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MAZAGON DOCK LIMITED

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MINISTRY OF DEFENCE—(DEPARTMENT OF DEFENCE PRODUCTION AND SUPPLIES)

COMMITTEE ON PUBLIC UNDERTAKINGS

1996-97

ELEVENTH LOK SABHA

LOK SABHA SECRETARIAT
NEW DELHI

FIRST REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS (1996-97)

(ELEVENTH LOK SABHA)

MAZAGON DOCK LIMITED

MINISTRY OF DEFENCE—(DEPARTMENT OF DEFENCE PRODUCTION AND SUPPLIES)

[Action taken by Government on the recommendations contained in the 43rd Report of Committee on Public Undertakings (Tenth Lok Sabha)]

सत्यमेव जयते

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LOK SABHA SECRETARIAT
NEW DELHI

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(1996-97)

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INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this 1st Report (Eleventh Lok Sabha) on Action Taken by Government on the recommendations contained in the Forty-Third Report of the Committee on Public Undertakings (Tenth Lok Sabha) on 'Mazagon Dock Limited'.

2. The 43rd Report of the Committee on Public Undertakings was presented to Lok Sabha on 22nd August, 1995. Replies of the Government to all the recommendations contained in the Report were received on 17th June, 1996. The replies of Government were considered by the Committee on 9th October, 1996. The Committee on Public Undertakings considered and adopted this Report at their sitting held on 9th October, 1996.

3. An analysis of the Action Taken by the Government on the recommendations contained in the 43rd Report (Tenth Lok Sabha) of the Committee is given in Appendix-II.

NEW DELHI;
November 22, 1996
Agrahayana 1, 1918 (S)

G. VENKAT SWAMY,
Chairman,
Committee on Public Undertakings.

CHAPTER I

REPORT

The Report of the Committee deals with the action taken by Government on the recommendations contained in the Forty-third Report (Tenth Lok Sabha) of the Committee on Public Undertakings on Mazagon Dock Ltd. which was presented to Lok Sabha on 22nd August, 1995.

2. Action Taken Notes have been received from Government in respect of all the 23 recommendations contained in the Report. These have been categorised as follows:—

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

Sl. Nos. 1, 4, 5, 7, 11, 12, 13, 14, 16, 19, 20, 21 and 23.

(ii) Recommendations/observations which the Committee do not desire to pursue in view of Government's replies.

Sl. No. NIL

(iii) Recommendations/observations in respect of which replies of Government have not been accepted by the Committee.

Sl. Nos. 8, 9, 10 & 22.

(iv) Recommendations/observations in respect of which final replies of Government are still awaited.

Sl. Nos. 2, 3, 6, 15, 17 and 18.

3. The Committee desire that the final replies in respect of the recommendations for which only interim replies have been given by Government should be furnished to the Committee expeditiously.

The Committee will now deal with the action taken by Government on some of their recommendations.

A. Submarine Constructions
Recommendation (Sl. No. 8, Para 8)

4. The Committee observed that actual expenditure incurred on the SSK project in East yard for construction of 4 submarines was Rs. 38.82 crores against the sanctioned outlay of Rs. 12.75 crores. Also, facilities for submarine were lying idle since after the order for two submarines the Government did not exercise the option for other two submarines. The Company claimed that except for plant and machinery worth Rs. 12 crores, balance facilities were being utilised for ship construction and other

diversification projects. The Committee wondered how these facilities rendered surplus for submarines were being utilised for ship construction when such facilities were particularly not being utilised to full extent due to paucity of orders. The Committee had recommended that efforts should be made to procure orders not only from Navy for construction of submarines but also from other countries so that the facilities created at huge cost could effectively be utilised.

5. In their reply, the Government have stated that the infrastructure created for the construction of submarines is being used for both repairs and construction of surface ships besides other fabrication work. This is being done to utilise idle equipment and manpower. Regarding the procurement of orders for construction of submarines, the Ministry have stated that the efforts were being made to get the orders for two submarines from the Navy.

6. While vetting the replies, the office of C&AG has clarified that no order for construction of two sub marines from the Navy had been received.

7. The Committee express their strong displeasure not only over the failure of MDL to procure orders from Navy for construction of submarines even after one year since their earlier report was presented to Parliament, but also over the fact that the reply of the Government is silent about procuring orders from other countries. The Committee also fail to understand how MDL is able to utilise the infrastructure which was created for construction of submarines for ship construction when they don't have sufficient orders for that. The Committee, would, therefore, reiterate that sincere and concerted efforts should be made for procuring orders from Navy and the Committee be apprised of the outcome within three months of the presentation of this report. They also recommend that MDL should leave no stone unturned for procuring orders from foreign countries as well.

B. Irregularity in construction of Diving Support Vessel
Recommendation (Sl. No. 9, Paragraph 9)

8. The Committee had observed that instead of construction of a Tug-cum-supply vessel at a cost of Rs. 4 crores, for which Government sanction had been received, the company constructed a Diving Support Vessel (DSV) at cost of Rs. 23.36 crores. They also found that no feasibility study was conducted before commencing construction work. A Committee appointed by the Ministry enquired into the matter in March 1993 and concluded that the scope of the project was changed, a new barge was constructed against sanction for purchase of second hand barge and excess expenditure incurred without Government approval. This Committee also opined that although there was irregularity there seemed to be no malafide intentions. While noting that no final view was taken by the Government on these findings the Committee had urged that responsibility be fixed for the serious lapses.

9. In their reply, the Government have stated that the case of construction of Diving Support Vessel by MDL has been examined by the Ministry and suitable action has been taken.

10. While vetting the replies of the Ministry the audit has intimated that since Ministry's report on this issue was not available, the action taken by the Ministry was not verifiable. On the remarks of the audit the Ministry stated that the view taken by the Government would be intimated to the office of the C&AG.

11. The Committee are constrained to observe that the reply furnished by the Government is totally ambiguous. While the Committee had specifically recommended that responsibility should be fixed for the serious lapses. Government have merely stated that suitable action has been taken without specifying the responsibility fixed, if any, and action that has been taken in the matter. The Committee are of the view that non fixing of responsibility implies that nobody could be held accountable for the lapses which is but a sad reflection or the working of the Company. They would, therefore, again recommended that responsibility should be fixed for these lapses and the Committee be apprised of the specific action taken in the matter without further delay.

C. Capacity utilisation

Recommendation (Sl. No. 10, Paragraphs 10 & 11)

12. The Committee had found that capacity utilisation of MDL had not been satisfactory. The capacity utilisation of various activities of MDL in terms of ship units during the years 1991-92, 1992-93, and 1993-94, has been 79%, 67% and 81% respectively. During 1993-94, the capacity utilisation in respect of hull construction,, assembly shop and ship ways has been only 33%, 38% and 45% respectively. The Committee also found that the orders from the Navy had not been forthcoming for the last eight years. As the capacity utilisation on the fabrication side was also expected to be low in the coming years the Committee had recommended for making concerned efforts to procure orders for diversified activities like manufacture of pressure vessels, subcontract for Ordinance Factories, etc.

