CHAPTER XVII: DEPARTMENT OF SHIPPING

The Shipping Corporation of India Limited

17.1.1 Phased acquisition of Very Large Crude Carriers resulted in extra expenditure of Rs.553.69 crore

The Company decided to split the procurement of VLCCs in two phases resulting in extra expenditure of Rs.553.69 crore.

The Shipping Corporation of India Limited (Company) envisaged (11 October 2001) acquisition of four Very Large Crude Carriers (VLCCs) during the 10th Plan Period (2002-07) and proposed a plan outlay of Rs.1,734.96 crore during 2002-03 which included Rs.591.36 crore for purchase of four VLCCs to be financed in the ratio of 20 *per cent* and 80 *per cent* from internal and external sources respectively. However, the Management Committee decided (15 October 2001) to acquire only two VLCCs in 2002-03. The Government approved (May 2002) a plan outlay of Rs.1,332.25 crore (including Rs.295.68 crore towards two VLCCs) for 2002-03.

The Company invited (March 2002) global tenders, got the approval of the Government in May 2003 and placed (June 2003) order for two VLCCs at a cost of US$ 130.40 million (Rs.610.53 crore♥) payable in five equal instalments of Rs.122.11 crore between the signing of the contract and the actual date of delivery. The VLCCs were received in January 2005 and August 2005 respectively. In August 2004, the Company again invited global tenders for another two VLCCs and on receipt of Government approval (October 2005) signed a contract for the same for US$ 258.20 million (Rs.1,164.22 crore♠).

It was observed by Audit (August 2005) that while considering the approval for purchase of two VLCCs in March 2003, the Company noted the following:

(i) Demand♣ of VLCCs for transportation of crude oil in the country was increasing due to its economies of scale and development of infrastructure at the Indian ports.

(ii) The Company did not have any VLCC since the last VLCC was scrapped in 2000 without any replacement.

♥ ***At the exchange rate of one US$ = Rs.46.82 prevailing on the date of signing of the contract (7 June 2003)***

♠ ***At the exchange rate of one US$ = Rs.45.09 prevailing on the date of signing of the contract (28 October 2005)***

♣ ***According to the executive summary of the project report submitted to the BOD of the Company in November 2002, Indian Oil Corporation Limited was chartering about two VLCC a month and Reliance was chartering about four VLCCs per month.***

(iii) The estimated profitability even on conservative basis was quite high. Even on the basis of an assumed charter hire rate of US$ 35,000 per day to be received from the oil companies (against the actual prevailing rate of US$ 50,000 per day) and an estimated cost of US$ 70 million for a VLCC (against the firm price of US$ 65.20 million), the internal rate of return worked out to 23.35 *per cent.*

(iv) Prices of shipbuilding were amongst the lowest in the past ten years.

(v) The manufacturer had offered deferred payment terms.

Audit also noted the long lead time (from March 2002 to June 2003) from the date of invitation of tenders to the signing of the contract with the shipbuilder. Further, in 2005-06, the Company hired VLCCs on 18 occasions and paid US$ 28.11 million (Rs.125.52 crore♦). Inspite of such favourable returns and surging demand for VLCCs, the Company's decision to split the procurement of VLCCs resulted in extra expenditure of US$ 127.80 million (Rs.553.69 crore♠).

In reply, the Management stated (February 2006) that the postponement of procurement of the two VLCCs was mainly due to the Company's cash flow position and its consequential effect on the other schemes in progress. The Ministry endorsed (February 2007) the views of the Management and stated that as on 31 March 2001, cash and bank balance of Rs.122.86 crore only (excluding Rs.56.09 crore set aside for bank guarantees provided by the bank) was available to meet working capital requirements. The cash flows from acquisition of two VLCCs were negative in first three years at Rs.58.69 crore, Rs.25.30 crore and Rs.52.72 crore in 2002-03 to 2004-05. Further, the future price of the VLCCs could not be anticipated at the time of decision making and that the decisions were taken on various shipbuilding projects as per its cash flow/reserve situation keeping in view the priorities for different projects.

