E. C. No. 209

ESTIMATES COMMITTEE
1960-61

HUNDRED AND SIXTEENTH REPORT

(SECOND LOK SABHA)

MINISTRY OF TRANSPORT & COMMUNICATIONS

(Deptt. of Transport)

HINDUSTAN SHIPYARD LTD. (REPORTS AND ACCOUNTS)

LOK SABHA SECRETARIAT
NEW DELHI
March, 1961/Chaitra, 1883 (Saka)
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CORRIGENDUM

Hundred and Sixteenth Report (Second Lok Sabha) on Hindustan Shipyard Ltd.

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1. *Page 1, para 3:*
   Read 'Hindustan Shipyard' in the marginal heading *for* misprints.

2. *Page 5, Foot-note:*
   In last line *for* 'anctioned' *read* 'sanctioned'

3. *Page 7, Foot-note:*
   In last line *for* 'hip-repairs' *read* 'ship-repairs'

4. *Page 8, para 25:*
   In third line from below *for* ' and at least' *read* ' at least to'

5. *Page 10, para 29, Marginal Heading:*
   For ' bulding' *read* 'building'

6. *Page 10, para 29:*
   In line 6 *read* '85' *for* misprint.

7. *Page 13, para 36:*
   In line 6 *read* 'rely' *for* 'reply'

8. *Page 14, Foot-note 1:*
   In line 2, *read* 'contra' *for* 'centre'.

9. *Page 16, para 43:*
   In third line from below *read* 'trust' *for* 'trusts'

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1960-61

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Shri M. C. Chawla—*Under Secretary.*

INTRODUCTION

I, the Chairman of the Estimates Committee, having been authorised by the Committee to submit the Report on their behalf, present this Hundred and Sixteenth Report on the Ministry of Transport and Communications—Hindustan Shipyard Ltd. (Reports and Accounts).

2. A general examination of the published Annual Reports and Accounts of the Hindustan Shipyard Ltd. for the year ending 31st March, 1960 was conducted by the Sub-Committee of the Estimates Committee on Public Undertakings whose Report thereon was finally adopted by the whole Committee.

3. A statement showing an analysis of the recommendations contained in this Report is also appended (Appendix II).

4. The Committee wish to express their thanks to the Officers of the Ministry of Transport and Communications and the Hindustan Shipyard Ltd. for placing before them the material and information that they wanted in connection with the examination of the Annual Reports and Accounts of the Company.

NEW DELHI;
March 23, 1961
Chaitra 2, 1883 (*Saka*).

H. C. DASAPPA,
Chairman,
Estimates Committee.

I

BACKGROUND

Importance of shipbuilding Industry.

The necessity of having an efficient and economic ship-building industry in the country is recognised by all. The total requirements of mercantile shipping tonnage for the country are estimated at 25 lakhs G.R. (Gross Registered) tons. At present the tonnage owned by the private and public shipping companies is only about 9 lakhs G. R. tons. The target for increase in the present tonnage during the Third Plan has been fixed at 3·75 lakhs G. R. tons, at the rate of 75,000 G.R. tons annually. In this context, the activities of Hindustan Shipyard Ltd., which is the only ship-building Unit in the country, are of great significance.

Establishment of the Hindustan Shipyard.

2. The Hindustan Shipyard, originally established by the Scindia Steam Navigation Company Ltd., started functioning in 1946. In 1950-51 the Estimates Committee recommended that "Government should take over Visakhapatnam Yard" and also suggested that the "project should be given a high priority in our development schemes." Having regard to the national importance of the ship-building industry and the difficulties in the way of private enterprise to develop this somewhat uneconomic venture, the management of the Shipyard was taken over in March, 1952 by the Hindustan Shipyard Ltd., a Government sponsored Company, in which two thirds of the share capital was held by the Government of India and the remaining one-third by the Scindia Steam Navigation Company Ltd.

Hindustan Shipyard Examined earlier.

3. The Estimates Committee examined the working of the Hindustan Shipyard Ltd. in 1954-55 and their recommendations|observations in this behalf are contained in their 14th Report (First Lok Sabha). The replies furnished by Government indicating action taken by Government on the aforesaid Report were considered by the Committee (1957-58) and a further Report submitted to the House in March, 1958.

4. This year, again, they undertook the general examination of the working of the copmany based mainly on its published Annual Reports and Accounts for the years 1956-57 to 1959-60. The results of the examination are set forth in the succeeding Chapters.

II

PRODUCTION

A. **Productive Capacity**

5. The present capacity of the Hindustan Shipyard is roughly $2\frac{1}{2}$ to 3 ships per annum. Upto August, 1960 the capacity of the Yard was 15,000 to 20,000 DWT.* Since then the capacity has been increased to 25,000 to 30,000 DWT. The increase is stated to be due to the change in the type of vessels constructed in the Yard from Maierform to Lubecker type of vessels. There has been no increase in the capacity in the number of ships built in a year. The following statement gives an idea of the total value of production and deliveries made by the Shipyard during the last four years:—

Year	Production† (Rs. in lakh)	Yearly Increase	No. of Ships	Total weight
				DWT
1956-57 . . .	301·50	..	2	15,000
1957-58 . . .	336·34	11·5%	3	19,000
1958-59 . . .	337·70	0·4%	1	7,000
1959-60 . . .	391·62	16%	3	17,000

(In addition a 44-G.R.T. motor launch and a 242-GRT Tug "Adyar" were delivered in 1957-58 and a small craft 500-GRT "Dhruvak" was delivered in 1958-59).