13. Similarly, the Committee observed that the facilities for fabrication of offshore platforms were created by MDL on a Government Directive from February 1977 at its Alcock Yard and later in its Nhava and Mangalore Yards. As per a decision of the Committee of Secretaries in 1983, MDL was to be provided with continues order flow from ONGC. The Committee found that the flow of orders from ONGC had been erratic. The capacity utilisation in respect of offshore activities was nil at Mangalore, 4% at Nhava and 40% at Alcock. With the completion of existing work the utilisation at Alcock was expected to come to zero. The Committee regretted that MDL could not get adequate orders from ONGC even when the facilities at MDL were set up at the instance of Government and MDL was assured of continuous orders. The Committee

were informed that MDL was exploring the possibility of being taken as sub-contractor to the big houses. They emphasised that such alternative should be pursued vigorously in order to ensure maximum utilisation of the facilities created in the Company.

14. The Government have intimated in their reply that after vigorous efforts the Company has received orders for construction of three destroyers from Navy and more orders were expected soon. With reference to recommendation of the Committee for orders on diversified activities, the Compnay has received an order from NEPC-MICON for construction of 65 Windmill towers. It has also received an order for construction of a dredger from Bombay port-trust. As regards Off-shore Division, the MDL has received order for B-121 platform from ONGC against international bidding. The Company expects to get an order shortly for HX-HY platform from ONGC on nomination basis in order to utilise the capacities to the optimal level.* Efforts were on to revamp the marketing strategy of the company. The Company would seek to obtain orders from other customers besides ONGC.

15. While MDL has been able to procure some fresh orders and is expecting to receive some more orders, the reply of the Government is silent as to what extent the capacity utilisation in respect of different activities would increase after these orders have been received. The reply also does not specify the position in regard to MDL being taken as sub-Contractor which the Committee had expressly recommended. The Committee desire that they should be apprised of the exact position in regard to capacity utilisation and the sub-contracts procured as a result of MDL's efforts. They also recommend that instead of feeling contented with these orders the company should chalk out a long-term strategy which would enable them to have a continuous flow of orders in future. Needless to say that these orders should be completed within the stipulated time frame to earn reputation for the company in this competitive market.

D. Time overrun in the construction of sub-marines
Recommendation (Serial No. 13, Para 14)

16. The Committee had observed that Mazagon Dock Ltd. commenced construction of first submarine in January, 1984 and second in September, 1984. Against the revised estimated period of construction of 81 months, the submarines were commissioned after 97 months and 116 months respectively. The Committee had therefore desired to be infrormed of the extent of time overrun which could have been attributed to factors within the control of MDL and the remdeial measures taken to avoid their recurrence.

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*. At the stage of factual verfication, the MDL *vide* their letter No. CMP/1A /COPU dated 23-10-96 has informed the Committee that: 'MDL received orders from, ONGCL for HX-HY Platforms and B-55 Platform.

17. In their reply, the Ministry have stated that the reasons for delays which had occured in the construction of two submarines were analysed by the Project Management Board. According to them the delay of 5 1/2 months involved in the construction of the second submarines was attributable to the factors within the control of the MDL. For this unaccepted delay, liquidated damages amounting to 1.25% of the cost of the second submarine was levied on MDL. The total amount of damages so levied worked out to Rs. 2.50 crores approximately.

18. The Committee are anguished to note that MDL had to bear liqidated damages of about Rs. 2.50 crores admittedly on account of the factors which were within control of the MDL. Had timely remedial measures been taken in this regard. MDL could have been saved from payment of such a heavy amount. This in turn reflects poorly on the project monitoring mechanism prevalent in MDL. The Committee would, therefore desires that all concerted efforts should be made in future to avoid delays and obviate payment of liquidated damages.

E. Alternative uses of land at Dighi

Recommendation (Sl. No. 15, Paragraph 16)

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

20. In their reply, the Ministry have stated that environmental clearance could not be obtained inspite of MDL actively following up with the Ministry of Environment and the ship repair project remained in abeyance. They have also stated that since the chances of obtaining the environmental clearance soon were bleak the Company was looking for alternative uses of the site within the environmental control orders.

21. The Committee strongly deprecate the inordinate delay in taking the final decision about the alternative uses of the land inspite of the categorical recommendation of the Committee in this regard. They would like to emphasise that they attach the greatest importance to the timely implementation of their recommendation. The Committee desire that atleast now, decision on the alternative use of the land should be taken urgently and they be apprised of the same within one month.

F. Capital Restructuring of MDL

Recommendations (Sl. No. 17, Paragraphs 18, 19 & 20)

22. The Committee observed that Mazagon Dock Limited incured losses continuously for many years upto 1989-90. Thereafter, although, it earned

a profit of Rs. 321 lakhs, Rs. 460 lakhs, Rs. 507 lakhs and Rs. 629 lakhs reespectively during the year 1990-91 to 1993-94, its performance during these years also would have been dismal but for the interest subsidy of Rs. 1535 lakhs received from Government during each of these years. The accumulated losses of the Company as on 31.3.1994 stood at Rs. 80.21 crores. All the works undertaken by MDL generally resulted in losses except turnkey projects for ONGC and few other works. The Committee had urged that urgent and concerted efforts be made both by the Company and the Government to improve the financial health of the Company.

The Committee learnt that MDL intended to wipe out accumulated losses by the year 1998-99 but this appeared to be based on several vague assumptions, such as getting orders for well head platforms.

23. It had also been admitted before the Committee that the future oil scenario was not quite clear and it would only be after some time, that it could be decided how MDL's activities could be dovetailed into the ongoing process of change. Apart from this the Ministry had expressed the hope that the finalisation of perspective plan on ship production on indigenous basis by the Navy would have a positive impact on MDL although no order for ship construction had been received from Navy for the last eight years. The Committee had desired that the possibility of getting substantial orders from Navy should be pursued vigorously and the Committee apprised as to what extent orders have actually been placed on MDL.

The Committee also observed that there was a proposal for capital restructuring of MDL whereby Government loans would be converted into noncumulative preference shares to be redeemed by the Company in five equal annual instalments. The Committee had desired that decision in the matter be expedited under intimation to them.

24. In their reply the Ministry have stated that the Accumulated losses of the Company were constantly dwindling. Accumulated losses of MDL as on 31.3.1995 were Rs. 54.06 crores, as against Rs. 80.21 crores and Rs. 90.10 crores as on 31.3.94 and 31.3.93 respectively. To achieve reduction in the accumulated losses, the company has taken several steps such as disposal of unproductive assets, reduction in overhead costs, better utilisation of surplus funds, removal of surplus staff and disposal of MDL shares in Goa Shipyard Limited. The Government have also stated that the Company was making concerted efforts to improve financial health of the Company to obtain orders for platforms from ONGC and submarines from Navy.

25. Regarding the capital restructuring, the Ministry have intimated that proposal for capital restructuring is for conversion of outstanding Government loan of Rs. 98.55 crores into 7% non-cumulative redeemable preference shares. By that, MDL expects the reduction of Rs. 12 crores towards interest charges and savings of Rs. 13.60 crores in cash outflow for

1995-96 from instalment repayments and similar savings in the subsequent years. This measure would also reduce the overhead burden and make MDL more competitive in the market to bag orders for Naval projects as well as for diversified activities including offshore business. The Ministry have stated that capital restructuring proposal of the Company had been analysed and for decision, the matter was being considered actively.

