

**AUDIT REPORT(S)/PARA(S) REFERRED TO CoPU FOR
FINAL DECISION**

**[Case 1 - Audit Para No. 9.2 of Audit Report No. 13 of 2019
relating to Payment of Performance Related Pay in violation
of DPE Guidelines relating to Shipping Corporation of India
(SCI) Limited]**

**DEPARTMENT OF PUBLIC ENTERPRISES
(MINISTRY OF FINANCE)**

AND

MINISTRY OF PORTS, SHIPPING AND WATERWAYS

**COMMITTEE ON PUBLIC UNDERTAKINGS
(2025-26)**

THIRTEENTH REPORT

(EIGHTEENTH LOK SABHA)



**LOK SABHA SECRETARIAT
NEW DELHI**

THIRTEENTH REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS (2025-26)

(EIGHTEENTH LOK SABHA)

AUDIT REPORT(S)/PARA(S) REFERRED TO CoPU FOR FINAL DECISION

[Case 1 - Audit Para No. 9.2 of Audit Report No. 13 of 2019
relating to Payment of Performance Related Pay in violation
of DPE Guidelines relating to Shipping Corporation of India
(SCI) Limited]

DEPARTMENT OF PUBLIC ENTERPRISES
(MINISTRY OF FINANCE)

AND

MINISTRY OF PORTS, SHIPPING AND WATERWAYS



*Presented to Lok Sabha on 12 August, 2025
Laid in Rajya Sabha on 12 August, 2025*

LOK SABHA SECRETARIAT
NEW DELHI
August, 2025/ Sravana, 1947(Saka)

Price : Rs.....

© 2025 By LOK SABHA SECRETARIAT

Published under Rule 382 of the Rules of Procedure and Conduct of Business in Lok Sabha (Seventeenth Edition) and Printed by Lok Sabha Secretariat, New Delhi-110 001.

CONTENTS		
		PAGE
COMPOSITION OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (2025-26)		v
COMPOSITION OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (2024-25)		vi
INTRODUCTION		vii
ACRONYMS		viii
REPORT		
PART I		
Overview		1
Case 1 - Audit Para No. 9.2 of C&AG Report No. 13 of 2019 relating to Payment of Performance Related Pay in violation of DPE Guidelines relating to Shipping Corporation of India (SCI) Limited		3
A. Brief Overview of SCI		3
B. Strategic Importance of SCI		4
C. Audit Para No. 9.2 of C&AG Report No. 13 of 2019		4
i. Audit Observations		6
ii. Status of Audit Observations		10
iii. Extract from Memorandum of Association (MoA) – Relevant Objectives of SCI		12
iv. SCI's views on PRP-DPE Guidelines		12
v. SCI/ MoPSW position w.r.to open observations		14
vi. Final views of SCI/MoPSW on three unsettled Audit observations		14
vii. Request of CMD, SCI		16
viii. Views of the Audit		18
D. Excerpts from Verbatim Proceedings		18
E. Select remarks of the Committee		31
PART II		
OBSERVATIONS/RECOMMENDATIONS OF THE COMMITTEE		34
APPENDICES		
I.	Minutes of the Sitting of the Committee on Public Undertakings (2024-25) held on 05.12.2024	52
II.	Minutes of the Sitting of the Committee on Public Undertakings (2025-26) held on 26.06.2025	57

COMPOSITION OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (2025-26)

Shri Baijayant Panda - Chairperson

Members

LOK SABHA

2. Shri Tariq Anwar
3. Shri Sudip Bandyopadhyay
4. Shri Chandra Prakash Joshi
5. Smt. Kanimozhi Karunanidhi
6. Shri Kaushalendra Kumar
7. Shri Shankar Lalwani
8. Smt. Poonamben Hematbhai Maadam
9. Shri B.Y. Raghavendra
10. Shri Mukesh Rajput
11. Shri Sukhjinder Singh Randhawa
12. Shri Pratap Chandra Sarangi
13. Shri Kodikunnil Suresh
14. Shri Prabhakar Reddy Vemireddy
15. Shri Lalji Verma

RAJYA SABHA

16. Dr. John Brittas
17. Shri Neeraj Dangi
18. Shri Milind Murli Deora
19. Dr. Bhagwat Karad
20. Shri Surendra Singh Nagar
21. Shri Debashish Samantaray
22. Shri Arun Singh

SECRETARIAT *

1. Shri Anjani Kumar - Joint Secretary
2. Smt Jyochnamayi Sinha - Joint Secretary (then Director)
2. Smti Mriganka Achal - Director
3. Smt. Smita Khade - Under Secretary

* Shri Neeraj Semwal, Joint Secretary and the then In-charge of PU Branch submitted the draft Report for approval of Hon'ble Chairperson, CoPU.

COMPOSITION OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (2024-25)

Shri Baijayant Panda - Chairperson

Members

LOK SABHA

2. Shri Tariq Anwar
3. Shri Sudip Bandyopadhyay
4. Shri R.K. Chaudhary
5. Shri Chandra Prakash Joshi
6. Smt. Kanimozhi Karunanidhi
7. Shri Kaushalendra Kumar
8. Shri Shankar Lalwani
9. Smt. Poonamben Hematbhai Maadam
10. Shri B.Y. Raghavendra
11. Shri Mukesh Rajput
12. Shri Sukhjinder Singh Randhawa
13. Shri Pratap Chandra Sarangi
14. Shri Kodikunnil Suresh
15. Shri Prabhakar Reddy Vemireddy

RAJYA SABHA

16. Shri Neeraj Dangi
17. Shri Milind Murli Deora
18. Shri Narain Dass Gupta
19. Dr. Bhagwat Karad
20. Shri Surendra Singh Nagar
21. Shri Debashish Samantaray
22. Shri Arun Singh

INTRODUCTION

I, the Chairperson, Committee on Public Undertakings (2025-26) having been authorized by the Committee to submit the Report on their behalf, present this Thirteenth Report on 'Audit Report(s)/Para(s) referred to CoPU for final decision' [Case 1 - Audit Para No. 9.2 of Audit Report No. 13 of 2019 relating to Payment of Performance Related Pay in violation of DPE Guidelines relating to Shipping Corporation of India (SCI) Limited].

2. The Committee on Public Undertakings selected and examined the said subject during (2024-25). The present Committee decided to carry forward and finalise the draft Report on the subject.

3. The Committee on Public Undertakings (2024-25) was briefed about the subject by the representatives of the C&AG and thereafter took oral evidence of the representatives of Department of Public Enterprises (Ministry of Finance), Shipping Corporation of India (SCI) and Ministry of Ports, Shipping and Waterways (MoPSW) on 5th December, 2024.

4. The Committee (2025-26) considered and adopted the draft Report at their sitting held on 26th June, 2025.

5. The Committee wish to express their thanks to the representatives of Department of Public Enterprises (Ministry of Finance), Shipping Corporation of India (SCI) and Ministry of Ports, Shipping and Waterways (MoPSW) for tendering evidence before the Committee and furnishing the requisite information to them in connection with examination of the subject.

6. The Committee would also like to place on record their appreciation for the assistance rendered to them in the matter by the Office of the Comptroller and Auditor General of India.

7. The Committee wish to express their sincere thanks to the predecessor Committee for their valuable contribution in examination of the subject.

8. For facility of reference and convenience, the Observations and Recommendations of the Committee have been printed in bold letters in Part-II of the Report.

New Delhi;
08 August, 2025
17 Shravana, 1947(S)

BAIJAYANT PANDA
CHAIRPERSON
COMMITTEE ON PUBLIC UNDERTAKINGS

ACRONYMS

1.	ATNs	Action Taken Notes
2.	C&AG	Comptroller and Auditor General of India
3.	C&AG	Comptroller and Auditor General's
4.	(DPC Service) Act, 1971	(Duties, Powers and Conditions of Service) Act, 1971
5.	CoPU	Committee on Public Undertakings
6.	CPSU	Central Public Sector Undertaking
7.	CPSE	Central Public Sector Enterprise
8.	DIPAM	Department of Investment and Public Asset Management
9.	DNME	Do Not Meet Expectation
10.	DPE	Department of Public Enterprises
11.	DRDO	Defence Research and Development Organisation
12.	DWT	Dead Weight Tonnage
13.	GSI	Geological Survey of India
14.	ISRO	Indian Space Research Organisation
15.	IPKF Operations	Indian Peace Keeping Force Operations
16.	ICSL	Inland & Coastal shipping Ltd
17.	JV	Joint Venture
18.	LPG	Liquefied Petroleum Gas
19.	LNG	Liquefied Natural Gas
20.	MoA	Memorandum of Association
21.	MoPSW	Ministry of Ports, Shipping and Waterways
22.	OFD	Opportunity For Development
23.	ONGC	Oil and Natural Gas Corporation Limited
24.	PBT	Profit Before Tax
25.	PRP	Performance Related Pay
26.	POM	Preliminary Office Memorandum
27.	SCI	Shipping Corporation of India

PART I

I. OVERVIEW

The Committee on Public Undertakings (CoPU) under - Rule 312A (Functions) of the Rules of Procedure and Conduct of Business in Lok Sabha have been mandated for examination of the Public Undertakings specified in the Fourth Schedule. The functions *inter-alia* includes examination of Reports, if any, of the Comptroller and Auditor-General on the Public Undertakings. As regards Audit Reports, the C&AG assists the Committee on Public Undertakings in pursuing such matters as have been raised in the Audit Reports (Commercial) or in the Audit Reports pertaining to the Government Companies or Statutory Corporations that are laid in Parliament under the provisions of Section 19-A of the C&AG's (DPC Service) Act, 1971.

2. During the term, the Committee select Comprehensive, Horizontal and Audit based subjects for examination and report to Parliament. As regards Audit based subjects, every year the Committee select only few of the Audit Reports/Paras from the C&AG Reports (Commercial) for examination. The administrative Ministry/Department of the concerned Central Public Sector Undertaking (CPSU) is required to submit follow-up Action Taken Notes (ATNs) duly vetted by the Audit to the Committee in respect of all Reports of C&AG (Commercial). The action on furnishing of Action Taken Notes (ATNs) on all Audit Paras/Reports, irrespective of selection/non-selection for examination by CoPU, lies between the C&AG and concerned CPSU through its administrative Ministry/Department.

3. The submission of ATNs by the Ministry/Department on observations made in the Audit Reports/Paras followed by vetting comments by the C&AG is continued till all the observations raised by the Audit are settled. Audit while giving final vetting remarks in ATNs to the concerned Department/Ministry make a request to submit the final vetted ATNs to CoPU. The Ministry/Department, thereafter, forward the settled ATNs to CoPU for final settlement and deletion/dropping of Audit Para/Report from the list of pending/unsettled Paras/Reports.

4. The Committee in their Second Report (Original) (1998-99) (12th Lok Sabha) took serious view on the non-submission/delay in submission of ATNs and casual attitude shown by the Ministries/Departments in finalizing the ATNs on the Reports of the C&AG of India (Commercial) and recommended that the follow up Action Taken Notes, duly vetted by audit in respect of all reports of C&AG (Commercial) presented to Parliament, should be furnished to the Committee within six months from the date of presentation of the relevant audit reports.

Despite six months timeline, it has been observed that the same has been seldom adhered to leading to delay in settlement of Audit Para/Reports sometime spanning in years. In fact, it has been noticed that the process of submission of ATNs followed by vetting comments of the Audit is repeated till all the observations on the Audit Report/Para are settled and sent finally to CoPU. It has also been observed that the entire process take years and is done in several rounds/journeys over the period of time.

5. During the First sitting of the Committee held on 5 September, 2024, C&AG of India *inter-alia* had briefed the Committee on various issues pertaining to the Reports/Paras of C&AG (Commercial) and highlighted that there are 265 pending Audit Reports/Paras pertaining to various CPSUs, after several journeys for ATNs submission followed by vetting comments, the Audit due to stalemate on some of the observations has conveyed the Ministry to send the ATNs to CoPU for final decision in the last five years.

6. The Committee at the beginning of the term, select subjects under three categories viz. Comprehensive, Horizontal and Audit based for in-depth study and Report. The subjects selected for examination are a mixed bag of the above-mentioned three categories and are selected in such a manner that the Committee are able to deliberate on maximum subjects within the limited time available and present Reports on the subjects.

In this context, out of 265 Audit Reports/Paras referred to the Committee for final decision, the Committee at their sitting held on 5 December, 2024 decided to have selective approach and thus undertook examination of one Audit Para viz. *'Audit Para No. 9.2 of C&AG Report No. 13 of 2019 relating to Payment of Performance Related Pay (PRP) in violation of DPE Guidelines relating to Shipping Corporation of India (SCI) Limited'* (Case 1) on priority under the broader aspect of *"Audit Report(s)/Para(s) referred to CoPU for final decision"*.

Case 1 - Audit Para No. 9.2 of C&AG Report No. 13 of 2019 relating to Payment of Performance Related Pay in violation of DPE Guidelines relating to Shipping Corporation of India (SCI) Limited

A. Brief Overview of SCI

7. The Shipping Corporation of India Ltd. (SCI), is a Navratna PSU under the Administrative control of Ministry of Ports, Shipping & Waterways (MoPSW). SCI owns and operates around 25% of Indian tonnage - Diversified fleet includes Bulk carriers, Crude Oil Tankers, Product Tankers, Container Vessels, LPG Carrier and Offshore Supply Vessels. SCI owns 57 vessels with a total tonnage of 5.25 million DWT. SCI also manages a fleet of 36 vessels owned by various Government Agencies and Organizations, viz. Andaman & Nicobar Administration, ONGC, GSI, JV companies (India LNG Transport Companies). Subsidiary Inland & Coastal Shipping Limited (ICSL) manages 3 vessels of Inland Waterways Authority. SCI has been a profitable CPSE - During last 10 years, barring incurring losses only in FY 18-19. Currently, under the directions of MoPSW, Government of India, expansion of SCI is being carried out in a big way to serve the country better.

B. Strategic Importance of SCI

8. National Security and Energy Security – SCI acts as a Second Line of Defence during emergencies. Eg. Gulf War, IPKF Operations, Oil Shock in the 1970s etc. It is the only Indian Shipping Company for Liquefied Natural Gas (LNG) transportation in India. SCI has been closely associated with DRDO, Navy, ISRO on their projects of National Importance.

Angel Support -

- SCI has always promoted the cause of indigenization.
- SCI forayed into providing support to Indian Shipyards by acquiring vessels built by them.

