

CHAPTER V: DPSU SHIPYARDS

Defence Public Sector Undertakings (DPSUs) function under the administrative control of Department of Defence Production. There are four Defence Public Sector Shipyards (DPSS) viz. Mazagon Dock Limited (MDL), Garden Reach Shipbuilders & Engineers Limited (GRSE), Goa Shipyard Limited (GSL) and Hindustan Shipyard Limited (HSL).

5.1 Utilisation of facilities created by Shipyards

Garden Reach Shipbuilders and Engineers Limited created facilities without ensuring orders commensurate with the facilities created resulting in under utilisation of facilities created. The facilities created in Goa Shipyard Limited remained underutilised due to non-finalisation of collaborator for Mine Counter Measure Vessels project and non-receipt of orders for Offshore Patrol Vessels.

DPSS are mainly dependent on entrustment of orders for construction of ships on the basis of nomination by the Ministry of Defence (MoD). The facilities created after spending ₹592.15 crore in Garden Reach Shipbuilders and Engineers Limited (GRSE) were underutilised due to want of orders for big ships from MoD and facilities created in Goa Shipyard Limited (GSL) after spending ₹561.20 crore remained underutilised due to non-finalisation of collaborator for Mine Counter Measure Vessels (MCMVs) project and non-receipt of orders for Offshore Patrol Vessels (OPVs). The details are discussed below:

5.1.1 Garden Reach Shipbuilders and Engineers Limited

MoD communicated (March 2003) approval of Government of India for the construction of four ASW Corvettes at GRSE and sanctioned (March 2003) ₹180 crore towards cost of augmentation of Yard facilities at 2001-02 price

level. GRSE constructed¹ dry dock & inclined berth, module hall and installed 250 tonne Goliath Crane at a cost of ₹592.15 crore of which ₹331.27 crore was from MoD.

The utilisation of facilities was as detailed below:

Sl. No.	Area	Facilities Created	Utilisation
1.	Dry Dock & inclined berth	Increase in construction/launching capacity of ship from 900 tonne (erstwhile Slipway-4) to 10,000 tonne & 4,500 tonne Dead Weight Tonnage (DWT) respectively for Dry Dock & Inclined berth.	Presently it is handling P28 ships with dead weight 535.8 tonne and full displacement weight 3384 tonne and Landing Craft Utility (LCU) of 214.5 tonne and 865.7 tonne.
2.	Module Hall	Construction of mega hull block of about 225 tonne.	Module Hall was not used as GRSE is currently constructing small ships without any requirement of mega hull blocks.
3.	Goliath Crane	Increase in capacity of handling blocks/equipment upto 250 tonne. Lifting of Dry Dock Gates weighing around 200 tonne.	Presently, Goliath crane is handling maximum of 60 tonne since supporting cranes are of 40 tonne each and no big ships are being constructed.

As could be seen from the above, the facilities created were not being utilised to the full extent as GRSE had no orders for construction of big ships.

5.1.2 Goa Shipyard Limited

MoD (Navy) nominated (October 2005) GSL as the production agency for construction of MCMVs. GSL incurred ₹561.20 crore upto May 2015 against

¹ Construction was completed in June 2013

₹400 crore released by MoD and completed (September 2010) construction of Repair berth 1 & 2 and Transfer area and Supply and Installation of Shiplift & Transfer system (March 2011).

The utilisation of facilities created was as detailed below:

Sl. No.	Area	Facilities Created	Utilisation
1.	Supply and Installation of Shiplift & Transfer system	6,000 tonnes capacity ship lift of 120 m long and 25 m wide platform to be used for the launching and retrieval of vessels for new building and repair	The facility has been made ready for MCMV construction. The facility is being utilised for construction of OPVs upto 105 M and ships with weight upto 4,500 tonne were docked/undocked since April 2011.
2.	Civil construction work	Repair berth 1 & 2, Transfer area	Created as launching/docking facility for MCMV construction and pending receipt of MCMV orders, being partially utilised.

As could be seen from the above, the facilities created were not being utilised to the full extent. MoD issued (August 2008) Request For Proposal (RFP) for selection of collaborator for MCMV project. As per the terms of RFP, delivery of first indigenous MCMV was to be in 72 months after signing of contract for first ship to be built at collaborator's yard and commissioning of infrastructure facilities was to be completed within 30 months after signing of contract with collaborator. MoD directed (November 2014) GSL to initiate a fresh acquisition process for eight MCMVs and as per the proposal submitted (February 2015) by GSL to MoD, Preliminary Staff Requirements (PSRs) were to be finalised at Integrated Headquarters of Ministry of Defence (Navy) (IHQ MOD (N)) by June 2015. Thus, due to delay in finalisation of collaborator for MCMV project, the facilities created were underutilised.