26. **The Committee are highly displeased to find that no final decision in regard to the capital restructuring of MDL has so far been taken. As this measure is expected to substantially reduce the interest burden and result in savings in cash outflow, the Committee recommend that the matter should be finalised without any further delay under intimation to them.**

G. Prices for the offshore supply Vessels
Recommendation (Sl. No. 22, Paragraph 25)

27. A loss of Rs. 39.96 crores was incurred by MDL on the eight offshore Supply Vessels constructed for ONGC. While noting that the price for the vessels was to be fixed by the Government on International Parity Price and that the talks with the Ministry of Petroleum & Natural Gas did not yield any positive results, the Committee had recommended that the matter should be taken up with the Committee of Secretaries.

28. The Government have stated in their reply that the Ministry of Defence took up with the Ministry of Petroleum and Natural Gas the matter regarding upward revision of contract price in terms of International Parity Price. However, the Ministry of Petroleum and Natural Gas did not agree to the proposal and the matter was taken up with the Ministry of Surface Transport which is administratively concerned with the revision of International Parity Price. According to that Ministry, however, the International Parity Price was applicable for Ocean Going Ships and not for Offshore Supply Vessel. The matter was again being taken up with concerned Ministries to resolve the issue.

29. **The Committee are not satisfied with the efforts made by the Ministry of Defence in regard to securing revision of International Parity Price. Efforts made with the Ministry of Petroleum & Natural Gas and Ministry of Surface Transport have again not yielded any result. The Committee, therefore, reiterate their earlier recommendation that the matter should be taken up with the Committee of Secretaries for their consideration and the Committee be apprised of the outcome.**

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation (Sl. No. 1, Para No. 1)

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

Reply of the Government

The action taken to rectify and improve the working of the Company is brought out in the succeeding paragraphs.

[Ministry of Defence (Deptt. of DP&S) OM No. 8/3/94/MDL/D(SY)/ Vol. III dated 19th February, 1996].

Remarks of Office of C&AG on the reply of the Govt.

No remarks.

Comments of MOD, DDP&S on the remarks of Office of C&AG

No comments.

Recommendation (Sl. No. 4, Para No. 4)

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

Reply of the Government

The Company has brought out in 1991 a Manual on Procedures for sanctioning, incurring and monitoring capital expenditure which lays down the levels for disposal of various items of work related to several aspects of the Company viz, competency to incur capital expenditure, placement of orders, disposal of assets etc. According to Chapter IV the Project Manager, either designated or nominated by the Management has been made fully responsible for monitoring and controlling the expenditure vis-a-vis the progress of the project and its timely completion. As desired by COPU to overhaul the system for monitoring the implementation of projects and to ensure timely completion, the Manual of the Company is being reviewed to incorporate the specific mechanics of monitoring. The Government directors attending the Board meetings at the time of discussion of Capital Budget inquire into the progress of expenditure on capital projects. At the Ministry's level also, at the time of approving the Capital Budget of the Company, the expenditure, provisions on account of on-going projects are reviewed with reference to progress achieved so far, the progress planned etc. With regard to recommendation for fixation of responsibility in the cases where a deliberate attempt was made to split the projects to bring them within the sanctioning power of a lower authority, it is stated that the then existing CMD and Director (Finance) were found responsible and removed from the services of the Company.

[Ministry of Defence (Deptt. of DP&S) OM No. 8/3/94/MDL/D(SY)/
Vol. III dated 19th February, 1996].

Remarks of Office of C&AG on the reply of the Govt.

No further remarks.

Comments of MOD, DDP&S on the remarks of Office of C&AG

No comments.

Recommendation (Sl. No. 5, Para No. 5)

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

Reply of the Government

As desired by COPU, the reasons for escalation of the cost in the above projects have been identified. On the analysis of facts, it has been found that the system of estimation of a project including the cost was defective in itself. It revealed an improper planning/estimation of costs due to non-availability of all required data and facts. Besides, there was no proper monitoring system. In order to overcome those problems, MDL have since introduced a welldefined procedure and have introduced review of cost estimates of the projects on monthly basis instead of three months which was being done earlier.

[Ministry of Defence (Deptt. of DP&S) OM No. 8/3/94/MDL/D(SY)/ Vol. III dated 19th February, 1996].

Remarks of Office of C&AG on the reply of the Govt.

It is ascertained from the Production, Planning and Control Section that a monthly progressive meeting is being done on the on-going projects.

Comments of MOD, DDP&S on the remarks of Office of C&AG

No comments

Recommendation (Sl. No. 7, Para No. 7)

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

Reply of the Government

In order to meet the suggestion of COPU for evolving a system to avoid the losses, the study regarding viability of the Project has been included as a pre-requisite for sanctioning any capital project. The Project Manager dealing with the project has been made responsible for any lapse in the implementation of project and to keep a watch on the time and cost frame given to complete the project. This ensures pointed responsibility and would help avoid losses.

[Ministry of Defence (Deptt. of DP&S) OM No. 8/3/94/MDL/D (SY)/ Vol.III dated 19th February, 1996].

Remarks of Office of C&AG on the reply of the Govt.

No remarks.

Comments of MOD, DDP&S on the remarks of Office of C&AG

No comments.

Recommendation (Sl. No. 11, Para No. 12)

The Committee regret to observe that over the years MDL had to pay huge amounts as liquidated damages on account of delayed deliveries. In respect of 39 platform structures delivered between April 1984 and December 1987 MDL had to pay liquidated damages of Rs. 3.46 crores on account of delays ranging between 34 days to 647 days. Thereafter, in respect of 12 platforms delivered till 1991-92, delay range between 8 to 22 months attracting liquidated damages of as much as Rs. 36 crores. In another case, on execution of 4 major projects for supply and installation of process platforms and Water Injection system, the company had to pay liquidated damages amounting for Rs. 5.26 crores. The Committee would emphasise the urgent need to make all out efforts to prevent such delays, which result in avoidable payments of substantial amounts and affect the Company's reputation which in turn might also result in dwindling of orders.

Reply of the Government

The reasons for delay in execution of the projects in the past have been analysed for corrective action in the light of recommendations of the Committee. Action taken to reduce delays are summarised below:—

(1) *Advance Planning:* Project Execution Plans are prepared in detail even before receiving the orders. The same are discussed with client at first opportunity and joint action is taken for implementing the same.

(2) *Advance Procurement Action:* Action is taken well in advance to short list the suppliers. Techno/commercial discussions are held with them concurrently with finalisation of minor details of specifications by the design consultants so that orders can be placed within shortest possible time on finalisation of technical details.

(3) *Project Monitoring:* The techniques like PERT/CPM are used to maximum extent even prior to commencement of actual work on project for taking advance action for avoiding delays in implementation of projects.

These actions have helped the company in minimising the delays in execution of 2 recent projects undertaken by the Company.

[Ministry of Defence (Deptt. of DP&S) OM No. 8/3/94/MDL/D (SY)/ Vol.III dated 19th February, 1996].

Remarks of Office of C&AG on the reply of the Govt.

No remarks.

Comments of MOD, DDP&S on the remarks of Office of C&AG

Nil

Recommendation (Sl. No. 12, Para No. 13)

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

Reply of the Government

The decision in principle has been taken to lease out the plant. In order to meet the recommendation of the Committee for a decision for economically advantageous utilisation, the offers received are being processed.