Crucial Support to Government -

- SCI was first to start direct services from India to China, Europe, Gulf, USA etc. – When SCI withdrew from US Service, the freight levels tripled and later on when SCI re-entered after two years, the freight levels came down to 1/4th.
- Act as a freight moderator in EXIM/Coastal services in containers, thereby, saving foreign exchange.

SCI has trained 2 Lakh plus seafarers who have been serving on Indian & International vessels keeping Indian and SCI flag flying high.

C. Audit Para No. 9.2 of C&AG Report No. 13 of 2019

9. The Audit Report No. 13 of 2019 was laid in Parliament on 25 November, 2019. In Para No. 9.2 of the Audit Report, the Audit pointed at SCI making payment of Rs. 11.03 crore to its employees as PRP that was not in compliance of with the DPE Guidelines. Audit observed that as per DPE Guidelines, profits from only the core business activities of the CPSEs were to be considered for distribution of Performance Related Pay (PRP)

to employees but the Shipping Corporation of India considered non-core profits also, for distributing PRP.

10. As per Audit, the Department of Public Enterprises (DPE) approved (November 2008) payment of Performance Related Pay (PRP) for Board level and below Board level executives and non-unionized supervisors of Central Public Sector Enterprises (CPSEs). The CPSEs were required to follow a 'Bell Curve' approach in grading the officers so that not more than 10 % to 15 % are graded outstanding and 10 % are to be graded below par who are not to be paid any PRP . Further, DPE clarified that PRP should be distributed based on profits accruing only from core business activities of the CPSEs.

During 2014-15, Shipping Corporation of India reported Profit Before Tax (PBT) amounting to ₹276.13 crore and PRP of ₹11.03 crore was paid to employees, as per approval (November 2016) of Board of Directors.

Audit observed that while calculating profit available for distribution of PRP, the Management did not deduct non-core profits from PBT i.e., profit on sale of fixed assets including ships (₹122.42 crore), interest on employees loan (₹0.64 crore), Interest on loan given to joint venture (JV) (₹ 28.67 crore), dividend from mutual funds (₹6.72 crore) and interest income on rescinding of ship building contracts (₹ 124 crore) aggregating to ₹ 282.45 crore. If such profits are excluded, being non-core profits, there was no profit arising from core business activity.

Further, SCI categorized the below par employees into two categories viz. 'Opportunity For Development (OFD)' (9.84 % of total employees) and 'Do Not Meet Expectation (DNME)' (1.48% of total employees). The OFD category employees were paid PRP amounting to ₹38.46 lakh. Thus PRP paid to major section of below par employees was also in violation of DPE guidelines.

Thus, Audit concluded that the payment of ₹11.03 crore to its employees by SCI as "Performance related pay", was not in compliance with DPE guidelines.

11. The Ministry of Ports, Shipping and Waterways (MoPSW) vide OM dt. 27 February 2024 while sending Action Taken Notes (ATNs) to CoPU enclosed the copy of letter from the O/o C&AG for final decision of CoPU on the unsettled observations in the Audit Para.

12. During the financial year 2014-15, SCI recorded Profit Before Tax (PBT) of Rs. 276.13 crore and PRP was payable to employees with a ceiling of Rs.13.81 crores basis profit (3% of profit) and incremental profit (2% of incremental profit). Accordingly, in line with approval accorded by its Board, SCI paid Rs.11.03 crore as PRP to the eligible employees for the FY 2014-15.

13. The Committee observe that the Audit observations covered the aspects of Performance Related Pay (PRP) for the Financial Year 2014-15 that were included in a POM (Preliminary Office Memorandum) raised by Resident Audit Party (RAP) on 7 February, 2018 and finally appearing in the Audit Report presented to Parliament in 2019.

(i) Audit Observations

14. As per C&AG, the inclusion of income on account of seven (7) non-core business activities, two (2) of which were settled at Preliminary Audit Stage, in the PBT for the purpose of calculation of PRP resulted in violation of DPE guidelines and avoidable payment of PRP of Rs.11.03 crore. A tabular summary of said seven (7) business activities and status of observations thereupon, as furnished, is tabulated below:-

SI.No.	C&AG Observation	C&AG Argument	SCI's clarification and submission
1.	Mgmt. did not deduct non-core Profit on sale of fixed assets including ships (Rs.122.42 crore)	<ul style="list-style-type: none"> ➤ As per DPE guidelines, 02.11.2010, 18.09.2013, 02.09.2014, PRP to be distributed based on profits accruing from Core Business activities of CPSE. ➤ SCI's core business activity is marine logistics and income derived from it as freight, charter hire, demurrage etc. Disposal of vessel is not part of core business activity as 	<ul style="list-style-type: none"> ➤ SCI MOA defines the "core business activity" of SCI. As per MOA the objective of SCI is to Purchase, Charter hire or acquire otherwise, sell exchange, let or charter ships or vessels of any description with all equipment. To operate transport services through waterways in a profitable manner.

		<p>company is not into trading activity of purchase & sale of ships.</p> <ul style="list-style-type: none"> ➤ Activities listed in MOA is for SCI whereas DPE guidelines based on which the PRP/PBT is calculated is applicable to all CPSEs. ➤ As per DPE OM dated 02.11.2010, extra ordinary items like valuation of stock , sale of land etc (list not exhaustive) should not be included in PRP calculation. 	<ul style="list-style-type: none"> ➤ Purchase & Sale of vessels, based upon their commercially viable life and other reasons, forms an intrinsic part of core business of SCI and same holds true for any other ship-owner company in the world. ➤ The sale of vessels is necessitated for replacement of old tonnage with a modern vessel complying with constantly upgrading IMO regulation and meeting international environment standards. ➤ It also helps SCI in achieving a commercially competitive young fleet of vessels. Income from sale of vessel presently is shown under Other Income. ➤ The profit on sale of vessels (operating assets) cannot be equated with profit on sale of other 'Fixed Assets' such as land or building. Hence the same as been considered as revenue from operation. <p>C&AG did not agree to SCI's submissions and not dropped this point.</p>
2.	Interest on loans given to JVCs (Rs.28.67 crore)	<ul style="list-style-type: none"> ➤ Loan given to JVs is a financing activity not a core business activity, since SCI is not in financing business, this can not be considered as Core Business activity of SCI. 	<ul style="list-style-type: none"> ➤ In order to achieve greater reach in global markets and facilitating diversification into new specialized business lines, SCI also enters/ forms JVs. ➤ Loans are extended to JVs as equity contribution for fulfilling requirement of loan availed for vessel acquisition. ➤ In these JVs, SCI is also the Manager/Operator of the vessels and gets the remuneration. ➤ These JVs have granted on SCI the distinction of being the only Indian Shipping

			<p>company in the business of transporting LNG which is a vital fuel for India's power plant and chemical/ petrochemical industry. SCI's presence in the LNG segment is of strategic importance to the country.</p> <ul style="list-style-type: none"> ➤ The loan extended by SCI to SCI's JVs is as part of its business requirements and commercial terms between the JV partners since inception. ➤ The earnings from this investment constitute core business activity of SCI. <p>C&AG not agreed to SCI's submissions and accordingly not dropped this point.</p>
3.	Interest on on employee loans (Rs.0.64 crore)	➤ It is an investment and not a core operating activity.	<ul style="list-style-type: none"> ➤ Employees form part of SCI business and soft loans granted motivates employees for high productivity and hence directly contributes to core business of SCI. Interest on employee loans is not interest on ideal cash/bank balance. <p>However, SCI agreed and excluded this component in the revised PBT calculation.</p>
4.	Interest - Others (Rs.22.96 crore)	➤ It is an investment activity and not a operating activity.	<ul style="list-style-type: none"> ➤ Interest Others, amounting into Rs.22.96 crore for FY 2014-15. ➤ Out of the said amount approximately Rs. 22.72 crore is interest received from A&N Administration towards the delay in payment by them to SCI, as contractual provision governing 'Operation & Maintenance of vessel' services provided by SCI to A&N Administration.

			<p>➤ SCI derives working capital from borrowed funds and pays out interest. To recover this outgo, contract empowers to recover interest from A&N Administration. Hence the same appears as receivable is directly attributable to core business of (managing ships of other ship owner) SCI.</p> <p>C&AG has agreed to SCI's submissions and accordingly dropped this point at Preliminary Audit Stage.</p>
5.	Dividend from MF (Rs.6.72 crore)	➤ It is an investment activity and not a operating activity.	<p>➤ The DPE guidelines mandate to exclude interest on idle cash/ bank balances. It is submitted that SCI didn't have any idle cash / Bank balances during the FY 2014-15.</p> <p>SCI agreed and excluded this component in the revised PBT calculation.</p>
6.	Interest on FD (Rs.93.62 crore)	➤ It is an investment activity and not a operating activity	<p>➤ For FY 2014-15 interest income on fixed deposits was Rs.93.62 crore. However all the FDs and investments were mandatory in nature for various requirements such as maintaining minimum Debt Service Coverage Ratio and or as per covenants of loan taken for acquisition of vessel, which forms and intrinsic part of SCI's core business. Similarly, the unutilized proceeds of FPO were specifically for fleet expansion and could not have been diverted for any other business activity. Thus it would be incorrect to term it as income from idle cash /bank balance</p> <p>C&AG has agreed to SCI's submissions and accordingly</p>

			dropped this point at Preliminary Audit Stage.
7.	Interest income on rescindment of ship (Rs.124 crore)	➤ Interest Income from rescindment of contract which was meant for acquisition of vessel, which is a fixed asset, can't be compared with the liquidated damages.	➤ The interest income on rescindment of ship building contracts due to subpar performance of building yards, constitutes part of process of acquisition and was carried out as per commercial contractual provisions, hence a normal business activity of a Shipping Company. ➤ Had the vessel delivered in time, SCI would have earned income from charter hire/freight. C&AG did not agree to SCI's submissions and not dropped this point.

(ii) Status of Audit Observations

15. After scrutiny, it has been found that out of the seven observations of C&AG on payment of PRP (2014-15) to the SCI employees, the stalemate between the C&AG and Ministry pertains to the issue of interpretation of core and non-core business activities based on SCI's Memorandum of Association (MoA) (as stated by the Ministry) and DPE's guidelines (as stated by C&AG) and PRP distributed to the Company's employee during 2014-15.

Out of the following seven Audit observations, four have been settled (two agreed by SCI and other two dropped by C&AG at Preliminary Audit Stage) between the MoPSW/SCI and C&AG and stalemate on the three remaining observations were deliberated upon for final decision on the matter:-

SI.No.	Summary of Audit Observation	Amount	Remarks
1.	Interest income on rescinding of ship building contracts *	Rs. 124.00 crore	Live.

			(As per SCI, this income forms part of its vessel acquisition process)
2.	Profit on sale of fixed assets including ships *	Rs. 122.42 crore	Live. (As per SCI, this aligns with its practice of managing a commercially viable fleet)
3.	Interest on loan given to Joint Venture (JV) Companies *	Rs. 28.67 crore	Live. (As per SCI, these loans are integral to its strategic and operational goals, particularly in the LNG shipping sector)
4.	Dividend from mutual funds	Rs. 6.72 crore	Settled. (SCI agreed and excluded this component in the revised PBT calculation)
5.	Interest on employees Loan	Rs.0.64 crore	Settled. (SCI agreed and excluded this component in the revised PBT calculation)
6.	Interest income on fixed deposits	Rs.93.62 crore	Settled. (C&AG agreed to SCI's submissions and accordingly dropped the point at Preliminary Audit Stage).
7.	Interest - others	Rs. 22.96 crore	Settled. (C&AG agreed to SCI's submissions and accordingly dropped this point at Preliminary Audit Stage)

*As submitted by SCI, these activities form part of its core business and meet the DPE guidelines and in pursuance, the Company has secured approvals from its Board and MoPSW, reflecting consistency with its long-term objectives.

(iii) Extract from Memorandum of Association (MoA) – Relevant Objectives of SCI

16. During submission before the Committee, SCI has placed following position on Memorandum of Association (MoA) – Relevant Objectives of SCI :-

- “As per MOA, few of the objectives of SCI relevant to the subject are:
 - *To Purchase, Charter hire or otherwise acquire, sell exchange, let or charter either in India or in any other country or otherwise deal with steam and other ships or vessels of any description with all equipment and furniture and to establish maintain and operate transport services by water and land between India and other countries of the world for conveyance of passengers, mail and freight and for any other purpose including conveyance of troops, carriage of munitions, all merchandises etc. (Page No. 1 of MOA - Sr. No. 3(a))*
 - *To maintain, operate, renew, replace, repair, improve, alter, break, sell, exchange or let out on hire or charter load on commission or otherwise use, utilise, deal with and dispose of any ships and vessels. (Page No. 2 of MOA - Sr. No. 3(h))*
 - *To grant loans on ships, vessels, or on goods and merchandise carried or to be carried or to be carried on any vessels.... (Page No. 3 of MOA - Sr. No. 3(s))*
- The objective of SCI includes :
 - *To provide its clientele safe, environmentally sustainable, reliable, efficient and quality shipping services, complying with all legal and other requirements.*
 - *To own or acquire an adequate, well designed and efficient fleet to cater to the demand of global maritime trade through options like leasing, demise charter, joint ventures and other innovative financial measures.*

(iv) SCI's views on PRP-DPE Guidelines

17. Further, SCI has placed following position for perusal of the Committee on PRP – DPE Guidelines:-

” PRP under 2007 Pay Revision – Vis-a-Vis Core Profit / Business Activity.

- PRP is Performance Related Pay / Variable Pay based on:
 - Profits of the CPSE, it's MoU rating and Performance of the individual employee.

- Initial DPE OMs which were issued to all CPSEs and are relevant to PRP:
 - are dated 26.11.2008, 09.02.2009 and 06.07.2011
 - above OMs did not illustrate about Core and non Core Profit

Concept of Core business activities was first mentioned in DPE OM dtd. 18.09.2013. The excerpt from the OM titled 'Deduction of interest on idle cash/bank balances for the purpose of calculating Profits Before Tax (PBT) and distribution of Performance Related Pay (PRP) in CPSEs' is as under:-

DPE guidelines of 2007 pay revision of executives and non-unionized supervisors of CPSEs *inter-alia* provide for payment of PRP subject to a ceiling of 5 % of Profit Before Tax (PBT) of a CPSE. In response to queries from CPSEs/administrative Ministries/Departments in this regard, it has been clarified that interest on idle cash/bank balances may be deducted from PBT and PRP may be distributed based on profit accruing only from core business activities of the CPSEs. This position is once again reiterated to remove any doubts in this matter.