The reply was not tenable because as per the projected cash flow♣ from the operations of the Company as a whole, after considering payments to be made for acquisition of two VLCCs, other vessels on firm orders and existing vessels, the Company estimated net cash inflows of Rs.231.45 crore, Rs.141.76 crore, Rs.243.27 crore and Rs.219.41 crore in 2003-04 to 2006-07. The Company had adequate cash to meet its requirement of 20 *per cent* financing from internal sources for four VLCCs because the cost of the VLCCs was payable in a phased manner. The Company actually generated adequate internal resources and deposited surplus funds with banks/ financial institutions. (The actual cash and bank balance was Rs.387.62 crore and Rs.1,720.62 crore as at 31 March 2004 and 2005 respectively after paying the dues for two VLCCs.).

17.1.2 Deployment of daughter vessels without agreement

Deployment of daughter vessels without agreement for evacuation of Bombay High crude resulted in the Company not being able to realise Rs.7.74 crore.

♦ ***At exchange rate of one US$=Rs. 44.66 prevailing in March 2006***

♠ ***Value of purchase order of second batch of two VLCCs at Rs.1,164.22 crore less corresponding cost of first batch of two VLCCs at Rs.610.53 crore***

♣ ***prepared at the time of considering acquisition of first phase of two VLCCs***

Oil and Natural Gas Corporation Limited (ONGC) approached (November 2000) The Shipping Corporation of India Limited for deployment of tankers and tugs for evacuation of Bombay High crude in January 2001. In a meeting convened (January 2001) by the Oil Co-ordination Committee (OCC) to sort out the problem relating to evacuation of crude in which representatives of the Company, ONGC and Indian Oil Corporation Limited (IOCL) participated, it was decided that the Company would provide tankers and logistics to ensure that there was no loss of production. It was also decided that the issue of additional cost on deployment of vessels would be resolved between ONGC and the Company. However, without resolving the issue of the additional cost of carrying out evacuation of crude, the Company deployed (February 2001) its vessel[♣] m.t. Maharshi Dayanand, a tug and other lighterage equipments *etc.* Besides, the Company also deployed two daughter vessels m.t. Homi Bhabha and m.t. C.V. Raman by withdrawing them from IOCL. The evacuation operation continued till 2 May 2001.

Initially, the Company got the payment of charter hire charges of daughter vessels from IOCL[♥] with whom these vessels were on charter. Subsequently, IOCL apportioned the charges for deployment of two daughter vessels to ONGC and recovered the same from the Company. On receipt of details of apportionment of cost of deployment of two daughter vessels to ONGC from IOCL, the Company raised (January 2002) bills for charter hire charges on ONGC. ONGC declined (April 2003) to pay the charter hire on the ground that the matter of deployment of two daughter vessels was never discussed and agreed upon. The Company then referred (July 2003) the matter to the Committee of Disputes which directed (September 2004) that as both the parties to the dispute were PSUs, the matter may be settled through arbitration. The Company stated that the matter could not be referred to arbitration as there was no contract between ONGC and the Company for chartering of these two daughter vessels to ONGC.

Deployment of daughter vessels with ONGC for evacuation of Bombay High crude without an agreement resulted in the Company not being able to realise Rs.7.74 crore, which they demanded from ONGC for the two daughter vessels.

The Company in their reply stated (December 2005) that the daughter vessels were deployed with ONGC in good faith and in the national interest for saving loss of oil production based on the decision in the OCC meeting and the issue of recovery of dues was pursued at the highest level. The Ministry endorsed the reply of the Management and stated (January 2007) that the agreement with ONGC in respect of the daughter vessels was not entered into because a time charter agreement already existed between IOCL and the Company for utilisation of these vessels. The reply of the Management/Ministry was not tenable as the issue of additional cost as mentioned in the OCC meeting was not resolved before deployment of the daughter vessels.

♣ ***In addition to the vessel MV Karve already chartered to the ONGC***

♥ ***As per the industry practice, apportionment of cost is done by the nodal agency i.e. IOCL in this case with whom the vessels were on charter.***