[Ministry of Defence (Deptt. of DP&S) OM No. 8/3/94/MDL/D (SY)/ Vol.III dated 19th February, 1996].

Remarks of Office of C&AG on the reply of the Govt.

Lease/Sale of Mazagon Dock Ltd's coating Plant at Mangalore yard is approved by Board on 5.2.96. The offer of M/s SPL is being finalised.

Comments of MOD, DDP&S on the remarks of Office of C&AG

With the approval of Board of Directors, MDL has since leased the plant to M/s Saw Pipes Limited.

Recommendation (Sl. No. 13, Para No. 14)

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

Reply of the Government

1. *Time overrun*

The reasons for delays that had occurred in the construction of the 2 submarines were analysed by the Project Management Board. The PMB has ruled that a delay of 5.50 months in the construction of the second submarine is attributable to the factors within the control of MDL. For this unaccepted delay, liquidated damages amounting to 1.25% of the cost of the second submarine was levied on MDL. The liquidated damages so levied worked out to Rs.2.50 crores approximately.

The main reasons for the unaccepted delay in above is attributable to the manual welding of the aft and bulkhead to the Apolo section. This is the only weld in the entire submarine which has the highest acceptance standard *viz.* Class I U.T. Repeated problems were encountered in achieving this standard. To avoid recurrence of the same, selected welders would be given training and practice in precision welding for longer durations, so that the necessary skill would be acquired by them to produce defect free welding as required by Class I U.T. standards.

2. *Cost Overrun*

The reasons for the cost overruns were beyond the control of MDL such as exchange rate variations, escalations in labour wages, unanticipated defects in equipments/components especially in rubber and electronics etc. However, the unaccepted delay of 5.50 months stated above would have contributed to marginal increase in costs which cannot be estimated as the facilities available were being utilised for construction of missile boats also.

3. *Warranty of Equipments*

The equipments were supplied by MDL's collaborators as a part of the material package based on a construction schedule found to be unrealistic later. As such, the equipments landed up much ahead of their installation.

[Ministry of Defence (Deptt. of DP&S) OM No. 8/3/94/MDL/D (SY)/
Vol.III dated 19th February, 1996].

Remarks of Office of C&AG on the reply of the Govt.
No remarks.

Comments of MOD, DDP&S on the remarks of Office of C&AG
No comments.

Comments of the Committee

(Please see Paragraph No. 18 of Chapter I of the Report)

Recommendation (Sl. No. 14, Para , No. 15)

The Committee are constrained to observe that the ship repair facilities, which was MDL's main activity at the time of take over, is not being utilised fully. During 1993-94, it represented just 4% of its turnover. The number of ships repaired has gone from 278 in 1982-83 to as low as 35 in 1993-94. The Committee are not convinced with the argument that during these years the Company has been concentrating on other activities like construction of warships, submarines, coast guard ships, Offshore Supply Vessels, Multipurpose Supply Vessel, etc. involving high technology and high value work. The Committee have brought out in various paragraphs elsewhere that in most of these activities also, the MDL's performance has not been upto the desired level. Keeping in mind that this is a profitable area, the Committee recommend that all out efforts should be made to increase business in ship repair. It is due to the higher costs that MDL could secure only one order for shiprepair from Shipping Corporation of India during the last four years. The Committee would, therefore, emphasise the need for reduction in costs to make the Company's operations competitive.

Reply of the Government

Ship repair activity which was MDL's main activity at the time of take over has gradually declined in terms of percentage of turnover because of diversification in high technology field. However, since 1988-89 ship repair activity has been given more importance and concerted after are made to secure more orders for ship repair by even reducing rates and ship repair turnover is gradually increasing. In view of the recommendation of the Committee, efforts are also being made to reduce over-heads to make the Company's offers more competitive for shiprepair work.

It is also pointed out that repair of 24 ships has been carried out since April 1995. This number is likely to go upto 30 by the end of this financial year (1995-96). Navy has also been approached to award contract for refit of submarine built by MDL to the yard and the proposal has been accepted in principle. It will be endeavour of the Company to secure more orders for proper utilisation of the capacities created.

[Ministry of Defence (Deptt. of DP&S) OM No. 8/3/94/ MDL/D(SY)/Vol.III dated 19th February, 1996].

Remarks of Office of C&AG on the reply of the Govt.

The replies verified and found in order. No further remarks.

Comments of MOD, DDP&S on the remarks of Office of C&AG

No. comments.

Recommendation (Sl. No. 16, Para No. 17)

The Committee note that the major diversification of MDL so far has been in the field of offshore fabrication and services, although the Company's corporate objectives formulated in June 1978 also envisages diversification to offshore structural, pressure vessels equipment for Petro-chemicals, Chemical and Fertiliser Plants and turn key jobs. The Tata Consultancy Services have also in their report submitted in November 1993 recommended diversification in the areas of process plant equipment, cement machinery, ro-ro vessel service, alloy steel pipes, wind farm, titanium fabrication, petrochemicals complexes through strategic alliances with foreign manufacturers etc. The corporate plan of the Company submitted in 1993, incorporates some of these areas. However, no specific action plan in this regard has been taken up for implementation so far. The Committee agree that the mistakes committed in the past in making capital investments should be avoided and only those projects should be embarked upon the remunerativeness of which is firmly established. However, they wish to emphasise that the details of such action plan for diversification should be worked out with a sense of urgency. The Committee would like to the apprised of the specific areas where the Company is going to diversify together with the estimated outlay and time-frame within which it is proposed to be accomplished.

Reply of the Government

Diversification as envisaged in corporate objectives formulated in June 1978 was not possible upto 1985-86, except for offshore fabrication as created facilities were fully utilised during that period. Later even though MDL got registered itself as vendor for offshore structural pressure vessels equipment for petrochemicals, chemicals and fertiliser plants etc., the prices of MDL were not competitive enough to bag the orders. Recommendations of Tata Consultancy Services for diversification submitted in November 1993 have been taken care of while preparing Corporate Plan for the period 1995-96 to 2004-05.

In pursuance of observation of the Committee regarding diversification plan, MDL has started working on the following diversification strategies:—

1. MDL procured order from M/s NEPC-MICON Ltd. for fabrication of 40 Nos. of 225 KW capacity Wind Mill Tower and 25 Nos. of 400 KW Capacity Tower for a total value of Rs. 612.56 lakhs. No additional investments were made for these items of work.

2. MDL signed MOU with M/s L&T Ltd. Bombay for working as their sub-contractor to manufacture Pressure Vessels, Heat Exchangers (forming of shell only) on labour charge basis.

3. MDL quoted for 29 Nos. of LPG Bullets for M/s Indian Oil Ltd., Bombay, costing approx. Rs. 29 crores.

4. Barge mounted power plants talks are in progress with M/s GE, USA and M/s Stork Amsterdam.

5. Talks are in progress with M/s Blue Star Ltd. for fabrication of Pressure Vessels, Heat Exchangers, Furnaces, Boilers etc. on turnkey Project order for refinery being set by M/s Reliance Ind. Ltd., Jamnagar.

6. A MOU has been signed with M/s Sika Interplant Systems Ltd. regarding fabrication of equipments required for Vishakhapatnam Steel Plant.

