffered a heavy loss of Rs. 554.26 lakhs as against the anticipated profit of Rs. 84.72 lakhs. The main factors responsible for this state of affairs were defective estimates, inadequacy of design capability, lack of proper production planning and control, inadequate supervision and deficiencies in quality control. Under estimation of labour and materials resulted in a loss of about Rs. 19 lakhs in one vessel alone. Further, lack of data bank for designing of various types and sizes of cargo vessels resulted in errors in working drawings which caused rework resulting in delay in execution as well as excess consumption of labour and materials. The Committee find that in spite of the fact that the Company had been undertaking construction of sophisticated warships like frigates and other vessels since 1966, it had not evolved a suitable system for supervision, production planning, quality control and monitoring of costs. The Company had also no system of recording and reviewing consumption of important items of materials and utilisation of labour and comparing them with stagewise estimates which could help in making use of the experience gained in the construction of one vessel in taking timely remedial measures for effecting economy in the construction of other vessels.

Reply of Government

The general scenario at the time when the order for construction of cargo vessels was accepted by MDL has been explained by the company in written submission to the committee. The problems faced by the Shipyards in executing the Contract have also been explained to the Committee and taken note of by the Committee in para 45 to 48 of the Report.

Considerable corrective action in respect of the short-comings noticed in the construction of the cargo vessels has been taken in most of the areas, after detailed examination of the systems by foreign Consultants and for the balance, improvements are being made on a continuing basis. The Company has established a full-fledged Quality Control Department for ensuring quality control in Shipbuilding.

The system of control in regard to utilisation of labour mandays and consumption of steel has been improved by processing the data on hired computer. Consequently, utilisation of labour mandays separately for production, assembly and erection of hull and superstructure and also for Engineering, Electrical and Hull Outfit/other jobs for fitting out are being monitored on progressive basis. Similarly cumulative consumption of steel is

being ascertained separately for each unit of the hull and superstructure and also for fitting out.

A detailed quantitative analysis of consumption of different items of material as well as job-wise utilisation of mandays and comparison thereof with estimates on regular basis would, however, require inhouse computer facility, for which the Company is making efforts to obtain concurrence of the labour union.

M/s. Deloitte Haskins+Sells, Calcutta were appointed as Consultants for reviewing the entire financial accounting, cost accounting and reporting systems and suggesting suitable revised systems and procedures so as to make the Management Information System more useful and effective. The Consultants submitted their final recommendations in regard to Cost Accounting & Management Information System in October 1983, which are now being implemented. As regards the financial accounting system, the draft report was received in December 1983 and is under consideration.

[Ministry of Defence, Department of Defence Production OM No. 48/42/1/82/D (SY) dt. 17.1.83].

Recommendation (Paragraph 57)

The Committee feel that in view of the admitted inexperience in building such types of cargo vessels and the various deficiencies in control system it was unfortunate that the Company embarked upon the construction of six cargo vessels at a time incurring there by huge loss of Rs. 5.54 crores. In fact, the company, at the same time, took up another export order for supply of two water carriers to Iran. Apparently, in its enthusiasm to secure big export orders, the various organisational deficiencies were overlooked by the Management.

Reply of Government

At the time of accepting the order, the Company was confident of earning a profit of Rs. 14.12 lakhs per vessel. It is submitted that series construction of ships is one of the most effective means of achieving economy in cost. Series construction not only helps in economy of Design & Drawing Office effort, but also enables bulking of orders so as to achieve economy in purchases. Series construction also gives the advantage of learning curve and repetitive production on the berth and in the production shop, with the resultant economy of effort for the same quantum of output.

The order book position of the Company at the time of signing the contract was not good. In this case, the owners were made responsible for the supply of major items of equipment, at their cost, thereby reducing the uncertainties in cost of construction, to a large extent.

In view of the above, acceptance of the order for a series of six vessels is considered to be proper.

