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MAZAGON DOCK LIMITED

MINISTRY OF DEFENCE
(DEPARTMENT OF DEFENCE PRODUCTION & SUPPLIES)

COMMITTEE ON PUBLIC UNDERTAKINGS
1995-96

TENTH LOK SABHA

LOK SABHA [illegible]ARIAT
NEW DEL[illegible]

FORTY THIRD REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS
(1995-96)

(TENTH LOK SABHA)

MAZAGON DOCK LIMITED

MINISTRY OF DEFENCE
(DEPARTMENT OF DEFENCE PRODUCTION & SUPPLIES)

सत्यमेव जयते

Presented to Lok Sabha on 22.8.1995
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LOK SABHA SECRETARIAT
NEW DELHI

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(1994-95)

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4. Shri P.K. Grover — *Under Secretary*

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INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf present this forty-third Report on Mazagon Dock Limited.

2. The Committee's examination of the subject was mainly based on Report of the Comptroller and Auditor General of India, Union Government (Commercial) No. 7 of 1992.

3. The subject was examined by the Committee on Public Undertakings (1994-95). The Committee (1994-95) took evidence of representatives of Mazagon Dock Limited on 12th January and 13th January, 1995. The Committee also took evidence of representatives of Ministry of Defence (Department of Defence Production and Supplies) on 27th March, 1995.

4. The Committee on Public Undertakings (1995-96) considered and adopted the Report at their sitting held on 30th May, 1995.

5. The Committee feel obliged to the Members of the Committee on Public Undertakings (1994-95) for the useful work done by them in taking evidence and sifting information. They would also like to thank the officials of the Lok Sabha Secretariat attached to the Committee on Public Undertakings for their excellent work and assistance rendered to the Committee.

6. The Committee wish to express their thanks to the Ministry of Defence (Department of Defence Production and Supplies) and Mazagon Dock Limited for placing before them the material they wanted in connection with examination of the subject. The Committee also wish to thank in particular the Representatives of Ministry of Defence (Department of Defence Production and Supplies) and Mazagon Dock Limited who appeared for evidence and assisted the committee by placing their considered views before the Committee.

7. The Committee also place on record their appreciation of the assistance rendered by the Comptroller and Auditor General of India.

NEW DELHI;
August 3, 1995

Sravana 12, 1917(S)

KAMAL CHAUDHRY,
Chairman,
Committee on Public Undertakings.

PART—A

CHAPTER I

ROLE AND OBJECTIVES

A. Historical & Objectives

1.1 Mazagon Dock Limited (MDL), was acquired by the Government of India in 1960. It was decided (September 1962) to enlarge facilities in MDL with a view to building warships and to cater to the increasing repair work of the Indian Navy and Merchant Fleet. In 1977, MDL entered the area of construction of offshore platforms and equipments for Oil and Natural Gas Commission (ONGC) to help the country to achieve self-reliance in this area. The Company set up in 1983 a Pipe Coating Plant in Mangalore for coating sub-sea pipelines. MDL also undertook in 1980 a project for construction of submarines.

1.2 At Bombay in the State of Maharashtra the Company is having four separate yards at adjacent locations, *viz.* (i) North and South Yard for shipbuilding and shiprepair work, (ii) East Yard for construction of submarines (iii) Offshore Yard for fabrication of offshore platforms and other offshore structure (iv) Offshore services to transport and install the platforms in the high seas and provide other offshore services. Besides the above yards, the company has established two more yards, one at the Nhava in Raigad District of Maharashtra and the other at Managalore in the State of Karnataka to undertake fabrication of offshore platforms and other structure.

1.3 Company is engaged in the construction of Naval Ships, Submarines, Coast Guard Ships, Merchant Vessals Fabrication of offshore platforms, Jack-up Rigs, Transportation and installation of platforms, pipe coating, laying of sub-sea pipes, diving and vessel management services besides ships repairs and general engineering work.

1.4 The main objectives of the Company are to carry on business of docks, wharves, jetties, piers, workshops, warehouses, ships, ship engineers, dredgers, tugs and barges, ship breaking, ship repairing, freight contracting and carriage by land, sea and air.

1.5 When enquired whether the company had been able to fully achieve its objectives, the Department of Defence Production and Supplies replied in a written note:

"The main objective of MDL was to contribute towards indigenous manufacture of warships. In that objective it has succeeded to an appreciable extent............ Of course, a commercial company, that MDL is, must be able to respond to changes in the market and in the framework of economic policies. Its role has to continuously evolve in step with the changing time. As a principal manufacturer of warships the role of MDL is wholly intact. In fact, keeping in view the requirements of the Indian Navy, it will be called upon to manufacture ships in substantial numbers and of enhanced sophistication. In the offshore business, major changes are occurring in the policy framework, MDL has to adjust to these changes and has to retain for itself as substantial a role as may be possible. The necessary technical and managerial inputs have to be organised so that work opportunities may be captured."

1.6 When asked whether Government have at any time felt the need for any change in MDL's objective particularly keeping in mind the changed economic scenario, the Ministry intimated in written replies:

"The objectives given in the MOU are well formulated and set down the directions of endeavour of the company. These are revised from year to year keeping in view the changes that occur in the scenario."

B. MOU and the Objectives

1.7 It has been stated that from 1991-92 onwards. MDL started entering into Memorandum of Understanding with Department of Defence Production and Supplies. Asked to state the performance of the company against the MOU contracts, the CMD, MDL stated during evidence:

"If we go by the rating, we got very good ratings in the first two years and even good rating in the last year also. This year, I think, we are heading for a very good rating again as far as the overall analysis is concerned."

When the Committee wanted to know how far MDL has been able to achieve the para-meters which have been contained in the MOU, the CMD stated during evidence as follows:

"............I will take the performance for the year 1994-95. We have one criteria value of production—where our committed value is 551 for this year and there will be a shortfall in this value of production because of the non-supply of the Russian weapons and systems. We have, by and large, met our VOP requirements barring the Russian equipment. As you are aware that after the split of USSR in 1992 and the democratic process that had taken place in 1992, there was a total upset in their delivery schedules. All our orders were on credit. These had to be re-converted to a new type of credit which our Prime Minister did negotiate. Even after the new credit terms were negotiated, the Russian Government did not have the money to provide credit.

So far factories never got the money. The non-availability of equipment has affected the production."

1.8 When asked specifically what help the MDL was getting from the Government, the CMD of the Company stated during the evidence:

"It helps in getting the equipment from CIS countries. As far as the commitment is concerned, I do not think any definite commitment could have been given by the Government when it was being done at such a high level and when the conditions were not fully known."

1.9 As per the MOU signed for 1993-94, some of the Government's obligations were stated to be:

1. To assist in the continued supply of materials, equipment and services as required for shipbuilding programme from the Republics of the Commonwealth of Independent States.
2. To assist in formulation of policy regarding export benefits for shipbuilding industry.
3. To assist in effecting improvements in the existing Government policy for "Deemed Export" benefits in respect of company's products and services.
4. To assist in the early finalisation of Government decision regarding production of (follow-on) Submarines for optimum utilisation of East Yard facilities.

1.10 When asked whether these obligations have been fulfilled by Government, the company informed the committee in a post evidence reply that Export benefits for shipbuilding had not been announced by Government. There had been no change in existing policy for "Deemed Export" benefits and no significant progress had been achieved in regard to the Government decision on follow-on submarines. Also, orders for SI and B.E. sand platforms could not be bagged.

1.11 When asked from the Ministry as to the reasons for the Government's inability to provide satisfactory assistance in the above mentioned areas, the Department of Defence Production and supplies informed in a written reply:

"..........Because of the great changes that had occurred in the former Soviet Union serious problems had arisen in the flow of product support for the ships under construction at MDL.............. After detailed discussions with the production enterprises and the Russian Government authorities we came to the conclusion that no progress would be possible unless the contracts were converted to a cash and carry arrangements, with a substantial up front advance. Most of the contracts were, therefore renegotiated and have been converted to a cash arrangement, after taking advantage in price on account of conversion from credit to cash and for payment of upfront advance. Some additional quantities of equipment have also been ordered. Now the position is that the equipment required for all the ships under construction had been ordered. We expect that these contracts will now be implemented because Russian enterprises will be getting money for their inputs from the advance paid by us and will not be depending on budgetary support from the Russian Government. A three monthly joint monitoring arrangement has been agreed to with the Russians and, through it, we propose to verify the progress made by all prime manufacturers."

The Ministry also informed in the same written reply that:

"The Shipping industry is under the purview of the Ministry of Surface Transport. In July 1993 that Ministry had submitted a proposal to the cabinet for the grant of 30% subsidy to ship manufacturers for constructing ocean going ships for Indian ship owners. Even at that stage the Department of Defence Production had proposed that the subsidy should also apply to the ships made for exports. The decision for ships manufactured for export was not taken at that stage. We have since reiterated our recommendation and we understand that the Ministry of Surface Transport is considering it."

Regarding Deemed Exports Benefits, the Ministry informed as under:

"The refund of terminal excise duty will not be available to MDL for supplies made on the basis of nomination by ONGC or in projects financed by ONGC from their own funds or even Government plan funds. This will put MDL to a price squeeze. The matter was taken up with the Ministry of Petroleum and Natural Gas. They have agreed to continue the concession for order placed until 31 March, 1994. The problem still continues for the orders that may be placed in the future. To that extent the issue will continue to be pursued."

C. Corporate Plan

1.12 An outline Corporate Plan was drawn up by the Company in May, 1993. The Committee wanted to know whether it was approved by the Ministry. The Company informed the Committee in a written reply as under:

"The outline Corporate Plan was forwarded to the Ministry on 31st May 1993 and was also approved by the Board of Directors at their Board Meeting held in June 1993 Government approval was awaited. The outline Corporate Plan contains Strength, Weakness Opportunities and threat analysis (SWOT) and has identified thrust areas for diversification and core activities to be reinforced. The plan proposal expects a net increase in VOP of 5% per annum. It also briefly covers investment and disinvestment proposals. In the changed economic scenario with budgetary restrictions on our Principal customers *viz.* Indian Navy, Coast Guard and ONGC, the Plan envisages sustenance of the Company's growth through diversification based on its core competencies into the fields of Petro-Chemical and Fertilizer Plants, Specialised Steel, Aluminium and Titanium fabrication and increased shiprepair services. It also proposed to examine fresh areas such as submersibles, underwater technology for sea-bed construction for oil exploration etc."

1.13 In this connection, the CMD of the Company further elaborated during evidence:

"The corporate plan was approved by the Board and sent to the Government. The Government has asked us now to further revise it. They have not approved it. They have asked us to take the present scenario into consideration and revise it... Sir, we sent it on 31st May, 1993... We are going ahead based on Board's approval. But the Government has not approved it. When the plan came up for approval, they asked us to revise it."

1.14 Asked when was the last plan sanctioned by the Government, the CMD informed that it was in the year 1978.

1.15 When asked about the reasons for reconsideration of the plan, the Secretary, Department of Defence Production and Supplies stated during evidence as follows:

"The company itself felt that it should consider it. So the Board of Directors recalled it from the Ministry and they are still considering it."

1.16 When the Committee drew the attention of the Secretary towards the disadvantages due to delay in finalisation of the plan, he said:

"What you are saying is absolutely valid. In the pursuit of an ideal plan, we should not go on postponing our actions. I can assure you that non approval of the Plan will not stand in the way of MDL exercising its initiative. In fact the Board has taken the decision of setting apart some capital funds so that wherever opportunities arise the appropriate investments are made. We would see to it that no initiative is withheld."

1.17 The Ministry also informed the Committee in a written reply that it was not felt that the time being taken in the finalisation of the corporate plan would stand in the way of the company's initiatives. The matter in any case come up for an extensive discussion while settling MOU for the year when the approaches of the Company are fully clarified. The policy changes in the offshore oil sector were still in a state of flux and will take a while to be stabilised. It would be prudent to watch the further developments and adjust the company's approach accordingly.

CHAPTER II

DEVELOPMENT AND PROJECTS

A. Cost overruns on various Projects

2.1. It has been stated by Audit that with a view to augment the capacity for ship construction and diversify into the field of offshore structure, MDL undertook the following projects from 1976 onwards:

(Rs. in crores)

	Name of the Project (With month of sanction in brackets)	Original estimated cost	Revised estimated cost	Amount of Govt. sanction	Actual cost as on 31st March 94
1	2	3	4	5	6
1.	North Yard expansion phase II (Nov. 1978)	3.5	7.24	3.50	7.00
2.	Setting up of facilities in Alcock Ashdown Yard for manufacture of offshore platforms	7.16	9.90	7.16	22.19
3.	Setting up of a Yard at Nhava for manufacture of offshore platforms (October, 1980).	13.50		13.50	24.21
4.	Devp. of facilities for transportation and installation of platforms (March, 1981).	29.75	39.61	29.75	39.61
5.	Augmentation of facilities for transportation and installation of platforms (September, 1982) (but foreclosed)	37.85	75.00	37.85	41.42
6.	Setting up of SSK project (1980)	12.75	44.70	41.23*	39.62
7.	Pipe coating plant at Mangalore (Feb., 1993)	8.58		8.58	8.27
8.	Setting up of facilities at Mangalore Yard for manufacture of offshore platforms				29.56

1	2	3	4	5	6
9.	Construction of Diving support vessel				23.49
10.	Heavy Module shop at Mangalore (Year of sanction not available)				0.80
	TOTAL	113.09	176.45	141.57	236.17

*Actual Cost.