B. **Value and Quantity**

6. During the last four years the production in terms of tonnage has been less than 15,000 DWT on an average. In terms of ships built, the average comes to $2\frac{1}{4}$ ships per annum. In 1957-58 the value of production registered an increase of 11·5% over 1956-57; in 1958-59 the rise was negligible. In 1959-60 the position, however, improved to record a rise of 16%. The reasons for production not showing an increase in 1958-59 are stated to be due to adjustments required consequent on Indian personnel taking over from the French technicians and the time taken in settlement of specifications in respect of the three ships already under construction.

*Dead weight is the actual weight of the oil, fuel, stores, crew, passengers with their effects and cargo measured in Tons required to take a ship in light condition down to its maximum permissible immersion upto the load line.

†These figures have been furnished by Government. They have been arrived at by deducting the amount of Works-in-Progress at the beginning of the year from the total of the closing Works-in-Progress and Completed Works during the year.

7. *The Committee observe that upto* 1959-60 *the production of the Yard (which on an average has been about* 15,000 *DWT) fell short of its maximum capacity of* 20,000 *DWT. In* 1958-59 *particularly the production was less than half the rated capacity. Since the capacity of the Yard has now been increased to* 25,000-30,000 *DWT, the Committee trust that urgent attention will be paid to increase the production in the Yard so that the rated capacity is fully utilised.*

8. The Committee were informed that the optimum capacity of the Shipyard was expected to be increased to 50,000-60,000-DWT by 1963-64. *Taking into consideration the past performance, it is doubtful whether the Yard will be able to achieve the increased capacity now planned by the target date. Even if the* 16% *increase in the value of annual production registered in* 1959-60 *in the Shipyard is taken as the expected rate of progress in production in terms of tonnage also, the Yard is likely to reach its rated capacity near about* 1970 *only and not in* 1963-64. *The Committee hope that all efforts will be made to bring up production to the revised rated capacity of* 50,000-60,000 *DWT within the expected period.*

C. Orders for Ship-building

Lack of Orders with the Shipyard.

9. The Committee understand that one of the main difficulties faced by the Yard is the lack of sufficient orders for shipbuilding. The Annual Report of the Yard for 1958-59 refers to the serious difficulties presented by this problem. This was repeated in more emphatic terms in the report for 1959-60. Para 10 of the Report reads as follows:—

> "The prospects for future orders for the Shipyard have not been bright and are causing concern to your Directors. Although the problem has been under continuous review since the end of 1959, it has unfortunately not been possible for the Shipyard to obtain any new firm order as yet. Consequently, with hardly five months to go for laying down the keel of a vessel on the berth to fall vacant in April, 1961, the Shipyard is unable to plan for the building of the next ship."

10. In his speech, delivered on the 5th of January, 1961 at the Eighth Annual General Meeting of the Hndustan Shipyard Limited, the Chairman observed:

> "I am glad to report that an order for construction of one vessel has just been placed with the Shipyard. If this order had materialised some months ago, the Shipyard could have avoided

a hiatus in planning which has now become unavoidable."

Delay in placing orders causes hiatus in Planning.

During evidence he informed the Committee that in spite of all efforts the position continued to be unsatisfactory. The Managing Director of the Yard added that the delay in obtaining orders had seriously affected the Yard as planning for construction had to be taken up a year before laying the keel. The Secretary to the Ministry accepted the necessity of providing the Shipyard with regular and sufficient orders. He stated that it was difficult to induce the ship-owners to place orders.

11. *Apparently, the reasons for the ship-owners not readily coming forward to place orders on the Yard were due to higher cost of the ships built by the Yard compared to what could be obtained from abroad and possibly the delay in delivery. The Committee view this situation with great concern. Unless the Yard gets an adequate number of orders to utilise the available capacity fully and such orders are placed in time for production to be planned properly, the Shipyard cannot obviously run efficiently and economically. Two of the Shipping Corporations are owned by Government. Private shipowners cannot also obtain their requirements from abroad without the approval of Government. The Committee do not see why Government should not be able to ensure that the Hindustan Shipyard is kept supplied with sufficient orders. They trust that in future Government will take effective steps to this end, if necessary by restricting facilities for purchase of ships from abroad.*

D. Development Programme

12. The Committee were informed that very soon after the Shipyard was taken over from the Scindias in 1952, a project report for its development was prepared with the assistance of the French Consultants and a phased programme of development drawn up*. After the execution

*The first and second phase of the Development programme were stated to be as follows :

FIRST PHASE

The important units included in the first phase were the construction of two new berths, Plumbing and Foundry Shops, a new Stores Building, a new building to house the Drawing Office, Timber Stores, Extension of Blacksmith Shop, renewal and augmentation of machines in the various Shops, provision of Heavy-lift Travelling Cranes on the Berth, jetty and the shops, and most important of all, a Prefabrication Shop with a 45-ton overheadTravelling, Crane and two Auxiliary Bays with open gantries.