- CAG has also relied upon a separate DPE OM dated 02.11.2010 while auditing SCI:
 - This OM was circulated to Dept. of Defence Production only
 - This OM contains clarification wrt PBT for computation of PRP as:

'CPSEs have been set up for specified objectives so that they can conduct their business on sustainable basis. It is expected that their profit will come out from:

- ✓ *their specified objectives*
- ✓ *through their normal business and*
- ✓ *core activities*
- ✓ Not to include – *extra ordinary items like valuation of stock, grant waived by Government, sale of land, etc.'*

PRP under 2017 (current) Pay Revision:

Excerpt of Para 11 from DPE OM dated 03.08.2017 is as under:-

(I) Allowable profits:

- a. *The overall profits for distribution of PRP shall be limited to 5 % of the year's profit accruing only from core business activities (without consideration of interest on idle cash/bank balances), which will be exclusively for executives and for non-unionized supervisors of the CPSE. The ratio break-up of profit accruing from core business activities for payment of PRP between relevant year's profit to Incremental profit shall be 65.35 to arrive at the Allocable profits and the Kitty factor.*

(v) **SCI/ MoPSW position w.r.to open observations –**

18. The SCI/MoPSW made the following submission clarifying their position before the Committee:-

- CAG observation, initially raised in June, 2018, is open on **total of three(3) business activities of SCI, where there is a difference in the interpretation of the “Core Business Activity”**.
- Purpose of PRP is to reward & motivate employees. The same has to be considered together with DPE guidelines.
- **DPE guidelines have not specifically excluded any items which CAG has not agreed to close (the observation).**
- Thus, to ascertain activities forming part of “Core Business” of SCI:
 - Matter has been independently deliberated and decided by the NRC of the Board of SCI in meeting dated 04.02.2020.
 - Approved by the Board of SCI.
 - Concurred by MoPSW vide response dated 13th January 2021 to CAG:
“SCI is in the business of transportation services through waterways and for its sustainability various activities form part of its core business activities which are interlinked and is the basis of SCI’s business presence. Hence, SCI’s stand may not be treated as an argument and to be treated in right spirit....” (excerpt)
- **Under recent Demerger process by DIPAM / MoPSW – Vessels have been established as Core assets and retained with SCI.**

(vi) **Final views of SCI/MoPSW on three unsettled Audit observations**

The final views of SCI/MoPSW, justifying the referred three(3) nos. activities are part & parcel of SCI’s core business activities, as placed for kind consideration of the Committee have ben summarized as under –

SI.No.	Activity	Clarification by SCI / MoPSW and further submission to establish activity as part of Core Business
1.	Interest income on rescindment of ship (Rs.124 cr.)	➤ The interest income on rescindment of ship building contracts due to subpar performance of building yards, constitutes part of process of acquisition of vessel, which is a core business activity, and was carried out as per commercial contractual provisions.

		<ul style="list-style-type: none"> ➤ Contract was given to Shipyard (contractor) for building vessel and in case of delay / non performance of contract, Shipyard repaid the money along with compensation. ➤ While purchasing any vessel, SCI also avails loan and has to pay interest on the same. ➤ SCI would have operated new vessel, if delivered, for generating revenue profitably. ➤ Hence, SCI Board / MoPSW considered same as revenue from core operations for purpose of calculation of PBT for purpose of PRP.
2.	Mgmt. did not deduct Non core Profit on sale of fixed assets including ships (Rs.122.42 crore)	<ul style="list-style-type: none"> ➤ Purchase & Sale of vessels, based upon their commercially viable life and other reasons like market scenario etc., forms intrinsic part of core business of SCI. ➤ Normal business of any other ship-owner company in the world includes tonnage acquisition and disposal at opportune time especially since shipping is a cyclical business. ➤ The sale of vessels is also necessitated for replacement of old tonnage with a modern vessel complying with constantly upgrading IMO regulation and meeting international environment standards. ➤ It also helps in achieving a commercially competitive young fleet of vessels. ➤ SCI's objectives (MoA) include 'sell exchange' of ships or vessels. ➤ The profit on sale of vessels (operating assets) cannot be equated with profit on sale of other 'Fixed Assets' such as land or building. ➤ Hence, SCI Board / MoPSW considered same as revenue from core operations for purpose of Profit for PBT. ➤ Under recent Demerger process by DIPAM / MoPSW – Vessels have been established as Core assets and retained with SCI.
3.	Interest on loans given to Joint Venture (JV) Companies (Rs.28.67 crore)	<ul style="list-style-type: none"> ➤ In order to achieve greater reach in global markets and facilitating diversification into new specialized business lines, SCI enters/forms JVs. These JVs are in line with core Business Objectives of SCI. ➤ By this SCI ensured that niche, technically challenging & capital intensive segment of LNG shipping is brought to India to protect its strategic interest.

		<ul style="list-style-type: none"> ➤ LNG is a vital fuel for India's power plant and chemical / petrochemical industry. SCI has the distinction of being the only Indian Shipping company in the business of transporting LNG - Achieved by SCI through JVs. ➤ Loans are extended by SCI to JVs in lieu of equity contribution (quasi-equity) for fulfilling requirement of loans availed for purchasing costly LNG vessel through JVs. Loans were <u>extended once at the time of establishing JVs.</u> ➤ Thus, loan extended by SCI to SCI's JVs is as part of its core business requirements and as part of commercial terms between the JV partners <u>since inception.</u> ➤ In these JVs, SCI is also the Manager/Operator of the vessels. SCI employees are handling operations, commercials & accounting of the JV vessels. ➤ Hence, SCI Board / MoPSW considered income from this loan as revenue from core operations for purpose of calculation of PBT for purpose of PRP.
--	--	--

19. Summary of monetary impact on the SCI employees

Sl.No.	Particulars	No. of employees	Amount (Rs.)
1.	Set-aside from separated employees	235	4,45,07,895
2.	Could not be set-aside as employee had already superannuated	110	1,58,24,296
3.	Active employees	350	5,00,42,794
TOTAL		695	11,03,74,985

(vii) Request of CMD, SCI

20. The SCI, in their PRAYER to the Committee, has requested for redressal of the issue and made following submission :-

“ During the FY 2014-15, SCI recorded profit before Tax (PBT) of Rs. 276.13 crore; and as per DPE guidelines and SCI's PRP scheme:

- Ceiling of Rs.13.391 crore was applicable for payment of PRP, basis 3% of annual profit & 2% of incremental profit, after deducting profit from accepted non-core activities
 - SCI paid Rs.11.03 crore as PRP to the eligible employees for the FY 2014-15 - Within the ceiling and not exceeded the upper limit of 5% of PBT
- **Thus, no excess payments were made by SCI on account of PRP for the financial year 2014-15.**
- **Yet, hardship is being faced by employees and COPU is requested to resolve the matter in the interest of retired & existing employees :**
- Entire amount paid in 2016 as PRP for FY 2014-15 is being set-aside from the employees separating from SCI, including employees superannuating after long career of over 3 decades in SCI
- Applicable Income tax on PRP paid to the employees had already been deposited with authorities at time of payment.
- Recovery from retired employees is bound to expose SCI to undue litigations
- Threat of recovery from separating employees is demotivating and creating unpleasant atmosphere amongst the active (in service) employees
- As explained, the Business of Shipping is in many ways different than a land / factory based organizations / other CPSEs.
- The humble submission to the Committee is that, with due consideration to the peculiar nature of the Shipping Business, the “Core Business Activity” of SCI considered for determination of profits for distribution of PRP may be accepted as:
- deliberated and resolved by the NRC of SCI Board (which includes Independent Directors), in meeting dated 04.02.2020, and subsequently
 - approved by SCI Board
 - concurred & forwarded by MoPSW vide response dated 13th January 2021 to CAG
- **It is therefore humbly requested to COPU:**
- To compassionately view & settle the subject matter considering the deliberations & decisions taken by SCI Board and concurred by MoPSW.
 - Accordingly, Interest income on rescindment of ship, Profit on sale of ships and Interest on loans given to Joint Venture (JV) Companies should also be treated as income arising in course of core business activities of SCI for purpose of PRP.”

(viii) Views of the Audit

21. The C&AG in their briefing to the Committee, furnished their rebuttal to the reply of the Ministry as under:-

Ministry's Reply:

“ The objects for which SCI was established were defined in its Memorandum of Association and purchase and sale of vessels was mentioned therein, indicating that profit arising from sale of ships was an income from core activity. The placing of orders and consequent rescindment of ship building contracts was in line with the core business activities and hence nay associated income was also core business income for SCI.”

Audit Rebuttal:

“SCI's core activity is Marine logistics and income derived from this activity are in the nature of freight, charter hire, demurrage, etc. The Company is not into trading activity of purchase and sale of ships. Mention of an activity in the MoA does not mean that it is a core activity.”

D. Excerpts from Verbatim Proceedings

22. On the issue of Audit's observation on '**Internal income on rescindment of ship (Rs.124 cr)**', the CMD, SCI submitted as under:-

“पहला मुद्दा है कि कुछ हमारे शिपिंग कांट्रैक्ट्स, जो हमने शिपयार्ड के साथ असाइन किए थे, किसी कारणवश वे कैंसल हुए। उन पर हमारा जो पैसा गया हुआ था, उस पर कुछ ब्याज मिला। हमारा इंटरप्रेटीशन यह है कि हमारा कोर बिजनेस जहाज बनाना, बनवाना और खरीदना है। उससे हमें जो इनकम हुई, वह कोर बिजनेस से हुई। यह हमारा लॉजिक रहा है। यदि वह जहाज बनता, तो वह जहाज रेवेन्यू के रूप में, फ्रेट के रूप में एससीआई के प्रॉफिट में काउंट होता। फरदर जो भी पैसा हम यार्ड को देते हैं, वह किसी न किसी रूप में मार्केट से लोन के रूप में लेते हैं। उस पर हम ब्याज देते हैं। हम जो ब्याज मार्केट, बैंक को दे रहे हैं, तो यदि कोई शिपयार्ड डिफॉल्ट हुई है तो उनको हमें कम्पेनसेट करना है। हमारे हिसाब से यह नॉर्मल कोर बिजनेस का पार्ट है।”

{ The first issue is that some of the shipping contracts assigned with the shipyard were cancelled for certain reasons. The money that had already been invested in these contracts earned some interest. The interpretation is that the core business involves building, commissioning, and purchasing ships. Therefore, the income received from this is considered part of the core business. This has been the underlying logic. Had the ship been built, it would have been counted as revenue for SCI in the form of freight. Moreover, any payments made to the yard are, in some way, sourced from the market as a loan, on which interest is paid. Since

interest is being paid to the market and banks, it is expected that if a shipyard defaults, they should provide compensation. From this perspective, such transactions are regarded as a normal part of the core business.}

23. On the issue of Audit's observation on '**Management not deducting non-core profit on sale of fixed assets including ships (Rs. 122.42 cr)**', the CMD, SCI submitted as under:-

"दूसरा, disposal of ships, जब भी हम कोई नया जहाज खरीदते हैं, उसमें प्रोजेक्ट रिपोर्ट तैयार होती है, कैलकुलेशन होती है। उस कैलकुलेशन में बहुत महत्वपूर्ण पार्ट होता है, जहां प्रोजेक्ट की वायबिलिटी अप्रूव या रिजेक्ट होती है। at the end of the life, उस एसेट्स, जहाज की वैल्यू क्या होगी, वह भी उस समीकरण में फिट बैठता है। ये सारी की सारी सूचनाएं उस इक्वेशन में बैठती हैं। जो भी कम्पोनेंट इस कैलकुलेशन में आते हैं, disposal of the vessel is also one of the integral parts. हमारे हिसाब से disposal of the vessel is also a part of our core business."

{Secondly, regarding the disposal of ships, whenever a new ship is purchased, a project report is prepared, and calculations are conducted. A crucial aspect of this calculation determines whether the project's viability is approved or rejected. At the end of its life, the value of the asset—the ship—also factors into this equation. All such information is taken into account in this analysis. Among the various components included in the calculation, the disposal of the vessel is considered an integral part. From this perspective, the disposal of the vessel is also regarded as part of the core business.}

24. On the issue of Audit's observation on '**Interest on loans given to Joint Venture (JV) Companies (Rs.28.67 cr)**', the CMD, SCI submitted as under:-

"तीसरा, आईएलटी वेसेल्स, जो जापानी ओनर्स के साथ वर्ष 2004 में जॉइंट वेंचर बना था। उस समय कंट्री की रिकायरमेंट एलएनजी इम्पोर्ट करना थी। SCI was one of the leading companies in the Ministry of Shipping. We formed the joint venture. उस जॉइंट वेचर में यह निर्णय था कि जितने भी शेयर होल्डर्स होंगे, वे कुछ न कुछ पैसा लोन के रूप में उस कंपनी को देंगे। आज की डेट में सारी की सारी आईटी कंपनीज एससीआई और भारत सरकार को प्रॉफिट दे रही हैं। यह मॉडल इतना सफल है कि अभी जो हमारा एक्सपैशन प्लान जॉइंट वेंचर के रूप में प्लान हो रहा है, उसमें यह सब रेप्लिकेट करने के लिए हमारा मंत्रालय प्रयास कर रहा है। जो भी पैसा हमने इन जहाजों को एज अ शेयर होल्डर लोन के रूप में दिया, वह भी हमारे कोर बिजनेस का पार्ट था। उस लोन के रूप में जो कंपनी है, जो अर्निंग होती है, जितने शेयर होल्डर्स होते हैं, जो पैसा लोन के रूप में दिया गया, उस पर ब्याज देते हैं।"

{ Thirdly, ILT vessels were part of a joint venture established with Japanese owners in 2004. At that time, there was a national requirement to import LNG. SCI, being one of the leading companies under the Ministry of Shipping, played a key role in forming the joint venture. As part of this collaboration, it was decided that all shareholders would contribute funds as a loan to the company. As of today, all ILT companies are generating profits for SCI and the Government of India. This model has been so successful that the ministry is now working to replicate it in ongoing expansion plans under joint ventures. The funds provided to these vessels as a shareholder loan were also considered part of the core business. The earnings generated by the company through this loan, along with the interest paid on the funds provided by shareholders, all contribute to this financial model. }

25. In closing remarks on the three observations raised by the Audit, the CMD, SCI made following submission to the Committee:-

“We deliberated it in the Board after observations raised by the CAG. बोर्ड ने भी यह अप्रूव किया कि Shipping is a unique industry. It is not like a normal land-based industry. ये तीनों मुद्दे बोर्ड ने सबसेकिएंटली काफी डेलिबरेट किए। बोर्ड में हमारे इंडिपेंडेंट डायरेक्टर्स, सरकारी डायरेक्टर्स भी हैं। उन्होंने यह पाया कि ये तीनों के तीनों मुद्दे हमारे बिजनेस का पार्ट हैं। ”

{ The Board deliberated on this matter following the observations raised by the CAG. It was also approved by the Board that the shipping industry is unique and cannot be compared to a typical land-based industry. All three of these issues were subsequently discussed in detail by the Board, with the participation of Independent Directors and Government Directors. After thorough discussions, they concluded that all three issues are indeed integral to the business. }

26. The Secretary, MoPSW representing the SCI in the matter, sought Committee’s intervention and clarification on :-

“I have just one point relating to core and non-core. This is actually a matter which is not very precisely defined and this is being left because of the lack of the expertise in the CAG. It is actually left to the Ministries and the concerned organizations. So, there is some ambiguity about this. So, that also may kindly be taken note of.”