2.2. It is apparent from the table above that there has been cost escalations in almost all the projects. Apart from the cost escalations there was time overrun also on various capital projects undertaken by MDL. In North Yard expansion phase II there was a delay of 6 years, on setting up of facilities for manufacture of Offshore platforms in Alcock Ashdown Yard as well as at Nhava Yard delay of 8 years took place. In rest of the projects also delay ranged between 1 to 7 years.

It has also been brought out by Audit that out of the 10 projects, 3 projects were undertaken without Government sanction.

2.3. When asked from MDL as to why the three projects were taken up without Government approval, the company informed in a written reply:

> "The projects *viz.* "Setting up of Facilities for Fabrication" and "Constructing Heavy Module Shop" at Mangalore were individually falling within the approving powers of the Management and as such were not referred to Government for approval. The construction of DSV was taken up as a revised requirement against the sanctioned items and was initially included for *ex-post facto* approval (in 1987) as a part of the revised cost estimate of the main project "Development of facilities for transportation & installation of Platforms". Government had however, directed to delink the "DSV Requirement" from the main project and the revised proposal for consideration by PIB was drawn (in 1989). Since Navy has shown interest, at the same time, for acquisition of the vessel, further action for obtaining sanction was kept pending."

2.4. On being enquired what action the Ministry have taken in this regard, the Secretary of Department of Defence Production and Supplies stated during evidence:

> "..............in fact we are already in corresponding with the Company. We shall take up each of these cases on its merit. I think within the next one or two months we shall be able to take a final view on all these cases."

2.5. When the Committee specifically asked whether this happened due to inadequate monitoring system, the Secretary said:

"It should not happen because two of our officers are also on the Board, including an Additional Financial Advisor. I think after 1990 it has not happened also. All the cases mentioned in the CAG's report occurred between 1984 and 1990, and that is the period when a CMD and Director (Finance) were removed."

2.6. On being asked about the system of monitoring in vogue to monitor the ongoing projects the company stated in a written reply:

"Ongoing projects are currently monitored through quarterly report, as incorporated in the MOU Report. Quarterly Report against PERT Estimates for all major projects were rendered to Administrative Ministry and Additional Reports were sent to the Ministry wherever required by the Ministry e.g. Setting up of SSK Project which was being reviewed every six months by PMB chaired by Secretary (DP&S)."

2.7. When enquired as to the reasons for time overruns in spite of the progress of the projects being constantly watched by the Ministry, the Committee were informed by the Ministry in a written reply:

"All those projects related to the period between the mid 70s and the mid 80s. It is true that they entailed time overruns. In many cases the time overruns were of an unacceptable magnitude. At this stage it may be difficult to precisely pinpoint the weaknesses in the system of monitoring which prevailed at that time. I should, however, like to explain the general practice of monitoring as it obtains now. For major projects, such as the SSK, there is a project management board (under the chairmanship of an officer of the rank of Secretary) and a steering Committee at the functional level. Such bodies exist not only for the capital investment projects but also for major construction activities. These bodies meet at regular intervals, get a feedback from the company and exercise strong and continuous supervision.

The Government directors on the boards of the companies have been instructed to keep a close watch on the projects under implementation and to keep the Government informed.

At the level of the company MDL has formulated a streamlined procedure for sactioning, incurring and monitoring expenditure on capital projects which was brought into force from 1 April, 1991. The procedure specifies responsibility at the various levels."

2.8 On a query as to why no such streamlined procedure could be adopted before 1991, MDL stated in a written reply as under:

"The Manual prepared in 1991 was mainly a compilation of the various orders/instructions issued from time to time as stated in the foreword in the Manual. The aim was to consolidate and clarify all existing orders and instructions."

2.9 When asked categorically whether *ex-post facto* sanction of Government has since been taken by MDL for the projects undertaken without Government's approval the Ministry stated in a written reply:

"There are ten cases listed on the table (Para 3.1). That at serial No. 6 (setting up of SSK Project) stands covered by a revised Government saction. The project at serial no. 5 (Augmentation of facilities for transportation and installation of Platforms) should also be deemed to be so covered because its foreclosure is with a proper Government approval. Many of the other projects are such that when the time for issue of revised sanction came, they got covered under the enhanced sanctioning power of the company. A view was, therefore, taken in the ministry not to issue any revised sanction. We feel that this view is not quite appropriate. Once a project is sanctioned by a particular authority, for its later enlargement by way of additions to content of cost overruns it must come back to the same authority for the revised sanction even if, in the meanwhile, it has got covered within the enhanced powers of the lower authority. Going by that approach we shall examine all such cases and take the appropriate decisions within the next one or two months. The examination will include also the cases in which there have been attempts at splitting. The cases concerning the Derrick-barge Mahavir and the Diving support vessel will also be finalised, particularly keeping in view the progress in their disposal.

2.10 The Committee wanted to know the action taken by the Ministry to ensure that projects were not split into parts in order to avoid sanction. The Ministry stated in a written reply:

"It is indeed most objectionable if any authority splits a project into parts so as to accommodate them within his own sanctioning powers. In the cases brought out by CAG in which splitting was attempted, we have decided to treat the sanctions as invalid."

B. Individual Projects

(i) *North Yard Expansion Phase-II*

2.11 It has been stated by Audit that MDL decided to fabricate a crane required for the expansion of the North Yard with foreign technical know-how. The work was undertaken in MDL to use the skill available in the MDL but in actual practice it was found to be deficient and the work had to be sub contracted. Major accidents occurred during erection of the crane and it was finally commissioned in March 1988 after a delay of 5 years. The project was completed at a cost of Rs. 7 crores against original estimate of Rs. 3.5 crores.

2.12 The Committee desired to know on what premises it was considered by MDL that they were capable of manufacturing the crane. The Company replied in a written note:

> "MDL had previously manufactured 4 small capacity level luffing cranes during the period 1968—72, which are still in use in the Yards. Hence it was felt to be within MDL's manufacturing capability to manufacture this particular crane. As the crane was being manufactured to the design of MANN (West Germany), it was considered to be the latest technological standard of that type."

2.13 When the reasons for the increase in the cost of the Project were asked, the Company has informed through a written reply:

> "The increase in cost from 350 lakhs (original estimate) to Rs. 700 lakhs was mainly due to following reasons:—

1. The element of overhead expenses debitable to project cost as per the accounting policy followed in respect of internally manufactured capital assets had not been taken into consideration at the time of original estimation. Since the Accounting Policy changed w.e.f. 1986, this was added to the cost.
2. Increase in cost of MDL, fabrication jobs and overhead on labour material and OPU, which could not be forecast accurately as detailed drawings were not available when the estimates were drawn.
3. Increase in taxes, duties etc. from 20% as estimated to 30% actually paid.
4. Additional Supervision Charges by MAN (I), MAN (WG)—(German Companies) and ABS due to rework/modification etc.
5. Purchase of additional items (less insurance compensation) due to accidents and rework over and above the contingencies provided in the approved estimate.

(ii) *Yard at Nhava for manufacture of Offshore Platform*

2.14 It has been stated by Audit that due to discovery of new offshore oil wells by ONGC. Government sanctioned in 1980 a second yard at Nhava Sheva with a capital outlay of Rs. 13.50 crores. Against Government sanction of Rs. 13.50 crores, an amount of Rs. 24.21 crores has been spent on the project mainly due to cost escalation claimed by ONGC. Development of facilities at Nhava is complete but the expenditure on the yard has yielded negligible returns. The present installed capacity of the Yard is 1.77 Equivalent Well Platforms i.e. 6566 MT. MDL informed the Committee in a written reply that the output of Nhava Yard during the years 1991-92 to 1993-94 was 3106 MT, 3951 MT and 628 MT.

2.15 The Committee enquired whether MDL took up the matter with ONGC against the escalation in price of land. While replying in the affirmative the company stated in a written reply:

> "Yes, MDL & ONGC officials had a series of meetings at various levels and the matter was settled in the inter-Ministerial meetings. The total expenditure on land, development and quay wall was worked out to Rs. 1305 lakhs."

2.16 When asked for the reasons for the increase in cost from 13.50 crores to Rs. 24.21 crores the Company intimated in a written reply that the reasons *inter-alia* were delay due to delay in site handing over, agitation by local villagers, increase in quantity of rock dredging etc. Also, the cost of site development in MDL area went from Rs. 5 crores to Rs. 19.82 crores (later settled at Rs. 13.05 crores) due to escalation, additional cost for environmental safeguards and settlement of other disputes/claims of ONGC's contractors.

In addition to this they informed that some additional facilties procured based on the production situation over a period of time through annual Capital Budget approved by the Board with budgetary support from Government were also included in the cost of the original project.

2.17 When the Committee asked from the Ministry the reasons for such a low capacity utilisation at the yard the Secretary of the Department said during evidence:—

> "There are the hazards of a single buyer and a single seller situation. ONGC is the only organisation from whom we could have received orders. We have not received orders. We have been trying to see whether somebody else in the country has been capturing orders. I am in a position to tell that it is not so. The only companies which have the capacity to do offshore fabrication even today are MDL, HSL, Burn Standard and L&T. L&T does upper decks. It does not do jackets etc."

The witness further said:

> "The fortunes of fabrication facility in MDL will sink or float with the level of work which the ONGC is able to give or which MDL is able to take as a sub-contractor from other companies which will be involved in offshore oil business."

2.18 Clarifying further on this point, the Ministry informed the Committee in a written reply:

> "The facilities at Nhava were created keeping in view the size of the offshore business which MDL had in sight. That has not materialised and utilisation of the facilities has declined over the years. The Company is seeking to enhance the utilisation of these facilities through alternative approaches. It is understood that negotiations are in an advanced stage with some firm for using a part of the land as LPG terminal that arrangement is expected to offset the overhead expenditure to some extent. The

remaining part of the land and facilities will still remain available for the fabrication work which the MDL may be able to obtain."

(iii) *Development of facilities for transportation and installation of platforms:*

2.19 It has been also brought out by Audit that a project for development of facilities for transportation and installation of offshore platforms was sanctioned by Government of India in March 1981. The project for various facilities cost finally Rs. 39.61 crores against Rs. 29.75 crores estimated (excluding Rs. 4 crores for one tug-cum-supply vessel) involving foreign exchange of Rs. 25.75 crores.

The Company also constructed a stinger at a cost of Rs. 1.10 crores which was never used for pipe laying work. Though the derrick barge is capable of undertaking underwater pipe lying work, the barge was never utilised for it. In Feb. 1988, it was found that for making the barge capable of pipe laying again, additional investment was required. Pending decision on this, stinger could not be utilised.

2.20 The Committee asked the reasons for the increase in cost of the project. Stating the reasons, MDL informed the Committee in a post evidence reply as under:

> "Main reasons for increase in cost were change in scope necessitated during progress of the project, under estimation of costs and time overrun. There was no deliberate omission of any equipment required for the project in project estimates. The second hand barge available did not have certain items *viz.* pile hammers, crawler cranes, stinger, pneumatic clamps etc. which had to be procured separately. Second hand Launch barge as envisaged at Rs. 1.50 crores was not available, hence a new launch barge was constructed at a cost of Rs. 6.24 crores. As the Tug-cum-supply Vessel was the first of its kind built by the Company, delay the cost overrun could not be avoided, and cost of overhead due to change in accounting policy in 1986 was not provided for in the original estimate."

(iv) *Augmentation of facilities for transportation and installation of platforms*

It has been reported by Audit that against Government sanction of Rs. 37.85 crores for construction of a Derrick Barge and Anchor Handling Tug in September 1982 an expenditure of Rs. 41.68 crores was incurred before its foreclosure in December, 1988. The cost of the project would be around Rs. 63.25 crores was known to the Management as early as in April 1983. The revised estimated cost was placed at Rs. 75 crores in December 1985 as the original estimate did not cover a number of important items. Net loss due to foreclosure of the project was Rs. 13.96 crores as on 31.3.1992.

2.22 The Committee enquired from the company whether any project report was prepared and Government approval obtained for the same and was the project really needed by MDL for augmenting its capacities. The Committee also enquied whether any action was taken against the officials responsible for the omission of many important items required for operation of the project in the original estimates.

2.23 The Company informed the Committee in a written reply:

"The project was approved by Government. The officials at the help of the affairs during this time have either retired or have been removed from the company's service. This project has since been foreclosed, as economically univable, under orders of Government of India, Ministry of Defence."

2.24 The Ministry also informed the Committee in this regard through a written reply:

"The Services of Shri N.K. Sawhney who was the Managing Director of MDL from 1.4.82 and CMD from 1.4.84 and that of Director (Finance) Shri P.K. Ramanujam were terminated on 20.12.85 for lapses in implementation of projects including that of DB-II.