SECOND PHASE

The Second phase of the Development programme includes the extension of the Fitting Out Wharf upto about 1,300 feet and provision of housing and welfare amenities for employees. The extension of the jetty which was expected to be completed by the end of 1960 would now be completed in 1961.

of the entire development programme production will rise from the present level of 2 to 3 ships per year to 4 to 6 (cargo) ships of modern design per year.

13. The first phase of the development programme, costing about Rs. 20 million, is stated to have been almost completed. The second phase estimated to cost Rs. 8 million has also been executed except for the extension of jetty which will be completed by the end of 1961.

Delay in Construction of Prefabrication Shop.

14. The most important unit in the first phase of development was the Prefabrication Shop which was expected to be completed by the end of 1957. The shop has now been completed except for a machine to be yet purchased. The Directors in their Report (1956-57) attributed the delay in the construction of the Prefabrication Shop to inadequate supply of steel and cement. As for the second phase, the principal difficulty was the want of sanction of Government on account of foreign exchange difficulties. The element of foreign exchange involved was, however, stated to be small.* *The Committee regret to note that the completion of the first phase of the development programme was badly delayed for want of cement and steel. As for the second phase, it would have been useful if foreign exchange required for the second phase could have been found especially as it was stated to be small.*

E. Dry Dock Project

Expenditure Estimates out of date.

15. A project for the construction of a Graving Dock at a total expenditure of Rs. 2·15 crores was sanctioned by Government in March, 1955. Its execution was postponed owing to foreign exchange difficulties. Since the estimates of cost on the basis of which the project was sanctioned six years ago were stated to have become a little out of date, the project is now expected to cost a total sum of Rs. 2·80 crores. Its foreign exchange component is Rs. 73 lakhs.

Dry Dock should have priority over Second Shipyard.

16. The Committee were informed by the Chairman of the Hindustan Shipyard that the question of sanctioning a dry dock has been under consideration of Government for the last fourteen years. According to him, there could be no Shipyard without a Dry Dock and provision of a fifth berth and a Dry Dock in the Hindustan Shipyard 'should have a higher priority than putting up another Shipyard'. *The Committee are not aware of the precise reasons which have held up this Project so long. They recommend that Government may pay special attention to the early construction of the Dry Dock so that the Yard can function efficiently.*

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*At the time of factual verification it was stated by the Ministry that the foreign exchange component of expenditure for the extension of jetty was Rs. 10 lakhs in 1957. This was revised to Rs. 7 lakhs in 1959 and was sanctioned by Government.

III

THE PROBLEM OF COSTS

A. Reasons for High Costs

Causes of high costs in the shipyard.

17. The costs of construction in the Shipyard are higher than in the United Kingdom, Germany, Japan and the Scandinavian countries, are almost on a par with the costs obtaining in Italy and France and are much lower than those in the United States of America and Australia. In their Report, 1959-60, the Directors of the Shipyard have given the following principal reasons for the high costs: (i) low productivity and inadequacy of trained personnel, (ii) importation of machinery and equipment which form the bulk of the materials used, (iii) the need for holding large stocks of steel in standard sizes, and (iv) the high incidence of overheads.

B. Productivity and Efficiency

Low Productivity.

18. The Directors' Report, 1959-60 states that productivity in the Hindustan Shipyard "is understandably lower than that obtaining in foreign Yards which have the advantage of a century of experience." It has been, however, claimed in the Report that the rate of man-hours per ton of steel weight processed in the Hull Shop, Prefabrication and Erection Departments has registered a steady decline.* Similarly, the rate of man-hours for processing every hundred rupees worth of materials (other than steel) handled in outfit departments has also been going down from 1957-58.

Lack of trained technicians for supervision.

19. Productivity is closely linked with training in modern methods. Although the Shipyard has been able to gather a nucleus of technical personnel in the various branches it is stated that there is still need for trained and experienced men like draughtsmen and designers, supervisory staff for hull construction and outfit work, apart from skilled workmen in a number of trades. It has been further stated that the training programmes have recently been modernised but it will be some time before the impact of this is felt on productivity. *The Committee hope that constant efforts will be made to increase productivity through proper training in modern methods.*

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*At the time of factual verification the Ministry furnished the following figures of man-hours per ton of steel processed in the Hull shop, prefabrication and Erection Department, and the man-hours used per unit of material other than steel worth Rs. 100, processed in the Outfit Department. :—

	Man-hours per ton of Steel processed			Man-hours used per unit of material other than steel, worth Rs. 100 processed.
	Hull Shop	Prefabrication Deptt.	Erection Department	Outfits Deptt.
1957-58	86·94	169·50	312·99	17·5
1958-59	63·99	130·53	242·06	16·6
1959-60	55·68	94·54	134·55	13·5

20. Another yardstick to measure the productive efficiency of the shipyard is the labour material ratio. The following table shows the amounts spent on materials, labour and overheads in the years 1958-59 and 1959-60; Labour-Material Ratio— Scope for improvement.

