



CHAIRMAN'S STATEMENT

"Indeed, we have come a long way and glories are many that crossed our path. However, our journey towards excellence continues. I believe that the Company's path to success lies in the synergy derived from the commitment of our people to attain the vision of the organization and the constant endeavor to embrace change in terms of technology, work culture and mindset."



Dear Shareholders,

It gives me great pleasure in welcoming all of you to this 100th Annual General Meeting of the Company. This year, as we celebrate the Company's 100th AGM, it gives me great pride to reflect back upon the chequered history of the Company and recognise the enormous progress made by it over the years. From a humble beginning as a Workshop to repair river crafts in 1884, your Company has truly grown to become a trusted name in the defence shipbuilding industry today. However, this did not stop us from exploring other business avenues and today I can proudly say that we have become a Company with diverse product lines, not only in the shipbuilding sector, but also in other businesses.

During the year 2015-16, the Company has indeed scaled new heights and achieved its highest ever Value of Production and Net Profit. I am truly delighted that this year, we have achieved significant milestones in all business units.

Industry Scenario

Delving for a while into the present state of defence shipbuilding scenario, we need to understand that warship building is a very complex activity that has long gestation periods coupled with the need to incorporate the latest technologies and systems that evolve during the

construction period by making necessary changes in existing design. This makes the process even more challenging. Further, with stiff competition emerging from private players in terms of pricing, procurement policies and manpower flexibilities, the advantages available to the defence PSUs have considerably reduced.

However, the Government's thrust on 'Make in India' has infused new life into the shipbuilding landscape. The present Government has announced a plan to grow the country's shipping fleet fourfold—from 10.3 million tonnes (mt) to 43 mt by 2019 and is looking to achieve a target of 5% share of the global shipbuilding market by 2020. Though these are very ambitious targets, pursuit of such targets certainly augurs well for the shipbuilding industry in the country.

Towards this end, the Government has introduced a number of policies aimed at reviving the shipbuilding sector, which has been dominated by high cost structures making it less competitive in the international market place. In January this year, the shipbuilding industry has been granted 'infrastructure status' which is poised to create the right environment for growth of industry to enable it to become globally competitive by reducing the high borrowing costs. Further, as a clear intention to boost the 'Make in India' initiative in the defence sector, and to speed up the procurement process, the Government has revamped the Defence Procurement



Procedure (DDP), applicable from April 2016, which introduces a slew of changes. The DPP-2016, among other things, envisages the imperatives of self-reliance in defence production and accordingly, has introduced a new procurement category called "Buy Indian- IDDM" where IDDM stands for "Indigenously Designed, Developed and Manufactured" and comprehensively revamped 'the Make' procedure. In another move, the Government has exempted the customs and central excise duties on inputs used in ship manufacturing and repair, bringing down the cost disadvantages faced by the Indian Shipyards while building vessels for the domestic market.

In light of these developments and the Government's keen interest in developing and strengthening India's Maritime Sector, a positive atmosphere has been created, the effects of which will be seen in the years to come.

Financial Performance

Now, I would like to take this opportunity to reflect upon the momentous year that it had been for the Company. It has been a year of record performance and growth combined with significant progress of various projects in hand.

It gives me immense pleasure to inform you that during the Financial Year 2015-16, your Company has scaled a new heights in terms of profitability and VoP. For the first time ever, the Company has achieved its highest turnover of ₹1,706.60 crore. The Company's Profit Before Tax (PBT) was recorded as ₹247.11 crore representing a 225% leap over the previous year. The Net Profit (PAT) increased to ₹160.72 crore, which has surpassed the figures of all previous years to establish a new record high. The Company's Net Worth increased from ₹967.75 crore last year to ₹1064.41 crore this year.

The Directors are pleased to recommend highest ever Record dividend @ 42.975% on the Company's paid-up equity capital amounting to ₹53.22 crore (approx.). During the year, the Company has made a contribution of ₹226.08 crore to the National Exchequer by way of payment of dividend, taxes and duties to various Government Agencies.

MoU Rating

In terms of parameters contained in the Memorandum of Understanding signed by your Company with the Government of India for the year 2015 -16, your Company is expected to be rated as "Very Good" in its performance.