2.25 When the Committee pointed out that the fact that the project could not be completed within the sanctioned cost was known to MDL as early as in April, 1983 and asked whether this was brought to the notice of the Ministry, and what action was taken by the Ministry at that time, they were informed by the Ministry in a written reply:

"This fact does not seem to have been brought to the notice of the Ministry. Surely, the then CMD and Director (Finance) were privy to it and action against them has been taken."

(v) *Setting up of Facilities for SSK Project in East Yard*

2.26 It has been stated by Audit that a project for construction of 4 submarines with an outlay of Rs. 12.75 crores was sanctioned by Government in July, 1980. The actual expenditure on the project upto March, 1994 was stated to be Rs. 39.62 crores. Government placed order for two submarines on firm basis and for two, option was to be exercised by 1985. The Government did not exercise the option.

They have also stated that in the meantime, M/S. Engineers India Limited has been appointed to conduct a feasibility study for diversification and utilisation of East Yard facilities for Hydrocarbon Industries.

2.27 When enquired whether M/S. Engineers India Limited has completed the feasibility study for diversification, MDL informed the Committee in a written reply:

"M/S. EIL had made a presentation on the feasibility of diversification and utilisation of East Yard facilities for Hydrocarbon Industries in mid 1993. Subsequently, MDL had got registered as a vendor with

EIL for construction of Pressure Vessels at East Yard. East Yard had since constructed 3 Pressure Vessels as part of ONGC's order placed on MDL (Offshore Division). MDL (EY) had also recently quoted for construction of Pressure Vessel required by Gas Authority of India, the outcome of which will be known by February, 1995.

2.28 When asked why Government did not exercise option for the other two submarines the Ministry stated in a written reply:

"The Government had initiated steps for exercising its option for the other two submarines and offers for the submarines/materia packages were invited from the foreign collaborator company. However, the discussions could not progress as the prices quoted were found to be exorbitant when compared with those of ready built submarine/material package quoted by the company earlier. Due to the inflexibility in the stand by both the sides talk were discontinued subsequently."

2.29 They also informed the Committee in a written reply that out of the facilities created at the cost of Rs. 39.62 crores except for plant and machinery worth Rs. 12 crores, balance facilities were being utilised for ship construction and other diversification projects.

(vi) *Construction of Diving Support Vessel*

2.30 Audit has also pointed out that MDL constructed a Diving Support Vessel at a cost of Rs. 23.36 crores against Government sanction for construction of a Tug-cum-supply Vessel at a cost of Rs. 4 crores. No feasibility study was conducted by MDL, specially before commencing construction of the DSV, on the plea that ONGC had all along been employing foreign vessels. The Government did not approve the construction of DSV but also did not give any countermanding orders to MDL.

2.31 The Committee enquired whether any responsibility was fixed for converting the Government sanction to construct a Tug-cum-supply Vessel into a Diving Support Vessel without any feasibility study for its use. It was intimated by the Ministry in a written reply:

"The entire matter was enquired into by a Joint Secretary and an Additional F.A. in March, 1993. They found that the following were the irregularities.

(i) The company had made two changes in the scope of the project without obtaining prior Government approval.

(a) A new barge was constructed as against the sanction for purchase of the second hand barge.

(b) Non construction of the second Tug-cum-supply Vessel included in the sanctioned project and meeting the operational requirement by charter hire and construction of a diving support vessel.

(ii) the company incurred excess expenditure without obtaining the Government approval."

2.32 The Committee was stated to have concluded that while, no doubt, there had been irregularities, there do not appear to have been any malafide intentions. The initial estimates prove to be unrealistic particularly because of lack of experience of such work. The decision regarding changes in the scope of work had been taken at the top management level. Although the changes involved cost overruns, they did not lead to any wasteful expenditure or other adverse impacts on the opeations. The Committee noted that with the promulgation of the streamlined procedures in April 1991 MDL had ensured that such irregularities would not recur in the future. It also noted that the officers who had been at fault were no more in the service of the company. The Committee recommended that the revised cost estimates of the project may be approved.

The findings of the Committee were conveyed to the Planning Commission. It was proposed to deal with the project in two parts. The case of the diving support vessel (Nireekshak) would be considered separately, after its disposal to the navy is finalised which is now at an advanced stage. The remaining part of the project will be processed for sanction by the Government.*

2.23 The Committee asked how could it be said that there was no malafide intention when the irreqularities have been established. The Secretary, Department of Defence Production and Supplies stated in evidence as follows:

> "This was the view expressed by the Committee which went into the matter Government has to take a final view on it."

*At the time of factual verification, Mazagon Dock Ltd. vide their letter No. CH/IA/COPU/92 dated 9.6.95 has informed the Committiee since then the sale of DSV Nireekshak has taken place on 24.3.1995 and the value is Rs. 1,743.39 lakhs.

CHAPTER III

PRODUCTION PERFORMANCE

A. Capacity Utilisation

3.1 With a view to augment the capacity for ship construction and diversify into the fields of offshore structures, MDL undertook various projects between 1976 and 1983. As envisaged in its Corporate objectives of 1978, it also undertook construction of submarines etc. The table below depicts the actual production *vis-a-vis* planned production of MDL in ship construction, offshore activities and ship repairs and Gen. Engineering during the year 1991-92 to 1993-94.

(Rs. in Crores)

Year		Ship Construction	Offshore activities	Ship Repairs & Gen Engg.
1991-92	Planned	189.12	101.18	6.37
	Actual	189.28	85.86	10.40
1992-93	Planned	194.40	223.94	8.30
	Actual	294.43	187.16	16.47
1993-94	Planned	217.03	321.12	13.51
	Actual	233.48	288.77	21.78
1994-95	Planned	312.89	232.54	15.11
(Provi-sional)	Actual	238.78	250.85	28.90

*(The shortfall in value of production in ship construction was mainly due to non-receipt/delay in receipt of Russian equipment for P-15 ships)

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*This information was furnished by Mazagon Dock Ltd. at the time of factual verification vide their letter ND.CH/IA/COPU/92 dated 9.6.1995)

3.2 The capacity utilisation during 1991-92, 1992-93 and 1993-94 in respect of Hull construction, Assembly shop and slipways, drydocks etc. has been as follows:

	1991-92	1992-93	1993-94
Hull const.	28	35	33
Assembly shop	42	29	38
Slipways	70	79	45
Drydocks	47	65	97
Wet basin	87	84	76

3.3 The Committee have been informed by MDL that it has not received orders from the Navy for ship constructions for the last eight years. The capacity utilisation of various activities of MDL in terms of ship unit during the years 1991-92, 1992-93 and 1993-94 was 79%, 67% and 81% respectively.

3.4 When asked whether the company reviewed the reasons for low capacity utilisation, the Company stated in a written reply:

> "Internal Management and Board of Directors are periodically reviewing the capacity utilisation of MDL both for shipbuilding, shiprepairs and for offshore Division operations. In addition to such traditional work, we are also actively convassing for orders for diversified activities like manufacture of Pressure Vessels, Sub-Contract for Ordinance Factories etc."

3.5 *On being enquired what steps Ministry was taking to help MDL to* improve their capacity utilisation, the Secretary of the Department said during evidence:

> "Broadly speaking in ship building there are two sides. One is the fabricating side and the other fitting out. As far as fittings out side is concerned MDL will have no problem in the coming year. We have sufficient work. The problem is going to be on the fabrication side. Unless new projects come we will not have sufficient work."

3.6 The Committee wanted to know if the matter regarding low capacity utilisation figured in any of the appraisal meetings with the Ministry and whether any directions were issued by them. The Company intimated in a written reply:

> "The matter regarding low capacity utilisation was discussed at the Apex Level meetings in the Ministry under the Chairmanship of

Secretary (DP&S), in which Senior members from Navy, Coast Guard, Petroleum and Natural Gas and ONGC participated. Our Adm. Ministry used to appraise and give directions to Navy and Coast Guard in the placement of orders with Defence Shipyards on a priority basis based on availability of Capacity. Adm. Ministry have also taken up with ONGC for placement of orders for offshore Platforms on nomination basis with MDL, but this has met with very limited success."

B. Offshore activities

3.7 Audit has brought out that as per a Government directive MDL diversified into the field of fabrication of offshore platforms for ONGC from February 1977 at its Alcock Yard and later in its Nhava Yard and Mangalore yard. As per decision taken by the Committee of Secretaries in 1983, MDL was to be provided with continued order flow from ONGC. However, the flow of order from ONGC has been erratic.

3.8 The table below give the capacity, targeted production and actual production during the years 1989-90 to 1993-94.

(i) Alcock Yard, Bombay

	Capacity	Targeted Production	Actual Production	Percentage of Production to	
Year	(Qty. in tonnes)			Capacity	Targeted Production
1	2	3	4	5	6
1989-90	12000	4255	4091	34	96
1990-91	12000	3113	936	8	23
1991-92	12000	6804	4654	39	68
1992-93	7905	7310	5314	67	73
1993-94	7906	3053	3053	39	100

(ii) Nhava Yard, Bombay

1	2	3	4	5	6
1989-90	9800	3230	1743	18	54
1990-91	9800	1957	130	1	7
1991-92	9800	4589	3139	32	68
1992-93	6566	2615	3951	60	151
1993-94	6566	628	628	10	100

(iii) Mangalore Yard

1	2	3	4	5	6
1989-90	12000	4635	3825	32	83
1990-91	12000	4576	1163	10	25
1991-92	12000	3412	2334	19	68
1992-93	9435	7948	6796	72	86
1993-94	9435	3156	3063	33	97

3.9 When asked what are the reasons for keeping the targets of production far below the capacity built up during the years 1989-90 to 1993-94 and even after keeping the low targets of production why the same could not be achieved except during last year in Alcock Yard and last two years in Nhava Yard, the company informed the Committee in a written reply:

> "Targets for capacity utilisation are based on the orders on hand and expected orders. The work load during these period was inadequate to plan for full capacity utilisation. The targets have had to be revised downward on non-materialisation of expected orders *e.g.* BE & SI Sand projects.
>
> Non achievement of Targets was mainly due to the delay in respect of anticipated orders and production constraints faced due to delay in receipt of critical materials/equipments, distruption in movement of materials due to transporters' strike and sub-contractor labour problems at Mangalore Yard and also due to delay resulting from indigenisation of critical equipments."

3.10 When asked specifically about the low capacity utilisation in offshore division, the CMD of the company stated during evidence:

> "Sir, the capacity utilisation in offshore is nil at Mangalore, only four at Nhava and 40% at Alcock at the moment. With the completion of existing work at Alcock by March, 1995 this will come to zero.
>
> As far as not receiving orders from the ONGC is concerned, this matter was brought to the notice of the Prime Minister. I have taken up the matter with the Chief Minister. The Chief Minister has written to the Prime Minister last October and sent copies to Minister of State for Petroleum."

3.11 Asked to state whether there was any possibility to increase capacity utilisation of offshore facilities, the Secretary Department of Defence Production and Supplies said during evidence:

> "I see no way whereby all the facilities can be used. I cannot see how offshore facility will be made use of unless adequate work flows in MDL."

C. Liquidated Damages

3.12 It has been brought out by Audit that in respect of 39 platform structures delivered between April 1984 and December 1987, the delays ranged between 34 days to 647 days and MDL paid liquidated damages of Rs. 3.46 crores. In respect of 12 platforms delivered till 1991-92, delay ranged between 8 to 22 months and had attracted Liquidated Damages of Rs. 36 crores. In another case on executing 4 major projects for supply and installation of process platforms and Water Injection System MDL paid liquidated damages amounting to Rs. 5 26 crores (after waiver of Rs. 19.10 crores).

3.13. The Committee wanted to know about the factors responsible for delays in deliveries necessitating payment of huge liquidated damages and the steps being taken by the Company to avoid such delays. MDL stated in a written reply:

"The main constraint for timely delivery of the Decks has been non-receipt of major equipments ordered on indigenous vendors. Following Steps have been taken for improving the deliveries:—

(i) Standardisation of equipment design.
(ii) Advance tender action for placement of orders and continuous monitoring with the vendors.

This has helped considerably in reducing the delays in deliveries, particularly for NLM Platforms and HSA/HSB Projects.

Neelam series platforms and HSA Platform and HSB jacket have been delivered almost on schedule. MDL is confident of improving delivery schedule further thereby avoiding payment of L.D. on future orders."

D. Pipe Coating

3.14 The capacity utilisation of the pipe coating plant at Mangalore against planned utilisation was 53,71,110,19, 35,43 and 47 per cent during the years 1983-84 to 1989-90 and the plant remained idle thereafter. The operation of the plant resulted in a cumulative loss of Rs. 13.04 crores. Before setting up of the plant, Ministry of Petroleum informed Ministry of Defence that ONGC would not assure sufficient orders to MDL for full capacity utilisation as in their opinion orders would depend on timely delivery and competitiveness of price quoted by MDL.

3.15 Asked when the Ministry of Petroleum and Natural Gas had not assurd sufficient orders to MDL for full capacity utilisation what efforts were made to get orders from other sources to ensure planned utilisation the company stated in a written reply:

"MDL is participating in almost all tenders floated by ONGC for pipe Coating work. MDL's offer is not likely to be more competitive for works outside India, due to freight costs."