Year	Production	Materials	Labour	Overheads	Labour Materials ratio
		(Rupees in lakhs)			
1958-59	345·36	185·04	33·05	90·03	1 : 5·60
1959-60	401·48	249·19	35·16	90·57	1 : 7·09

21. *It will be observed from the above figures that while the overheads seem to be on the high side, the increase in production in the Shipyard during these two years has been achieved without a corresponding increase in the overheads. Similarly, there has been an improvement in the labour/material ratio. The Directors have, however;* recognised in their Report (1959-60) that there is still considerable scope for improvement in all departments of the Shipyard. Steps have been taken to lay down 'norms' in regard to production. *The Committee trust that the steps stated to have been taken will bring about further improvement in this respect.*

C. **Overheads**

22. The following table shows the position of overheads in the Shipyard *vis-a-vis* production and productive labour:—

Year	Total production *	Productive labour	Overheads	Percentage of 4 to 2	Percentage of 4 to 3
1	2	3	4	5	6
	(Amount in lakhs of Rs.)				
1956-57	298·04	29·75	74·85	25·11	255·10
1957-58	343·31	31·58	86·20	25·11	275·40
1958-59	345·36	30·63	93·34	27·03	305·80
1959-60	401·48	35·01	93·23	23·22	269·74

23. From the above, it would appear that the percentage of overheads to total cost of production moved up from 25·11 in 1956-57 to 27·03 in 1958-59 and came down to 23·22 in 1959-60. The usual percentage of overheads to the cost of construction of a cargo vessel in the U.K. Shipyard has been stated to be about 20. High incidence of Overheads in the Yard.

*These figures of total production have been taken from para 5 of the Directors, Report (1959-60) and are inclusive of the cost of ship construction, hip-repairs and capital works executed departmentally.

24. The Directors of the Shipyard have stated in the Report for 1959-60 that the incidence of overheads is onerous at the present level of production and the remedy lies in achieving a substantial increase in production with practically the same equipment and supervisory personnel which the Yard has at present. *The Committee hope that apart from efforts to increase production all other possible steps will be taken by the Management of the Yard to control overheads by strict economy and proper utilisation of available resources.*

D. Design and Estimating

Need for develop ng the Designing know-how of the Yard.

25. At present even the designs and basic plans have to be imported by the Shipyard on payment. The Chairman of the Shipyard informed the Committee that the Shipyard was making every effort to develop its own designing and draftsmanship though the stage had not yet reached where its own technicians could design a ship. The Managing Director admitted that in respect of the designing of ships "we are lacking in talent, experience and data." He explained that 'the know-how of designs is not obtained on the basis of plain theory and a designer cannot be trained just sitting in a class room'. He said that the designer had to get experience over years and must have enough data in respect of the work already done, before he could design a new vessel. The only answer to this problem was concentrated training and collection of data of the ships built in the country itself. *The Committee consider that the establishment of a proper Designing and Estimating Department should have been taken up in right earnest much earlier and urge that there should be no further delay in developing it so that the Shipyard may grow gradually and at least cease to depend on foreign designs. As a necessary adjunct they feel that the establishment of a Research Department would be very helpful.*

E. Import of Materials and Steel

Imported Materials account for high construction costs.

26. The foreign exchange component of a ship built in the Hindustan Shipyard comes to about 45 per cent. of the total cost. The Chairman of the Shipyard stated in evidence that their main problem had been the import of all the materials and "what is called shipbuilding in India is still mainly the assembling of a ship because in value nearly 80 per cent of the materials (including steel) have to be imported."

The high cost of steel and the extra expenditure involved in holding larger stocks than is usual for the imported

items was stated to be one of the principal reasons for high manufacturing costs in the Hindustan Shipyard. The cost of shipbuilding plates in U.K. in July, 1959 was Rs. 611 per ton as against the price of Rs. 800 per ton in India. Moreover, while plates and sections are available to the U.K. yards in exact sizes, this is not so in India with the result that there is a greater amount of wastage. It is roughly estimated that the production of scrap accumulation in U.K. yards is 15 per cent for welded ships and 12 per cent for rivetted construction while it works out to about 18 percent in the Hindustan Shipyard for ships which are about 80 per cent welded and 20 per cent rivetted. *The Committee trust that with the availability of shipbuilding steel in exact sizes and quantities required by the Yard when the Rourkela Steel Plant starts producing steel required for shipbuilding appreciable reduction would be made in the costs of construction of a ship.*

Indigenous manufacture of machinery to reduce costs.

27. As regards the additional cost incurred on account of materials imported from abroad, the Directors have stated in their Report (1959-60) that an appreciable reduction in this could be expected when the major items of machinery and equipment are manufactured economically within the country. As far back as 1955 the Estimates Committee, in their 14th Report (First Lok Sabha), recommended the setting up of subsidiary industries for the manufacture of standardised parts of fittings, equipments etc. and also called for immediate attention to be paid to the manufacture of engines. The Chairman of the Shipyard, however, informed the Committee that it was not correct to think that indigenous manufacture of machinery would reduce the costs immediately. He also said that while in the beginning the costs might be increased by trying to produce everything within the country, the whole idea was to try and get as many things as possible in the country itself: it was thus a question of balancing. The Committee were further told in evidence that Government had appointed a Ship Ancillary Industries Committee in 1957—to recommend, among other things, on the steps to be taken to encourage the indigenous production of materials and equipment required by the shipbuilding industries. The First Report of this Committee while dealing with the question of setting up and promotion of ancillary industries designed to manufacture indigenously all materials and equipments required for shipbuilding and ship repairs observed as follows:—

> ".....as India is to progress towards and attain a state of self-sufficiency, steps must be devised to overcome such difficulties and to provide a phased programme of development

of indigenous ancillary industries. Unless such industries are set up and enabled to grow, both ship-building and ship-repairs will be uneconomic and non-competitive."