27. On the issue of **Cargo volume at major ports of India**, the CMD, SCI furnished following information:-

“आज की तारीख में मैं आप सबके संज्ञान में लाना चाहता हूँ कि केवल पांच परसेंट कार्गो भारतीय जहाज लेकर आते हैं। इंडिया के इम्पोर्ट में 95 परसेंट कार्गो बाहर के जहाज लेकर आ रहे हैं, इसकी वजह से हर साल लगभग 80 बिलियन डॉलर फ्रेट इंडियन करेंसी के रूप में बाहर जा रहा है और इससे बहुत नुकसान हो रहा है।”

{ As of today, it is important to note that only 5% of cargo is transported by Indian ships. In India's imports, 95% of the cargo is carried by foreign ships. Due to this, approximately \$80 billion in freight is paid to foreign entities every year in Indian currency, leading to significant financial losses. }

On being asked to further elaborate on this issue on measures taken to increase the cargo volume from existing to 5 %, the CMD, SCI submitted as under:-

“हम केवल 5 प्रतिशत कार्गो कैरी कर रहे हैं, बाहर के 95 प्रतिशत ओनर उसका लाभ उठा रहे हैं। इस दिशा में हमारा मंत्रालय इस देश के सबसे उच्च कार्यालयों के अधीन बहुत ही क्लोजली और फोकस के साथ काम कर रहा है। हमारी जितनी भी डिमांड एग्रीगेशन ऑयल कंपनीज़ हैं, उनको टारगेट किया जा रहा है। इनीशियल 5 से 30 प्रतिशत टारगेट है। हम कम से कम 30 प्रतिशत टारगेट को पहले अचीव करें। अंत में हम 100 प्रतिशत भारतीय कार्गो जहाज कैरी करें। हमारा सपना यह है कि हम अपना ही कार्गो नहीं, बल्कि अन्य देशों का कार्गो भी लाएं। यह उद्योग इस देश की ग्रोथ में ज्यादा से ज्यादा पार्टिसिपेट कर सके।”

{ Indian ships currently transport only 5% of the cargo, while 95% is benefiting foreign owners. In this regard, the ministry is working closely and with a focused approach under the highest offices of the country. Efforts are being directed toward major demand aggregation oil companies, with an initial target of increasing the share from 5% to 30%. The first goal is to achieve at least 30%, with the ultimate aim of ensuring that 100% of Indian cargo is carried by Indian ships. The broader vision is not only to transport domestic cargo but also to handle cargo from other countries, allowing the industry to contribute significantly to the nation's growth. }

Adding to the above, the Secretary, MoPSW submitted as under:-

“महोदय, मैं इसमें एड करना चाहूंगा कि अभी हमारे पास 1,500 जहाज हैं। हम पूरे विश्व का केवल एक प्रतिशत फ्लीट ओन करते हैं। हम एक प्रतिशत से कम जहाज बनाते हैं। पिछले कई सालों में ओनरशिप में बहुत कमी हुई है।

हम प्रत्येक वर्ष 85 बिलियन डॉलर्स फ्रेट पर खर्च करते हैं, उसमें से 75 बिलियन डॉलर्स बाहर के शिप ऑनर्स को पे करते हैं, जो अपने फ्रेट को ले जाने के लिए होता है। इसलिए मंत्रालय की भी यह स्कीम रही है कि we will build ships in India, own ships in India, and as far as possible, we will

ensure that at least a percentage of our cargo is carried on our ships. हम उसमें बहुत तीव्र गति से आगे बढ़ रहे हैं।”

{ It is important to note that India currently has 1,500 ships and owns only 1% of the global fleet. The country builds less than 1% of the world's ships, and in recent years, there has been a significant decline in ship ownership. Each year, \$85 billion is spent on freight, with \$75 billion paid to foreign shipowners for transporting Indian cargo. Therefore, the ministry's policy has been to build ships in India, own ships in India, and, as far as possible, ensure that a percentage of India's cargo is carried on domestic ships. Progress in this direction is advancing rapidly. }

On being further asked to clarify on the timeline to reach 30 % cargo volume, the Secretary, MoPSW submitted as under:-

“सर, यह डिमाण्ड एग्रीगेशन की बात है, क्योंकि हमारे कूड को लाने के लिए एमओपीएनजी के अंडर पब्लिक सेक्टर यूनिट्स हैं। उनमें गेल, ऑयल इंडिया, ओएनजीसी जैसी कंपनीज हैं, जिनको हमने रिक्वेस्ट की है कि आपके पास पैसा है, यदि आप चाहें तो उनकी डिमाण्ड में 30 परसेंट तक इण्डियन ओन्ड शिप्स में अपना कूड ला सकते हैं। कहने का मतलब है कि आप 100 परसेंट ले आइए, लेकिन हम 30 परसेंट तक स्टार्ट कर सकते हैं। लक्ष्य है कि वर्ष 2047 तक हमारी पोज़िशन अलग होगी। अभी हमारी पोज़िशन 17 पर है। So, we can go up to tenth position by 2030 and fifth position in the world by 2047. यह हमारा लक्ष्य है।”

{ This initiative focuses on demand aggregation, as public sector units under MOPNG are responsible for transporting India's crude. Companies such as GAIL, Oil India, and ONGC have been urged to leverage their financial capacity and opt to transport up to 30% of their crude using Indian-owned ships. While the long-term vision is to transport 100% of their crude on Indian ships, the initial target is set at 30%. The goal is to achieve a significantly improved position by 2047. Currently ranked 17th, the aim is to reach the 10th position by 2030 and the 5th position globally by 2047. }

28. On being asked to furnish clarification on approach followed by SCI on **purchase of a ship** and preparation of report including its final value, whether this value includes the disposal value and whether the necessary authority has been granted for it, the CMD, SCI made the following submission before the Committee on the issue:-

“सर, डिस्पोजल के बारे में माननीय सदस्यों ने प्रश्न रोज किए हैं। जब भी हम किसी जहाज का डिस्पोजल करते हैं, हम बड़े ही ड्यू डिलिजेंस तरीके से करते हैं। इनिशियली टेक्नो इकोनॉमिक स्टडी तैयार होती है, फाइनली बोर्ड डेलिब्रेट करता है और एक थर्ड पार्टी फाइनैशियल इंस्टीट्यूशन उसे वैट करता है। डिस्पोजल कोई साइड एक्टिविटी नहीं है, बल्कि यह हमारे बिजनेस का अभिन्न भाग है।

XXXX

XXXX

XXXX

XXXX

डिस्पोजल वैल्यू आईआरआर के कंपोनेंट आईआरआर कैलकुलेशन में डिस्पोजल की 15 या 20 साल के बाद क्या एक्सपेक्टेड वैल्यू होगी, उस इक्वेशन में हम कितने का एसेट खरीदेंगे, कितने जहाज खरीदेंगे, उसके बाद क्या रेवेन्यू एक्सपेक्टेड है, क्या-क्या एक्सपेंसेस होंगे और अंत में इस जहाज की एक्सपेक्टेड डिस्पोजल वैल्यू कितनी होगी, वह भी एक महत्वपूर्ण रोल इस सारे डिस्सीज़न में प्ले करता है।”

{ Honorable Members raised questions regarding the disposal of ships. Whenever a vessel is disposed of, a thorough due diligence process is followed. Initially, a techno-economic study is conducted, and the matter is deliberated upon by the Board. Additionally, a third-party financial institution evaluates the disposal process. Disposal is not merely a side activity but an integral part of the business. }

XXXX

XXXX

XXXX

XXXX

The disposal value is a key factor in the IRR calculation. This process considers various elements, including the expected value of the ship after 15 or 20 years, the cost of asset acquisition, the number of ships to be purchased, and projected revenue and expenses. Ultimately, the expected disposal value of the ship plays a crucial role in the overall decision-making process. }

29. The Committee, while extensively deliberating on other aspects sought clarification on various issues seeking the inputs on (i) concern of delay in bringing the matter before the Committee for discussion on the issue after 6 years (i.e., in 2024) of the Audit observations made in 2018; (ii) ‘Nature of Business’; ‘Disposal of assets - old/wrecked ships through sale’ – and its inclusion in ‘Other Income’; (iii) Tonnage acquisition; (iv) Clarification on its classification as ‘Routine nature of business’ and ‘Expert opinion sought’ from Institute of Chartered Accountants of India (ICAI) and its Expert Advisory Committee, if any, to decide on its categorization as core or non-core business as per Accounting Standard 9; (v) Whether SCI earned any profit from core business i.e., shipping business or the the business you have earned like these only (sell of fixed assets –ships); and (vi) steps taken by the administrative MoPSW to (a) resolve the deadlock between SCI and C&AG; (b) plans to prevent such anomalies in future (w.r.to SCI and other CPSUs under its purview); and (c) efforts put-in towards SCI’s ambition to become a Maharatna Company and responsibility for giving free hand to private players for so long, following submissions were made by the CMD, SCI:-

“हमने अपने पीपीटी में जो ऑब्जेक्टिव्स रेफर किए हैं, वे एमओए में लिस्टेड हैं। हमने यह इसलिए पीपीटी में डाला है कि जब सीएजी के साथ हमारी चर्चा हो रही थी, जब ऑडिट हुआ, तो उसमें वर्ष 2010 का एक ओएम कोट हुआ और वह हमारे संज्ञान में लाया गया। वह डीपी का ओएम है। This was a clarification with regard to the Defence sector. It was not available to all CPSEs. Under that, one of the conditions was that this income profit should be from

the specified objectives. हमने पीपीटी में क्लॉज नम्बर, पेज नम्बर, ये ऐक्टिविटीज हमारे एमओए में मेन्शन हैं। इसलिए हमने इसमें एमओए के रेफरेंसेज लिए हैं।”

{ *The objectives mentioned in the presentation are listed in the Memorandum of Association (MOA). These were included in the presentation because, during discussions with the CAG and the audit process, a 2010 Office Memorandum (OM) was cited and brought to attention. This OM, issued by the Department of Public Enterprises (DPE), was a clarification related to the Defence sector and was not applicable to all Central Public Sector Enterprises (CPSEs). According to that OM, one of the conditions stated that income or profit should be derived from the specified objectives. In the presentation, the clause number, page number, and activities specified in the MOA were clearly mentioned. This is why references to the MOA were included in this context. }*

“दूसरा, प्रश्न पूछा गया है कि यह अदर इनकम में नहीं दिखता है। मेरी समझ से यह है कि एससीआई ने डीपी गाइडलाइन का वायलेशन किया है या नहीं। अदर इनकम, कंपनी की जो एनुअल शीट होती है, उसमें जो फॉर्मेट है, वह फॉर्मेट कंपनी एक्ट से आता है। There are DPE’s guidelines with respect to PRP. वह इस परपस से डीपी और भारत सरकार की होती है, जिससे इम्प्लॉइज को पीआरपी दिया जाए। वे मेहनत करें और उनके साथ शेयर करें। फॉर्मेट और इसका कोई डायरेक्टली संबंध नहीं है। पीआरपी और अदर इनकम का फॉर्मेट के बारे में कंपनी एक्ट में एक शेड्यूल लिखा हुआ है। CAs are basically for how to deal with accounting procedures. यह मैटर है, भारत सरकार के जो निर्देश हैं from the DPE, उसमें सीए का रोल एग्जामिन करवाया जा सकता है।”

{ *A question has been raised regarding why this is not reflected under "Other Income." The key issue to consider is whether SCI has violated the DPE guidelines. The "Other Income" section in a company's annual financial statements follows a specific format prescribed under the Companies Act. The DPE has established guidelines related to Performance-Related Pay (PRP), formulated by the DPE and the Government of India to ensure that employees receive PRP as an incentive for their hard work and contributions. However, this format is not directly related to PRP or the "Other Income" section. }*

“Tonnage acquisition के संदर्भ में आपने प्रश्न रज किया है। इस पर एज ए शिपिंग कॉर्पोरेशन ऑफ इंडिया, आज की डेट में हमारी बोर्ड ने लगभग 20 नए जहाज, पुराने जहाज परचेज करने के लिए एप्रुवल दिए हैं। आज की डेट में दो जहाज के नेगोसिएशंस एडवांस स्टेज में हैं। मेरे साथ में हमारे डायरेक्टर फाइनेंस, वह उस नेगोसिएशन को लीड कर रहे हैं। So, this is on the table. Any day we will have a final deal done. The SCI, under the Ministry of Ports,

Shipping and Waterways, is very actively involved in replacing the old vessels and adding new vessels. Tonnage multiplication is our prime objective.”