3.16 When asked what efforts were being made to make the plant a viable unit, the Company stated in in a written reply:

"Possibilities of shifting the plant to economically advantageous location or leasing out of the plant are some of the measures under consideration at present. The workload in this respect is very limited at present."

E. Submarines

3.17 Audit has brought out that MDL commenced construction of first submarine in January 1984 and second in September, 1984. Estimated construction period was 42 months, which was revised to 81 months in April, 1986. First submarine was commissioned in February 1992 (*i.e.* 97 months) and the second in May 1994 (*i.e.* 116 months). Actual cost on 31.3.1994 was Rs. 377.71 crores against original estimated cost of Rs. 154.16 crores. (In contrast Government have paid Rs. 172.48 crores for the two sail-away submarines contracted in November 1981).

3.18 The Committee enquired about the reasons for the escalations in cost and time in construction of submarines. MDL informed in a written reply:

"The increase in costs is due to exchange rate variations, increase in foreign subcontractor specialists rates, payment of Income Tax on remittance for services rendered by foreign subcontractor specialists, additional manday requirements emerging out of training on the job, normal price escalation including the extended period and due to revised construction schedule and the consequential price escalation.

The time overrun was primarily due to problems in mastering the advanced technology and stringent Quality Standards involved in manufacturing modern hightech submarines. It may please be noted that such a task was being undertaking indigenously for the first time. In addition, similar problems were faced by a number of indigenous firms to whom certain jobs had been subcontracted by MDL."

3.19 When asked whether Ministry at any point of time reviewed the reasons for time and cost overrun, they stated in a written reply:

"The time and cost overrun have been examined in the various meetings of the Management Board Projct Management Board. The time overruns have been clearly differentiated on account of delays in NHQ, delays by foreign suppliers, force majoure conditions, and those attributable to MDL. That falling in the last category was not found to be sizeable enough for the imposition of LD for the first submarine. For the second submarine the matter has been reviewed by the PMB in its meeting held on 21 February, 1995 and a decision is being taken by the Government. Similarly, the cost overruns have been analysed cause wise. Based on it the Department of Defence will take up the issue of revision of cost and levying of LD appropriately."

3.20 The Committee wanted to know whether any of the equipment for which the warranty period had expired needed to be repaired or replace before installation in the submarines and the total cost of such repair/ replacement. The Company stated in a written reply:

"Warranty virtually for all equipment had expired prior to their installation and subsequent trials. There was, however, hardly any case where such an equipment had to be repaired before installation."

3.21 When asked who would be responsible if any equipment did not function properly, the company informed through a written reply:

"Normally, during the warranty of the equipment, the equipment manufacturer would be responsible. After the warranty period, the shipbuilder is required to ensure that any defects in any of the equipment are made good and to the expenses incurred are chargeable to be cost of the ships. MDL would repair the equipment found defective after installation and repair cost will be booked to the cost of the project. This approach was considered as a cheaper option by PMB (Project Management Board), than to restore the warranty at exorbitant cost."

3.22 The Committee asked from the Ministry whether it was not desirable that the equipments must be installed within the warranty period otherwise it might create lot of problems specially when such a task was taken indigenously for the first time, the Ministry opined through a written note:

"The above is agreed to."

F. Ship Repairs

3.23 The table below shows the number of ships repaired by MDL from the years 1982-83 to 1993-94 and profits earned thereupon:

(Rs. in crores (Rs. in crores)

Year	No. of Ships repaired	Profit/Loss on ship repair and general engineering
1982-83	278	+4.09
1983-84	171	+1.52
1984-85	88	+1.88
1985-86	49	−0.52
1986-87	39	+0.15
1987-88	15	+0.95
1988-89	19	+0.16
1989-90	28	+1.30
1990-91	35	+1.31
1991-92	31	+0.52
1992-93	20	+1.82
1993-94	35	+2.54

Ship repairs, the main activity of MDL at the time of takeover in 1960, now represents only 4% of its turnover in, 1993-94.

3.24 The Committee asked the reasons for the steep decline in number of ships repaired by MDL from 1982-83 onward and what were the efforts made by the company to secure more orders for ship repair. The company stated in a written reply:

> "Since 1982-83, MDL has been concentrating on construction of warships, submarines, coast guard ships and also OSVs and MSVs involving high technology and high value work. Further small repairs yards around Bombay offering dumping prices have emerged during this period. Due to these reasons the ship repair activity in the yard has declined. During the last three years with gradual decline in New Construction activity, more repair jobs have been undertaken and for the year 1994-95, the targeted value of repair jobs is around Rs. 21.25 crores. For the year 1995-96, further boost towards this field has been planned by restructuring the organisation for ship repair, with a view to improve reaction time and reduce costs. A concerted drive to increase the business in Ship repair and general engineering is also planned."

3.25 Asked if company conducted any study and prepared any perspective plan right in 1983-84 when the number of ships coming for repairs suddenly declined specially keeping in mind the fact that this was a profitable area, the company stated in a written reply:—

"No specific study was undertaken by the Company since, MDL has been concentrating on New Construction activities."

3.26 When asked from the Ministry their views whether company should conduct such a study and prepare perspective plan for enhancing ship repair work as it is a profitable area, the Ministry said in a written reply:—

"Yes we agree, This is also on the agenda of the company which has steadily increased its ship repair business from Rs. 9.43 crores in 1990-91 to Rs. 18.36 crores in 1993-94. The approach on ship repair will figure prominently in the perspective plan being prepared by MDL."

3.27 The Shipping Corporation of India is not entrusting any ship repair work to MDL since 1984-85 though the total expenditure on SCI's ship repair during 1991-92 was Rs. 66.69 crores. Reasons for this was stated to be that MDL's rates were not competitive.

The Committee asked whether the issue regarding SCI entrusting repair work to MDL on mutually agreed basis was taken up with the Ministry of Defence so that the matter could be taken up with the Ministry of Surface Transport. MDL informed in a written reply:—

"During meetings with Ministry of Surface Transport the SCI representatives had stated that SCI would award work on competitive basis only, hence the matter has not been taken up at Ministry level. However, MDL takes part in all SCI tenders for ship repair work, but due to higher costs, has secured only one order in last four years."

3.28 In this connection, the CMD, MDL said during evidence:—

"We are dialoguing with the Shipping Corporation of India. We have reduced our prices also. We have a limitation of size of the ship that we can take. The Shipping Corporation has very few ships of that particular size/range."

3.29 When asked why SCI was not utilising the services of MDL, the Secretary, Department of Defence Production and Supplies stated during evidence:—

"Sir, this is one point which I wanted to bring to the notice of the Committee. Basically MDL is a warship building company. Such repairs, as required by the Shipping Corporation of India are done by companies dealing with ordinary merchant shipping. MDL's focus is on warships, I do not think, it would be appropriate to dilute that from too much."

3.30 Asked if the Ship repairing facilities were fully utilised. the Secretary of Ministry said during evidence:—

"We would not say that it has been fully utilised."

3.31 The attention of the Ministry was drawn towards the fact that even Indian Ships were going for repairs to neigbouring countries like UAE etc. In this connection, an official of the ministry said during evidence:

"Sir, this concept of floating docks is not in much use in India. We do not have floating docks. It becomes easier to handle the repair work with floating docks but that would require a substantial amount of investment."

G. Ship repair yard at Dighi

3.32 For a modern yard for repairing naval ships, 128 acres of land was acquired (1982-83) by MDL at Dighi and expenditure of Rs. 1.02 crores was incurred. But this expenditure has remained a bloced investment as work was stopped in 1984 at the instance of Government of Maharashtra because environmental clearance was not obtained from Government of India.

3.33 The Committee wanted to know at whose instance the land was acquired at Dighi without obtaining environmental clearance. The Company informed in a written reply:—

"In 1981, at the instance of Ministry of Industry, Government of Maharashtra, a High Powered Committee for the integrated industries development of the Konkan areas was established. The Committee identified the Rajapur creek at Dighi on the western Coast for development of a Defence Ship Repair Yard with some additional facilities for New Construction activities. The land at Dighi district Raigad in Konkan was acquired through SICOM/Government of Maharasthra in 1983, by MDL for development of ship repair yard, with the Board's approval."

3.34 When the Committee desired to know the latest position of the case regarding environmental clearance, the company informed in a written reply:—

"Environment clearance by Government of Mahrashtra was granted in November 1988. Further on the recommendation of the Government of Maharashtra to Environment Department, Government of India is to issue final environment clearance for Dighi, MDL is following up vigorously for approval for Central Government Authority which is awaited."

3.35 The Committee desired to know from the Ministry by when the yard was expected to be commissioned. The Ministry informed the Committee in a written reply:—

"128 acres of land was handed over to MDL at Dighi by Government of Maharashtra in 1982-83 for developing it as a shipyard repair facility. An expenditure of Rs. 1.02 crores has been spent so far. Subsequently, there was objection from the environmentalist and Government of Maharashtra stopped all activities of MDL in 1984. A Committee was appointed under Additional Chief Secretary, Maharashtra, which went into all the issues and gave No Objection Certificate in 1988. They also wrote to the

Government of India, Ministry of Environment, Forests and Wild Life in September 1988 for according environmental clearance.

MDL has also directly addressed the Government of India, Ministry of Environment, Forest and Wild Life for early clearance. It is understood that the areas has been notified under clause 2(i) of Coastal Regulation Zone under environmental protection Act, 1986 prohibiting all industries, except Tourism. In view of this position, it is likely that the environment clearance may be difficult but the matter is being taken up by me with the Secretary, Government of India, in that Ministry for possible resolution of the issue."

3.36 On being asked if environmental clearance is not given by Government what would the company do with the land, informed the Committee in a written note:—

> "MDL is hopeful of obtaining environment clearnace from Central Government Authority for Dighi as explained above, as such MDL has not considered any option of surrendering the land to Small Industries Corporation of Maharashtra (SICOM)/Government of Maharashtra."

H. Diversification

3.37 The Corporate objectives of MDL formulated in June 1978 envisaged diversification to offshore structures, pressure vessels, equipment for petrochemicals, chemicals & fertilizer Plants and turnkey jobs. The major diversification of the company was in the field of offshore fabrication and services. No concrete plans were evolved for diversification into other areas like making equipment for petrochemicals etc.

3.38 When asked as to why the company did not diversify into the field of making equipment for petrochemical, chemicals and fertilizer plants, the company stated in a written reply:—

> "The Company had created during 1978-83, specialised facilities to cater to the strategic needs of the Defence Industry and ONGC. As per decision taken by the Committee of Secretaries in 1983, MDL is to be provided with continuous order flow from ONGC. Further the order book position of both Shipbuilding and offshore Yard used to be full though not continuously during this period, with the result no concrete plans were evolved for further diversification into other areas like making equipment for Petrochemicals etc."

3.39 As per the Corporate Plan submitted in 1993, the company now has plans for diversification into the fields of Petrochemical and Fertilizer Plants, specialised steel, Aluminium and Titanium fabrication. It also proposes to examine fresh areas such as submersibles, underwater technology for sea bed construction for oil exploration etc.

3.40 Replying to a query regarding diversification the CMD of MDL also informed the Committee during evidence:—

"We are thinking of diversification. Tata Consultancy Service carried out a study for us and we have identified some of the areas for diversification. This time we would stick to the areas, which are utilising our existing infrastructure and therefore, with minimum of capital investment."

3.41 The CMD further stated:—

"It is fabrication in the core sector, that is, cement, petrochemical, again fabrication type of jobs. That means, we will be subcontractors to somebody who takes the turn key projects like columns, heat exchangers. And natural gas is also coming in a big way. We have certain areas where we can have terminals and may be, as a joint venture, we can have distribution by ship and may be ship construction. The order of Government investment is high in the petrochemical or the cement industry."

3.42 The Committee wanted to know from the CMD about the main recommendations of the Report of Tata Consultancy Services submitted in November, 1993 and whether the Ministry will be ready to provide financial assistance in this regard. The CMD stated during evidence as follows:—

"No assistance was required. As I said, the capital provision of Rs. 2.5 crore per annum towards diversification was approved by the Board. So far as the financial support is concerned, it was already approved as a part of the capital budget. It is to the extent of Rs. 2.5 crore per annum. After our experience in the offshore side, where heavy investment had been done, it was the considered opinion of the Board that only such diversification work should be taken up, where the existing infrastructure is good enough or a very minimal addition to it. The recommendation included, as I said, are fabrication of equipment for cement, fertiliser and petrochemical industry. There was suggestion of floating hotels. There was a suggestion for ro-ro type of ferry. There was a recommendation for wind farming. Also included are the special aluminium alloy and titanium fabrication.

I will go from the negative side first so that I will go to the positive side later on. We got the air table analysis for the land that we have in Mangalore, Dighi, Bombay and Nhava. The air table was not satisfactory for wind farming. In certain localised areas of the South India, NEPC-MICON are working. Unless we bought further land and invest very heavily, we cannot go into wind farming.

In regard to ro-ro type, I had discussed with the Shipping Corporation of India and the dialogue is going on. As far as I know, they have not shown much keenness because there was no cargo in the ro ro type as it is coming more in the containerisation. It requires further look.