28. *The Committee are entirely in agreement with the above observation of the Ship Ancillary Industries Committee. They trust that the recommendation made by the Ship Ancillary Industries Committee will be examined urgently by Government and effective steps for setting up ancillaries taken.*

F. Standardisation

Need for building standard sed ships.

29. Prior to its being taken over by Government the policy of the Shipyard was to concentrate on the production of one type of vessel only. But it was decided later on to adopt the Maierform type of Vessels. This required the preparation of separate designs and working plans for each ship. The Estimates Committee in para 85 of their 14th Report (First Lok Sabha) had observed:

> "Standardisation of designs has this additional advantage in that it would also lead to considerable savings in expenditure on machine operation etc. and speedier training of skilled workers. Moreover, standardisation would enable the setting up of subsidiary industries for the manufacture of replacement parts more easily since these later would also be standardised and could accordingly be stocked in larger quantities."

30. In pursuance of the recommendations made by the Estimates Committee in para 86 of their 14th Report (First Lok Sabha), the question of standardisation of ships was examined by Government and a special Committee consisting of the D. G., Shipping, representatives of six leading Shipping Companies and a representative of the Hindustan Shipyard, was set-up for evolving the standard types of ships to be built during the Second Five Year Plan. *The Estimates Committee were informed by Government in March* 1956 *that this Special Committee had decided to standardise two ships, one for coastal and the other for overseas trade. This decision does not appear to have been yet put into effect. The Committee see no reason for such an inordinate delay in implementing the decision on standardisation the advantages of which are too obvious, and recommend that Government should lose no further time in doing so.*

IV

PRICING AND SUBSIDY

U.K. Parity Price Formula.

31. The Committee have been informed that shipbuilding is subsidised by Government in all countries other than the U.K. The ship owner can obtain a ship from other countries at a price cheaper than that at which the Hindustan Shipyard Limited can supply it. Under present arrangements the Shipyard receives from the buyer the price he would have paid for a similar ship constructed in the U.K. The difference between the cost of construction by the Yard and the price paid by the buyers is reimbursed to the Yard by Government as a subsidy*. This procedure for fixing the selling price is called the U.K. Parity Price Formula.

32. The actual working of the U.K. Parity Formula has been described by the Hindustan Shipyard Ltd. in the following words:—

> Prices of the vessels are fixed by negotiation between the Shipyard and the owner concerned. In these negotiations the cost of construction of a similar type of ship in U.K. shipyards is constantly kept in view. This is done by obtaining an estimate from a firm of consultants in U.K. of the price likely to be quoted by shipyards of average capacity and reputation in U.K. for a similar ship. Since it is not a practicable proposition to ascertain an incontrovertible figure

*The amount of subsidy received by the Hindustan Shipyard during the last five years is given below :

(Rs. in lakhs)

Year	Completed Works	Subsidy	Percentage of subsidy to completed works
1955-56	234	64	27
1956-57	253	62	25
1957-58	426	97	23
1958-59	136	45	33
1959-60	435	115	26

of U.K. parity price, the price fixed as a result of negotiations varies not infrequently from the estimates obtained by the Shipyard. In any case, the agreement about the price of a ship can be concluded by the owners only when the price quoted by the Yard is also acceptable by them. Then again the owners even contend that the 'U.K. Parity Price' may also not be the representative ruling world price of a vessel and in a very competitive international market of shipping, it may not be fair to expect them to subsidize the indigenous shipbuilding. Therefore, the arrangement concerning subsidy and pricing is in practice worked with a certain amount of flexibility. The subsidy that is eventually paid by Government represents the difference between the price fixed by negotiation between the Shipyard and the owner concerned and the actual cost incurred by the Shipyard in the normal course.

33. *It will be thus seen that the procedure of working the U. K. Parity Price is far from simple. It involves reconciliation of prices obtained independently by the buyer and the supplier probably from different U.K. firms for the supply of same type of ship.* Secondly lower price at which ships are now available from countries other than U.K. is also being taken into account. In fact the Chairman of the Shipyard in his speech dated 21st December, 1959 stated that "Apart from the fact that the U.K. Parity Price formula has proved to be unworkable in some cases it is being urged by the Shipowners that the U.K. prices are no longer the lowest prices quoted in ship-building. Japan and some of the Continental countries have been quoting prices which are lower than those quoted by the Shipyards in the U.K." The Committee were informed that because of the complicated negotiations involved the question of pricing became a subject of 'higgling and bargaining'.

Linking of prices with foreign yards not desirable.