{ A question has been raised regarding tonnage acquisition. The Board of the Shipping Corporation of India (SCI) has approved the purchase of approximately 20 new and used vessels as of today. Currently, negotiations for two vessels are in the advanced stage, led by the Director of Finance. A final deal is expected to be concluded soon. SCI, under the Ministry of Ports, Shipping, and Waterways, is actively engaged in replacing old vessels and adding new ones. Tonnage multiplication remains a primary objective. }

“मैंने मिनिस्ट्री के ऐक्शन के बारे में बताया है। This is all under the direction of our Ministry. There is Ministry’s plan to prevent such situation. हमने बोर्ड की एनआरसी कमेटी में यह डेलिब्रेट किया, उसके बाद बोर्ड ने डेलिब्रेट किया, उन्होंने डायरेक्शन दी, उसके बाद में यह मैटर मिनिस्ट्री के पास भेजा गया। यह मिनिस्ट्री में भी डेलिब्रेट हुआ और मिनिस्ट्री की भी कंसेन्ट इस ओपिनियन पर कोपू सीएजी के पास गई हुई है। इस मुद्दे पर हमारी ऐडमिनिस्ट्रेटिव मिनिस्ट्री भी सहमत है।”

{ The Ministry's actions have been carried out under its direction, with a plan in place to prevent such a situation. This matter was first deliberated in the Board's NRC Committee, followed by discussions at the Board level, where directions were provided. Subsequently, the matter was forwarded to the Ministry for further consideration. After thorough deliberation, the Ministry conveyed its consent on this opinion to COPU and CAG. The Administrative Ministry is also in agreement on this issue. }

“हूँ। वर्ष 2014-15 में हमने पीआरपी कैलकुलेट किया, डिस्टिब्यूट किया, जो पास्ट में हमारी प्रैक्टिस थी या पीआरपी स्कीम थी, एप्रूव्ड बाई बोर्ड उसमें हमने कोई डेविएशन नहीं किया है। मैनेजमेंट ने ऐसा कोई कदम नहीं उठाया है कि इस साल, जैसे आपने यह रेज किया है कि अगर इसमें से जहाज को माइनस कर दें, तो कुछ नहीं बचता है। आप कहते हैं कि ठीक है, लेकिन कोई भी प्रोसिजर से हमने एज ए मैनेजमेंट या बोर्ड ने डेविएशन नहीं किया है। ये सारी कैलकुलेशन, इन फॉर्म ऑफ एजेंडा बोर्ड के पास जाती है और बोर्ड इसे डेलिब्रेट करता है, including all calculations, तभी एप्रुवल मिलता है। ”

{ In the year 2014-15, PRP was calculated and distributed as per past practice and the PRP scheme approved by the Board, with no deviations from the established process. The management has not taken any steps that would alter this procedure. Regarding the concern that if the ship is excluded, nothing remains, it may be a

valid observation. However, as a management and Board, no deviations from any procedures have occurred. All calculations are presented to the Board as part of an agenda, and the Board thoroughly deliberates on them, including all computations, before granting approval.}

“सर, शिप्स की बिक्री के संबंध में एक सवाल था, हमारी समझ के हिसाब से शिप्स की बिक्री में हमारा नवरत्न बोर्ड भी इन्वॉल्व होता है। शिप्स की सेल में जो भी प्रोसीड्स मिलती है, उसे हम नया जहाज खरीदने में इन्वेस्ट करते हैं। यह एक साइकल है और यह सारा का सारा, मेरी समझ के हिसाब से, हमारी कोर बिजनेस का एक हिस्सा है।”

{ A question was raised regarding the sale of ships. As per the understanding, the Navratna Board is also involved in the sale of ships. The proceeds from these sales are reinvested in the purchase of new ships. This process operates as a cycle and is considered an integral part of the core business.}

“सर, आपने इसमें डिफाइंड एज के बारे में एक पॉइंट उठाया है। Age is one of the criteria. जो रेगुलेटर डी.जी., शिपिंग है, उन्होंने उसमें कुछ गाइडलाइंस इश्यु की हुई हैं, बट ओवरऑल उसमें मैटर यह है कि शिप ऑनर उस जहाज को किस कंडीशन में रखता है। हो सकता है कि वह उसे दस साल में खराब कर दे। आपको कुछ ऑनर्स ऐसे मिलेंगे, जिनके 40-40 साल तक जहाज चलते हैं। मिनिस्ट्री ऑफ अर्थ साइंस के जो शिप्स रिसर्च वैसल हैं, वे 40 ईयर प्लस है। कुछ पैसेंजर जहाज जिन्हें अंडमान निकोबार ऑन करता है, उन्हें एससीआई, टेक्नीकल वेनिंग मैनेज करता है, कुछ की उम्र 40 साल है। हमारे एलएनजी और एलपीजी जहाज जो एकदम स्पेशलाइज हाई एंड वैसल हैं, वे आराम से 35-40 साल तक सर्विस देते हैं। So, age is not a criterion. Basically, every year or every 2 ½ years or every five years their survey certification is done that it is fit for service. It is the most important thing.”

{ A point was raised regarding the defined age of vessels. While age is one of the criteria, the overall condition of a ship depends on how well it is maintained by the owner. The regulator, D.G. Shipping, has issued certain guidelines, but vessel longevity varies. Some ships may deteriorate within ten years, while others continue operating for as long as 40 years. For example, the Ministry of Earth Sciences operates research vessels that are over 40 years old. Similarly, some passenger ships owned by the Andaman & Nicobar administration, which are technically managed by SCI, are also around 40 years old. Highly specialized LNG and LPG vessels can comfortably serve for 35-40 years. Therefore, age alone is not the primary criterion. More importantly, vessels undergo survey certification every year, every 2 ½ years, or every five years to ensure they remain fit for service, which is the most critical factor. }

“सर, डीपी वायलेशंस – हमने अपना पक्ष आपके सामने रख दिया है। यह पक्ष केवल मैनेजमेंट का ही नहीं है, हमने बोर्ड में डेलिब्रेट करवाया है, उसके बाद हमने अपने मंत्रालय को सब्मिट किया है और रिपोर्ट आपके सामने है।”

{ Regarding DPE violations, the stance has been clearly presented. This position is not solely that of the management but has been thoroughly deliberated by the Board, submitted to the Ministry, and is now presented in the report before the concerned authority. }

30. On being asked to elaborate on steps being taken to increase the **Capacity of ship-building in India** and indigenize foreign cargo ships and replace them by Indian ones and estimated time to achieve the goal, the CMD, SCI submitted as under:-

“भारत सरकार शिप बिल्डिंग दृढ़ निश्चय से काम कर रही है। आज तक इंडिया में यह लेस दैन एक प्रतिशत, पैथेटिक कंडिशन है। यह टारगेट है कि हम कम से कम यह 10 प्रतिशत इंडिया में स्थापित करें। अभी हमारे सचिव साहब साउथ कोरिया से आए हैं। इन्होंने छः दिनों के लिए डेलीगेट्स को लीड किया है। Under this, the whole thrust was on how to increase ship building in India. जो साउथ कोरियन बड़ी-बड़ी यार्ड्स हैं, इस मामले में वर्ल्ड में नम्बर वन पर चाइना है और नम्बर दो पाजिशन पर साउथ कोरिया है, हमारी उनसे फ्रुटफुल मीटिंग हुई है। साउथ कोरियन डेलीगेशन इंडिया आने वाला है। हमारी कोशिश है कि हम अपने ऑर्डर साउथ कोरिया को नहीं दे, बल्कि वे अपनी फैक्ट्री यहां पर लगाएं।

मैनुफैक्चरिंग – मेक इन इंडिया हो। उसका सबसे बड़ा प्रभाव यह है कि शिप बिल्डिंग में बहुत रोजगार है। यदि एक कर्मचारी को शिप बिल्डिंग में रोजगार मिलता है तो उससे एलाइड इंडस्ट्री में 5 लोगों को रोजगार मिलता है। इसलिए यह भारत सरकार का टारगेट है और इसमें बहुत ही फोकस्ड तरीके से काम हो रहा है।

सर, शिप बिल्डिंग में ईस्ट कोस्ट में कई स्पॉट्स चिह्नित किए गए हैं। यहां शिप क्लस्टर के फॉर्मेशन की बात चल रही है।”

{ The Government of India is strongly committed to advancing the shipbuilding industry. Currently, India's shipbuilding sector is in a poor state, contributing less than one percent globally. The target is to increase this share to at least 10 percent.

Recently, the Secretary led a six-day delegation to South Korea, focusing on strategies to boost shipbuilding in India. South Korea has some of the world's largest shipyards, with China ranking first globally and South Korea second.

Productive discussions were held, and a South Korean delegation is expected to visit India soon. The objective is not to place orders with South Korea but to encourage them to establish manufacturing facilities in India.

The initiative aligns with the 'Make in India' program, aiming to promote domestic manufacturing. A significant benefit of this initiative would be job creation in shipbuilding, as every job in this sector generates five additional jobs in allied industries. This is a key focus of the Indian government, and efforts are being made in a highly targeted manner.

Additionally, several locations on the East Coast have been identified for shipbuilding, and discussions are ongoing regarding the formation of ship clusters in these areas. }

Adding to the above submission, Secretary, MoPSW submitted as under:-

“सर, शिप बिल्डिंग में अभी हमने तीन वर्टिकल्स को आइडेंटिफाई किया है। उसमें से एक तो शिप यार्ड्स को मजबूत करना है, उनकी कैपेबिलिटीज़ और कैपेसिटीज़ को बढ़ाना है। दूसरा शिप बिल्डिंग फाइनेंशियल असिस्टेंस पॉलिसी है। जो शिप्स भारत में बनती हैं, compared to what is manufactured abroad, उसमें जो 20 प्रतिशत का कॉस्ट डिफरेंस है, उसके लिए we are trying to see if we can give a subsidy so that the manufacturing happens here.

सर, तीसरी बात यह है कि भारत में शिप बिल्डिंग न होने का कारण यह है कि यहां पर फंडिंग की अनुपलब्धता है। फंडिंग इसलिए उपलब्ध नहीं है, क्योंकि ship-building is not classified as infrastructure. इसके साथ ही, उनको सात सालों के लिए और उच्च ब्याज दर पर फाइनेंसिंग मिलती है, लेकिन विदेश में उन्हें यह बीस सालों के लिए मिलती है और बहुत सस्ते ब्याज दरों पर मिलती है, इसलिए यहां फाइनेंसिंग इको-सिस्टम नहीं है। इसको बनाने के लिए हमने एक मैरिटाइम डेवलपमेंट फंड का प्रोजेक्ट दिया है। अब ये तीन proposals are under examination at different stages in the Ministry of Expenditure, etc. We hope that once it is approved, we will be able to take these ship-building schemes forward. Like, South Korea manufactures 13 million GT every year and in India we are only manufacturing 100,000 GT every year. So, that is the difference. वहां 13 मिलियन होता है और हमारे यहां एक लाख होता है। हमारी कैपेसिटी केवल 1 मिलियन की है। So, we have to do a lot of work in ship-building, and that is what the Ministry is now trying to do.”

{ Three key verticals have been identified in shipbuilding. The first focuses on strengthening shipyards by enhancing their capabilities and capacities. The second involves the Shipbuilding Financial Assistance Policy. Compared to ships built abroad, those manufactured in India have a cost difference of approximately 20 percent. To bridge this gap, the possibility of providing subsidies to encourage domestic manufacturing is being explored.

The third major issue is the lack of shipbuilding in India due to the unavailability of adequate funding. This challenge arises because shipbuilding is not classified as

infrastructure. As a result, financing is available only for seven years at high interest rates, whereas, in foreign countries, funding is accessible for up to 20 years at significantly lower interest rates. This creates a weak financing ecosystem for shipbuilding in India. To address this, the establishment of a Maritime Development Fund has been proposed.

These three proposals are currently under examination at different stages within the Ministry of Expenditure and other departments. Once approved, these initiatives are expected to drive shipbuilding forward in India. For instance, South Korea manufactures 13 million GT (Gross Tonnage) of ships annually, whereas India produces only 100,000 GT. The stark difference—13 million GT there compared to just 100,000 GT in India—highlights the need for significant improvements. India's total capacity stands at only 1 million GT, indicating substantial work ahead in shipbuilding. The Ministry is actively working to address these challenges and boost the sector. }

31. On being asked about whether the incentives given to employees should be based on the **Bell Curve method**, Chairperson sought clarity about what exactly the DPE guidelines are on this matter. Although, the board has been following the same system for decades, Chairperson further sought feedback from the DPE alongwith SCI on the lack of application of the bell curve, so that non-performing employees or below-par performing employees should not be receiving performance-related pay, following were the submission made by the representatives of SCI and DPE :-

The CMD, SCI made following submission before the Committee:-

“सर, मैं आपकी अनुमति से इस पर इनपुट देना चाहूंगा कि बेल कर्व का जो कांसेप्ट है, उसे भारत सरकार ने और डीपीई ने ऑलरेडी संशोधित कर दिया है। इसलिए अब बेल कर्व का कांसेप्ट नहीं है। एक नये कांसेप्ट, नये प्रिंसिपल के हिसाब से पीआरपी डिस्ट्रिब्यूट होता है।”

{ With permission, an input on this matter is provided. The concept of the bell curve has already been revised by the Government of India and the Department of Public Enterprises (DPE). As a result, the bell curve concept is no longer applicable. PRP is now distributed based on a new concept and updated principles. }

The representatives of Department of Public Enterprises at the evidence of the Committee, made the following submission on the issue:-

“सर, डीपीई जो गाइडलाइंस इश्यू करता है, उसका इम्प्लीमेंटेशन कंसर्न्ड लाइन मिनिस्ट्री करती है। डीपीई की गाइडलाइंस में कहीं पर भी किसी सीपीएसई को या एडमिनिस्ट्रेटिव मिनिस्ट्री को डाउट

होता है, तो वे हमारे पास क्लैरिफिकेशन के लिए एप्रोच करते हैं, उसके बेसिस पर हम क्लैरिफिकेशन इश्यू करते हैं। उदाहरण के लिए, वर्ष 2013 और 2014 में, हमारे पास सीपीएसईज़ से जो रेफरेंस आए, उनके बेसिस पर, we have specifically mentioned in the revised guidelines, by way of clarification, that interest of portion of idle cash and bank balances should not form the part while computing the PRP for the purpose of profit before tax. तो जो इंटेस्ट ऑन आइडल कैश है, उसको प्रॉफिट बिफोर टैक्स में से रिड्यूस किया जाएगा for the purpose of computation. इसलिए जब भी कोई सीपीएसई हमें ऐसी क्लैरिफिकेशन के लिए एप्रोच करती है, तो हम उनको क्लैरिफिकेशन देते हैं, because more than 400 CPSEs are there which fall in 20 Cognate Groups. It is difficult for DPE because we are not technical experts that we define what is core activity and what is non-core. That is why it is with the concerned CPSE or administrative Ministry. We let them take decision based on their expertise."

