

CHAPTER I

INTRODUCTION

1.1. About this Report

This Report of the Comptroller and Auditor General (C&AG) of India relates to matters arising from Compliance Audit of the financial transactions of the Public Sector Undertakings (PSUs) under the administrative control of Ministry of Defence (MoD), Government of India for the year ended 31 March 2016.

This Chapter provides profile of the PSUs along with planning and extent of audit. Chapter II relate to present findings/observations arising out of the performance audit of Construction and Delivery of Anti Submarine Warfare (ASW) Corvettes by Garden Reach Shipbuilders and Engineers Limited and Chapter III relate to individual findings/observations arising out of the compliance audit of PSUs under the Ministry.

1.2. Authority

C&AG conducts audit of Defence Public Sector Undertakings of Government of India under Section 19-A of the C&AG's (DPC) Act, 1971 and the relevant provisions of Indian Companies Act, 2013.

1.3. Planning and Conduct of Audit

Audit has been conducted in accordance with the principles and practices enunciated in the Auditing Standards and performance audit guidelines promulgated by the C&AG. The audit process starts with the assessment of risk of the PSUs. Based on this risk assessment, the frequency and extent of audit are decided.

1.4. Profile of the Audited Entities

There are nine PSUs and three subsidiaries functioning under the administrative control of Department of Defence Production, Ministry of Defence. Each PSU is headed by a Chairman and Managing Director.

Brief profile of the PSUs under the MoD are furnished below:

1. Hindustan Aeronautics Limited

Hindustan Aeronautics Limited (HAL) was incorporated in October 1964 under the administrative control of the Ministry of Defence (Department of Defence Production). The Company was conferred 'Navratna' status by the Government of India in 2007. The Company has five business groups/complexes viz. Bangalore Complex, MiG complex, Accessories Complex, Helicopter complex and Design Complex. Company is currently manufacturing Su-30 Mkl, Hawk, Dornier, Advanced Light Helicopter, Cheetal, Light Combat Aircraft - Tejas and related engines and accessories. The company is also providing Repair and Overhaul services for various Aircrafts and Helicopters including related engines and accessories. Company has a comprehensive Design and Development set-up and is engaged in the development of Intermediate Jet Trainer, Fifth Generation Fighter Aircraft, Multi Role Transport Aircraft, Light Combat Helicopter, Light Utility Helicopter, etc.

The Company has formed 12 joint ventures in the areas of software development, product support, design of avionics etc. with a total investment of ₹ 225.26 crore.

Authorised capital of the Company was ₹ 600.00 crore as at 31 March 2016. The paid up equity was ₹ 361.50 crore which was fully held by the Government of India. The Company's total revenue during the year 2015-16 was ₹ 18498.28 crore and it had earned a profit of ₹ 1653.77 crore.

2. Bharat Electronics Limited

Bharat Electronics Limited, Bangalore was incorporated in April 1954 as a fully owned Government of India Undertaking under the Ministry of Defence with the objective of designing, developing, manufacturing and supplying electronic equipment such as radars, communication equipment, naval systems, broadcasting equipment, telecommunication equipment, components etc., required by defence and civil customers. Government of India has conferred "Navratna" status to BEL on 22-6-2007. The Company has, at present, nine production units situated at Bangalore, Chennai, Hyderabad, Machilipatnam, Pune, Navi Mumbai, Ghaziabad, Kotdwara and Panchkula. The Company has one Joint Venture Company (JVC) viz. GE-BE Private Limited and two subsidiary companies viz. BEL Optronics Devices Limited and BEL-Thales Systems Limited.

Authorised capital of the Company was ₹ 250.00 crore as at 31 March 2016. The paid up equity was ₹ 240.00 crore of which ₹ 180.04 crore (75.02 per cent) was held by the Government of India. The Company's total revenue during the year 2015-16 was ₹ 7827.30 crore and it had earned a profit of ₹ 1357.67 crore.

2.1. BEL Optronics Limited (BEL-OP)

BEL Optronics Limited (BEL-OP), Pune is a fully held subsidiary of Bharat Electronics Limited (BEL), Bangalore. The Company was established for conducting research, development and manufacture of Image Intensifier Tubes for use in military, security and commercial systems.