Significance Milestones: 2015-16

During the year 2015-16, the Company delivered another major warship to the Indian Navy. The **2nd of the four Indigenous Anti-Submarine Warfare Corvette (ASWC), 'INS Kadmatt' was delivered on 26 Nov 15.** As a conscious endeavor towards the 'Make in India' initiative of the Government of India, the ship has been built with over 90% indigenous content, which is the highest ever achieved in the country. The ship joined the Eastern Fleet of the Indian Navy and also took part in the International Fleet Review (IFR) held at Visakhapatnam on 07 Feb 2016.

In fact, IFR-2016 conducted by the Indian Navy was a major international event where warships from many Navies of the world participated. The Hon'ble President of India Shri Pranab Mukherjee reviewed the International Fleet of Warships that had assembled in a formation at Visakhapatnam. It was also a very proud moment for GRSE because, 16 of the 40 Indian built warships that participated in the IFR were built by your Company. In addition to that, 03 of the foreign Navy / Coast Guard ships that had participated in the event including CGS Barracuda, were also built by your Company. So, all of you can be proud of the significant contribution made by your Company towards indigenous warship design and construction.

Contract for construction of five Fast Patrol Vessels:

Your Company has also bagged the order for construction of 05 nos. of Fast Patrol Vessels (FPVs) for the Indian Coast Guard, worth over ₹370 crore during the financial year 2015-16.

Shipbuilding and Production Performance

The Company's Shipbuilding and Engineering activities have registered a growth due to greater thrust on enhanced productivity, improved quality control and dedicated human resources. The Company is currently executing multiple projects concurrently, including the construction of 02 ASW Corvette, 08 LCU Frigates and 02 FO-WJFAC.

The major targets achieved this year are:

(a) **Delivery of Ships:** During the year, your Company has delivered the 2nd Anti-Submarine Warfare Corvette, 'INS Kadmatt' to the Indian Navy.

The 1st and 3rd Follow-On Water Jet Fast Attack Craft, 'Tarmugli' and 'Tihayu' were also delivered to the Indian



Navy on 16 Apr 16 and 30 Aug 16 respectively. The total ships delivered so far by GRSE are 97. Your Company is sure to cross the delivery mark of 100 ships during FY 2016-17.

(b) **Ships ready for Delivery:** The delivery of the 3rd ASW Corvette, 'INS Kiltan', is in advance stages of fitting out. Further, the first two ships of the Landing Craft Utility (LCU) MK-IV class and the second and fourth Follow-On WJFAC are also progressing well towards their delivery.

(c) **Portable Steel Bridges:** The Bailey Bridge Division of your Company has supplied 70 Bridges during the year, which signifies a growth of more than 53% in monetary terms. Your Company bagged two orders from Border Roads Organisation for supply of a total of 41 bridges. Further, the Company has entered in to an MOU & Rate Contract with Dte Gen of Border Roads for supply of Galvanized Bridges and expecting an order for supply of 17 Bridges. Under the export initiatives of the Company, we have received orders worth ₹4 crore from Bhutan and had fruitful discussions with Myanmar & Peru and expect to supply a good number of bridges during 2016-17. The present order book position of this division is at about ₹110 crore and the future outlook is in favour of the Company.

(d) **Deck Machinery:** It has been an eventful year for the Deck Machinery Unit of the Company. It has successfully supplied 45 different equipment / systems to various projects in different shipyards and to Material Organisations of Indian Navy and Coast Guard. Initiating steps towards Make in India, the Unit has been able to convert 72% of import content into indigenously built. Being the only proven indigenous supplier of such systems, this Unit has also bagged orders for 08 nos. of RLHTS from Private Shipyards.

(e) **Engine Division (Ranchi):** Moving in the direction of expansion, the assembly & test facilities for Marine Engines were modernized with an investment of about ₹10 crore. Consequent to this, a Service Partner Agreement (SPA) was signed with M/s. MTU (India) for undertaking W6 routines of MTU4000, MTU538, MTU396 & MTU183 series engines. The signing of SPA will facilitate more business toward overhauling of engines for DEP Unit in the coming years. Further, the Company is creating an additional production capacity for "Production & Supply of GRSE Portable Steel Bridges" at DEP, Ranchi Unit, which is expected to enhance business activity for the Unit from FY 2016-17 onwards.