{ The implementation of the guidelines issued by the Department of Public Enterprises (DPE) is carried out by the respective Administrative Ministry/Department. If any Central Public Sector Enterprise (CPSE) or administrative Ministry/Department has doubts regarding DPE guidelines, they seek clarification, and DPE provides guidance accordingly.

For example, in 2013 and 2014, based on references received from CPSEs, the revised guidelines explicitly clarified that interest earned on idle cash and bank balances should not be considered when computing Performance-Related Pay (PRP) for the purpose of profit before tax. Therefore, the interest on idle cash is deducted from profit before tax for computation purposes.

Whenever a CPSE seeks such clarifications, they are provided as required. Since there are more than 400 CPSEs classified under 20 Cognate Groups, it is challenging for DPE, as a non-technical body, to define what constitutes a core or non-core activity. For this reason, the decision is left to the respective CPSE or administrative Ministry/Department, allowing them to determine the classification based on their expertise. }

32. On being asked to clarify on whether any clarification was sought from the DPE in this particular case about core and non-core classification, the CMD, SCI submitted the following:-

"Sir, we did not do that."

{ एससीआई ने ऐसा नहीं किया। }

E. Select remarks of the Committee

After reviewing the case in detail, Hon'ble Chairperson made the following important observations on the subject:-

(i). The matter as brought before the Committee reflects broader challenges in interpreting and implementing DPE guidelines regarding the distribution of PRP to employees of SCI based on its core business profits during the financial year 2014-15. It is already a 10-year-old matter.

It is evident that while SCI's Management has argued that certain income streams such as profits from the sale of ships, interest from joint ventures and other related sources are part of core business activities, the Audit has contested this classification. According to the Audit, these income streams are categorized as "Other Income" in the financial statements and do not align with DPE guidelines for calculating PRP, which emphasise using profits strictly from core business activities.

This divergence in interpretation has not only prolonged the settlement of this issue but has also brought to light systemic challenges in defining and adhering to "core business" in the context of CPSUs. This particular matter has been pending for a very long time, about almost a decade now.

A request from the CMD, SCI has been received highlighting the unresolved nature of issues leading to multifaceted consequences of delay in resolution of matter affecting organizational morale, administrative and procedural burden of multiple journeys of Action Taken Notes without satisfactory resolution and having potential to set important benchmarks for the interpretation of DPE guidelines for other CPSUs that may be facing similar challenges.

As a way forward, the Committee understands the complexities involved in balancing regulatory compliance with the operational realities of a commercial entity like SCI. However, as custodians of public accountability, it is the Committee's joint

responsibility to ensure that the interpretation of policies, such as those of the DPE, is consistent, fair and promotes the integrity of our established institutions.

Coming to the goals of discussions at the sitting, active deliberations shall be aimed to be helpful to arrive at a definite conclusion on (i) Clarification of DPE guidelines – A consistent framework for defining core *versus* non-core income must be established to eliminate ambiguities; (ii) Engagement of stakeholders – To understand the operational rationale, policy interpretations and implications of decisions; and (iii) Time-bound resolution – To ensure both organisational stability at SCI and a reliable precedent for future cases.

(ii). After going through the matter in detail and, on the one hand, it is understood why audit has raised an objection. On the other hand, being actually quite sympathetic to the corporation because the two main items of dispute of the three remaining, one relates to disposal of fixed assets, that is, ships.

It is a little baffling that why disposal of ships is not considered as a core business. As was mentioning a little bit earlier, the age of the ships after they are depreciated, after they have been operating for 15 years or 20 years or 30 years is a critical factor in how efficient they are and what it will lead to in terms of profitability and effectiveness.

So, in understanding of the issue, whether to continue with old ships or to dispose them and buy, replace the fleet, have a new fleet is a critical core decision that this company has to make. It is not just about their operating revenues because there are different models which are called asset lite, whether in transport like Uber, whether in hotels or accommodation like OYO. They do not own the assets.

They focus entirely only on operating them. Asset's age does not matter because it belongs to somebody else. When a company like Air India or the railways, when they own the assets, the age of the assets and whether to keep operating or to dispose, to me, sounds like a critical core nature of the business. Same thing goes for joint ventures because when companies become large apart from themselves doing manufacturing or processing or whatever they are doing, quite often to expand their capacity, they will have

joint ventures and that contributes to the financial income that they have. There may be one or two items where maybe it is not really core.

Other point in mind was that is it specifically defined by DPE that this is core and that is not core and you have just now shed light on this and even the C&AG also highlighted that there is some ambiguity. When there is ambiguity, one needs to give the benefit of doubt to the enterprise concerned otherwise our public sector will never be able to compete.

Now when there are very specific guidelines by the DPE, then there is no room for any complacency. In this particular case, it seems like may be some more exercise needs to be done by DPE to bring about more clarity. One extreme can be that you can leave it to the board of the company to decide what is core, what is not core. Here we have other complexities. On the one hand because of accounting standards as the Deputy C&AG has briefed us, the income goes into other income.

On the other hand, in the memorandum of association very clearly this is defined as one of their main activities. So in the light of these kind of contradictions, the real emphasis ought to be that DPE ought to take further steps to remove such ambiguity going forward so that other CPSUs do not face the same kind of dilemma. Such a matter going on for ten years can be a huge burden for public sector employees and can understand that it must be demotivating to have these questions hanging on their head for so long.

PART II

OBSERVATIONS/RECOMMENDATIONS OF THE COMMITTEE

1. Overview

'Audit Paras/Reports Referred to CoPU for Final Decision'

The Committee on Public Undertakings (CoPU), under Rule 312A of the Rules of Procedure and Conduct of Business in Lok Sabha, is mandated to examine Audit Reports and Paras (referred to as Commercial Reports of the Audit) related to Central Public Sector Undertakings (CPSUs), as presented by the Comptroller and Auditor General of India (C&AG).

Each year, the Committee select specific audit-based subjects for examination *inter-alia* focusing on pending and unsettled audit observations requiring parliamentary intervention for resolution. The audit process involves multiple rounds of Action Taken Notes (ATNs) submission and vetting by C&AG, but certain contentious observations of the Audit remain unresolved due to differences in interpretation between the matter pertaining to the concerned CPSU through its Administrative Ministry and the Audit, sometimes covering areas involving the Department of Public Enterprises (DPE).

As informed by C&AG Office, as on September 2024, 265 Audit Paras/Reports were pending with CoPU for final decision, some of which have remained unresolved for years. To address this, the Committee decided to take up the matter and review critical Audit Para/Report requiring immediate resolution.

In its sitting held on 5 December 2024, the Committee prioritized one such Audit Para (numerated as Case 1) for examination under the broader subject 'Audit Paras/Reports referred to CoPU for final decision'.

'Case 1' – Audit Para No. 9.2 of C&AG Report No. 13 of 2019

The first case selected by the Committee pertains to Audit Para No. 9.2 of C&AG Report No. 13 of 2019, which has highlight the issue of Performance Related Pay (PRP), which as per Audit was paid by the Shipping Corporation of India (SCI) Limited in violation of DPE Guidelines.

According to DPE's 2007 Pay Revision Guidelines, PRP should be distributed only from the profits accruing from core business activities of a CPSE. However, Audit observed that SCI included non-core profits in its PRP calculations for the year 2014-15, resulting in an avoidable payment of ₹11.03 crore to its employees.

The Audit pointed out that the inclusion of income on account of seven (7) non-core business activities, two (2) of which were settled at Preliminary Audit Stage, in the PBT for the purpose of calculation of PRP resulted in violation of DPE Guidelines and avoidable payment of PRP of ₹11.03 crore. After settling of four out of the seven contentious observations, Audit has observed that SCI did not exclude the non-core income sources while calculating PRP on three unsettled observations viz., (i) Profit on sale of fixed assets, including ships (₹122.42 crore); (ii) Interest on loans given to joint ventures (JVs) (₹28.67 crore); and (iii) Interest income on rescinded shipbuilding contracts (₹124 crore). According to C&AG, if these were excluded, SCI would not have had sufficient core business profits to pay PRP in 2014-15.

The Shipping Corporation of India (SCI) and Ministry of Ports, Shipping and Waterways (MoPSW) in their submission to the Committee have argued that Profit from ship sales, Joint Venture (JV) earnings and Contract Rescindment income were part of its core business, as defined in its Memorandum of Association (MoA). Moreover, the Board and the Ministry of Ports, Shipping and Waterways (MoPSW) had approved the PRP calculation methodology. It was emphasized that ambiguities in DPE Guidelines on core business activities had led to the dispute on the matter and requested for the Committee's intervention for amicable resolution of the matter. The MoPSW's also supported SCI's stance on the matter, highlighting the lack of clear, sector-specific Guidelines from DPE and also requested the

Committee's intervention for a final decision to avoid prolonged uncertainty affecting employee morale and operational efficiency.

Observations and Remarks of the Committee

Hon'ble Chairperson, after reviewing the case in detail, steered the Committee's discourse on a complex yet an important and wide impacting issue with the following key observations:

(i) Challenges in Interpreting Core Business Activities for PRP Calculation

- **The core issue lies in the interpretation of DPE Guidelines regarding what constitutes "core business activities" for PRP distribution.**
- **While SCI has justified certain income streams (Profit from ship sales, Interest from JVs and Rescindment of contracts) as part of core business, Audit has classified them as "Other Income" in the financial statements.**
- **This divergence in interpretation has prolonged the issue for nearly a decade, highlighting systemic challenges in defining "core business" across CPSUs.**

(ii) Need for Consistency and Fairness in Policy Application

- **The lack of clarity in DPE Guidelines may have caused multiple interpretations across CPSUs, leading to uncertainty and disputes.**
- **In cases where ambiguity exists, the benefit of doubt should be given to the Public Undertaking to ensure public sector competitiveness and operational efficiency.**
- **A uniform framework must be established to define "core business" for PRP calculation across sectors.**

(iii) Need for Timely Resolution to Maintain Organizational Stability

The issue has remained unresolved for nearly 10 years, causing:

- **Low employee morale due to continuous financial uncertainty.**
- **Repeated cycles of Action Taken Notes (ATNs) between SCI/ MoPSW and CAG without conclusive settlement.**

- Unnecessary administrative burden on stakeholders, diverting focus from strategic growth.
- The Committee in their deliberation on the matter aimed to provide a final resolution to ensure stability within SCI and set a precedent for resolving similar cases in other CPSUs.

(iv) Role of DPE in Resolving Ambiguities

- It was emphasized that DPE, as the Nodal Department for CPSUs, must take proactive steps to remove ambiguities in Guidelines.
- Sector-specific clarity should be provided to address disputes in industries like shipping, where operations differ from other CPSUs.

(v) The Way Forward: Committee's Deliberations and Expected Outcomes

The Committee aimed to arrive at a definitive conclusion on three key aspects:

- **Clarification of DPE Guidelines:** A consistent policy framework for defining core vs. non-core income must be established.
- **Stakeholder Engagement:** Understanding the rationale behind SCI's operational and financial decisions.
- **Time-bound Resolution:** Ensuring organizational stability at SCI and creating a precedent for future cases.

(vi) Final Perspective

- Given the contradictions between financial accounting classifications and operational realities, the Committee's discussion centered around active deliberation on whether PRP calculations should be governed by strict financial reporting norms or a more business-oriented approach.
- DPE should play a more active role in preventing long-drawn audit disputes by issuing clear Guidelines that apply uniformly across all CPSUs.

Significance of the Case and Next Steps by the Committee

This particular case is significant as it represents broader challenges in interpreting DPE Guidelines across CPSUs, making it a benchmark for future disputes. The lack of sector-specific Guidelines for defining core business activities in the shipping industry has led to ambiguities in PRP calculations. The case has

remained unsettled for nearly a decade, underscoring the need for timely resolution mechanisms for audit disputes.

Going forward, the Committee after hearing of all stakeholders—SCI, MoPSW, DPE and Audit officials unanimously concluded that, given the specific nature of SCI's business, there is an urgent need for determining rightful interpretation of PRP calculations. The Committee's intervention should help finalizing long-pending audit paras in a structured manner thereby aiding settling the dispute and need for issuing sector-specific Guidelines to prevent similar cases in the future. Further, this case should serve as a test case for resolving long-pending audit paras and streamline decision-making on policy ambiguities in CPSUs.

2. Interpretation of Core and Non-Core Business Activities in PRP Calculation

The Committee note that the dispute between the Audit and SCI/MoPSW have arisen from the interpretation of "core business activities" under DPE Guidelines for PRP distribution. While the C&AG classified profits from the Sale of fixed assets, Interest from Joint Ventures and Interest on rescinded shipbuilding contracts as "Other Income," SCI contended that these are integral to its core business as per its Memorandum of Association (MoA). The ambiguity in defining core business activities has led to prolonged delays in resolving the issue, affecting employee morale and operational efficiency.

The SCI argued that selling ships, financing Joint Ventures and interest income on rescinded contracts are part of core business, supporting long-term fleet management and operational sustainability. The MoPSW, in this regard, has endorsed SCI's classification and approved the decision of SCI in PRP payments. The Audit in their observation emphasised on the interpretative intent behind the DPE Guidelines and financial reporting practices, stating these incomes were booked under "Other Income" and not directly linked to core marine logistics.

The Committee, in view of the above position, are of the firm opinion that since DPE Guidelines applies across all CPSUs, the Committee recommend that (i) DPE, in future, should issue clear sector-specific Guidelines clarifying 'core' and 'non-core' activities for applicability to the shipping industry not only for PRP calculation

but also for other related matters; (ii) Given the non-specificity of the then existing Guidelines and approval by SCI's Board and concurred by its administrative Ministry on activities forming 'Core Business', the Committee are also of unanimous opinion that the unsettled observations should be resolved in favor of SCI as a one-time measure; and (iii) Further, the future cases should follow updated DPE Guidelines to prevent any scope of ambiguity.

3. Delayed Resolution of PRP Dispute and its Impact

The Committee observe that the dispute has been ongoing for nearly a decade, leading to administrative inefficiencies and financial uncertainties for SCI employees. Continuous re-submission of ATNs without resolution on unsettled observations has created a regulatory bottleneck, delaying final settlement of the Audit Para. Further, employees who received PRP have faced deductions from salaries upon separation or retirement, causing dissatisfaction.