Authorized Capital of the Company was ₹ 100.00 crore and the Paid up Capital was ₹ 37.83 crore. The Company's total revenue during the year 2015-16 was ₹ 121.51 crore and it had earned a profit of ₹ 2.43 crore.

2.2. BEL Thales Systems Limited

BEL Thales Systems (BTSL) was incorporated in India on 28 August 2014 as a Limited company under the Companies Act 2013. The company is a subsidiary of BEL. The Company obtained approval from Ministry of Company Affairs for commencement of its business on 21 November 2014. The primary focus of the company is to Design, Develop, Supply and Support of Defence and civilian Radars.

Authorized Capital of the Company was ₹ 80.00 crore and the Paid up Capital was ₹ 22.40 crore of which ₹ 16.58 crore was held by Bharat Electronics Limited. The Company was yet to start commercial operations and revenue during the year 2015-16 of ₹ 0.96 crore was from Interest on fixed deposits. The Company incurred a loss of ₹ 2.47 crore during the year 2015-16.

3. BEML Limited

Bharat Earth Movers Limited was incorporated in May 1964 as a Public Sector Undertaking for manufacture of Rail coaches, Mining Equipment and spare parts and was later renamed as BEML Limited (Company) in 2006. The Company has been conferred with 'Mini Ratna' Category-1 status since August 2006.

The Company has one subsidiary viz. Vignyan Industries Limited and two joint Ventures viz. M/s. BEML Midwest Limited and MAMC India Limited.

The Company has nine manufacturing units located at Bengaluru, Kolar Gold Fields (KGF), Mysuru and Palakkad. The Company manufactures variants of

Tatra vehicle for all terrain operations including Bridge Layer, Field Artillery Tractor, Medium & Heavy Recovery Vehicle, Pontoon Mainstream Bridge Systems, Crash Fire Tenders, Mobile Mast Vehicle, etc. The Company also supplies Engineering Mine Ploughs, Tank Transportation Trailers, Weapon Loading equipment, Armoured Recovery Vehicle, Milrail Coaches and Wagons apart from Aircraft Weapon Loading Trolley and Aircraft Towing Tractor.

Further the company offers a comprehensive and diverse range of mining machinery for both opencast and underground mines. It also supplies equipment to Indian Railways which include Integral Rail Coaches, Overhead Electric Inspection Cars, Postal Vans, AC/DC Electric Multiple Units, D-EMUs, Utility Track Vehicles, Track Laying Equipment, Broad-Gauge Railbus, Treasury Vans, Spoil Disposal Units etc. The company has forayed into high-tech Metro Trains deployed for intra-city commuting.

The Company launched its aerospace vertical during the year 2007 to exploit the potential of the e-engineering services in the aerospace domain and the Aerospace Manufacturing facility is established in Mysore Complex of the Company.

Authorised capital of the Company was ₹ 100.00 crore as at 31 March 2016. The paid up capital was ₹ 41.77 crore of which ₹ 22.50 crore (54.03 *per cent*) was held by the Government of India and rest 45.97 *per cent* was held by Public, Financial Institutions, Foreign Institutional Investors, Banks and employees. The Company's total revenue during the year 2015-16 was ₹ 3022.74 crore and it earned a profit of ₹ 52.65 crore.

3.1 Vignyan Industries Limited (VIL)

Vignyan Industries Limited at Tarikere, Chickmagalur District, was taken over by BEML Limited in 1984 and is functioning as a subsidiary Company. VIL is a Steel Casting Foundry supplying quality steel and alloy castings to various manufacturing units of BEML Limited.

Authorised capital of the Company was ₹ 4.00 crore as at 31 March 2016. The paid up capital was ₹ 2.79 crore of which ₹ 2.69 crore (96.56 *per cent*) was held by BEML Limited. The Company's total revenue during the year 2015-16 was ₹ 28.71 crore and it earned a profit of ₹ 0.45 crore.

4. Bharat Dynamics Limited

Bharat Dynamics Limited (BDL), established in July, 1970 is the prime agency for manufacture of Missiles in the country and is under the administrative control of Ministry of Defence.