Order Book Position

The year under review saw your Company bagging an order for construction of 05 nos. of Fast Patrol Vessel (FPVs) for the Indian Coast Guard worth over ₹370 crore. Further, with the construction of the Project P-17A in the pipeline, the present order book position of the Company is around ₹30,112 crore. Out of these, sales of approximately ₹7,714 crore has been completed and the Balance Order Book is approximately ₹22,398 crore. Though the over-all Order Book position is healthy, since construction of Frigates under P-17A Project with contract value of ₹19,290 crore is presently at design / preparatory stage and actual construction can commence only in Feb 2018, the effective Balance Order Book, executable over the next three years is only ₹3,280 crore. This skewed balance order position, would impose limits on the Value of Production that could be achieved in the next three years, unless new orders which can be executed in the short term are received.

Awards & Accolades

The numerous awards received by the Company during the year speak of its exemplary performance and its persistent efforts to be at the helm of everything we do. The accolades bestowed upon the Company during the year include:

- The Hon'ble Raksha Mantri's "Best Performing Defence Shipyard Award" for the years 2012-13 and 2013-14. Your Company now has the distinction of receiving the **Best Performing Defence Shipyard Award for four consecutive years in a row.**
- In the Official Language category, your Company received the **Rajbhasha Kirti Puraskar - 2nd Prize in 'C' Region for Excellence in Implementation of Official Language Policy for the year 2014-15** under PSU category. Further, GRSE has been awarded the prestigious **Rajbhasha Kirti Puraskar – 1st Prize for the year 2015-16** for Excellence in Implementation of Official Language in the Company and the **Rajbhasha Kirti Puraskar - 2nd prize for Company's Hindi Magazine Rajbhasha Jagriti under Grih Patrika Puraskar for the year 2015-16.**
- Your Company was also conferred the **Quality Leadership Award-2015 by Quality Circle Forum of India** during the Annual Convention held on 22 Sep 15.
- Adding another feather to the cap, your Company received the **National Talent Management Leadership**



Award 2015 in the **Category - Best Onboarding Program** on 24 Jul 15 from World HRD Congress.

Future Outlook – Vision 2025

Major Initiatives: GRSE is actively pursuing its goal to become a “World Class Shipbuilding and Engineering Company”. Following are some of the specific initiatives that have been taken in the recent past to progress towards above objective:

- (a) Introduction of first stage Integrated Construction Technology by making mega-hull blocks for the LCUs.
- (b) Introduction of laser technology for shaft alignment process on-board LCUs.
- (c) Fabrication and consolidation of hull-blocks inside GRSE premises by reputed sub-contractors.
- (d) Composite outsourcing of ‘Fitting-out’ work on-board LCUs.
- (e) Augmentation of vendor base to meet the enhanced work load.
- (f) Implementation of Enterprise Resource Planning (ERP) Systems for effective Project Management.
- (g) Training for Skill Development.

Vendor Development: The key to successful shipbuilding is having a robust Vendor Base. Your Company has adopted this as a thrust area and has carried out 22 vendor development initiatives across the country over the last two years. Presently, around 2400 contractors’ workmen are deployed in GRSE by various contractors. As a result of this Vendor Development drive, the service contractor base - who primarily undertakes shipbuilding related work in your Company, has grown significantly. Further, Vendor Development initiatives of recent years have resulted in significant increase in shipbuilding capacity.

Infrastructure Development: A three year plan for augmentation of infrastructure has also been worked out to further improve infrastructure and prepare for execution of P-17A Project. The Company has also evolved the following plans to further leverage the strength of infrastructure and production facilities and to meet the demands of P-17A Project:

- (a) Establishing strategic alliances with other small shipyards to make Pre-outfitted Mega-Hull Blocks for P-17A, at their premises.

- (b) Further widening the vendor base and improving the quality of vendors by conducting Vendor Mela periodically.
- (c) Engaging reputed sub-contractors to undertake fabrication and consolidation of Mega-Blocks inside your Company premises.
- (d) Revamp processes in the Shipyard to make them more amenable for Integrated Construction.

The growth initiatives taken by your Company are aimed to improve quality and reduce build period thereby meeting the stiff timelines as being achieved by leading global players in shipbuilding industry.