It would also be relevant to mention that the prestigious order for six vessels involving F.E. earnings of over Rs. 10 crores, constituted a major break through for the Company in the international field of ship building, achieved in the face of stiff competition from several developed countries.

The efforts made to increase the capacity of the Drawing Office, skilled work force, etc. to meet the requirements were, however, not fully successful and these deficiencies could not be fully surmounted. Although the Company incurred a loss in the construction of the cargo vessels, the experience gained has been invaluable in enabling the Company to diversify and concentrate on the construction of more sophisticated vessels such as Off shore Supply Vessels. Multi-support vessels and lastly Jack-up Rigs with confidence, in the interest of over all corporate growth of the Company.

[Ministry of Defence, Department of Defence Production OM
No. 48/42/1/82/D (SY) dt. 17.1.84]

Recommendation (Paragraph 58)

With a view to remedying the deficiencies relating to design and drawing office and production, planning and control system the Company had appointed in 1978 M/s. A & P Appledore (London) Ltd. as Consultants to study the problems and make suitable recommendations. In spite of the fact that the report of the Consultants had been received more than 3 years back in December 1979, action on recommendations of the Consultants relating to important areas of production planning and control, Design and Drawing Office was stated to be in hand. The Committee desire that action in this regard should be expedited to improve efficiency.

Reply of Government

The Committee were informed that the recommendations of M/s A & P Appledore had been progressively implemented, that further improvements were required in certain areas and that action was in hand to effect these improvements (Para 54 of the Committee's Report refers). The present position in this regard is as under :—

I. Production Planning & Control

- (a) *Fixation of norms for various work stations for purpose of planning*

Norms have been developed for various work stations in production and assembly shop and production schedules based on these norms are being taken up.

- (b) *Mandays control on daily basis*

It will be possible to effect improvement in the above area only after establishing inhouse computer facility. Efforts are being made to obtain concurrence from the Labour Union for the installation of computer in MDL.

- (c) *Feedback system on work packages issued, for analysis of variation from the estimates*

Remarks against (b) above apply here as well.

- (d) *Integrated Outfit material control system*

The above system is essentially a computer based system and it will be possible to employ this system fully only after establishing the inhouse computer facility. Pending establishment of inhouse computer facility, a word processing facility is being acquired to introduce this system in a limited way for specific projects.

II. Design & Drawing Office

- (a) *Utilisation of scale models to aid design of engine rooms and Piping Systems.*

The recommendations of M/s A & P Appledore in regard to the above have been implemented.

- (b) *Computerisation of design calculations*

A desk type computer was acquired in 1981 for the purpose of preliminary ship design calculations. The use of this computer is being gradually extended to Drawing Office Management and Control functions. Programmes are under development for cost estimation, library/data base management, early dissemination of standardised procurement information etc.

Apart from the above, we are considering various offers for CAD/CAM software to be run on main frame computers in Bombay.

- (c) *Development of comprehensive standards data base within the Design Department.*

The recommendations of M/s Appledore in regard to the above have been implemented however, this is a continuing process and will lead to the establishment of "Standards data base" within the design Department.

- (d) *Establishment of an overall Drawing Office work programme*

M/s A & P Appledore's recommendations in regard to the above are being progressively implemented. Standardised network charts for the Drawing Office work which would facilitate adjustment of schedules are being developed.

- (e) *Pre-outfitting drawing for system, which is dependent on the timely availability of equipment information, on which system drawing have to be generated.*

M/s A&P Appledore's recommendations in regard to the above are being progressively implemented. Presently, generation of pre-outfitting drawing in suitable selected areas is being attempted for the fourth vessds of series construction.

The remarks of the Committee have been noted, and efforts to expedite implementation of all the recommendations are underway.

[Ministry of Defence, Department of Defence Production
OM No. 48/42/1/82/D (SY) dated 17.1.84].

Recommendation (Paragraph 59)

The Committee would also like to be informed of the action taken on the recommendations of the German Consultants appointed by the Company in September, 1982 for introduction of latest design/drawing aids and techniques etc.