34. *The Committee feel that it may not be desirable to link as closely as is done at present the prices charged by the Shipyard with those obtaining in any other country. The demand of the shipowners to make available ships built in the Yard at the lowest world price would present the same difficulties as those encountered in the operation of the U.K. Parity Price Formula. It would be obviously not possible for the Shipyard to ascertain the price which would not be challenged by the buyers. Another obvious disadvantage is that the present formula holds out no inducement to the*

shipyard to strive for reducing its cost of production. This view seems to be shared by the Chairman of the Hindustan Shipyard also who felt that a formula based on a percentage of cost for fixing the price would be preferable to the existing procedure.

35. *In the Committee's opinion the two requirements for a satisfactory solution of the situation are (i) that the selling price should give some incentive to the Shipyard to reduce its costs of construction; and (ii) the buyer should not be asked to pay appreciably more than that he would have paid for a similar ship constructed elsewhere.*

36. *The Committee feel that in view of the difficult foreign exchange position of the country a buyer cannot normally expect to get readily sufficient foreign exchange to buy a ship in the world market even at the lowest available price. On the other hand, the Shipyard should not continue to reply fully upon Government subsidy to make up the difference between its actual cost of construction and the ruling world prices.*

37. *Shipbuilding is subsidised in all countries except in the U.K. which has a century old tradition in ship-construction. It may not be possible for the Hindustan Shipyard Ltd. to function efficiently without a subsidy in one form or the other for some time to come. The Committee have elsewhere recommended the necessity of standardisation of ships built in the Hindustan Shipyard. The cost of such standardised ships should be capable of standardisation to a large extent. Based on such standardised costs, the Government may periodically determine the subsidy to be paid for each unit of construction related either to the Tonnage or the Cost. With this margin, the Shipyard should be able to quote competitive prices, if not the lowest world prices to the buyer. To the extent the actual cost of construction of a ship could be brought down, the profits of the Shipyard would go up. Failure to construct a ship within the permissible subsidy would indicate lack of efficiency on their part. The Committee suggest that Government may examine the possibility of revising the present basis of subsidy on the lines indicated above.*

V

FINANCIAL APPRAISAL

38. The following statement shows in brief the financial position and results of operation of the Hindustan Shipyard during the last four years :

	1956-57	1957-58	1958-59	19559-60
	(Rs. in lakhs)			
1. Total Capital .	843	1084	1228	1208
2. Paid-up Capital .	453	503	518	548
3. Net worth .	437	484	504	536
4. Working capital .	178	173	198	202
5. Fixed Assets .	285	312	335	346
6. Current Assets .	558	771	892	861
7. Fictitious Assets .	16	19	14	12
8. Current Liabilities. .	380	598	694	659
9. Works-in-Progress .	271	182	382	339
10. Materials-in-stock .	159	292	325	322
11. Production . . .	298	343	345	401
12. Sales . . .	191	329	92	321
13. Subsidy . . .	62	97	45	115
14. Cumulative Subsidy .	198	295	341	456
15. Net Profit/Loss .	(—)3·69	(—)4·75	(—)·05	(+)0·69
16. Cumulative Loss .	7·33	12·08	10·66	9·13

1. Total capital has been arrived at after deducting the amount of fictitious assets and security deposit investment (which is a centre item) from the total of assets.

2. As per Annual Accounts.

3. Net Worth has been calculated by deducting the net loss and fictitious assets as per accounts during the year from the paid-up capital.

4. This is the difference between Current Assets and Current Liabilities.

5. They are as per the Balance Sheet for the respective years.

6. The total of Current Assets includes the Current Assets, Loans and Advances and Cash & Bank Balances, as shown in the Balance Sheet.

7. They comprise the Preliminary Expenses, Deferred Revenue Expenditure and Balance of Profit and Loss Account.

8. The total of Current liabilities includes current liabilities and loans as given in the Balance Sheet with the exception of Dry Dock Advance and Development Advance which appear to be deferred liability.

9. & 10. As per Balance Sheet.

11. As given in the Directors' Report, 1959-60.

12. Sales comprise (*i*) contract price, (ii) Increase as per escalation clause, (*iii*) Increase for extra jobs carried out, and ship-repairs.

13. & 15. As per Profit and Loss Account.

14. & 16. As shown in the Balance Sheet.

A. Capital & Government Investment

39. The issued and paid-up capital of the Company as on 31st March 1960 was Rs. 547·82 lakhs. Of this, shares of the value of Rs. 443·57 lakhs are held by the Government of India and the balance of the shares of the value of Rs. 104·25 lakhs by the Scindia Steam Navigation Company Ltd. In addition, in the Balance Sheet (1959-60) a sum of Rs. 6·33 lakhs stands as loan advanced by Government for the Dry Dock Project and Rs. 7·23 lakhs as Yard Development Advance, the latter pending conversion into share capital. The total investment of Government in the Hindustan Shipyard thus amounts to Rs. 457 lakhs at the end of 1959-60. In addition Government have also paid an amount of Rs. 456 lakhs upto 1959-60 as subsidy on ship-construction.

B. Subsidy and Losses

40. The Net loss shown in the statement is exclusive of subsidy which is credited in the Profit and Loss Account every year. Since the subsidy is recoverable by Government from the future profits of the Company, the cumulative amount of subsidy is being shown in the Balance Sheet as a contingent liability.