In this regard, SCI highlighted the demotivating impact of prolonged uncertainty on employees and requested the august Committee's intervention for resolution and made a plea for sympathetic consideration. Audit, during their briefing maintained its stand on adherence to DPE Guidelines but acknowledged ambiguities in classification.

The Committee, therefore, recommend (i) a time-bound mechanism for resolving audit observations in CPSUs; (ii) CAG related Reports/Paras should be reviewed in the Company's Board Meetings and Annual Report must reflect on number of pending and settled Audit Reports/Paras; and (iii) Further, the Government Nominee Directors should play an active role in addressing such disputes early to prevent protracted delays.

4. Role of DPE in Ensuring Clarity in PRP Guidelines

The Committee note that the lack of clear definitions for sector-specific 'core business' activities in DPE Guidelines may have led to multiple interpretations across CPSUs similar to the deliberated issue pertaining to SCI. The Committee are

of the view that the issue may not be unique to SCI and may have implications for other CPSUs facing similar dilemmas.

The Department of Public Enterprises (DPE), in consonance on the issue with the Committee's observation, submitted that the existing Guidelines broadly define core business activities but do not provide sector-specific clarity. The Audit, in lack of clear sector specific Guidelines, opined for strict adherence to financial classifications in audited reports. In this case, as observed by the Committee and echoing the ambiguity of DPE Guidelines, the MoPSW urged DPE to issue clearer directives to prevent future disputes.

To bring crystal clarity on the issue, the Committee recommend that (i) Since DPE Guidelines applies across all CPSUs, there is an urgent need for sector-specific Guidelines; (ii) Further DPE being the Nodal Department for CPSU regulations, should not only formulate sector-specific Guidelines but also allow administrative Ministries/Departments to establish norms for their respective CPSUs. In case sector-specific Guidelines are not possible, scope/leverage for deciding specific norms for the particular CPSU may invariably be given to the administrative Ministry/Department. Once approved by the administrative Ministry/Department, the same may be communicated to DPE for their final endorsement and oversight; (iii) Further, the Committee desire that DPE should act as a 'Deciding Authority' for all CPSUs to resolve all pending matters arising out of deviations in Guidelines/Instructions; and (iv) Moreover, DPE should also proactively engage with stakeholders to refine policies based on operational realities. To achieve all of the above, all Government Ministries/Departments should work in cohesion and strictly abstain from compartmentalization approach.

5. Final Resolution of Three Unsettled Audit Observations

The Committee observe that out of seven audit observations, four were settled between SCI/MoPSW and the Audit. The remaining three—(i) Profit on the sale of ships; (ii) Interest income on rescinded shipbuilding contracts; and (iii) Interest on loans to Joint Ventures—remained contentious. These activities have been integral to SCI's long-term business model and have been approved by its

Board and Administrative Ministry as activities forming part of ‘Core Business’ of SCI.

The SCI in their submission before the Committee strongly argued in favour of the three unsettled position emphasizing that these activities align with its operational model and long-term sustainability strategy. The Board along with the administrative Ministry are in agreement of the stand and decision taken by SCI and accepted SCI’s justification as a reasonable interpretation of the DPE Guidelines. Audit, on the other hand have not accepted SCI’s argument due to lack of explicit support in existing DPE Guidelines.

The Committee find it odd regarding the interpretation of the sale and purchase of ships not being considered a core business of SCI, since it appears to be the primary capex of this industry. It seems logical for the Company to take decisions about the depreciated condition of their equipment and the useful life remaining, and to decide on the disposal/replenishment of the same — which has a direct bearing on the quantity and quality of the Company’s shipping services.

Considering the prolonged nature of the dispute, absence of clear sector-specific DPE Guidelines and the same been already approved by SCI’s Board and its administrative Ministry, the Committee recommend (i) Settling the three remaining audit observations as a one-time resolution. The three unsettled cases may be cleared for settlement, in line with submission made by the SCI before the Committee on sympathetic ground and non-specificity of DPE Guidelines which have already been approved by the Board and its administrative Ministry; and (ii) Also, since the MoPSW had approved the Board’s decision on activities of SCI forming part of ‘Core Business’, the Ministry may see for uniform applicability of the same across all CPSUs under its wing.

6. Need for Stakeholder Engagement and Institutional Mechanisms for Audit Disputes

The Committee, while going through the matter at depth, acknowledge that similar audit disputes could arise in other CPSUs due to evolving business practices and ambiguous policy frameworks. Thus, lack of structured stakeholder

engagement between CAG, DPE, administrative Ministries/Departments and CPSUs exacerbates delays in resolution.

The Committee find themselves in agreement with the Audit's observation for stress needed to standardise policy interpretation across CPSUs. The peculiar case of SCI alongwith MoPSW also points towards need for improved coordination among stakeholders to prevent such disputes in the future and acknowledge the essentiality for periodic engagement between CPSUs and regulatory bodies for policy clarity.

In this regard, the Committee recommend that (i) The Independent Auditors' of CPSUs be made aware of all Guidelines and this has to be the responsibility of CPSU; (ii) Further, the Government Nominee Director in CPSU to act as Nodal in Board Meetings as well as the Ministry for CAG Related Reports/Paras; (iii) To take up the matter for settlement of Audit Report/Para with stakeholders in time bound manner; (iv) In case of ambiguity or non-clarity in Guidelines/Instructions issued from time to time, the Nodal should act for resolution by process of consultation and placing the matter for decision of Head of the administrative Department/Ministry and intimation to DPE, if required. The Committee also recommend for (v) Taking such unresolved cases under the already established forum *viz.*, Centralised Monitoring Cell (CMC) that is functional under DPE to periodically review Audit-related disputes in CPSUs. The forum should increase its ambit in covering the representatives from DPE, CAG, administrative Ministries/Departments and CPSUs to proactively address ambiguities in Guidelines and expedite dispute resolution.

7. Bell Curve Approach and Its Latest Position

The Committee note that the Bell Curve approach for Performance Related Pay (PRP), as mandated by DPE Guidelines (2007 Pay Revision), require CPSEs to grade employees into performance categories where 10% of employees were to be graded below par and were not eligible for PRP; 10-15% were to be graded outstanding; and the rest were to be distributed across other performance bands.

In SCI's case, the Audit highlighted that the Corporation deviated from this mandated structure by introducing two subcategories within the "Below Par"

segment—‘Opportunity for Development (OFD)’ (9.84%) and ‘Do Not Meet Expectation (DNME)’ (1.48%)—and paying PRP to OFD employees. The Audit pointed out that this was not in compliance with DPE Guidelines.

The Committee also note that over the years, there has been a shift in the position of DPE regarding the Bell Curve approach, with many organizations moving towards more flexible appraisal systems. However, the Committee find that no clear decision has been made on whether CPSUs should fully abandon the Bell Curve model.

The Audit, in their observation, insisted that SCI’s deviation was not as per DPE’s 2007 Guidelines and that PRP should not have been paid to the OFD category. However, DPE’s any modifications to the Bell Curve may have left a gap in clarity, creating inconsistencies in application across CPSUs. SCI in their submission defended their decision on distribution of PRP by stating that its approach aimed to reduce demotivation among employees who fell under the below-par category. The Company argued that PRP should be linked to overall Company performance and not just individual rankings, especially when the organization as a whole performed well. SCI also emphasized that the Government of India and DPE have already amended the concept of Bell Curve and presently PRP is being distributed according to new concept and new principle. Accordingly, other CPSUs had also moved away from the strict Bell Curve implementation. On this issue, the administrative Ministry’s support to the new approach of DPE, as adopted by SCI and other CPSUs, have made it clear that the rigid application of the Bell Curve could lead to an artificial force-fitting of ratings, which may be counterproductive. The Committee find that the review in Bell Curve approach by the DPE must have come in light of modern HR practices in CPSUs to survive and compete with private and global competitors.

In view of the deliberation held with the stakeholders and emphasis on resolving ambiguity in policy interpretation and ensuring sector-specific clarity, the Committee recommend the following measures to ensure clarity and fairness in PRP distribution:

(i) Need for Clear Policy on Bell Curve Application

DPE should issue a clear directive on the Bell Curve model's applicability in CPSUs considering that many organizations in India and globally may have moved to more flexible performance evaluation systems. If a sector-wise exemption is needed, the administrative Ministry should be empowered to decide the performance grading structure for SCI and other shipping-sector PSUs.

(ii) Settlement of SCI's PRP Case

Considering that SCI's approach was aimed at employee motivation rather than guideline violation, the Committee recommend that this specific instance be accepted as a one-time exception and closed. Future PRP distribution in SCI should align with DPE's clarified stance, once issued.

(iii) Re-evaluation of the Bell Curve for CPSUs

DPE should conduct a comprehensive review of the Bell Curve system for all CPSUs and decide whether it remains relevant or if a new, performance-linked but flexible system should replace it. This review should be concluded in a time-bound manner, ensuring that PRP-related audit disputes do not arise in the future.

By implementing the above measures, ambiguity in PRP evaluation can be eliminated to a larger extent, ensuring both employee motivation and compliance with Government policies.

8. 'Cargo Volume' and achieving the Milestone of 30%

The Committee note that SCI currently handles only 5% of India's total cargo volume, despite being a Navratna PSU and India's largest shipping Company. This low market share is concerning, given India's growing trade volumes, strategic maritime interests and the need for self-reliance in shipping. The Committee observed that SCI and MoPSW have set an ambitious goal to increase SCI's cargo handling capacity to 30%. Achieving this goal requires – (i) Expanding SCI's fleet size to handle higher cargo volumes; (ii) Strengthening SCI's participation in

Government cargo transportation to reduce reliance on foreign shipping companies; (iii) Introducing policy interventions to ensure cargo reservation for Indian shipping lines; (iv) Enhancing operational efficiency through digital transformation and port infrastructure upgrades; (v) Exploring new international trade routes and securing long-term contracts with Indian exporters and industries.

The Committee further noted that while SCI has played a historic role in India's maritime trade, its growth has been constrained by limited fleet expansion, lack of competitive freight pricing and dependence on foreign carriers for bulk cargo transportation. To bridge this gap, SCI requires a structured roadmap with policy and financial support from the Government.

SCI while acknowledging the challenges of increasing cargo volume and detailed its efforts towards fleet expansion, improved cost efficiency and partnerships with Indian exporters. The Company's emphasis on urgent need for Government-backed cargo reservation policies, as foreign shipping companies currently dominate India's trade routes due to their competitive pricing and larger fleet size is considered to be valid. Further, the access to concessional financing and lower capital costs for new vessel acquisition is essential for achieving the 30% target. Also, concerns over high port charges and turnaround time at Indian ports, which impact operational efficiency has to be considered.

The MoPSW recognized the need to strengthen SCI's market share and expressed commitment to supporting its expansion. Further, the Ministry is exploring financial incentives and policy frameworks to prioritize Indian flag vessels for Government cargo movement. The Ministry further highlighted ongoing discussions with major PSUs, exporters and private players to secure cargo commitments for SCI and stressed the importance of port modernization and operational improvements to support SCI's growth.

Keeping in view SCI's ambitious expansion plans and MoPSW's strategic vision, the Committee recommend a multi-pronged strategy to increase SCI's cargo volume from 5% to 30%, with a focus on fleet expansion, policy support and operational efficiency. To achieve this following measures may be taken by SCI and the Ministry in this regard:-

(i) Fleet Expansion and Modernization -

The Government should facilitate SCI's acquisition of new vessels through concessional financing, tax incentives and lower capital costs. MoPSW and SCI should develop a time-bound roadmap for fleet expansion, prioritizing (a) LNG carriers (to support India's growing energy needs); (b) Crude oil and product tankers (to reduce reliance on foreign tankers for oil imports); (c) Container ships (to increase SCI's share in India's EXIM trade); and (d) SCI should explore strategic partnerships with global fleet owners to acquire modern vessels through leasing or joint ventures.

(ii) Policy Support for Cargo Reservation and Freight Contracts

The Committee recommend that MoPSW explore a policy for reserving a percentage of India's cargo for Indian shipping companies to reduce foreign dependence. A formal framework should be developed for prioritizing PSU cargo transportation through SCI, ensuring a steady flow of cargo. The Ministry should facilitate long-term freight contracts between SCI and major Indian exporters in steel, petroleum, coal and agriculture sectors.

(iii) Strengthening Global Competitiveness and Market Position

SCI should actively participate in global trade lanes, expanding beyond its traditional routes to increase cargo share. The Ministry should support SCI in negotiating competitive freight rates to attract Indian exporters who currently prefer foreign shipping lines. SCI should leverage Free Trade Agreements (FTAs) and global shipping alliances to expand its market reach.

(iv) Enhancing Operational Efficiency and Digital Transformation

SCI should invest in digital freight management systems to optimize cargo allocation, improve cost-efficiency and enhance service delivery. Port infrastructure upgrades and reduced turnaround time at major Indian ports should be prioritized to make SCI more competitive. A dedicated task force should be established within

SCI and MoPSW to monitor efficiency improvements and resolve operational bottlenecks.

(v) Regular Performance Monitoring and Target Tracking

The Committee recommends quarterly performance reviews of SCI's cargo volume expansion strategy, with MoPSW ensuring accountability and timely interventions. A dedicated Monitoring Cell within MoPSW should track SCI's progress towards the 30% target and provide strategic support in overcoming challenges. Regular reporting in the Company's Annual Report should be mandated to ensure transparent evaluation of SCI's growth initiatives.

By implementing the above measures, SCI can significantly enhance its cargo volume, strengthen India's maritime trade presence and reduce foreign exchange outflow on shipping costs. The Committee urges MoPSW to ensure timely execution of these recommendations, with a clear implementation timeline and periodic reviews to achieve the 30% cargo volume target.

9. Promoting Shipbuilding in India

The Committee note that India's shipbuilding industry has significant strategic and economic potential but remains underdeveloped compared to global competitors such as China, South Korea and Japan. Despite India's vast coastline and growing maritime trade, the Country continues to import a large percentage of its commercial vessels, leading to high foreign exchange outflow and dependency on foreign manufacturers.

The Committee further observe that SCI and other Indian shipping companies primarily rely on foreign-built vessels, as domestic shipyards face high production costs, longer construction timelines and limited financial support. The Make in India initiative aims to promote domestic shipbuilding, but policy interventions, financial incentives and infrastructure development are needed to make Indian shipyards globally competitive. SCI, as India's largest public sector shipping Company, can

play a key role in driving demand for indigenous shipbuilding by prioritizing domestic procurement and partnerships with Indian shipyards.