As far as special fabrication jobs are concerned, the basic requirement is that you must have design for this because if the heat exchanger has to be built for petrochemicals or fertiliser industry, there must be a designer. Therefore, we must have designer organisations like EIL, John Brown and two or three others. Since we have not been in the field, we have to pre-qualify ourselves with the likely customers. So, all pre-qualification papers have been submitted to the people. We have executed three pressure vessel jobs, for the offshore type of work, the value has not been very substantial. I think, it is about Rs. 23 lakhs. But it is a start. Atleast a start has been made. It will take some time to pick up. This is a hi-tech but this is not a high value job."

3.43 When asked from the Ministry whether any proposals have been received by them from MDL for augmenting diversification and soliciting financial assistance too, they stated in a written reply:—

"Though TCS has suggested the possible lines of diversification, the company has to undertake considerable further work to concretise investment decisions. We would like MDL to exercise utmost prudence in deciding on the future capital investments so that the mistakes committed in the past are now not repeated. The processes of diversification and consolidation must go hand in hand. We expect that MDL will examine the proposals made by TCS in all their details and will embark only on those project the remunerativeness of which is firmly established.

While the detailed examination will take some time MDL has made an interim arrangement so that opportunities are not lost along the way. It has set apart an annual allocation of Rs. 2.5 crores with which capital investments can be made for purposes of diversifications. From out of the areas recommended by TCS, MDL has already started working in pressure vessels, heat exchangers and wind mills."

3.44 In this connection, the Secretary, Department of Defence Production and Supplies stated during evidence as under:—

"Each activity must stand on its feet. We must insist that the company may take up any activity only if it is remunerative and can be sustained during the coming years. Some of the mistakes which were committed by the Company in the past by undertaking will considered investments, those must be obviated."

3.45 When enquired as to when the Action Plan regarding diversification was likely to be finalised by the Company, and how it was proposed to finance the same, MDL intimated the Committee in a post-evidence reply as under:—

"The Action Plan on Diversification is expected to be approved by the Managment by end February, 1995 which proposed utilisation of the existing facilities with minimum creation of additional factilities. However an annual allocation of Rs. 2.5 crores in the Capital Budget of the Company has been made towards this. In addition, we may approach financing institutions, if necessary. The offshore facilities are planned to be utilised by the projects:—

(i) Fabrication of tower for Wind Power Projects.

(ii) Associated activities on Gas Field development by Oil India.

(iii) Utilisation of assets and crane facilities of Mangalore and Nhava Yards in Containers & Freight Warehousing/LPG Terminals."

CHAPTER IV

FINANCIAL PERFORMANCE

A. Accumulated Losses

4.1 It has been stated by Audit that after incurring losses continuously for many years, MDL earned profits of Rs. 321 lakhs, Rs. 460 lakhs, Rs. 507 lakhs and Rs. 629 lakhs respectively during the year 1990-91 to 1993-94. But, the Company still had an accumulated loss of Rs. 80.21 crores as on 31.3.1994

4.2 The Committee wanted to know by when the Company expected to wipe out the accumulated losses. The Company informed the Committee in a written reply:

> "The accumulated losses for MDL as on 31.3.1994 were Rs. 80.21 crores. We intend to wipe out the losses by the year 1998-99. The estimated working results in brief are indicated in the table given below."

PRODUCTION

(Rs. in crores)

	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
Ship-bldg.	364.07	484.34	552.59	632.65	617.47	444.68	507.12
Off-shore	80.80	100.00	100.00	100.00	100.00	100.00	100.00
Total	444.87	584.34	652.59	732.65	717.47	544.68	607.12

PROFIT/ (–) LOSS

	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
Ship-bldg.	20.25	34.19	29.15	42.24	43.68	24.68	27.83
Off-shore	–14.75	–8.28	–8.68	–4.65	–7.05	–9.39	–12.27
Total	5.50	25.91	20.47	37.63	36.63	15.29	15.56
Less: Provision/ Prior Prd. adj.	–3.00	–3.00	–3.00	–3.00	–3.00	–3.00	–3.00
Total	2.50	22.91	17.47	34.59	33.63	12.29	12.56

4.3 When asked how MDL would wipe out their accumulated losses, the Secretary of the Ministry stated during evidence:

> "On the orders side, I am not sure that you would like me to disclose the details. We have definitely three or four projects which can materialise very soon. We have been assured of the availability of funds. The technical hurdles in clearing those projects are being overcome."

The Secretary also said:

> "............In the Ministry, we are confident that MDL will be able to wipe out the loss. It will get ship-building and re-fitting orders."

4.4 The Committee wanted to know the basis of optimism about MDL getting enough orders in future to wipe out their accumulated losses. The Ministry informed the Committee in a post evidence reply:

> "A number of proposals for construction of various ships are actively being considered by the Government/Navy. The orders when placed on MDL would be both on fixed price basis and cost plus basis. The refit of ship presently in the service of the Navy is also being considered for placement on MDL. In regard to the offshore division, the ONGC is considering placing orders on MDL for two well-head platforms.

This Ministry is also actively considering captial restructuring of MDL whereby Government loans to MDL is proposed to be converted into non-cummulative preference shares which would be redeemed by the Company in five equal annual installments. This proposal, if accepted, would have the effect of reducing MDL's interest burden and increase its profitability and also wipe out its accumulated losses after some years. MDL is also planning to disinvest 32,33,500 shares of Rs. 10/- each of Goa Shipyard Limited held by it through auction."

4.5 When asked about the profitability, the witness stated:

"One of the major ways of getting over these accumulated loss faster could be the disposal of the shares."

4.6 Asked how much money was expected after the disposal of shares, the Secretary stated during evidence:

"It depends on the market conditions. From the disposal of 25 per cent shares, we would get Rs. 48 crores. We have a total shareholding of 47 per cent."

4.7 Further the Secretary stated:

"The accumulated losses are less than Rs. 100 crores. Even by a partial disposal of shares, we will be getting about Rs. 40-50 crores."

4.8 Elaborating on this the Secretary of the Department of Defence Production and Supplies also clarified:

"Our hope is based on two or three approaches. One is that some of the equipment which was lying unutilised is being disposed of and that brings us a fair amount of money.

Secondly we expect that adherence to the 1989 pricing formula with the ONGC will ensure that MDL will not be driven to losses. Whatever work MDL will do with the ONGC will yield profits.

Thirdly, MDL has about 47 per cent shares in the Goa Shipyard. We have been thinking of disposing of those shares in the open market and that will fetch us a fair amount of premium. Even if we dispose of half of the shares we will get about Rs. 47-48 crore. I have mentioned these steps which, coupled with a general increase in the level of efficiency will help MDL eradicate the accumulated losses.

I expect the eradication of losses to occur."

4.9 Enquired if the Company was getting interest subsidy, the CMD stated:

"From 1st April, 1995 we will not get it."

B. Order Book Position

4.10 The Committee wanted to know the order book position *vis-a-vis* working of the Company. The CMD, MDL stated during evidence:

"......lately the orders received for the ship building have not been satisfactory, mainly because of the resource crunch that the navy is facing. We have two major customers, the Oil and Natural Gas Commission and the Navy. A minor customer is the Coast Guard. For the last seven to eight years we have not received any order from the Navy. Ship building takes a very long gestation period. It takes nearly four to six years to build a ship. There are three main stages — the hull construction, outfitting and test and trials of the ship. It can be compared to the building of the house. A ship is virtually like a mini township. Since we have not received orders for the last eight years our facilities covering initial stages of construction are virtually idle."

4.11 On the order book position regarding platforms, the Chief Executive stated:

"At present, we are likely to get some orders where ONGC has already completed the studies on sites, we are first trying that we can be taken as subcontractors to these big houses when they bid, so that we get this work. We are also having dialogue to have some joint venture so that we can be a joint venture partner."

4.12 Throwing light on the lack of orders to MDl the CMD also informed during evidence:

"There is a Committee of Secretaries agreement to give work to MDL for offshore structure. This Committee's ruling has been there since 1983 but without being carried out/followed."

4.13 Asked specifically whether from 1994-95 MDL would be in a position to show profit, its Chief Executive stated during evidence:

"For 1994-95, yes, but for 1995-96 there are certain stipulations that have to be made. I must get minimum two orders on the offshore. If I do not get those orders, the offshore work will be down to zero."

4.14 When asked categorically about the assistance to MDL in providing orders, the Secretary of the Department stated during evidence:

"We hold apex level meeting for all shipyards where representatives of different organisations are called and various proposals are discussed. The last such meeting was held in June 1994 and on 14th February another special meeting was held at which we discussed proposals for construction of ships and submarines. I am hopeful that MDL will get enough orders. Of course, to take projects to a beginning stage takes some time."

4.15 In another context, the Secretary of the Department stated during evidence:

"I was cataloguing various objectives which we are aiming at. I said we have to go through a phase of consolidation which means that redundancies have to be obviated. We are getting rid of some of the unproductive assets. The process of diversification will have to go hand in hand with the process of consolidation. We cannot repeat the mistakes of mid-eighties and let unnecessary proliferation occur."

4.16 Elaborating the details about this point and order book position, the Financial Advisor of the Ministry submitted before the Committee during evidence:

"Sir, as the Secretary brought out while this period of consolidation is very important, one of the basic things that has happened which makes us more optimistic than before is the finalisation by the Navy of their perspective plan on ship-production on indigenous basis. As has been emphasised, it has to be warship production which will form the main concern of this production unit. It does not have as much advantage in other activities as in the warship production, in which it has the expertise. This is an area of strength for this production unit. We have realised that this is our main activity which should be put in its proper perspective instead of going in other areas where we may be subject to stiff competition and may be undercut in several ways.

Why was Secretary feeling optimistic when mentioning by which date he will be able to wipe off the accumulated loss. There is a very important input that has come about which is the finalisation of the Naval Perspective Plan of the indigenous shipbuilding yards and the finalisation which we are doing in a planned manner from 1994-95. We are trying to see that the shipyards do not suffer from lack of funds. Right in the beginning of the financial year, 1994-95, shipyards have been told as to what will be the amount that they will get for the whole financial year so that they can plan in a satisfactory manner and the same has been repeated for 1995-96. We are making sufficient funds available for the shipyards to make progress in a planned manner. In a shortwhile, Navy should be in a position to place orders. In fact I had the opportunity of being present in MDL only a week back with the Chief of Naval Staff, when the launching of Third Project-15 ship had taken place. He had also announced that very soon, the Navy will be placing these orders. The hull-building yard and other building yard will be full of activity. This has been reported in the newspapers also. The reason why we are feeling optimistic is this that Navy is prepared to back MDL with the firm plan and funds for the indigenous production of warships. I think it is a matter of time before the orders will be placed".

4.17 The Committee wanted to know about the major changes that have been taking place in the off-shore business and its implications on MDL. The Secretary of the Ministry stated during evidence:

"I would like to mention generally the changes which we have in mind. Firstly, the change in the structure of ONGC itself. From a Government institution it has become a company. So, it will be increasingly guided by, I suppose, a commercial philosophy. The second one is throwing open of the exploration, development and exploitation of oil to the private sector. So, that will have its implications in terms of assignment of orders to any public sector company like the MDL. The third concerns the approach to be adopted; whether the Government will give out turn-key contracts, which will run right from the stage of exploration to exploitation. In case of turn-key contracts, I suppose, the Company concerned will also have to bring sub-contractors. These are the kind of changes which are there. But we are not quite clear about them. I think, with a little passage of time, we will see more clearly how we can fit the MDL into the on-going process".

4.18 When asked how MDL would cope up with the changes the Secretary stated:

"We can definitely seek sub-contracts. We have to see how the situation develops and how we can find the largest role for the MDL. MDL has to be imaginative enough to try and keep itself relevant."

4.19 In this connection he also stated:

"We had prepared, as has been mentioned in the papers, a Corporater Plan in 1993. But the situation is so fluid that the company itself felt that it could not be finalised as a corporate strategy. The Tata Consultants have suggested certain areas for divesification and the MDL has started working on them in a small way."

C. Activity-wise profit/loss

4.20 Audit has pointed out that all the works undertaken by MDL have resulted in losses except turnkey projects for ONGC, ship building work for the Navy on cost plus basis and ship repairs and general engineering (excluding 1985-86). Fabrication of platforms, transportation and installation of platforms, jack up rigs and pipe coating work were main contributors to the losses of the Company.

4.21 The table below gives activity wise profit/loss of MDL during the years 1991-92, 1993-94:

Activity wise Profit/Loss	1991-92 Loss (–)	1992-93 (Rupees in lakhs)	1993-94
A. Ship Construction:			
Defence	1697	1305	1592
Others	(–) 587	(–) 586	(–) 849
TOTAL	1110	719	743
B. Offshore Activities:			
Fabrication of Well Platforms	(–) 1683	(–) 1280	
Offshore operations including Diving & Vessel Management	(–) 94	(–) 717	(–) 232
Pipe Coating	(+) 26	(–) 85	
TOTAL	(–) 1751	(–) 2082	(–) 232
C. Ship Repair & General Engineering	52	182	254
TOTAL A + B + C	(–) 589	(–) 1181	(+) 765
Provision	(–) 630	177	(–) 1671
D. Interest Subsidy from Government of India	1535	1535	1535
TOTAL	316	531	629

It is seen that upto 1992-93 the performance of the company has been dismal if the interest subsidy from Government is excluded.