Subsidy credited to Profit & Loss Account.

41. *The Subsidy received by the Yard represents the loss incurred by it in selling its products at market price which loss is re-imbursed by Government. To judge the financial results of the working of the undertaking, such loss, though subsidised, has to be taken into account. The total amount of subsidy received so far by the Yard amounts to Rs.* 456 *lakhs. Taking this into account, the total loss suffered by the company upto* 1959-60 *comes to Rs.* 465 *lakhs. The Annual Reports and Accounts of the Shipyard do not at present bring out this position clearly. The Committee feel that the full extent of the deficit at which the company is working should be brought out clearly in the annual Reports and Accounts. Further the portion of the deficit amount covered by the subsidy should be shown along with the loss worked out after taking credit for the subsidy.*

Subsidy to be shown separately from the Profit and Loss A/c.

VI

THE SECOND SHIPYARD

Beginning for the Second Shipyard.

42. Government have decided to set up a second Shipyard at Cochin during the Third Five Year Plan period. Action to acquire land etc. for this purpose has been taken. The Chairman, Hindustan Shipyard Ltd. expressed a view in December, 1959 that the first priority should be to make the Hindustan Shipyard a more productive and efficient organisation for ship construction before launching on a scheme for a second Shipyard. On being referred to this view, the Secretary of the Ministry informed the Committee that if this question was looked at from the point of view of the tonnage which would be progressively built in the country, a beginning had to be made with a second Shipyard. He added that though it had been decided to set up a second Yard, it was not yet certain whether it would come up during the Third Plan period. That depended on finding a specific foreign source to provide the whole or part of the foreign exchange requirements and to collaborate in the setting up of the second Shipyard.

Establishment of the Second Yard to depend on foreign exchange and collaboration.

Problems attendant with ship-building in the country

43. *There can be no doubt that the requirements of our Shipping more than justify a second Shipyard. The setting up of a Shipyard is, however, attended with special problems. Some of them, already referred to by the Committee in their* 14*th Report* (*First Lok Sabha*), *are, the training of supervisory personnel, the building up of adequate facilities for hull construction, securing continued and regular supply of material like steel plates etc. for the construction of machinery and the setting up of important marine subsidiary industries essential for ship-building activities. Further as the example of Hindustan Shipyard Ltd. suggests, the economics of Shipyard has to be carefully worked out in advance. This, the Committee were informed, has not been yet done. There is also the additional question of securing sufficient orders in time. The Committee trusts that Government will look into all these attendant problems of setting up a Shipyard before they actually take up the Project.*

NEW DELHI;
March 23, 1961.
Chaitra 2, 1883 (*Saka*).

H. C. DASAPPA,
Chairman,
Estimates Committee.

APPENDIX I

Summary of Recommendations/Conclusions

Serial No.	Paragraph No.	Recommendations/Conclusions
1	7	The Committee observe that upto 1959-60 the production of the Yard (which on an average has been about 15,000 DWT) fell short of its maximum capacity of 20,000 DWT. In 1958-59 particularly the production was less than half the rated capacity. Since the capacity of the Yard has now been increased to 25,000-30,000 DWT, the Committee trust that urgent attention will be paid to increase the production in the Yard so that the rated capacity is fully utilised.
2	8	Taking into consideration the past performance of the Shipyard it is doubtful whether it will be able to achieve the increased capacity now planned by the target date. Even if the 16% increase in the value of annual production registered in 1959-60 in the Shipyard is taken as the expected rate of progress in production in terms of tonnage also, the Yard is likely to reach its rated capacity near about 1970 only and not in 1963-64. The Committee hope that all efforts will be made to bring up production to the revised rated capacity of 50,000-60,000 DWT within the expected period.
3	11	The Committee view with great concern the present situation in which the Shipyard is not getting sufficient orders. Unless the Yard gets an adequate number of orders to utilise the available capacity fully and such orders are placed in time for production to be planned properly, the Shipyard cannot obviously run efficiently and economically. Two of the Shipping Corporations are owned by Government. Private shipowners cannot also obtain their requirements from abroad without the approval of Government. The Committee do not see why Government should not be able to ensurethat the. Hindustan Shipyard is kept supplied with sufficient orders. They trust that in future Government will take effective steps to this end, if necessary, by restricting facilities for purchase of ships from abroad.