Reply of Government

The German Consultants were entrusted with the Consultancy work relating to detailed study and introduction of latest design/drawing aids and techniques etc. This work was divided into four phases viz :

- I. Survey, discussions and preliminary report.
- II. Detailed Report with recommendations.
- III. A—Procurement by MDL of Hardware and Software accepted for introduction.
 B—Training of MDL personnel in European Shipyards where the recommended systems are in use.
- IV Step-by-step implementation of the recommendations.

The Consultants submitted their Report in June 1983, as per Phase-II.

Based on the Report, technical specifications of software for computer aided designs were worked out by MDL and offers were invited from reputed software concerns for proven and well validated commercially available packages. On the basis of offers received, two offers, viz. one from West Germany and the other from Sweden—were shortlisted. To facilitate detailed evaluation of these packages and final selection, a team of three Officers was deputed to West Germany to study each software package in working environment. The Report of the team is presently under consideration and the final selection of the software would be made shortly, keeping in view its suitability for off-line processing on outside computers available in Bombay.

After the selection of the software package, MDL personnel will be deputed abroad for training in the implementation and operation of the software package selected, as (Phase-III B) of the Programme.

It is anticipated that the last phase, viz. implementation of the Consultant's major recommendations such as system streamlining, standardisation, codification and project management concept apart from gradual computerisation of Design Department procedures and practices, will commence in January, 1984.*

[Ministry of Defence, Department of Defence Production OM No. 48/42/1/82/D (SY) dated 17.1.84].

Recommendation (Paragraph 60)

It has been stated that subsidies are given in almost all the countries in one form or the other for shipbuilding. In India, recognising the need for subsidising the shipbuilding industry, Government have now allowed in the pricing formula for Public Sector Shipyards subsidy upto 37% of the inter-

* At the time of factual verification, the Audit have pointed out that the commencement of the last phase in January, 1984 as anticipated by the Ministry is yet to materialise.

national parity price but this is limited to construction of cargo vessels. As the cost of inputs does not vary much for the other types of vessels, absence of any form of subsidy inevitably results in partial loss. The matter is stated to have been taken up by the Department of Defence Production with the Ministry of Shipping and Transport. The Committee hope that decision will be taken in the matter soon.

Reply of Government

The position regarding grant of subsidy for construction of Merchant Ships (other than Cargo Ships) is indicated below :

ONGC Vessels

Government have since decided that as in the case of cargo vessels, a subsidy upto 30% (20 percent from Government and 10 percent from the buyer) calculated on the International Parity Price will be admissible to the Indian Shipyards for construction of vessels (OSVs, Multipurpose Support Vessels etc. for the ONGC.

FISHING TRAWLERS

As regards fishing trawlers, a subsidy of 33 per cent is admissible to the Indian Shipyards in addition to a price preference of about 10 percent.

HARBOUR CRAFTS

No subsidy is available at present for harbour crafts. However, as import of harbour crafts is generally allowed only after full utilisation of indigenous capacity, the indigenous ship building industry even in the absence of subsidy enjoys some protection.

[Ministry of Defence, Department of Defence Production OM No. 48/42/1/82/D(SY) dated 17.1.84.]

Recommendation (Paragraph 62)

The Committee note that manufacture of Offshore Platform has increased from Rs. 64 lakhs in 1977-78 to Rs. 88. 50 crores in 1982-83. In evidence, Secretary, Defence Production informed that manufacture of Offshore Platforms by the Company has helped in saving foreign exchange and in bringing down the import prices. The Committee appreciate the achievement and hope that the Company will keep up its efforts for increasing the manufacture of Offshore Platforms to meet country's requirements.

Reply of Government

We are thankful to the Committee for its appreciation of the performance of the Company in the field of manufacture of Offshore Platforms. The final production figure for 1982-83 in respect of manufacture of Offshore Platforms (including transportation and installation) is Rs. 102.76 crores. The anticipated production figure for the year 1983-84 is of the order of Rs. 150.00 crores. The Company is continuing its efforts to increase the manufacture of Offshore Platforms and is stated to play an increasing role in meeting the country's requirements.