The Company has its Registered Office at Kanchanbagh, Hyderabad and manufacturing units at Kanchanbagh, Bhanur (Medak District) and Vishakapatnam. The Company manufactures Anti-Tank Guided Missiles (Milan 2T, Konkur, Invar (3UBK 20)), Akash Missiles, Advanced Light Weight Torpedoes, Torpedo Counter Measure Systems, Counter Measure Dispensing Systems and Infra Red Interference Indicators.

Authorised capital of the Company was ₹ 125.00 crore as at 31 March 2016. The paid up capital was ₹ 97.75 crore which was fully held by the Government of India. The Company's total revenue during the year 2015-16 was ₹ 4344.40 crore and it earned a profit of ₹ 563.24 crore.

5. Mishra Dhatu Nigam Limited

Mishra Dhatu Nigam Limited (MIDHANI), established in November 1973, was set up to fulfill the need for Self-reliance in hi-tech special metals and alloys which had become essential for meaningful growth of Space, Atomic Energy, Aeronautical, Steel and Hydro-electric power & Defence sectors.

Company has a Registered Office and Manufacturing Unit at Kanchanbagh, Hyderabad, a Regional Office at New Delhi and two Commercial Offices at Kolkatta and Chennai.

Company has modern metallurgical facilities and high degree of technical competence in manufacturing a wide range of Super-alloys, Titanium, Special Purpose Steels and other special metals and alloys meeting stringent international standards for application in Aerospace, Defence, Atomic Energy, Power Generation, Chemical and other hi-tech industries.

Authorised capital of the Company was ₹ 200.00 crore as at 31 March 2016. The paid up capital was ₹ 187.34 crore which was fully held by the Government of India. The Company's total revenue during the year 2015-16 was ₹ 744.29 crore and it earned a profit of ₹ 118.03 crore.

6. Mazagon Dock Shipbuilders Limited

Mazagon Dock Shipbuilders Limited (MDL) (formerly known as Mazagon Dock Limited) established in 1934, is Country's one of the leading shipyard constructing warships as well as offshore platforms and functioning under the administrative control of Ministry of Defence, Govt. of India.

Company has its Corporate Office at Mazagon in Mumbai and a Regional office at New Delhi. Main activities of the Company are ship building, ship repairs and fabrication of offshore structures with facilities situated at Mumbai and Nhava. Company is capable of building warships, submarines, merchant ships upto 30,000 DWT and fabrication of well head platforms, process and production platforms and jack up rigs.

Authorised equity and preference share capital of the Company was ₹ 200.00 crore and ₹ 123.72 crore respectively as at 31 March 2016. The paid up share equity capital was ₹ 199.20 crore which was fully held by the Government of India. The Company's total revenue during the year 2015-16 was ₹ 4885.36 crore and it earned a profit of ₹ 637.82 crore.

7. Garden Reach Shipbuilders and Engineers Limited

The Company, established in 1884, was initially named Garden Reach Works in 1916 and after taken over by Government of India in April 1960 and diversifying into engineering products, the name was changed to Garden Reach Shipbuilders and Engineers Limited on 01 January 1977. Company is engaged in shipbuilding, ship repairs, Engine assembling and testing and engineering products.

Company has its Registered Head Office at Kolkata. It has six manufacturing units, five units in and around Kolkata, West Bengal and one unit in Ranchi, Jharkhand.

Authorised capital of the Company was ₹ 125.00 crore as at 31 March 2016. The paid up capital was ₹ 123.84 crore which was fully held by the Government of India. The Company's total revenue during the year 2015-16 was ₹ 1881.77 crore and it earned a profit of ₹ 160.72 crore.

8. Goa Shipyard Limited

Goa Shipyard Limited (GSL) established in 1957, is a leading ISO 9001-2008 certified shipyard on the West Coast of India, functioning under the administrative control of Ministry of Defence, Govt. of India.

The Company has its Registered Office at Vasco da Gama, Goa. The Company is engaged in ship construction/repairs, rendering general engineering services and supply of spares.

Authorised capital of the Company was ₹ 40.00 crore as at 31 March 2016. The paid up capital was ₹ 29.10 crore of which ₹ 14.87 crore (51.09 per cent) was held by the Government of India and ₹ 13.74 crore (47.21 per cent) was held by Mazagon Dock Shipbuilders Limited. The Company's total revenue during the year 2015-16 was ₹ 786.37 crore and it earned a profit of ₹ 61.89 crore.