4.22 The Committee asked about the remedial measures proposed by the Company to improve the situation. MDL stated in a written reply:

"Periodically, the Management has reviewed the reasons for losses. The orders placed by ONGC were based on tight delivery schedules but that has not kept the yards evenly loaded. This has resulted in under absorption of overheads allocated for Offshore Yards and also due to tight delivery schedules, many a time Liquidated Damages were also incurred. This has resulted in continuous losses for offshore fabrication undertaken by us for ONGC inspite of Management Controls exercised by the Company. The prices received also were not attractive in view of the dumping prices by Korean Companies, which formed the basis. In one order involving 7 Wellhead Platforms, a condition of ceiling on prices imposed by the Committee of Secretaries have resulted in heavy losses amounting to Rs. 48 crores for the Company. We have been pursuing at various levels in the Ministry to remove this condition which will result in minimising the losses to the extent of Rs. 3 crores only."

4.23 The Committee wanted to be apprised about the efforts being made by the management to improve offshore activities which was a continuous loss making area. MDL informed in a written reply:

"Even though the management has made lot of efforts to reduce the cost of construction, unabsorption of overheads due to inadequate workload resulted in overall losses for the Division. We have been able to make profits in latest orders for the platforms like NLM-5, 6, 8, 9 and HSA & HSB, due to improvement in work methods, ordering of equipment on time, production control, better project management and effective supervision. There is continuous effort to improve the delivery schedules to avoid incidence of liquidated damages."

D. Ceiling on Prices Paid by ONGC

4.24 During the course of evidence, when a question regarding the prices of platforms was asked from the Chief Executive of MDL he disclosed before the Committee:—

"On price front I must bring some facts to your notice. I took an order in June, 1991 at a price of Rs. 36.5 crore for a platform. The devaluation of the currency took place in July. We talk about international pricing. If international price is fixed, I think international price should be fixed in dollars and not in rupees. But please see what happened later. They fixed price based on one-year old price and fixed it in rupees. In one month's time I was shocked to find that there was 22 percent devaluation. I may mention that within six months of that order, there was another order for Rs. 52 crore. One month later M/s. Hyundrai got an order for Rs. 68 crore. M/s. L & T got an order for Rs. 70 crore. All for similar platforms."

4.25 The Cheif Executive further stated:—

"The only thing ONGC says is you accepted the order. I state that we accepted it in a different situation. There is a provision that exists in the contact where Government can have a re-look at it."

4.26 The Committee asked for a detailed note on the subject. MDL submitted a detailed note which brought out that on one order involving 7 well head platforms, a condition of ceiling on prices was imposed by the Committee of Secretaries which resulted in heavy losses to MDL. The note *inter-alia* contained as under:—

> "Ceiling price of Rs. 34.35 crores fixed for NLM-2 (neelam Range of Platforms), 4 & 7 and NLM-10 & 11 platforms (it would be around Rs. 40 crores taking into account base exchange rate as for NLM-5, 6, 8 & 9), were unrealistic and unremunerative since ONGC had placed orders for NLM-5, 6, 8, & 9 platforms on MDL at a fixed price of Rs. 57.10 crores although the work on all these platforms were required to be executed in more or less the same period. Moreover, ONGC have also placed orders on L&T of India and SHI (Sansung Heavy Industries) and HHI (Handai Heavy Industries) of south Korea in February/March, 1992 for delivery of similar well platforms at around the same time but at much higher prices viz. Rs. 70.53 crores and Rs. 68.69 crores in the case of L&T and SHI/HHI respectively. MDL therefore wants removal/revision of ceilings on prices. If ceiling prices are not altered, MDL would be incurring a total loss of Rs. 50.26 crores on these platforms. In case the ceilings are removed and the prices are regulated fully under the 1989 formula, the losses would get reduced to Rs. 7.22 crores."

4.27 Asked whether the matter was taken up with the Ministry of Petroleum, the Cheif Executive of MDL stated during evidence:

> "We took it up at the Secretary's level. It is a simple question. We are given order for Rs. 36 crore only whereas others got for Rs. 70 crore. I made a loss of Rs. 55 crore on this order because there were number of platforms involved. I have requested that the ceiling should be raised. By removal of ceiling my loss would be reduced to Rs. 3 crore. I may be able to save Rs. 52 crore."

4.28 When enquired from the Ministry whether MDL sought their assistance in this matter, the Secretary of the Department stated during evidence:

> "........About ceiling on prices we had suggested that a committee be set up. Earlier the Ministry of Petroleum had taken a very stiff position that it was a closed matter and that they would not reopen it. But not they have relaxed and they are prepared to have the Committee. We expect that some reasonable solution would be found soon."

4.29 In this connection, the Secretary also stated during evidence:

> "While assigning orders for some offshore structures ONGC had placed the price ceiling of the lowest bid plus 15 per cent of price reference. Normally, that should have been okay. But, it happened

that during the pendancy of the contracts, in addition to inflation there was exchange rate depreciation of 22 per cent. The result that the ceiling became too low, even in comparison to the contracts which were later given to foreign companies in competitive bidding. Therefore, MDL has been saying that the ceilings should be revised. But, so far, the Ministry of Petroleum has not been accepting it saying that the Company accepted the order with the ceilings being a part of the order and that the matter is now non-negotiable. There has since been a welcome change in the position of that Ministry.

In meeting on 15 February, I met my colleague, the Secretary, Ministry of Petroleum and he was good enough to agree to the setting up of a Committee consisting of officials of ONGC and MDL and the two ministries. That Committee is being established and hopefully it will come to a reasonable solution to the problem."

4.30 The Secretary also informed that it was for the first time such a Committee would be set up.

E. Sundry Debtors

4.31 As brought out by Audit the table given below shows that the volume of sundry debts in MDL is high compared to sales:

(Rupees in Lakhs)

As on 31st March	Debts Considered Good by MDL	Considered doubtful by MDL	Total Debts	Sales	Percentage of total debts to sales	Debts in terms of No. of months sales
1989	8630	1546	10176	21979	46	6
1990	11043	1531	12574	34162	37	4
1991	12677	2112	14789	40234	37	4
1992	16569	2384	18953	42334	45	5
1993	23120	3310	26430	27252	97	12
1994	18438	2235	20673	27950	74	9

Out of the total amount of Rs. 38.89 crores receivable from ONGC as on 31.3.1994 an amount of Rs. 12.91 crores has been treated as doubtful for recovery. In addition an amount of Rs. 4.67 lakhs in respect of yard 579 is outstanding in respect of Navy as on 31.3.1994.

4.32 When enquired whether company took any corrective action to bring down the high incidence of outstandings, the company informed in a written reply:

"The Company periodically reviews the Sundry Debtors and incidence of doubtful debt in particular. In cost plus contract with ONGC at every stage of certification some disputes are bound to happen, though it forms a minor percentage. Similarly in the ship building Division some of the disputes are again with ONGC for the difference for IPP and Subsidy from what we claimed and allowed by the customer. In the case of Andman Ferries Supplied under DGS&D contract, we have provided as doubtful debt a part of the wage escalation claims which have not been admitted by DGS&D. However, efforts are continuing to arrive at a settlement on many of these doubtful debts at some later date. The probable losses have already been taken into account."

4.33 The Committee enquired whether the matter was taken up with the Petroleum Ministry to reduce Sundry Debtors by way of clearing the dues from ONGC MDL stated in a written reply:

"There are periodical meetings by concerned officers at the working level followed by meetings at senior levels of the officers between ONGC and MDL on Sundry Debtors. On major issues, CMD, MDL, had met CMD, ONGC. Certain issues were taken up at Ministry levels as well. However, major decisions taken at working level are found to be generally upheld at higher level at ONGC. We have not gained much ground by taking up this issue at the Ministry level with the Ministry of Petroleum as regards Sundry Debtors are concerned."

4.34 When asked whether it would not be proper for MDL to prepare detailed commercial and contractual agreements before commencing works, the absence of which leads to disputes over payments, MDL informed in a written reply:

"Between PSUs, the disputes unfortunately cannot be resolved legally even by arbitration unless the DPE prescribed steps are exhausted. Most of these are such cases. However, there could be some cases of laxity of detailed commercial and contractual agreements in earlier years, which are no longer present in our existing contracts with ONGC, with the emergence of fixed price lumpsum contracts."

4.35 While giving details about the Sundry Debtors, the CMD, MDL stated during evidence:

"Our majority of the Sundry debtors emerge from the ONGC. Until now, we were having different formulae for taking work from them. There was a lot of dispute with regard to certification of items and in construction. Therefore, the amount had been withheld. The Government's directive is that we cannot go in for arbitration straightway. First we will have to resolve it at our level. Then it should be decided at the level of the Committee of Secretaries. If they permit, then we can go in for arbitration."

4.36 Subsequently the Department of Defence Production and Supplies intimated the Committee the latest position about outstandings through a post evidence reply, it contains as under:

"As on 31.3.1995, total amount of outstandings due to MDL is Rs. 100.70 crores (Provision). This amount is excluding Russian Credit Liability. Its agewise classification is given as under:

	Offshore Division	Shipbuilding Division (Rs. in crores)
Less than 6 months	8.36	6.87
More than six months but less than one year	25.12	8.97
More than one year but less than two years	11.44	2.12
More than two years but less than three years	2.56	0.73
More than three years	24.67	9.86
Total	72.15	28.55

The break-up of the outstandings due from the Ministry of Defence and ONGC are given below:—

	Due from ONGC	Due from MOD (Rs. in crores)
Total	13.79	66.23
Dues under disputes out of above	—	9.44

Sundry debtors as on 31.3.1995

(Amount in crores)	
Navy	13.79
Russians	171.38
Others	86.91."

4.37 The Committee asked whether MDL charged interest when the payments were not made in time. While replying a witness stated during evidence:

"The Contract did not provide for that. At the time of finalisation of the contract, we had some negotiations. At that time, they never agreed to this clause. We were asked to remove the clause. Unless this clause was removed, we might not have got orders. It is not like international contracts."

4.38 The Committee asked for a note on the amount of interest lost by MDL during the last three years on entering into such contracts. The Company while giving a division wise clarification informed the Committee in a post evidence reply as under:

"(i) *Offshore Division*

MDL has lost about Rs. 22.20 crores by way of interest on amounts outstanding from ONGC. MDL has also lost Rs. 4.26 crores by way of interest on outstandings from another PSU *viz.* Hindustan Shipyard Limited during the last three years. The loss of interest from other parties is not significant.

(ii) *Shipbuilding Division*

Out of total debtors of Rs. 206.73 crores as on 31.3.1994, the amount pertaining to Shipbuilding Division is Rs. 152.02 crores.

Break-up of the sum of Rs. 152.02 is as under:

N.C.R. (Non-Conventable Rupee)
Liability — Rs. 136.32 crores

Others — Rs. 15.70 crores

NCR liability shown above represents that portion of the cost of Russian equipments fitted on the Warships already delivered to Indian Navy but not yet paid to Russian Federation. As and when the instalment payment falls due, funds are obtained from CDA(N) (Controller Defence Accounts, Navy) as per the provisions of the contract and payment made to Russian Federation. Therefore, this protion of the Sundry Debtors is outside the Managerial control of the Company.

Out of the remaining debtors of Rs. 15.70 crores, amount due from ONGC is Rs. 3.29 crores. Most of the debts of Rs. 15.70 crores are pending over 3 years.

At the average rate of interest of 17% p.a., MDL has lost about Rs. 4.96 crores as interest in the last 3 years due to delay in payments of undisputed debts by the Customers. NCR liability of Rs. 136.32 crores mentioned above has not been considered for the purpose of arriving at interest lost."

4.39 When enquired whether any assistance was sought from Ministry in recovering the debts, the Ministry stated in a written reply:

"MDL has not sought the intervention of Ministry of Petroleum & Natural Gas in this matter."

4.40 When asked why MDL was not advised to take recource to arbitration in the light of this Committee's 9th Report (1992-93) where it was recommended that disputes of Public Undertakings with other PSU's or private parties should be preferably resolved through negotiation/ arbitration, the Ministry in a written reply stated:

"We understand that based on the recommendations contained in the Ninth Report of the Committee on Public Undertakings the Department of Public Enterprises has issued advice to all the public enterprises on 13th May, 1994."

CHAPTER V

MISCELLANEOUS

A. Manpower

5.1 Audit has brought out that the total strength of employees in MDL rose from 12286 at the end of 1982-83 to 15614 by end of 1985-86. In March 1987, Bombay productivity Council (BPC) Suggested reducing the large spread of trades in diverse disciplines into multi-trade concept and reduction in manpower. The strength of employees was, gradually brought down and it was 12399 by the end of 1993-94. In order to reduce the workforce through Voluntary retirement Scheme Government has provided a budgetary support of Rs. 13 crores as per Board Minutes dated 24.3.1994.