The funds requirement for diversification is planned to be met within the resources available to the Company.

[Ministry of Defence Deptt. of DP&S) OM No. 8/3/94/MDL/ D(SY)/Vol. III dated 19th February, 1996]

Remarks of Office of C&AG on the reply of the Govt.

Verified. No further remarks.

Comments of MOD, DDPS on the remarks of Office of C&AG

No comments.

Recommendation (Sl. No. 19, Para No. 22)

The Committee are unhappy to note that the outstanding due to MDL at the end of 1993-94 were as high as Rs. 206.73 crores which represented 9 months sales of the Company. Not only that, the company lost more than Rs. 31 crores by way of interest on outstanding during the preceding three years. The outstanding (excluding the Russian Credit Liability) are stated to be Rs. 102 crores (provisional at the end of 1994-95). However, the Committee are perturbed at the fact that an amount of Rs. 34.52 crores i.e. one third of the total amount is due for more than three years. The Committee desire that concerted efforts should be made by the Company to recover the outstanding early and for any disputes in this regard negotiations/arbitration should preferably be resorted to as recommended by them in their 9th Report (1992-93).

Reply of the Government

At the financial year ending 1994-95, the outstanding due to MDL was Rs. 260.56 crores including NCR liability of Rs. 171.39 crores which is beyond managerial control of the Company. Against balance amount of Rs. 89.17 crores, the Company has made concerted efforts pursuant to the observation of the Committee and had recovered an amount of Rs. 37.67 at the end of December, 1995. The efforts are on for recovery of the balance outstanding dues.

[Ministry of Defence (Deptt. of DP&S) OM No. 8/3/94/MDL/ D(SY)/Vol. III dated 19th February, 1996]

Remarks of Office of C&AG on the reply of the Govt.

The replies are verified. No further remarks.

Comments of MOD, DDP&S on the remarks of Office of C&AG

No comments.

Recommendation (Sl. No. 20, Para No. 23)

The Committee note that though the manpower in the MDL has been reduced from 15,614 at the end of 1985-86 to 11,627 as on 31st Dec., 1994, the number is still more than required for the present rated capacity. As per a report of the Bombay Productivity Council, as many as 3028 workmen are reckoned to be surplus for the rated capacity. The Committee are dismayed to learn that it has not been possible for the Company to implement the recommendations of Bombay Productivity Council due to resistance from the Employees Union. The Committee suggest that all out efforts should now be made to bring the manpower to the optimal level as also to get an early decision in the matter of Dearness Allowance to be paid to the employees.

Reply of the Government

1. With reference to the recommendation as above, the following is the action taken:

(a) A statement regarding manpower position in 1986 March, when the work activity was at the peak and the present manpower, after introduction of VRS, as on 30.9.1995 is enclosed which indicates that continuous efforts are on for reduction of manpower.

(b) Reduction of manpower in an industry is governed by Industrial Dispute Act, Sec. 2 (oo) and also conditions precedent to retrenchment under Sect. 25(f) and 25(g). As per the procedure, a notice to the appropriate Government alongwith the notice to the employees is to be given and only after the approval of the appropriate Government i.e. the State Govt., action has to be taken and in the area of Retrenchment and Closure, State Governments usually do not give permission. Moreover, such action of the Management will be stayed by the Courts. Therefore, any effort of reduction will have to be done in a gradual manner by not filling the vacancies arising out of wastage and also by encouraging employees to leave the organisation voluntarily.

(c) A Voluntary Retirement Scheme 1994-95 has been introduced from 1st January, 1995 and 55 officers and 649 employees have been releived under the scheme.

(d) Fresh intake has been stopped since 1986, as per the directives of the Management.

(e) One more Voluntary Retirement Scheme 1995-96 has been introduced from 1st December, 1995 to 31st Dec., 1995 in respect of the identified surpluses in various categories to further reduce the surplus manpower.

(f) Though Bombay Productivity Council has mentioned that 3,028 workmen should be taken as surplus in respect of the original figure of 15,614 yet it may be seen that the Company has achieved further reduction of about 2000 employees, over the assessed figure of 3000 surplus.

The Company is making effort to bring the manpower strength within the required level. As regards observation of the Committee for DA pattern to employees, since the matter is sub judice, alternative efforts are being made separately to pursuade the employees for accepting IDA scale.

[Ministry of Defence (Deptt. of DP&S) OM No. 8/3/94/MDL/D(SY)/ Vol. III dated 19th February, 1996]

Remarks of Office of C&AG on the reply of the Govt.

No further remarks.

Comments of MOD, DDP&S on the remarks of Office of C&AG

No Comments.

Annexure to Reply of Govt. for Recommendation (Sl. No. 20, Para 23)

MAZAGON DOCK LIMITED

MANPOWER

	At Peak 1986/March 1986				Presently after VRS as on 30.9.1995			
	Officers Clerical & Operatives		Substaff		Officers Clerical & Operatives		Substaff	
	Perm.	Temp.	Perm.	Temp.	Perm.	Temp.	Perm.	Temp.
Bombay Yards								
A) Corporate Office					359	—	168	1
B) Shipbuilding divn.					753	—	5773	90
(a) North Yard & South Yard					133	—	350	8
(b) East Yard								
C) Offshore Division								
(a) Divisional Office								
(b) Alcock Yard					157	—	1213	8
Bombay Yards	1750	16	9667	2732	1402	—	7504	107
Mangalore Yard	84	—	189	—	73	—	131	—
Nhava Yard	12	3	78	6	13	3	82	—
Offshore Fleet Crew	6	—	271	—	3	—	164	—
Grand Total	1852	19	10205	2738	1491	3	7881	107
				Total	14814	9462		

* Bifurcation at A, B & C above is not available for 1986.

**Sub-contract labour absorbed in temporary employment on 1.1.1991 and made permanent.

Recommendation (Sl. No. 21 Para No. 24)

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

Reply of the Government

Pursuant to observation of the Committee every precaution is being taken to avoid recurrence of such lapses in future. Further with reference to observation of the Committee for getting the refund of customs duty amounting to Rs. 11.02 crores paid by MDL on Jack-up Rigs. It is stated that CBEC has approved MDL's request for refund of custom duty. Mangalore customs have already refunded Rs. 10.63 crores to MDL. For the balance amount, the application of MDL is being scrutinised by the CBEC.

[Ministry of Defence (Deptt. of DP&S) OM No. 8/3/94/MDL/D(SY)/
Vol. III, dated 19th February, 1996]

Remarks of Office of C&AG on the reply of the Govt

The Company received a sum of Rs. 10.63 crores on 18.7.95. Refund of a further amount of Rs. 28.99 lakhs is under consideration of Assistant Commissioner, Mangalore.

Comments of MOD, DDP&S on the remarks of Office of C&AG

The issue regarding refund of balance amount of Rs. 28.99 Lakhs to MDL in regard to Jack-up Rig II is still under consideration of Assistant Commissioner, Customs, Mangalore. MDL is pursuing the case at their level vigorously.

Recommendation (Sl. No. 23 Para No. 26)

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

Reply of the Government

As per recommendation of the Committee, a review of activities being undertaken by the Company has been carried out. With the present scenario of orders in hand and anticipated orders in respect of shipbuilding and offshore, platforms, it is hoped that capacity utilisation of the Company would improve considerably.