On the issue, SCI acknowledged the need for a strong domestic shipbuilding ecosystem but highlighted challenges such as high capital costs, lack of skilled labor and technological gaps in Indian shipyards. SCI also expressed willingness to procure vessels from Indian shipyards, provided they offer competitive pricing and meet international quality and safety standards. Further, the Company suggested that the Government should offer financial incentives, tax benefits and policy support to make Indian-built ships cost-effective for SCI and other shipping companies.

The MoPSW recognized the importance of strengthening domestic shipbuilding to achieve self-reliance in maritime infrastructure. Further, attention of the Committee was also drawn to the three key focus areas for strengthening India's shipbuilding industry – (i) Strengthening Shipyards – Enhancing the capabilities and capacities of Indian shipyards to boost domestic ship production; (ii) Financial Assistance Policy – Addressing the 20% cost difference between ships built in India and those manufactured abroad through potential subsidies to encourage domestic manufacturing; and (iii) Proposal for a dedicated Maritime Development Fund to create a more supportive financing ecosystem – Tackling the lack of financing for shipbuilding in India, which is not classified as infrastructure. Unlike foreign markets where financing is available for up to 20 years at low interest rates, Indian shipbuilders face higher interest rates and shorter repayment periods (7 years). These three proposals are currently under examination of the Ministry of Expenditure. Emphasis was also placed on the vast gap between India's and South Korea's shipbuilding output (India: 100,000 GT vs. South Korea: 13 million GT annually) and MoPSW highlighted the urgent need for reforms to enhance India's shipbuilding sector. The Ministry further highlighted ongoing efforts to develop shipbuilding clusters, upgrade port infrastructure and attract global shipbuilders to set up facilities in India. Also, the MoPSW emphasized that policy measures such as subsidies, soft loans and priority Government procurement are under consideration to make domestic shipbuilding viable.

To promote shipbuilding in India and reduce dependence on foreign-built vessels, the Committee recommends the following policy, financial and operational measures:

(i) Prioritizing Domestic Procurement by SCI and Other CPSUs

SCI should actively collaborate with Indian shipyards by sharing the long term requirements well in advance and prioritize procurement of vessels built in India, subject to international quality standards. The MoPSW should issue Guidelines directing all Government-owned shipping companies to source a certain percentage of their fleet from domestic shipyards, thereby ensuring steady demand for Indian-built vessels.

(ii) Financial Incentives and Subsidies for Domestic Shipbuilding

The Government should introduce a long-term financial package, including soft loans, interest subvention and tax exemptions for Indian shipyards to make them competitive against global counterparts. A dedicated Shipbuilding Fund should be created under MoPSW, providing low-cost financing options to support domestic ship production. Customs duty exemptions on imported shipbuilding materials and technology should be considered to reduce production costs for Indian shipyards.

(iii) Enhancing Technological Capabilities and Skilled Workforce

MoPSW, in collaboration with SCI, should set up ship design and technology innovation centers to develop advanced shipbuilding techniques. The Ministry should also involve the representatives of the stakeholders in ship design and in the process of technology innovation. A National Shipbuilding Skill Development Program should be launched to train and certify workers, ensuring a skilled workforce for the industry. The Government should facilitate technology transfer agreements with leading global shipbuilders to upgrade Indian shipyard capabilities.

(iv) Expanding Shipbuilding Infrastructure and Global Partnerships

Establishment of dedicated Shipbuilding Clusters with Special Economic Zone (SEZ) benefits should be prioritized to attract investment and lower production costs. The MoPSW should promote joint ventures between Indian shipyards and leading international shipbuilders like collaboration with South Korea to enhance expertise, improve production efficiency and gain access to global markets as part of global partnership strategy.

(v) Strengthening Public-Private Collaboration and Policy Monitoring

A Shipbuilding Promotion Task Force may be established within MoPSW to coordinate between SCI, Indian shipyards and policymakers to track progress and resolve bottlenecks. The Committee recommend that SCI submit quarterly progress reports to MoPSW on the implementation of these recommendations and their impact on domestic shipbuilding growth.

(vi) Roadmap for Developing a Competitive Shipbuilding Industry in India

To enhance its shipbuilding competitiveness, reduce dependence on imports and positioning India as a global leader in maritime manufacturing, the Committee recommend for (a) Launching a Shipyard Modernization and Capacity Expansion Scheme thereby providing financial and technological support to enhance shipyard infrastructure, adopt advanced manufacturing techniques and improve efficiency; (b) The existing Shipbuilding Financial Assistance Policy may be extended with an increased subsidy component, bridging the 20% cost gap to make Indian-built ships competitive with global markets. The policy should also include incentives for green and technologically advanced ship designs; and (c) The Government may consider classifying shipbuilding as 'Infrastructure' to facilitate long-term and low-interest financing. Additionally, a dedicated Maritime Development Fund (MDF) may be established with an initial corpus supported by both public and private sector contributions. This fund should provide long-tenure, low-interest loans similar to global practices, ensuring a stable financing ecosystem.

Some of these suggestions have in fact been addressed in the Union Budget for the fiscal year 2025-26, which are subsequent developments after discussion on the subject by the Committee.

By implementing the above measures, India can develop a globally competitive shipbuilding industry, reduce dependence on foreign-built vessels and position itself as a maritime manufacturing hub under the 'Make in India' initiative.

**New Delhi;
08 August, 2025
17Shravana, 1947(S)**

**BAIJAYANT PANDA
CHAIRPERSON
COMMITTEE ON PUBLIC UNDERTAKINGS**

COMMITTEE ON PUBLIC UNDERTAKINGS (2024-25)

MINUTES OF THE FIFTEENTH SITTING OF THE COMMITTEE

The Committee sat on Tuesday, 5 December, 2024 at 1545 hrs. to 1700 hrs. in Committee Room 'D', Parliament House Annexe (PHA), New Delhi.

PRESENT

Shri Baijayant Panda - Chairperson

MEMBERS

Lok Sabha

2. Shri Tariq Anwar
3. Shri R.K. Chaudhary
4. Shri Chandra Prakash Joshi
5. Shri Kaushalendra Kumar
6. Shri Shankar Lalwani
7. Shri Mukesh Rajput
8. Shri Sukhjinder Singh Randhawa
9. Shri Pratap Chandra Sarangi

Rajya Sabha

10. Shri Neeraj Dangi
11. Shri Narain Dass Gupta
12. Shri Debashish Samantaray
13. Shri Arun Singh

SECRETARIAT

1. Shri Neeraj Semwal - Joint Secretary
2. Smt. Jyochnamayi Sinha - Director
3. Smt. Mriganka Achal - Deputy Secretary

REPRESENTATIVES OF SHIPPING CORPORATION OF INDIA (SCI)

1. Capt. B.K. Tyagi - CMD
2. Shri Atul Ubale - Director (B&T)
3. Shri M.S. Saini - Director (P&A)

REPRESENTATIVE OF MINISTRY OF PORTS, SHIPPING AND WATERWAYS (MoPSW)

1. Shri T. K. Ramachandran - Secretary
2. Shri Rajesh Kumar Sinha - Additional Secretary

REPRESENTATIVE OF DEPARTMENT OF PUBLIC ENTERPRISES (DPE), MINISTRY OF FINANCE

1. Shri Amardeep Singh Chowdhary - Pr. Advisor (Cost)
2. Dr. Sumantra Pal - Economic Advisor
3. Shri Lucas L. Kamsuan - Joint Secretary

OFFICERS FROM OFFICE OF COMPTROLLER & AUDITOR GENERAL OF INDIA (CAG)

1. Sh. Anand Mohan Bajaj - Dy. Comptroller & Auditor General (Commercial)
2. Sh. Deepak Kapoor - Director General (Commercial)
3. Shri Naveen Singhvi - Principal Director (Commercial)

2. At the outset, Hon'ble Chairperson welcomed the Members of the Committee and representatives of the Ministry of Ports, Shipping & Waterways (MoPS&W), Shipping Corporation of India (SCI) and Department of Public Enterprises (DPE) to the sitting of the Committee convened to deliberate on *Audit Para No. 9.2 of Audit Report No. 13 of 2019 relating to Payment of Performance Related Pay in violation of DPE Guidelines relating to Shipping Corporation of India (SCI) Limited*, which has been taken up by the Committee under the broader subject selected for examination 'Audit Report(s)/Para(s) referred to the CoPU for final decision'.

3. Hon'ble Chairperson, in his welcome address, while drawing attention of the representatives to Direction 55(1) of the 'Directions by the Speaker' regarding maintaining confidentiality of the discussion held before the Parliamentary Committee, highlighted that the issue pertained to the interpretation and implementation of DPE guidelines concerning Performance Related Pay (PRP) distribution based on core business profits. It was further brought to the notice that while SCI had categorized certain income streams—such as profits from the sale of ships, interest from joint ventures, and other related sources—as part of its core business activities, Audit had contested this classification. The contention was that these income streams were recorded as "Other Income" in financial statements and did not align with DPE guidelines for calculating PRP.

4. The Chairperson underlined that the divergence in interpretation has not only prolonged the settlement of this issue but has also brought to light systemic challenges in defining and adhering to 'core business' in the context of CPSUs. Further, emphasis was placed on seeking clarification on DPE Guidelines, Engagement of stakeholders and need for a time-bound resolution to ensure organizational stability at SCI and establish a reliable precedent for future cases. He invited the representatives of SCI to make their presentation on the matter.

5. Thereafter, CMD, SCI made a Power Point Presentation covering the following key aspects:
 - i. SCI's strategic importance in national security and energy security, including its role as the only Indian shipping company for LNG transportation;
 - ii. The rationale for treating certain income streams as part of SCI's core business, inviting attention to the Memorandum of Association (MoA), which includes acquisition, operation and disposal of ships as core activities;
 - iii. Deliberations held by SCI's Board and Ministry of Ports, Shipping & Waterways (MoPSW), which concurred with SCI's interpretation of core business income; and
 - iv. The hardship faced by SCI employees due to uncertainty over PRP payments and the potential legal challenges if recoveries were enforced.

6. The Members of the Committee raised several queries, including:-
 - i. The declining trend in SCI's post-tax profit and its impact on MOU ratings;
 - ii. The rationale behind considering the sale of ships as core business activity;
 - iii. The necessity of clear guidelines from DPE on core versus non-core income classification;
 - iv. SCI's plans to expand its fleet and increase India's share in global shipping tonnage;
 - v. Steps taken by SCI and the Ministry to prevent similar disputes in the future; and
 - vi. The justification for PRP payments to employees categorized as below-par performers.

7. Responding to Members' concerns, the representatives of SCI and the MoPSW submitted as under:-
 - i. SCI's Board and the administrative Ministry had examined the matter in detail and had taken a stand that SCI's interpretation should be accepted;
 - ii. SCI actively working on fleet expansion, with 20 new vessels approved for procurement and negotiations at an advanced stage;
 - iii. The administrative Ministry had proposed policy measures, including financial assistance schemes and regulatory support, to boost shipbuilding in India; and
 - iv. On the issue of PRP for below-par employees, it was clarified that DPE had revised its guidelines, removing the mandatory application of the bell curve system.

8. While deliberating on DPE stand on the issue, the representatives of DPE submitted that as there are more than 400 CPSUs operating in 20 sectors each operating on specific parameters, it becomes difficult to frame the guidelines encompassing all CPSUs, limitation of their uniform applicability and monitoring of every aspect of these guidelines. Further, it was submitted that since DPE being non-technical expert, the activities coming under core and non-core may be left with the concerned CPSU and their administrative Ministry.

9. Hon'ble Chairperson reiterated the importance of resolving the matter expeditiously to prevent prolonged disputes that could demoralize employees and affect the functioning of SCI. The Committee desired that the MoPSW and DPE should work together to establish clear and uniform guidelines on core business income to prevent ambiguity in future cases.

10. Thereafter, the Chairperson thanked the representatives of SCI, MoPSW and DPE and directed that in respect of points for which information was not readily available or if more information were required to be furnished, written replies thereon may be furnished to the Committee Secretariat within 10 days.

The Committee, then, adjourned.

(A copy of the verbatim proceedings transcribed from Audio recording has been kept on record.)

COMMITTEE ON PUBLIC UNDERTAKINGS (2025-26)

MINUTES OF THE SECOND SITTING OF THE COMMITTEE

The Committee sat on Thursday, 26 June, 2025 from 1500 hrs. to 1640 hrs. in Committee Room No. '1', Ground Floor, Extension to Parliament House Annexe, New Delhi.

PRESENT

Shri Baijayant Panda - **Chairperson**

MEMBERS

Lok Sabha

2. Shri Tariq Anwar
3. Smt. Kanimozhi Karunanidhi
4. Shri B.Y. Raghavendra
5. Shri Mukesh Rajput
6. Shri Pratap Chandra Sarangi
7. Shri Kodikunnil Suresh
8. Shri Prabhakar Reddy Vemireddy
9. Shri Lalji Verma

Rajya Sabha

10. Shri Neeraj Dangi
11. Dr. Bhagwat Karad
12. Shri Arun Singh

SECRETARIAT

1. Shri Anjani Kumar - Joint Secretary
2. Shri Dhruv - Under Secretary

REPRESENTATIVES FROM NUCLEAR POWER CORPORATION OF INDIA LIMITED

1. Shri B.C. Pathak - CMD
2. Shri V. Rajesh - Director
3. Shri B.V.S. Sekhar - Executive Director
4. Shri K.N. Babooraj - Executive Director

PART-A

2. The Hon'ble Chairperson briefly apprised the Members on the three draft Reports. The Committee then considered and adopted the following three draft reports, without any changes/modifications, on the following three selected subjects: -

- (i) Audit Reports/Paras referred to COPU for final decision- Audit Para No. 9.2 of Audit Report No. 13 of 2019 relating to Payment of Performance Related Pay in violation of DPE Guidelines relating to Shipping Corporation of India (SCI) Limited;
- (ii) * * * * *
- (iii) * * * * *

3. The Committee authorized the Chairperson to finalize the draft Reports on the basis of factual verification as suggested by C&AG; concerned CPSUs and Ministries/ Departments and presenting the Reports during the upcoming session of Parliament. **Then, the Committee took up another agenda of the day.**