5.2 When asked how much manpower was surplus in MDL, it was stated in a written reply:

> "The number of operatives presently borne, based on multitude of trade and outdated work norms, is more than required, for the present rated capacity. The BPC had identified surplus manpower based on multi-trade concepts. However, it has not been posssible to reach an agreement with the Union on the implementation of this concept. If this concept is accepted, then as per BPC's report approx. 3028 workmen are reckoned to be surplus for the rated capacity."

5.3 When asked whether the recommendations of the Bombay Productivity Council regarding reduction of manpower could be implemented or not, MDL informed in a written reply:

> "The BPC's recommendations cover manpower assessment for Industrial Operatives and staff proposed job descriptions using multi-trade concepts and job evaluations of the existing jobs of Industrial Operatives and Staff. These could not be implemented as the then recognised union and now the Bargaining Council are not agreeable for change. The Company is proposing to re-open dialogue with the Unions after the decision of the Industrial Tribunal on Charter of Demands which is presently being heard."

5.4 When the Committee desired to know how Ministry are going to help the Company in implementing BPC's recommendations, they stated in a written reply:

> "The report of the BPC relates to the volume of work and the Workforce as it obtained in 1988. At that time the number of employees was more than 14,000. Since then the work profile in the company has changed and the findings of the BPC may not now be valid. Even so, the company has been reducing its manpower, which

on 31 December 1994 stood at 11,627. The Ministry will try and secure the maximum possible assistance from the National Relief Fund so that the company may implement the voluntary retirement scheme on as extensive a scale as may be possible."

Productivity Norms

5.5 When Committee asked whether MDL has productivity norms, the Chief Executive stated during evidence:

"We do have production norms but as I explained, the unions have not accepted it. The Bombay Productivity Council has made out certain norms but they refused to accept it."

5.6 When enquired whether productivity norms carried some financial ncentives also, the CMD, MDL stated during evidence:

".....As I said, the total wage agreement in MDL is pending for ages. Therefore, when you want to negotiate, you have to negotiate *en bloc.* It is pending since 1976 because it is sub judice. When the company was formulated as a joint stock company in 1934, the Textile DA system was adopted. The lone company which is still having that system is MDL. Some of the engineering companies which had the Taxtile DA, have been able to change the pattern of DA. When the Government announced Industrial Dearness Allowance, we asked the unions to re-fix the wages, taking IDA as the system, but they refused. The matter went up to Indsutrial Tribunal and they gave Award in favour of the management. They approved the wage scales and the IDA, which was fixed DA, linked to a certain rate of inflation. This was challenged by them in the High Court. After many hearings in the High Court, the Single judge reversed the decision and ordered the company to pay Textile DA and give them some other perks which were not part of Textile DA. We then went into appeal to the Division Bench of the High Court requesting them to look at the company's paying capability and also what is happening in similar industries in India. This appeal is still pending with them. I do not think the will is there to decide."

B. Loss on Delivery of two Jack-up Rigs

5.7 It has been stated by Audit that November 1983 MDL got an order from ONGC for the construction of 2 Jack-up Rigs at price of Rs. 41.80 crores each. The first rig was delivered in November, 1988 after a delay of 46 months and the second in April 1990 after a delay of 59 months the loss suffered on these two rigs were Rs. 68.37 crores which was stated to be due to facts that the MDL was new to the line to manufacture, original plan was to construct the rig at Nhava, but location was shifted to Mangalore, transportation of everything from Bombay to Mangalore added to cost, difficulties in communication also affected progress and basic designs and drawings provided by foreign consultant underwent extensive changes and modification etc.

On the Jack-up Rig II MDL paid customs duty amounting to Rs. 11.02 crores which has not been refunded by ONGC on the ground that there was no customs duty liability during the contractual delivery scheduled of the rig.

5.8 The Committee asked whether the factor responsible for losses were not anticipated by MDL while entering into the agreement, the company stated in a written reply:—

"Construction of Jack-up rig was undertaken in the country for the first time. Some of the factors could not have been anticipated at the time of entering into the contract. The custom duty on Jack-up rig II which had incurred the loss, is, however, likely to be refunded by CBEC based on MDL's appeal and continuous follow-up."

5.9 When enquired whether the dispute regarding the customs duty was resolved, MDL intimated though a written reply:

"The dispute regarding customs duty paid by MDL has not been resolved so far. MDL is pursuing with the Government for refund of customs duty. The matter is currently under consideration of CBEC."

C. Offshore Supply Vessels

5.10 It has been reported by Audit that MDL undertook construction of 8 Offshore Supply Vessels for ONGC. Price for the vessels was to be fixed by Government on International Party Price (IPP). MDL incurred a loss of Rs. 17.41 crores on the 5 OSVs delivered upto 1987. Only the first OSV was delivered in time. Remaining 4 (of the first batch) were delivered after a delay of 9 months, 13 months, 17 months and 10 months respectively and involved liquidated damages amounting to Rs. 84 lakhs. MDL incurred a total loss of Rs. 39.96 crores on these eight OSVs.

5.11 Subsequently it was informed to the Committee by MDL that the matter had been taken up with Ministry of Defence for review of the IPP to be put up for consideration by the Committee of Secretaries.

5.12 The Committee wanted to know the reasons for delay in delivery of almost all the vessels resulting in payment of liquated damages. Elaborating about reasons, the Company stated in written reply:—

"There have been delay in the delivery only of the first series of OSVs. In second series, Y-764 Sindhu - 15 was delivered 6 months ahead of contractual schedule and the other two yards 765 & 766 were delivered on schedule.

The reasons for delay in the case of Yards-746, 748 and 763 are as below:—

(a) The Company was to build this class of vessels for the first time. The transfer and absorption of the technology from Norway had teething troubles more than anticipated. Consequently, the build period of the first ship (Yard-745) got extended which had affected the successive ships also.

Delay was also partly due to bunching of orders MDL had to execute when the first series of OSVs were under construction, as the Company was also building MSV, Godavari Class Frigates, OPVs, CTS and DSV, during the same period."

5.13 When enquired what was the final outcome in regard to IPP, the Ministry informed in a written reply:—

"The matter has been taken up repeatedly with the Ministry of Petroleum and Natural Gas but have evoked a negative response. The issue concerns the proper application of the concept of IPP, which the Ministry of Surface Transport should be able to advise. That Ministry is being approached."

PART B

Conclusions/Recommendations of the Committee

1. Mazagon Dock Limited was acquired by Government of India in 1960. The main objective of MDL was to contribute towards indigenous manufacture of warships, subsequently, the company diversified into other areas the major one being in the field of offshore fabrication and services. The Committee's present examination is based on the Report of Comptroller and Auditor General of India (No. 7) commercial, 1992. During the course of examination, they have noticed a number of drawbacks in the functioning of Mazagon Dock Limited which have been brought out in the succeeding paragraphs.

2. The Committee note that Mazagon Dock Limited started entering into the Memorandum of Understanding with the Government of India from the year 1991-92 onwards. The Performance of the Company for the first two years was rated as 'very good'. However, for the year 1993-94 it earned only a 'good' rating. The Committee are of the view that the fall in the rating for this year is presumably on account of the non-fulfilment of the various obligations on the part of the Government as envisaged in the MOU. These include assistance in formulation of policy regarding export benefits for shipbuilding industry, improvements in the existing Government policy for deemed export benefits in respect of Company's products, services and early finalisation of Government decision regarding production of (follow on) submarines for optimum utilisation of East Yard facilities. The Committee regret to learn that the Government could not provide satisfactory assistance in the above mentioned areas. The Committee are given to understand that benefit of the refund of terminal excise duty which was available to Mazagon Dock Limited till 31.3.1994 has since been withdrawn which has in turn put MDL in price squeeze. Likewise 30% subsidy is also not being extended in the case of the ships which are manufactured for exports. The Committee, therefore, desire that the matter regarding the refund of terminal excise duty should be pursued vigorously with the Ministry of Petroleum and Natural Gas and 30% subsidy which is presently being granted to the ship manufacturers for constructing ocean going ships for Indian ship owners, should also be extended to the ships manufactured for exports. The Committee would like to be apprised of the outcome of the efforts made in this regard at the earliest.

3. The Committee have been informed that MDL prepared a outline Corporate Plan in May, 1993 and forwarded it to the Ministry of Defence. The outline Corporate Plan contained strength, weakness, opportunities and

thrust (SWOT) analysis and identified thrust areas for diversification and core activities to be reinforced. While according to the CMD of the company, the Government has asked them to further revise the corporate plan taking the present scenario into consideration, the Ministry's version is that it was the company which recalled the corporate plan from the Ministry and its Board of Directors are still considering it. The Committee are surprised at the different versions given by the company and the administrative Ministry. They do not agree with the contention of the Ministry that the time being taken in the finalisation of the corporate plan would not stand in the way of the company's initiatives. The Committee desire that the corporate plan of MDL should be finalised without any further delay and any changes in the offshore oil sector can be taken care of later as and when the need arises.

4. MDL undertook ten projects from 1976 onwards with a view to augment the capacity for ship construction and diversify in the field of offshore structure. The Committee are perturbed to observe that there have been huge cost escalations in almost all the projects. As against the total revised estimated cost of Rs. 176.45 crores for seven of these projects, the actual cost as on 31st March, 1994 was Rs. 236.17 crores. Besides, there have been delays ranging from one to eight years in different projects. What is worse, three of the projects were undertaken without Government sanction. It is surprising that such things should happen inspite of the presence of two of the Ministry's nominees on the Board of the company and the projects being monitored through Quarterly Reports. All this speaks volumes about the efficacy of project monitoring system then prevalent both at the company and the Ministry level. While a streamlined procedure for sanctioning, incurring and monitoring expenditure on capital projects is stated to have been brought into force from 1st April, 1991, the Committee desire that the system for monitoring the implementation of projects should be overhauled in order to ensure their timely completion. They also recommend that responsibility should be fixed in cases where a deliberate attempt was made to split the projects to bring them within the sanctioning powers of a lower authority.

5. The Committee observe that MDL undertook fabrication of a crane required for the expansion of the North Yard with foreign technical know-how. Later the skill available in the company was found deficient and the work had to be sub-contracted. Due to major accidents during erection, there was delay of 5 years and the crane was finally comissioned in March, 1988 at a cost Rs. 7 crores against the original estimate of Rs. 3.5 crores. Similarly, the project for development of facilities for transportation and installation of offshore platforms finally cost Rs. 39.61 crores against Rs. 29.75 crores estimated. The Committee are not convinced with the reasons given for cost escalation such as change in accounting policies and improper estimation of various items. They desire that the reasons for the escalation should be properly identified with a view to taking remedial measures so as to avoid recurrence of delays in future. They also feel that the system of preparation of cost estimates in the company needs to be reviewed.

6. In the case of second yard at Nhava Sheva, an amount of Rs. 24.21 crores has been spent against a capital outlay of Rs. 13.50 crores sanctioned by Government in 1980. Even after this huge expenditure, the yard has yielded negligible returns. Against the present installed capacity of 6566 MT, the output of the yard during the years 1991-92 to 1993-94 was only 3106 MT, 3951 MT and 628 MT respectively. The Committee have been informed that negotiations are on with some firm for using a part of the land as LPG terminal which is expected to offset the overhead expenditure. The Committee desire that such arrangements should be finalised expeditiously. Alternative uses for the remaining land should also be explored and the committee be apprised accordingly.

7. Government sanctioned in September, 1982, Rs. 37.85 crores for construction of a Derrick Barge and Anchor Handling Tug. The Committee are surprised to find that although it was known to the management as early as in April, 1983 that the cost of the project would be around Rs. 63.25 crores, the same was not brought to the notice of the Ministry. After incurring an expenditure of Rs. 41.68 crores, the project was foreclosed in December, 1988, as being economically unviable, under orders of Government. The services of the then CMD and Director (Finance) were terminated on 20.12.1985 for lapses in implementation of projects including DBIL. The net loss due to foreclosure of the project was Rs. 13.96 crores. The Committee are of the opinion that this loss could have been avoided had proper study regarding the viability of the project been conducted. The Committee, therefore, suggest that a system should be evolved whereby the lapses in implementation are detected in time so that losses on this account are minimised.

8. The Committee regret to note that the actual expenditure upto March, 1994 on the SSK project in East Yard for construction of 4 submarines was Rs. 39.62 crores against the sanctioned outlay of Rs. 12.75 crores. What is worse, the facilities for submarines are lying idle since after the order for two submarines the Government did not exercise the option for the other two submarines. The company has claimed that except for plant and machinery worth Rs. 12 crores, balance facilities were being utilised for ship construction and other diversification projects. However, the Committee wonder how these facilities rendered surplus for submarines are being utilised for ship construction when such facilities are particularly not being utilised to full extent presently on account of paucity of orders. The Committee, therefore, recommend that efforts should be made to procure orders not only from Navy for construction of submarines but also from other countries so that the facilities created at huge cost are effectively utilised.

