Executive Summary

The Shipping Corporation of India Limited (Company), a Navratna PSU under the Ministry of Shipping, GOI, is the country's largest shipping Company, and owns around one third of the Gross Tonnage of Indian fleet. The fleet strength of the Company came down from 83 in 2005-06 to 76 in 2009-10 and the tonnage capacity remained almost static at around 50 lakh tonnes. The turnover of the Company also remained almost static while the profits declined sharply from ₹ 1042 crore to ₹ 377 crore over the years 2005-06 to 2009-10.

Performance Audit was undertaken to examine the activities relating to acquisition, management and operations of vessels by the Company during the last five years from 2005-06 to 2009-10. Significant audit findings are discussed below:

The share of Indian ships in the carriage of country's overseas trade had gradually declined from 14 per cent in 2005-06 to 8 per cent in 2008-09, though the country's overseas trade had increased by 34 per cent in the corresponding period. Non-availability of required tonnage was one of the reasons for decline in share of Indian trade. Though there was appreciation of the direct and indirect taxation problems being faced by the Indian Shipping Industry from all the stakeholders, the Government is yet to resolve the vital concerns of the shipping industry. The Government policy initiatives like tonnage taxation introduced in April 2004 were not adequate to create level playing field for the Indian shipping lines over their counterparts carrying country's cargo.

Acquisition of vessels

The Company planned to acquire 39 vessels during 10th Five Year Plan (2002-07) and 62 vessels during the 11th Five Year Plan period (2007-12) but could acquire only 14 vessels and 25 vessels respectively during the above period (upto 2009-10). Even after considering the orders placed for vessels during 2010-11 there would still be a shortfall of 26 vessels in the achievement of target set by the Company for the 11th Five Year Plan period.

The Company did not make use of its delegated powers for acquiring vessels resulting in delay in placement of orders with the shipyards. The delay (time taken 14 to 34 months) in getting the approval from the GOI resulted in escalation in the cost of vessels by approximately ₹ 2,100 crore as compared to the indicative price as reported by international agencies besides loss of business opportunity.

Due to shortfall in acquisition of vessels, the average age of Company's vessels was 15.63 years as against 11 years of their immediate competitor in the private sector. Out of 76 vessels available with the Company, 20 vessels had already outlived their economic life and 16 other vessels were on the verge of completing their economic life. The age of the Company's fleet did not compare well either with their nearest competitor or with the average age of the country's fleet.

Thus, the Company could not modernize and enhance its fleet capacity which in turn, adversely impacted its business growth especially when the country's seaborne trade was growing at a pace of 8.5 per cent annually and world fleet also registered a growth of 23 per cent.

Operation of Vessels

The bulk segment made sizeable contributions to the revenue earnings and profitability of the Company. The profit from this segment, however, declined from ₹ 980.11 crore during 2008-09 to ₹ 484.93 crore during 2009-10. The liner segment which earned a profit of ₹ 100.29 crore in 2005-06 has been incurring losses since 2006-07 that reached a level of ₹ 225.09 crore during 2009-10. The Company commenced and closed down liner services in quick succession putting at risk its credibility as a reliable service provider.

Audit also observed that there were no clear policy guidelines for placement /employment of vessels on short term or long term. Therefore, in the evolving situation of ships waiting for employment, the Company had to agree for charter hire rate below the market rate as the fixtures were concluded based on the discovery of price through the spot market. Further, as the proceedings of the negotiations with the brokers were not documented, audit could not get any assurance on the fairness and transparency of the process.

The Company could not find suitable employment for vessels resultantly the idle days were 4.46 and 3.25 per cent in 2008-09 and 2009-10 respectively as against 1.33 per cent in 2007-08 and a consequent loss of ₹ 134.04 crore towards standing charges. There was no system in place for analysing the reasons for idling for taking corrective action.

For operation of its Very Large Crude Carriers (VLCCs) Company could not get any business from Indian Oil Corporation Limited during the period 2007-08 to 2009-10, despite the fact that IOC imported 92 million metric tonnes of crude oil through other VLCCs. The Company has no system of analysing reasons for not encashing such enormous business opportunity available within the country especially when earlier, most of the oil imports were being done through the Company.

To conclude, the country's total import of crude oil during 2009-10 was 159 million tonnes, of which Company's share was only 9 per cent. The Company, therefore, needs to be aggressive in capturing the market share of import of crude oil and accordingly evolve a strategy for meeting customers' requirement for securing long term contracts.

In the absence of any norms, the repairs and maintenance cost of the Company ranged between 13 to 16 per cent as against 9-10 per cent as compared with that of Great Eastern Shipping Company Limited, the nearest Indian competitor.

Oversight mechanism

Though the Company failed to achieve the annual targets set by them in three out of the five year period, with the scaled down MOU targets with the GOI, the Company was given full weightage on the key performance parameter of tonnage acquisition in all the years. Thus, the underlying principle of an MOU to motivate the Company to strive for further growth was defeated

The MIS was also weak and needed upgradation to meet the business needs of the Company.

Conclusion

With the removal of trade barriers and globalisation, the shipping industry's fortunes are driven by the growth of seaborne trade and supply of vessels. Non-existence of level playing field in the matter of taxation impacted the competitiveness of the Indian shipping industry especially in the context of increased competition from the foreign shipping companies.

The Company did not pursue an ambitious acquisition policy to augment and modernise its fleet. The Company was not adhering to its annual fleet acquisition targets and there were significant slippages resulting in cost overrun and also affecting its operational efficiency. The Company in the absence of policy guidelines on the engagement of vessels on long term and spot market rates, deployed majority of the vessels on fixtures at a charter hire rate determined by the spot market. The idle days when the ships were not earning any income but incurring cost increased indicating the need for closer monitoring.

Based on the Audit findings the following significant recommendations are made:

- *As the linkages between the development of the economy and growth of shipping industry are strong, the Government may address the concerns faced by the Industry to facilitate a strong national core fleet.*

- *The Company needs to frame and implement a time bound acquisition policy for fleet growth and modernisation to face the global competition.*

- *The Company should ensure that vessels are employed gainfully and avoid idling of vessels. Also, the Company needs to be aggressive in getting business from its major customers, particularly the Oil Majors.*

- *The Company needs to have a system of reviewing loss making operations at regular intervals for taking remedial measure in time.*

- *The Company should formulate a policy for having an optimum mix of owned and inchartered vessels in the liner segment to bring down the high incidence of inchartered costs.*

The Ministry while accepting the last three recommendations stated that the action on the first two recommendations has already been initiated / taken.