1	2	3
4	14	The Committee regret to note that the completion of the first phase of the development programme was badly delayed for want of cement and steel. As for the second phase, it would have been useful if foreign exchange required for the second phase could have been found especially as it was stated to be small.
5	16	The Committee are not aware of the precise reasons which have held up the Dry Dock Project for the last fourteen years. They recommend that Government may pay special attention to the early construction of the Dry Dock so that the Yard can function efficiently.
6	19	The Committee hope that constant efforts will be made to increase productivity through proper training in modern methods.
7	21	The Committee trust that the steps stated to have been taken to lay down 'norms' in regard to production will bring about further improvement in the reduction of overheads which are at present on the high side.
8	24	The Committee hope that apart from efforts to increase production all other possible steps will be taken by the Management of the Yard to control overheads by strict economy and proper utilisation of available resources.
9	25	The Committee consider that the establishment of a proper Designing and Estimating Department should have been taken up in right earnest much earlier and urge that there should be no further delay in developing it so that the Shipyard may grow gradually and at least cease to depend on foreign designs. As a necessary adjunct, they feel that the establishment of a Research Department would be very helpful.
10	26	The Committee trust that with the availability of shipbuilding steel in exact sizes and quantities required by the Yard when the Rourkela Steel Plant starts producing steel required for shipbuilding, appreciable reduction would be made in the costs of construction of a ship.
11	28	The Committee are entirely in agreement with the observation of the Ship Ancillary Industries Committee that steps must be taken to provide a phased programme of development of indigenous ancillary industries. They trust that recommendation made by

1	2	3
		the Ship Ancillary Industries Committee will be examined urgently by Government and effective steps for setting up ancillaries taken.
12	30	The Committee see no reason for the inordinate delay in implementing the decision on standardisation taken by Government in March, 1956 and recommend that Government should lose no further time in doing so.
13	34—36	The Commmittee feel that it may not be desirable to link the prices charged by the Shipyard with those obtaining in any other country. The demand of the shipowners to make available ships built in the Yard at the lowest world price would present the same difficulties as those encountered in the operation of the U.K. Parity Price Formula. In the Committee's opinion the two requirements for a satisfactory solution of the situation are (*i*) that the selling price should give some incentive to the Shipyard to reduce its costs of construction; and (*ii*) the buyer should not be asked to pay appreciably more than that he would have paid for a similar ship constructed elsewhere.
		The Committee feel that in view of the difficult foreign exchange position of the country a buyer cannot normally expect to get readily sufficient foreign exchange to buy a ship in the world market even at the lowest available price. On the other hand, the Shipyard should not continue to rely fully upon Government subsidy to make up the difference between its actual cost of construction and the ruling world prices.
	37	It may not be possible for the Hindustan Shipyard Ltd., to function efficiently without a subsidy in one form or the other for some time to come. The Committee have elsewhere recommended the necessity of standardisation of ships built in the Hindustan Shipyard. The cost of such standardised ships should be capable of standardisation to a large extent. Based on such standardised costs, the Government may periodically determine the subsidy to be paid for each unit of construction related either to the Tonnage or the Cost. With this margin, the Shipyard should be able to quote competitive prices, if not the lowest world prices to the buyer. To the extent the actual cost of construction of a ship could be brought down, the profits of the Shipyard would go up. Failure to construct a ship within the permissible subsidy would indicate

1	2	3
		lack of efficiency on their part. The Committee suggest that Government may examine the possibility of revising the present basis of subsidy on the lines indicated above.
15	41	The subsidy received by the Yard represents the loss incurred by it in selling its products at market price which loss is re-imbursed by Government. To judge the financial results of the working of the undertaking, such loss, though subsidised, has to be taken into account. The total amount of subsidy received so far by the Yard amounts to Rs. 456 lakhs. Taking this into account, the total loss suffered by the Company upto 1959-60 comes to Rs. 465 lakhs. The Annual Reports and Accounts of the Shipyard do not at present bring out this position clearly. The Committee feel that the full extent of the deficit at which the Company is working should be brought out clearly in the Annual Reports and Accounts. Further, the portion of the deficit amount covered by the subsidy should be shown along with the loss worked out after taking credit for the subsidy.
16	43	There can be no doubt that the requirements of our Shipping more than justify a second Shipyard. The setting up of a Shipyard is, however, attended with special problems. Some of them, already referred to by the Committee in their 14th Report (First Lok Sabha), are the training of supervisory personnel, the building up of adequate facilities for hull construction, securing continued and regular supply of material like steel plates etc. for the construction of machinery and the setting up of important marine subsidiary industries essential for ship-building activities. Further, as the example of Hindustan Shipyard Ltd. suggests, the economics of Shipyard has to be carefully worked out in advance. This, the Committee were informed, has not been yet done. There is also the additional question of securing sufficient orders in time. The Committee trust that Government will look into all these attendant problems of setting up a Shipyard before they actually take up the Project.

APPENDIX II

Analysis of Recommendations contained in the Report

I. CLASSIFICATION OF RECOMMENDATIONS

A. *Recommendations for improving the Organisation and Working*

4, 5, 9, 13, 14, 15.

B. *Recommendations for effecting economy which include suggestions for increasing the Production*

1, 2, 3, 6, 7, 8, 10, 12.

C. *Miscellaneous*

11, 16.

II. ANALYSIS OF IMPORTANT RECOMMENDATIONS DIRECTED TOWARDS ECONOMY

Sl. No.	No. as per Summary of recommendation	Particulars
1	1	Full utilistion of available capacity and advance planning for production.
2	2	
3	3	
4	6	Increase in Productivity.
5	7	Reduction and control of Overheads.
6	8	
7	10	Reduction in construction costs.
8	12	Standardisation of Ships for savings in costs.

III. MONETARY VALUE OF ECONOMY

It is not possible to calculate the monetary value of the economies which might be effected as a result of implementation of the recommendations classified under B above.