9. The Committee are astonished to find that instead of construction of a Tug-cum-supply vessel at a cost of Rs. 4 crores, for which Government sanction had been received, the MDL constructed a Diving Support Vessel (DSV) at a cost of Rs. 23.36 crores. No feasibility study was conducted before commencing construction of DSV. A Committee appointed by the

Ministry enquired into the matter in March, 1993 and concluded that the scope of the project was changed, a new barge was constructed against sanction for purchase of second hand barge and excess expenditure incurred without Government approval. But according to that committee, while there had been such irregularities, there did not appear to have been any malafide intentions. It is surprising that no final view has been taken so far by Government on these findings. This Committee desire that in the light of the findings of the aforesaid committee, responsibility should be fixed for the serious lapses.

10. The Committee are dismayed to learn that the capacity utilisation in respect of various activities in MDL has not been satisfactory. The capacity utilisation of various activities of MDL in terms of ship unit during the years 1991-92, 1992-93 and 1993-94 has been 79%, 67% and 81% respectively. During 1993-94, the capacity utilisation in respect of Hull construction, Assembly shop and shipways has been only 33%, 38% and 45% respectively. What is more perturbing is that MDL has not received orders from the Navy for ship construction for the last eight years. The capacity utilisation on the fabrication side is expected to be low in the coming years also unless new orders are received. The Committee therefore, recommend that concerted efforts should be made by MDL to procure orders for diversified activities like manufacture of pressure vessels, sub-contract for Ordnance Factories etc.

11. The facilities for fabrication of offshore platforms were created by MDL on a Government Directive from February, 1977 at its Alcock Yard and later in its Nhava and Mangalore Yards. As per a decision of the Committee of Secretaries in 1983, MDL was to be provided with continuous order flow from ONGC. In spite of this the Committee are constrained to observe that the flow of orders from ONGC has been erratic. At present the capacity utilisation in respect of offshore activities is stated to be nil at Mangalore, 4% at Nhava and 40% at Alcock. With the completion of existing work the utilisation at Alcock is also expected to come to zero. Obviously, the position is quite alarming. The committee cannot but regret that MDL did not get adequate orders from ONGC even when the facilities at MDL were set up at the instance of government and the Committee of Secretaries had also decided that it would be provided continuous orders. The Committee have been informed that MDL is now exploring the possibility of being taken as sub-contractor to the big houses. They would emphasise that such alternatives should be pursued vigorously in order to ensure maximum utilisation of the facilities created in the Company.

12. The Committee regret to observe that over the years MDL had to pay huge amounts as liquidated damages on account of delayed deliveries. In respect of 39 platform structures delivered between April, 1984 and December, 1987 MDL had to pay liquidated damages of Rs. 3.46 crores on account of delays ranging between 34 days to 647 days. Thereafter, in respect of 12 platforms delivered till 1991-92, delay ranged between 8 to 22 months attracting liquidated damages of as much as Rs. 36 Crores. In another case, an execution of 4 major projects for supply and installation of

process platforms and Water Injection System, the company had to pay liquidated damages amounting to Rs. 5.26 crores. The Committee would emphasise the urgent need to make all out efforts to prevent such delays, which result in avoidable payments of substantial amounts and affect the company's reputation which in turn might also result in dwindling of orders.

13. The Committee are unhappy to observe the state of affairs at the Pipe coating plant at Mangalore. The utilisation of capacity at the plant ranged between 19% to 47% during the years 1986-87 to 1989-90. Thereafter the plant has been lying idle. The operation of the plant resulted in a cumulative loss of Rs. 13.04 crores upto 1991-92. The Committee are at a loss to understand the justification of setting up this plant when the Ministry of Petroleum and Natural Gas had not assured sufficient orders to MDL for full capactiy utilisation. Moreover, the MDL's offers were admittedly not likely to be more competitive for marks outside India, due to freight costs. The Committee are of the opinion that the feasibility of shifting of the plant to economically advantageous location or leasing out of the plant, which are now being considered should have been examined much earlier since the utilisation of the plant has been low for many year. They desire that a decision in this regard should now be taken without further delay.

14. MDL commenced construction of first submarine in January, 1984 and second in September, 1984. Against the revised estimated period of construction of 81 months, the submarines were commissioned after 97 months and 116 months respectively. Not only this the actual cost as on 31.3.1994 was Rs. 377.71 crores against original estimated cost of Rs. 154.16 crores. The reasons for time and cost overruns are stated to have analysed by the Project Management Board in February, 1995 on the basis of which the Department of Defence would take up the issue of revision of cost and levying of liquidated damages. The Committee would like to be informed of the extent of time and cost overrun which could be attributed to factors within the control of MDL and the remedial measures taken to avoid their recurrence. They also regret to note that virtually for all equipments, the warranty had expired prior to their installation and subsequent trials. Although, it has been stated that there had been hardly any case where such an equipment had to be repaired before installation, the Committee desire that every effort should invariably be made in future to instal various equipments before the expiry of the warranty period to obviate avoidable expenditure on this account.

15. The Committee are constrained to observe that the ship repair facilities, which was MDL's main activity at the time of takeover, is not being utilised fully. During 1993-94, it represented just 4% of its turnover. The number of ships repaired has gone from 278 in 1982-83 to as low as 35 in 1993-94. The Committee are not convinced with the argument that during these years the company has been concentrating on other activities like construction of warships, submarines, coast Guard ships, off-shore Supply Vessels, Multipurpose Supply Vessels etc. Involving high technology and high value work. The Committee have brought out in various paragraphs elsewhere that in most of these activities also, the

MDL's performance has not been upto the desired level. Keeping in mind that this is a profitable area, the Committee recommend that all out efforts should be made to increase business in ship repair. It is due to the higher costs that MDL could secure only one order for ship repair from Shipping Corporation of India during the last four years. The Committee would therefore, emphasise the need for reduction in costs to make the company's operations competitive.

16. The Committee have been informed that 128 acres of land was acquired in 1983 by MDL at Dighi for a modern yard for repairing naval ships. An expenditure of Rs. 1.02 crores remained a blocked investment since environmental clearance has not so far been given by Government of India, though such clearance has been granted by Government of Maharashtra in November, 1988. The Committee desire that decision in the matter be taken within three months and in case the yard is decided not to be set up, alternative uses of the land must be explored.

17. The Committee note that the major diversification of MDL so far has been in the field of offshore fabrication and services, although the company's corporate objectives formulated in June, 1978 also envisaged diversification to offshore structural, pressure vessels equipment for Petrochemicals, Chemical & Fertilizer Plants and turn-key jobs. The Tata Consultancy Services have also in their report submitted in November, 1993 recommended diversification in the areas of Process Plant Equipment, Cement Machinery, Ro-Ro Vessel Service, Alloy Steel Pipes, Wind Farm, Titanium Fabrication, Petro-chemicals Complexes through strategic alliances with Foreign manufacturers etc. The corporate plan of the company submitted in 1993, incorporates some of these areas. However, no specific action plan in this regard has been taken up for implementation so far. The Committee agree that the mistakes committed in the past in making capital investments should be avoided and only those projects should be embarked upon the rumunerativeness of which is firmly established. However, they wish to emphasise that the details of such action plan for diversification should be worked out with a sense of urgency. The Committee would like to be apprised of the specific areas where the company is going to diversify together with the estimated outlay and time-frame within which it is proposed to be accomplished.

18. The Committee are concerned to note that Mazgoan Dock Limited incurred losses continuously for many years upto 1989-90. Thereafter, although, it earned a profit of Rs. 321 lakhs, Rs. 340 lakhs, Rs. 507 lakhs and Rs. 629 lakhs respectively during the years 1990-91 to 1993-94, its performance during these years also would have been dismal but for the interest subsidy of Rs. 1535 lakhs received from Government during each of these years. The accumulated losses of the company as on 31.3.1994 stood at Rs. 80.21 crores. All the works undertaken by MDL have generally resulted in losses except turnkey projects for ONGC, ship building work for the

Navy on cost plus basis and ship repairs and general engineering. Fabrication of platforms, transportation and installation of platforms, jack up rigs and pipe coating work were main contributors to the losses of the company. The Committee need hardly emphasise that urgent and concerted efforts have to be made both by the company and the Government to improve the financial health of the company.

19. The Committee have been informed that the accumulated losses of the company are intended to be wiped out by the year 1998-99. However, it appears that these hopes are based on several vague assumptions. Even the profit during 1995-96 is stated to be possible if the company gets a minimum order for two well-head platforms. Even, if this comes true, the Committee are not sure how far the company's hopes would come true since it has been continuously incurring losses on off-shore activities. Moreover, it has been admitted before the Committee that the future oil scenario was still not quite clear and it will only be after some time, that it can be decided how MDL's activities can be dovetailed into the on going process of change. Apart from this, the Ministry has expressed the hope that the finalisation of perspective plan on ship-production on indigenous basis by the Navy would have a positive impact on MDL although no order for ship construction has been received from Navy for the last eight years. The Committee, desire that this possibility of getting substantial orders from Navy should be pursued vigorously and the Committee apprised as to what extent orders have actually been placed on MDL.

20. There is also a proposal for capital restructuring of MDL whereby Government loans would be converted into non-cumulative preference shares to be redeemed by the company in five equal annual instalments. The Committee would like the decision in the matter to be expedited under intimation to them.

21. It was brought to the notice of the Committee that on one order from ONGC involving 7 well head platforms, a condition of ceiling on prices was imposed by the Committee of Secretaries which resulted in heavy losses to MDL. Further examination by the Committee revealed that an order was placed by ONGC on MDL in June 1991 at a price of Rs. 36.5 crore for a platform. Subsequently in February/March, 1992 ONGC placed orders on an Indian firm and two foreign firms for delivery of similar well platform around the same time but at prices of Rs. 70.53 crores and Rs. 68.69 crores respectively. MDL, therefore, wants removal/revision of ceiling on prices. According to the company if ceiling prices are not altered it would be incurring a total loss of Rs. 50.26 crores on these platforms. In case the ceiling are removed and the prices are regulated under the 1989 formula, the losses would get reduced to Rs. 7.22 crores. Now after the setting up of the Committee consisting of officials of ONGC, MDL and their respective Ministries the Committee expect that atleast now the matter would be settled amicably and a fair treatment given to MDL. The Committee would like to be apprised of the final outcome in this regard within three months of the presentation of the report.

22. The Committee are unhappy to note that the outstandings due to MDL at the end of 1993-94 were as high as Rs. 2106.73 crores which represented 9 months' sales of the company. Not only that, the company lost more than Rs. 31 crores by way of interest on outstandings during the preceeding three years. The outstandings (excluding the Russian Credit Liability) are stated to be Rs. 102 crores (Provisional) at the end of 1994-95. However, the Committee are perturbed at the fact that an amount of Rs. 34.52 crores i.e. one-third of the total amount is due for more than three years. The Committee desire that concerted efforts should be made by the company to recover the outstandings early and for any disputes in this regard, negotiations/arbitration should preferably be resorted to as recommended by them in their 9th Report (1992-93).

23. The Committee note that though the manpower in the MDL has been reduced from 15614 at the end of 1985-86 to 11,627 as on 31 December, 1994, the number is still more than required for the present rated capacity. As per a report of the Bombay productivity council, as many as 3028 workmen are reckoned to be surplus for the rated capacity. The Committee are dismayed to learn that it has not been possible for the company to implement the recommendations of Bombay Productivity Council due to resistance from the Employees' Union. The Committee suggest that all out efforts should now be made to bring the manpower to the optimal level as also to get an early decision in the matter of Dearness Allowance to be paid to the employees.

24. In November, 1983, MDL got an order from ONGC for construction of 2 Jack-up Rigs at a price of Rs. 41.80 crores each. The loss suffered on these two rigs was Rs. 68.37 crores which was mainly stated to be due to the fact that construction of Jack-up Rig was undertaken in the country for the first time as a result of which various factors could not be anticipated. However, the Committee do not agree with the company's contention since in their view the change in the location of manufacture, additional transportation costs, communication difficulties are factors which could have been avoided with a little foresight. They desire such lapses to be avoided in future. They also desire that the final outcome of the dispute relating to refund of customs duty amounting to Rs. 11.02 crores paid on Jack-up Rig II be communicated to the Committee.

25. MDL incurred a loss of Rs. 39.96 crores on the eight Off-shore Supply Vessels constructed for ONGC. The Committee have been informed that the price for the vessels was to be fixed by Government on International Parity Price. The matter regarding fixation of price is stated to have been taken up with the Ministry of Petroleum & Natural Gas but without any positive results. The Committee would recommend that the matter regarding review of International Parity Price should be taken up with the Committee of Secretaries for their consideration and the Committee be apprised of the outcome.

26. As has already been observed by the Committee, MDL has not received orders from the Navy for Ship Construction for the last about 8 years, although the Committee have now been informed that MDL would be called upon to manufacture ships in substantial numbers and of enhanced sophistication. The facilities created for off-shore platforms have also remained largely under utilised. The Committee, therefore, feel that MDL being a commercial undertaking, its role needs to be reviewed so that it can keep pace with the changes in the market as also the economic policies. They desire that such a review taking all factors into consideration should be undertaken within six months of presentation of this Report and the Committee apprised of its results.

NEW DELHI;
3 August, 1995

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KAMAL CHAUDHRY
Chairman,
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