[Ministry of Defence, Department of Defence Production O.M. No. 48⁸/1/82/D (SY), dated 17th January, 1984].

CHAPTER III

**RECOMMENDATIONS WHICH THE COMMITTEE DO NOT
DESIRE TO PURSUE IN VIEW OF GOVERNMENTS' REPLIES**

NIL

CHAPTER IV

**RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF
GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE.**

NIL

CHAPTER V

RECOMMENDATIONS IN RESPECT OF WHICH FINAL REPLIES OF GOVERNMENT ARE STILL AWAITED

Recommendation (Paragraph 61)

The profitability of the Mazagon Dock Limited was also low in the case of ship construction for the Navy as the price is fixed on the basis of cost plus 5% profit on the original estimates. Any escalation in cost has the effect of reducing even this low percentage of profit. The question of having a satisfactory pricing formula is stated to have been taken up with the Ministry of Defence. The Committee hope that a suitable pricing formula would be evolved soon which would encourage to economise the production cost and allow a fair return to the Company.

Reply of Government

The remarks of the Committee have been noted and efforts are being made to expedite a decision in the matter.

[Ministry of Defence, Department of Defence Production OM No. 48/42/1/82/D (SY). dated 17.1.84].

Comments of the Committee

(Please see paragraph No. 5 of Chapter I of the Report)

NEW DELHI;
March, 1984

Phalguna 12, 1905 (Saka)

MADHUSUDAN VAIRALE,
Chairman
Committee on Public Undertakings.

APPENDIX I

MINUTES OF THE 47TH SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS HELD ON 20.2.1984.

The Committee sat from 15.30 hrs. to 16.00 hrs.

PRESENT

Shri Madhusudan Vairale—*Chairman*

MEMBERS

2. Shri Kamaluddin Ahmed
3. Shri Lakshman Mallik
4. Shri N. Kudanthai Ramalingam
5. Shri B.D. Singh
6. Shri Hasi Shankar Bhabhra
7. Shri Mahandra Mohan Mishra
8. Shri Narendra Singh
9. Shri Manubhai Patel
10. Shri M.S. Ramachandran
11. Shri Syed Sibtey Razi

SECRETARIAT

1. Shri M.K. Mathur—*Chief Financial Committee Officer*
2. Shri S.C. Gupta—*Senior Financial Committee Officer*
3. Shri G.S. Bhasin—*Senior Financial Committee Officer*

OFFICE OF THE COMPTROLLER AND
AUDITOR-GENERAL OF INDIA

1. Shri R.C. Suri—*Chairman, Audit Board*
2. Shri K.P. Lakshmana Rao—*Secretary, Audit Board*

The Committee considered the following Action Taken Reports as approved by the Action Taken Sub-Committee and adopted the same :—

x x x x

- (iv) Action Taken Report on 74th Report of CPU (1982-83) on Mazagon Dock Ltd.—Shipbuilding.

The Committee authorised the Chairman to finalise Reports on the basis of factual verification by the Ministry/Undertaking concerned and Audit and to present the same to Parliament.

The Committee then adjourned.

APPENDIX II

(Vide para 3 of Introduction)

Analysis of action taken by Government on the recommendations contained in the Seventy-Fourth Report of the Committee on Public Undertakings (Seventh Lok Sabha)

I. Total number of recommendations made	8
II. Recommendations that have been accepted by the Government (Vide recommendations at S. Nos. 1 to 6 and 8)	7
Percentage to total	87.5%
III. Recommendations which the Committee do not desire to pursue in view of Government's replies.	NIL
Percentage to total	NIL
IV. Recommendations in respect of which replies of Government have not been accepted by the Committee.	NIL
Percentage to total	NIL
V. Recommendations in respect of which final replies of Government are still awaited (Vide recommendation at S. No. 7)	
Percentage to total	12.5%