5.2 Non-recovery of Liquidated Damages – Mazagon Dock Limited

Non-recovery of liquidated damages amounting to ₹2.75 crore by Mazagon Dock Limited for delay in completion of the works was an undue favour to the contractor.

Mazagon Dock Limited (MDL) entered into (May 2011) a contract with M/s Hyosung Corporation, South Korea for design, manufacture, supply, erection, installation, testing and commissioning of four cranes (one each of 100T and 50T and two of 15T) at a cost of USD 12,226,357 (approx. ₹55 crore at ₹45 per USD). As per the contract, time for completion of works was 463 days from the commencement date of contract (13 May 2011) and thus, the work had to be completed by August 2012. The work was completed in June 2013 but MDL did not levy liquidated damages amounting to ₹2.75 crore as stipulated in clause 4.2² of the contract.

Ministry endorsed (March 2014) the reply of the Management that liquidated damages would be as per contractual terms and conditions.

Non-levy of liquidated damages was an undue favour to the contractor.

5.3 Diversion of funds by Hindustan Shipyard Limited

Hindustan Shipyard Limited, despite receiving funds from Ministry of Defence (MoD), did not commence the work of Repair and Refurbishment of Machinery and Infrastructure due to absence of orders from MoD. The funds received were kept in fixed deposits and also temporarily diverted to meet the working capital requirements contrary to the terms of sanction.

Hindustan Shipyard Limited (HSL) proposed (November 2010) refurbishment and replacement of the existing marine assets, plant & machinery to realign its business towards construction/repair of warship and submarines for the Indian

² Liquidated damages was to be levied at the rate of 0.072 *per cent* per day subject to a maximum of 5 *per cent* of the contract price for delay in completion of the whole of the work.

Navy and the Coast Guard. The estimated cost of modernisation of 72 items of existing marine assets and plant and machinery was ₹457.36 crore to be funded by Ministry of Defence (MoD). The Ministry released (December 2011) ₹457.36 crore to HSL and stipulated that the funds be utilised for creation of specified assets and not diverted for any other purposes. HSL was to submit utilisation certificate within one year to MoD and in case of non-utilization of sanctioned amount within one year, interest earned on unutilised funds was to be credited to the Government. However, no specific time frame for completion of Repair and Refurbishment of Machinery and Infrastructure (RRMI) activities was mentioned. HSL did not initiate any action in respect of 18 works valued ₹59.90 crore and 27 works valued ₹278.20 crore were in various stages of tendering. The balance 27 works valued ₹119.26 crore was in progress as on date (June 2015). HSL kept the unutilised funds in fixed deposits besides resorting to temporary diversion for meeting working capital requirements. HSL stated (December 2014) in reply to Audit observation that absence of orders from MoD affected modernisation schedule.

MoD stated (March 2014) that temporary usage of funds was due to acute shortage of working capital. This resulted in the outstanding dues to contractors not being paid and vendors not being prepared to supply the materials unless payment was assured.

Ministry's reply was only regarding diversion of funds and was silent regarding absence of orders.

In response to Audit requisition seeking the reasons for poor utilisation, HSL stated (December 2014) that activities under RRMI were long lead in nature requiring considerable time for completion, the project was being implemented with available resources as dedicated team for execution of RRMI activities could not be allocated and technical specifications for some of the activities could not be finalised since HSL had not got any commitment/order towards construction of Landing Platform Docks (LPDs), Submarines etc. from MoD.

HSL's reply of December 2014 that absence of orders from MoD affected modernisation schedule clearly indicates the fact that MoD had not addressed

this issue while sanctioning the funds. Thus, diversion of funds released for modernisation not only delayed indefinitely the intended refurbishment and replacement of worn out machinery adversely affecting the Company's efficiency but also resulted in blocking of funds in deposits which was not the intention of its release to HSL.

New Delhi
Dated:

(PRAMOD KUMAR)
Principal Director of Audit
Navy

Countersigned

New Delhi
Dated:

(SHASHI KANT SHARMA)
Comptroller & Auditor General of India