Export Initiatives

Buoyed by the response for the first export warship, your Company is seriously exploring the overseas market for its products. Your Company has participated in a global tender for construction of two frigates for the Philippines Navy and is the only Indian Shipyard to have qualified for this international tender with competition from leading global players like Navantia, STX, Daewoo and Hyundai among others. During the final bid process in Mar 2016, your Company had bid aggressively and emerged as LCB-1 (Lowest Calculated Bidder) against competition with Korean Shipyards like Hyundai. A high level Philippine Delegation visited GRSE in Apr 2016-May 2016 for Post Qualification assessment and they were fully satisfied with the infrastructure and shipbuilding capabilities demonstrated by GRSE. However, a minor issue pertaining to computation of NFCC (Net Financial Contracting Capacity) as per the formula specified in the Procurement Regulations of Govt. of Philippines has become an impediment in bagging of the contract. Your Company is still pursuing the matter through Ministry of Defence, Govt. of India and the Indian Ambassador at Manila, in addition to directly pursuing the Philippine Authorities. Further, your Company is also exploring the possibility of exporting Pre-fabricated Steel Bridges to Peru, in addition to Bhutan and Myanmar.

During the year, the Company has also participated in the "Make in India Week", at Mumbai and was able to generate many business leads which are being actively pursued by the Company to convert them into viable Business Partners / Business Opportunities.

Industrial Relations

Industrial Relations situation during the period across all the Units of your Company including DEP, Ranchi,



was generally peaceful and harmonious. Further, the Company has undertaken various HR initiatives during the year for sustaining and developing human resources. A 360 Degree feedback leadership development programme was conducted for senior officers. Further, a Management-Union Interface programme was conducted in the Company for discussion on increase in overall performance of the Company.

Health, Safety, Security & Environment

Upholding the "Safety First Safety Must" Mantra, your Company continues to take Workplace Health, Safety, Security & Environment (HSSE) including Sustainable Development as an integral component of its business policies and strategic plans. To ensure smooth and safe operations across locations, each of the critical processes, system and their implementation methodology were reviewed and their monitoring and governance practice were strengthened along with bringing clarity, responsibility and accountability. Renewable Energy and Sustainability are the thrust areas for the Company. During the year, your Company has installed 200kWp grid interactive solar power plant and generating about 2.7 lakh kWh annually.

Corporate Governance

The Company's philosophy on Corporate Governance is based on the principles of honesty, integrity, accountability, adequate disclosures, legal compliances, transparency in decision making and avoiding conflicts of interest. The Company gives importance to adherence to adopted corporate values and objectives and discharging social responsibilities as a corporate citizen. The Company believes in customer satisfaction, financial prudence and commitment to values. Our corporate structure, business and disclosure practices have been aligned to our Corporate Governance Philosophy.

Corporate Social Responsibility

Corporate Social Responsibility (CSR) is an integral part of the Company's corporate philosophy. Our CSR initiatives reaffirm our belief that addressing societal

needs and business growth go hand-in-hand. The Flagship CSR activities aim to benefit the marginalized sections of the local community through different income generating projects such as to provide employment readiness vocational skills to under privileged women, differently-abled children and local unemployed youth.

Supporting the Nationwide 'Swachh Bharat Abhiyan' which aims at improving cleanliness, your Company has constructed toilets in Local Government Schools. Your Company is also participating in the 'Clean Ganga' drive of the Government of India. Further, the Company has undertaken a cleanliness drive under its 'Swachata Abhiyaan' initiative to implement best practices for cleanliness, housekeeping and hygiene inside the Shipyard.

ACKNOWLEDGEMENTS

I would like to conclude by thanking the Central and State Government Authorities, Indian Navy and Coast Guard Authorities, and the Shareholders for their continued trust and confidence they have reposed in us. I would like to place on record our sincere thanks to the Comptroller & Auditor General of India, the Principal Director of Commercial Audit, the Statutory and Branch Auditors, Internal Auditors, Cost Auditors and the Principal Controller of Defence Accounts (Navy) for their valuable suggestions and co-operation. I acknowledge the patronage of our Bankers, Suppliers and Business Associates. I also acknowledge with gratitude the continual assistance and guidance received from Ministry of Defence, Department of Defence Production, Indian Navy, Indian Coast Guard and Ministry of Home Affairs. Last, but not the least, I appreciate the dedication and hard work put in by all the employees of the Company to achieve its goal and the Board of Directors who have supported and guided the Company to put it on a path of accelerated growth.

Thanking you all,

Sd/-

Kolkata
28th September, 2016 **Chairman & Managing Director**

A.K. Verma
Rear Admiral (Retd.)