MDL has diversified successfully in the field of Wind Mill Towers and also plan to diversify further based on the recommendations of Tata Consultancy Service taking into account its existing facilities and economic viability of the projects.

[Ministry of Defence (Deptt. of DP & S) OM No. 8/3/94/MDL/D(SY)/ Vol. III, dated 19th February, 1996]

Remarks of Office of C & AG on the reply of the Govt.

The Company has got order for Wind Mill Towers and plans to diversify further.

Comments of MOD, DDP&S on the remarks of Office of C&AG

No further comments.

CHAPTER III

RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF GOVERNMENT'S REPLIES

-NIL-

CHAPTER IV

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

Recommendations (Sl. No. 8 Para No. 8)

The Committee regret to note that the actual expenditure upto March, 1994 on the SSK project in East Yard for construction of 4 submarines was Rs. 38.82 crores against the sanctioned outlay of Rs. 12. 75 crores. What is worse, the facilities are lying idle since after the order for two submarines the Government did not exercise the option for other two submarines. The Company has claimed that except for plant and machinery worth Rs. 12 crores, balance facilities, were being utilised for ship construction and other diversification projects. However, the Committee wonder how these facilities rendered surplus for submarines are being utilised for ship construction when such facilities are particularly not being utilised for full extent present on account of paucity of orders. The Committee, therefore, recommend that efforts should be made to procure orders not only from Navy for construction of submarines but also from other countries so that the facilities created at huge cost are effectively utilised.

Reply of the Government

The break-up of expenditure incurred upto March, 1994 in creating infrastructure for submarine construction is as under:—

	Rs. in crores
(a) Workshops & buildings	22.09
(b) Facilities in workshops	2.04
(c) E.O.T. cranes in workshops	3.34
(d) Plant & Machinery	11.35
Total	38.82

2. It may be mentioned that a, b & c above *viz*, (a) the workshops and buildings, (b) facilities in the workshop viz, ventilation, electrical substation with transformers, D.C. supply system, compressed air and oxy-acetylene lines etc. and also (c) the electric overhead travelling (E.O.T.) cranes installed in the workshops are being used for both

repairs and constructions of surface ships besides other fabrication work. This has been resorted to exploit the possible use of the idle equipment and manpower.

3. As regards the recommendation for procurement of order for constructions of submarines, efforts are being made to get order for construction of two submarines from the Navy.

[Ministry of Defence (Deptt. of DP&S) OM No. 8/3/94/MDL/D(SY)/ Vol. III dated 19th February, 1996].

Remarks of Office of C&AG on the reply of the Govt.

No order for construction of two sub-marines from the Navy has been received so far.

Comments of MOD, DDP&S on the remarks of office of C&AG

The orders for construction of two sub-marines are still awaited from Navy.

Comments of the Committee

(Please *see* paragraph No. 7 of Chapter I of the Report)

Recommendation (Sl. No. 9 Para No. 9)

The Committee are astonished to find that instead of construction of Tug-cum-supply vessel at a cost of Rs. 4 crores, for which Government sanction had been received, the MDL constructed a Diving Support Vessel (DSV) at a cost of Rs. 23.36 crores. No feasibility study was conducted before commencing construction of DSV. A Committee appointed by the Ministry enquired into the matter in March 1993 and concluded that the scope of the project was changed, a new barge was constructed against sanction for purchase of second hand barge and excess expenditure incurred without Government approval. But according to that Committee, while there had been such irregularities, there did not appear to have been any malafide intentions. It is surprising that no final view has been taken so far by Government on these findings. This Committee desire that in the light of the findings of the aforesaid Committee, responsibility should be fixed for the serious lapses.

Reply of the Government

The case of construction of Diving Support Vessel by MDL has been examined by the Ministry and suitable action has been taken.

[Ministry of Defence (Deptt. of DP&S) OM No. 8/3/94/MDL/D(SY)/ Vol. III dated 19th February, 1996].

Remarks of Office of C&AG on the reply of the Govt.

Since Ministry's report on this issue is not available, the action taken by the Ministry is not verifiable.

Comments of MOD, DDP&S on the remarks of Office of C&AG

The view taken by the Government will be intimated to the office of the C&AG.

Comments of the Committee

(Please see paragraph No. 11 of Chapter I of the Report)

Statement showing Action Taken on the recommendations/conclusions contained in the 43rd Report of the Committee on Public Undertakings.

Recommendation (Sl. No. 10 Para Nos. 10 & 11)

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

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

Reply of the Government

In the past the capacity utilisation of Shipbuilding Division of MDL has remained unsatisfactory due to non-receipt of regular orders from Navy. After vigorous efforts the Company has received orders for construction of three destroyers from Navy and more orders are expected soon. With reference to recommendation of the Committee for orders on diversified activities, it is stated that Company has just received an order from NEPC-MICON for construction of 65 Windmill Towers. It has also received an order for construction of a trawler from Bombay Port-trust. As regards Offshore Division, the MDL has received order for B-121 platform from ONGC against international bidding. The Company is hoping to get an order shortly for HX-HY platform from ONGC on nomination basis in order to utilise the capacities to the optimal level. In pursuance of the recommendation of Committee for maximum utilisation of offshore facility, efforts are on to revamp the marketing strategy. The Company would seek to obtain orders from other customers besides ONGC.

[Ministry of Defence (Deptt. of DP&S) OM No. 8/3/94/MDL/D(SY)/ Vol. III dated 19th February, 1996].

Remarks of Office of C&AG on the reply of the Govt.

No remarks.

Comments of MOD, DDP&S on the remarks of Office of C&AG

No comments.

Comments of the Committee

(Please *see* paragraph No. 15 of Chapter I of the Report)

Recommendation (Sl. No. 22 Para No. 25)

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

Reply of the Government

Five Offshore Supply Vessels were delivered by MDL to ONGC. At the instance of MDL, Ministry of Defence took up with Ministry of Petroleum & Natural Gas the matter regarding upward revision of contract price in terms of International Parity Price. However, Ministry of Petroleum & Natural Gas did not agree to this Ministry's proposal and the matter was taken up with Ministry of Surface Transport (M.O.S.T.) which is administratively concerned with the revision of I.P.P. M.O.S.T. have, however, opined that IPP is applicable for Ocean Going Ships and not for OSVs. As recommended by COPU, the matter is again being taken up with concerned Ministries to resolve the issue.

[Ministry of Defence (Deptt. of DP&S) OM No. 8/3/94/MDL/D(SY)/ Vol. III dated 19th February, 1996].

Remarks of Office of C&AG on the reply of the Govt.

The matter is still under consideration. Hence no further remarks.

Comments of MOD, DDP&S on the remarks of Office of C&AG

No comments.

