

EXCERPTS OF

CHAIRMAN'S ADDRESS AT THE 50TH AGM ON 28TH SEPTEMBER, 2016

Ladies & Gentlemen,

I have the great pleasure of welcoming you to the 50th Annual General Meeting of the Company. This is the second full Financial Year / Annual Report, which I am presenting after taking over as CMD on 01 Feb 14. The Annual Report for FY2015-16, inter alia, containing Audited Financial Statements and Directors Report was sent to members on 31st August, 2016. I hope you have perused the same. The Company thereafter, has received NIL comments from CAG on the Accounts, which are being placed in the AGM, in terms of provisions of Companies Act 2013.

Shipbuilding Scenario

2. Recognizing the strategic importance of Indian Shipbuilding industry, the Government of India has set ambitious plans and a slew of policy initiatives have been announced and are being implemented, including the 'Make in India' program announced two years ago, which has galvanized the defence ship building sector. Some of the recent major policy initiatives, include accord of infrastructure status to shipyards, provision of subsidy for commercial ship building, initiatives for coastal shipping and inland waterways, provisions of ERV to private players, rationalization of CVD/ SAD, new DPP-16 (Defence Procurement Procedure 2016), with emphasis on '**Indigenous Design, Development and Manufacture**' (IDDM) in warship building programs. Majority of these initiatives, among others steps being taken, have given a new impetus to Indian shipbuilding and private shipyards in particular which was largely dominated by DPSUs so far. *Some of the incentives are of course at the cost of DPSU shipyards and will blunt the advantage enjoyed by DPSU shipyards in the long term.* Onus now squarely rests with Private yards/ industry to capitalize on the opportunities given by the Government and make shipbuilding more vibrant with higher indigenous content.

3. Your Company is a leader in high-end warships design and construction and enjoys excellent reputation for ships that it has built and improved, with every project it has completed. With the opening of shipbuilding to the private sector, GSL is operating in a highly competitive environment across all its product segments. The focus on customers, continuous innovation and open learning culture, which is being encouraged in the yard, is keeping us ahead. Despite competition, the Company is confident of maintaining the growth momentum in both domestic and export markets. Our confidence is based on the excellent reputation and brand image, the Company

has built-on account of sustained delivery of all the projects ahead of the contractual delivery schedule, with minimal contractual liabilities (D-448), a rarity in the ship building industry. **Defence shipbuilding is a 'knowledge driven industry' and what we have learnt over the decades, coupled with our passion to succeed and excel, will enable us to stay ahead of competition, for the overall benefit of the Indian Defence Forces. Performance of our products continues to exceed the expectations of all our customers in terms of Quality, reliability and support.**