9. Hindustan Shipyard Limited

Hindustan Shipyard Limited (HSL), established in January 1951, is engaged in ship building and ship repairing activities. The administrative control of the Company, which was earlier under the Ministry of Shipping was transferred to Ministry of Defence during February 2010.

The Company has its Registered Office and manufacturing unit at Gandhigram, Visakhapatnam.

Authorised capital of the Company was ₹ 304.00 crore as at 31 March 2016. The paid up capital was ₹ 301.99 crore which was fully held by the Government of India. The Company's total revenue during the year 2015-16 was ₹ 648.56 crore and it earned a profit of ₹ 19.00 crore. The Company has an accumulated loss of ₹ 1306.37 crore as at 31 March 2016.

1.5 Interest Income

Ministry of Defence (MoD) was the main customer for the DPSUs. An analysis of Other Income of six DPSUs disclosed that interest income constituted major source of revenue to these DPSUs which had also received huge advances from the customers. The details of Advances/Progress Payments received from Customers and outstanding as at 31 March, Interest Income, Profit after Tax and Percentage of Profit after Tax to Interest Income

during the last three years ending 31 March 2016 in respect of the six DPSUs is tabulated below:

Table 1.1

(Amount ₹ in crore)

Name of the DPSU	Particulars	2013-14	2014-15	2015-16
Hindustan Aeronautics Limited	Advances/Progress Payments received from Customers and outstanding as at 31 March	9191.83	8024.56	7501.42
	Term Deposits	16931.53	17200.65	12969.35
	Interest Income (from Term Deposits)	2065.35	1630.92	1548.57
	Profit after Tax	2692.52	2388.05	1653.77
	Percentage of Interest Income to Profit after Tax	76.71	68.30	93.64
Bharat Electronics Limited	Advances/Progress Payments received from Customers and outstanding as at 31 March	5272.68	4965.84	6311.37
	Term Deposits	1343.96	1601.11	2018.31
	Interest Income (from Term Deposits)	413.66	419.74	458.51
	Profit after Tax	931.62	1167.24	1357.67
	Percentage of Interest Income to Profit after Tax	44.40	35.96	33.77
Bharat Dynamics Limited	Advances/Progress Payments received from Customers and outstanding as at 31 March	5765.78	5487.39	5474.61
	Term Deposits	4151.00	3632.00	3247.12
	Interest Income (from Term Deposits)	411.85	384.98	301.16
	Profit after Tax	345.51	418.57	563.24
	Percentage of Interest Income to Profit after Tax	119.20	91.98	53.47
Mazagon Dock Shipbuilders Limited	Advances/Progress Payments received from Customers and outstanding as at 31 March	24419.21	27021.03	28767.78
	Term Deposits	5237.66	7589.55	8736.41
	Interest Income (from Term Deposits)	517.81	515.89	675.57
	Profit after Tax	397.61	491.59	637.82
	Percentage of Interest Income to Profit after Tax	130.23	104.94	105.92

Name of the DPSU	Particulars	2013-14	2014-15	2015-16
Garden Reach Shipbuilders and Engineers Limited	Advances/Progress Payments received from Customers and outstanding as at 31 March	4891.95	5536.74	5555.37
	Term Deposits	432.00	1965.00	2455.78
	Interest Income (from Term Deposits)	82.23	33.17	168.68
	Profit after Tax	121.46	43.45	160.72
	Percentage of Interest Income to Profit after Tax	67.70	76.34	104.95
Goa Shipyard Limited	Advances/Progress Payments received from Customers and outstanding as at 31 March	405.17	475.64	473.55
	Term Deposits	409.44	519.10	222.65
	Interest Income (from Term Deposits)	38.62	39.10	39.00
	Profit after Tax/Loss (-)	(-)61.09	78.24	61.89
	Percentage of Interest Income to Profit after Tax	-	49.97	63.02

It could be seen from the above Table that the six DPSUs received huge advances from MoD and Interest Income constituted major portion of the Profit after Tax during all the three years.