Comments of the Committee

(Please *see* paragraph No. 29 of Chapter I of the Report)

CHAPTER V

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

Recommendation (Sl. No. 2, Para No. 2)

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

Reply of the Government

The lower Memorandum of Understanding rating for 1993-94 in respect of Mazagon Dock Limited as compared to previous two years *viz,* 1991-92 and 1992-93 is attributable to delay in supplies of equipments from Russia which had its internal problems. As that matter stands resolved, the supplies have been resumed. As regards export benefits for shipbuilding industry and deemed exports benefits on offshore structures, the Ministry of Defence had endeavoured to provide the required assistance by interacting with Ministry of Surface Transport and Ministry of Petroleum & Natural Gas but the same have not been acceded to by them as these are not covered under their present policy frame work. The cases have been taken up again with these Ministries for reconsideration. As regards recommendation of the Committee for optimum utilisation of East Yard facilities, efforts are on to get an order from Navy for construction of two submarines. With reference to observation of the Committee on terminal excise duty, it is stated that the terminal excise duty which was levied by ONGC upto 31.3.94 has since been refunded to MDL. The case regarding 30 per cent subsidy for the ships manufactured by the MDL is being pursued vigorously with the Ministry of Surface Transport which is the nodal Ministry for the subject.

[Ministry of Defence (Deptt. of DP&S) OM No. 8/3/94/MDL/D(SY)/ Vol. III dated 19th February, 1996].

Remarks of Office of C&AG on the reply of the Govt.

Terminal Excise Duty upto 1993-94 was got refunded by the Company and the matter of subsidy has still not been finalised.

Comments of MOD, DDP&S on the remarks of Office of C&AG

As already stated, the matter regarding refund of Terminal Excise Duty stands settled. The case regarding grant of 30% subsidy for the ships being manufactured by MDL for export has been taken up with Ministry of Surface Transport (MOST). The response of that Minstry is awaited.

Recommendation (Sl. No. 3, Para No. 3)

The Committee have been informed that MDL prepared an outline Corporate Plan in May 1993 and forwarded it to the Ministry of Defence. The outline Corporate Plan contained strength, weakness, opportunities and thrust (SWOT analysis) and identified thrust areas for diversification and core activities to be reinforced. While according to the CMD of the Company, the Government has asked them to further revise the corporate plan taking the present scenario into consideration. The Ministry's version is that it was the company which recalled the Corporate Plan from the Ministry and its Board of Directors are still considering it. The Committee are surprised at the different version given by the Company and the administrative Ministry. They do not agree with the contention of the Ministry that the time being taken in the finalisation of the Corporate Plan would not stand in the way of the company's initiatives. The Committee desire that the Corporate Plan of MDL should be finalised without any further delay and any changes in the Offshore Oil Sector can be taken care of later as and when the need arises.

Report of the Government

The Corporate Plan and Perspective Plan received earlier from MDL had been returned to the Company on the advice of its Board of Directors for carrying out some changes after an in-house discussion. The revised Corporate Plan and Perspective Plan has since been received from MDL and has been examined. In view of the MDL's efforts to strengthen its work culture, diversification plan and strategy adopted by MDL for anticipated orders, the Corporate Plan of the Company has been approved.

[Ministry of Defence (Deptt. of DP&S) OM No. 8/3/94/MDL/D (SY)/ Vol. III dated 19th February, 1996].

Remarks of Office of C&AG on the reply of the Govt.

The Corporate Plan and Perspective Plan was submitted to Govt. on 25.8.95. The Plan was returned to Management on 7.12.95 to include programme on the "Upgradation of Fabrications & Design facilities", improvement of skills for various processes and concrete effort to reduce the production costs and improve the labour efficiency. The management has requested a period of three months to supplement the plan on the above area of improvement.

Comments of MOD, DDP&S on the remarks of Office of C&AG

MDL has informed that a supplement to the Corporate Plan as suggested by the Ministry has prepared and will be submitted to their Board by July, 1996 for consideration/approval. After the approval of the supplement plan by the Board, the same will be submitted to the Ministry of Defence. 'At the stage of factual verification, the MDL *vide* their letter No. CMD/IA/copu dt. 23.10.96 has informed the Committee, supplements to Corporate Plan as suggested by the Ministry have been prepared and submitted to Board for approval on 29.08.96 and the same duly approved by the Board have been forwarded to the Ministry *vide* letter No. CP/101/ suppl./1 dated 3.9.96.' After examination of the same, the necessary amendment will be made in the Corporate Plan.

Recommendation (Sl. No. 6, Para No. 6)

In the case of second yard at Nhava Sheva, an amount of Rs. 24.21 crores has been spent against a capital outlay of Rs. 13.50 crores sanctioned by Government in 1980. Even after this huge expenditure, the yard has yielded negligible returns. Against the present installed capacity of 6566 MT, the output of the yard during the years 1991-92 to 1993-94 was only 3106 MT, 395.1 MT and 628 MT respectively. The Committee have been informed that negotiations are on with some firms for using a part of the land as LPG terminal which is expected to offset the overhead expenditure. The Committee desire that such arrangements should be finalised expeditiously. Alternative uses for the remaining land should also be explored and the Committee be apprised accordingly.

Report of the Government

As desired by COPU, after finalising the arrangements for utilisation of land, part of land has been rented out to M/s Southern LPG handling. the possibility of utilising the balance part of land is being explored by MDL with another party.

[Ministry of Defence (Deptt. of DP&S) OM No. 8/3/94/MDL/D (SY)/ Vol. III dated 19th February, 1996].

Remarks of Office of C&AG on the reply of the Govt.

No further remarks.

Comments of MOD, DDP&S on the remarks of Office of C&AG

No comments.

Recommendation (Sl. No. 15, Para No. 16)

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

Reply of the Government

MDL had acquired this land in 1982 for setting up a modern shiprepair yard. Although environmental clearance was obtained from the Government of Maharashtra in September, 1988 the same has not been cleared by Government. Government of India, vide a notification in the same year, prohibited new industries within one kilometer of the shore line in Rajapuri Coast where Dighi is situated.

As environmental clearance could not be obtained inspite of MDL actively following up with the Ministry of Environment, the shiprepair project remained in abeyance.

Since the chances of obtaining the environmental clearance soon are bleak, in the light of recommendation of the Committee, the Company is looking for alternative uses of the site, within the environmental control orders.

[Ministry of Defence (Deptt. of DP&S) OM No. 8/3/94/MDL/D(SY)/ Vol. III dated 19th February, 1996].

Remarks of Office of C&AG on the reply of the Govt.

No further remarks.

Comments of MOD, DDP&S on the remarks of Office of C&AG

No coomments.

Comments of the Committee

(Please *see* Paragraph No 21 of Chapter I of the Report)

Recommendation (Sl. No. 17 Para Nos. 18, 19 & 20)

The Committee are concerned to note that Mazagon Dock Limited incurred losses continously for many years upto 1989-90. Thereafter, although, it earned a profit of Rs. 321 lakhs, Rs. 460 lakhs, Rs. 507 lakhs and Rs. 629 lakhs respectively during the year 1990-91 to 1993-94, its performance during these years also would have been dismal but for the interest subsidy of Rs. 1535 lakhs received from Government during each of these years. The acccumulated losses of the Company as on 31.3.1994 stood at Rs. 80.21 crores. All the works undertaken by MDL have generally resulted in losses expect turnkey projects for ONGC. shipbuilding works for the Navy on cost plus basis and shiprepairs and general angineering. Fabrication of platforms transportation and installation of platforms, Jack-up rigs and pipe coating work were main contributors to the losses of the Company. The Commitee need hardly emphasise that urgent and concerted efforts have to be made both by the Company and the Government to improve the financial health of the Company.

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

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

Reply of the Government

The profit earned for the year 1994-95 by MDL is Rs. 29.83 crores. The accumulated losses of the company as on 31.3.1995 is Rs. 54.06 crores. In pursuance of directive of the Committee, concerted efforts are on to improve financial health of the company to obtain orders for platforms from ONGC and submarines for Navy, reduction in overhead cost, better utilisation of surplus funds, removal of surplus staff, capital restructuring and disposal of MDL shares in GSL.

Accumulated losses of MDL as on 31.3.1995 are Rs. 54.06 crores, as against Rs. 80.21 crores and Rs. 90.10 crores as on 31.3.94 and 31.3.93 respectively. To achieve reduction in the accumulated losses, the company has taken the following steps.

(a) *Disposal of unproductive assets:* By sale of DSV Nireekshak. DB Mahavir, Barges etc., MDL had earned net capital profit of Rs. 9.93 crores in 1994-95. Further sale of unproductive assets i.e. cranes at Mangalore Yard have given net capital profit of Rs. 3.30 crores.

(b) *Reduction in Overhead Costs:* Rs. 8.90 crores reduction achieved in interest charges in 1994-95 as compared to 1993-94. It was due to better working capital financial management. Additionally, Rs. 1.89 crores were saved on account of reduction in overtime costs in the same period.

(c) *Better Utilisation of Surplus Funds:* On sale of unproductive assets, the surplus funds generated were invested for a short term period which gave additional interest earning of Rs. 3.55 crores in 1994-95. By investing the short term surplus funds, MDL expects to improve the performance substantially in the year 1995-96.

(d) *Removal of Surplus Staff:* Voluntary Retirement Scheme was introduced in 1994-95, with the grant received from NRF of Rs. 15 crores. A total No. of 704 employees were relieved under VRS, saving expected in the salaries and wages bill from 1995-96 is around Rs. 8.75 crores p.a. Part II VRS in 1995-96 is in operation with NRF grant of Rs. 10.00 crores, which will further reduce the employees costs and result in higher profitability.

(e) *Disposal of MDL Shares in GSL:* On disposal of MDL's share holding in GSL to the extent of 53% at a price higher than the face value will give substantial capital gain to MDL. This step alone will be sufficient to wipe out the accumulated losses of MDL.

In the light of recommendation of the Committee for getting substantial orders from Navy, the company would make all out efforts for receiving orders from Navy for ships, corvettes, submarines etc. The company would endeavour to become more viable for the projects by reducing its over-head burdens and streamlining the work culture.

MDL's proposal for capital restructuring is for conversion of outstanding Government loan of Rs. 98.55 crores into 7% non-cumulative redeemable preference shares. By that, MDL expects the reduction of Rs. 12 crores towards interest charges and saving of Rs. 13.60 crores in cash outflow for 1995-96 from instalment repayments and similar savings in the subsequent years. This measure will also reduce the overhead burden and make MDL more competitive in the market to bag orders for Naval projects as well as for diversified activities including offshore business. The capital restructuring proposal of the company has been analysed. As per observation of the Committee for decision, the matter is being considered acitively.

[Ministry of Defence (Deptt. of DP&S) OM No. 8/3/94/MDL/D(SY)/ Vol. III dated 19th February, 1996].

Remarks of Office of C&AG on the reply of the Govt.

Replies are verified. No further remarks.

Comments of MOD, DDP&S on the remarks of Office of C&AG

No comments.

Comments of the Committee

(Please see Pragraph No. 26 of Chapter I of the Report)

Recommendation (Sl. No. 18, Para No. 21)

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

Reply of the Government

Pursuant to observations of the Committee for removal of ceiling prices on offshore platforms, the matter was taken up with Ministry of Petroleum & Natural Gas who have confirmed that the issue could be resolved between the two commercial organisations (ONGC & MDL) without involvement of that Ministry. Since the condition of ceiling on prices was laid down by the Committee of Secretaries, this Ministry (MOD) feels that the problem should be resolved at the Ministry's level. Accordingly, the matter has again been taken up by this Ministry at Minister's level on 23.11.95. Response of Ministry of Petroleum & Natural Gas is awaited.

[Ministry of Defence (Deptt. of DP&S) OM No. 8/3/94/MDL/D(SY)/ Vol. III dated 19 February, 1996].

Remarks of Office of C&AG on the reply of the Government.

The matter is still under consideration.

Comments of MOD, DDP&S on the remarks of Office of C&AG

The reply of Ministry of Petroleum & Natural Gas is still awaited. The matter has been taken up again at Minister's level.

Comments of the Committee

New Delhi;
November 22, 1996
Agrahayana 1, 1918 (S)

G. VENKAT SWAMY
Chairman,
Committee on Public Undertakings.

APPENDIX-I

MINUTES OF THE 2ND SITTING OF COMMITTEE ON PUBLIC UNDERTAKINGS HELD ON 9TH OCTOBER, 1996

The Committee sat from 1500 hrs. to 1600 hrs.

CHAIRMAN

1. Shri G. Venkat Swamy

MEMBERS

2. Shri Somjibhai Damor
3. Shri Priya Ranjan Das Munshi
4. Shri Banwarilal Purohit
5. Shri Manabendra Shah
6. Shri S. S. Ahluwalia
7. Shri Kishore Chandra S. Deo
8. Shri Deepankar Mukherjee
9. Shri Solipeta Ramachandra Reddy
10. Shri Maheshwar Singh

SECRETARIAT

1.	Shri J. P. Ratnesh	— *Joint Secretary*
2.	Smt. P. K. Sandhu	— *Director*
3.	Shri P. K. Grover	— *Deputy Secretary*

OFFICE OF THE COMPTROLLER & AUDITOR GENERAL OF INDIA

1.	Shri Samir Gupta	Chairman, Audit Board
2.	Shri R. N. Ghosh	Director (Commercial), Audit

I. Consideration and Adoption of Draft Action Taken Report on Mazagon Dock Limited

1. The Committee considered the draft report on Action Taken by Government on the recommendations contained in 43rd Report of the Committee on Public Undertakings (1995-96) on Mazagon Dock Limited and adopted the same without any modification.

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

*II. Selection of Subjects**

** ** **

*III. Study Tour**

** ** **

The Committee then adjourned.

*Minutes relating to selection of subjects and study tour kept separately.

APPENDIX-II

ANALYSIS OF THE ACTION TAKEN BY GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN 43RD REPORT OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (10TH LOK SABHA) ON MAZAGON DOCK LIMITED

I.	Total number of Recommendations	23
II.	Recommendations that have been accepted by the Government (Vide recommendations at Sl. No. 1, 4, 5, 7, 11, 12, 13, 14, 16, 19, 20, 21 & 25)	13
	Percentage to total	56.52
III.	Recommendations which the Committee do not desire to pursue in view of Government's replies (Vide recommendations at Sl. No. NIL)	NIL
	Percentage to total	0
IV.	Recommendations in respect of which reply of Government have not been accepted by the Committee (Vide recommendations at Sl. No. 8, 9, 10 and 22)	4
	Percentage to total	17.39
V.	Recommendations in respect of which final replies of the Government are still awaited (Vide recommendations at Sl. No. 2, 3, 6, 15, 17 and 18)	6
	Percentage to total	26.08