Performance Highlights

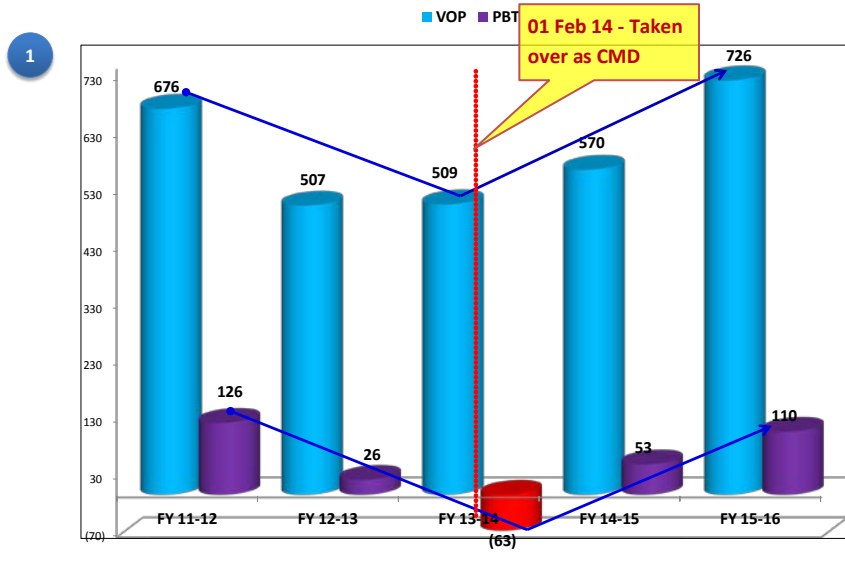
4. As you are aware, after a sharp recovery from (-) Rs 63 Cr losses recorded in FY 2013-14, the company registered a turnaround in FY 2014-15 and recorded PBT of Rs 53 Cr. During FY 2014-15, the Company received Onetime benefit of Rs 62.01 Cr on account of adjustment of depreciation and infrastructure funding. The Benefit was fully utilized to clean up the Balance Sheet by providing Onetime Expenditure / Provisions (writing off old unused inventory of completed Projects, introduction of pension scheme pending since 2007 etc) amounting to Rs 67.34 Cr, pertaining to earlier years, thus setting up a base for a strong Balance Sheet of the Company. **In FY 2015-16, the momentum of growth has continued and Company has more than doubled the PBT to Rs 110 Cr from Rs 53 Cr reported in FY 14-15. On Operating Profit front, the growth in FY 2015-16 is even more pronounced, where 349% growth has been recorded.** FY 14-15 has proved to be an inflection point in the history of GSL. The strong turn around was enabled due to corrective measures taken by us, coupled with the inherent resilience the yard has demonstrated in most adverse conditions. That alone has enabled the yard to turnaround the continuous decline, it was suffering both in VoP and Profits from FY 2011 to FY 2014, due to lack of orders and failed indigenization effort by the industry, affecting NOPV, the major ongoing Project. The excellent results in last two financial years are direct manifestation of **new benchmarks established on reduced 'build periods'**, thereby reducing overheads significantly and improving the financial performance. **During the FY 2015-16, the Company has achieved a Value of Production (VOP) of Rs 726 crore as against Rs 570 crore, an increase of 27% over the previous year. In the last two years, the Company has registered over 43% cumulative growth in VOP. The Net worth of the company has grown from Rs 574 Cr in 13-14 to Rs 670 Cr in 15-16, which is indeed commendable. The Value Added per employee has grown substantially from Rs.9.75 lakh in 13-14 to Rs. 19.81 lakh in 15-16, while labour cost as % of VoP has come down by nearly 4% (from 23.77% in 13-14 to 19.87% in 15-16) denoting much improved productivity. The Company's excellent performance is once again based on meeting all contractual delivery/ production commitments to its customers.**

The Company has continued with a strong focus on execution with concurrent projects like SL OPVs, CG OPVs, Mauritian FPVs, FIBs and 4 x 1000T fuel barges and other General Engineering Projects.

5. In the last nine months, GSL has delivered three OPVs of 2500T each to Coast Guard, besides 14 other small vessels/ projects have been completed. 7500T annual delivery attained by GSL -compares well with one P15B Destroyer of 7200 Tons delivered by major DPSU shipyard on West coast and is infact much higher than the annual delivery achieved by another DPSU shipyard on East coast annually (One ASW Corvette of 3400 Ton and some other small vessels over the years). The comparison of VoP of three yards however, presents a markedly different picture. The biggest DPSU yard by VoP has registered a VoP of about Rs 4000Cr while no 2 DPSU yard has registered 1700Cr, against Rs 725 Cr VoP registered by GSL in the last financial year. This is essentially on account of cost of the weapons and sensors, which form the bulk of the VoP, in terms of, bought out components. This has been the primary reason for lesser VoP recorded by GSL. The situation is however, likely to significantly improve with the start of MCMV Project, which will be a watershed moment in terms of the value of technology content, weapons and sensors fit and will catapult GSL to its logical leadership position.

6. These strong results are on account of various policy measures and strict cost control initiatives undertaken by the Company during the year and has been widely acknowledged by the MoD/DDP and our customers. Here, I would like to highlight the significant tangible and intangible costs in defence shipbuilding that the nation incurs in terms of project time and cost overruns, opportunity costs and shortfall in meeting the national strategic objectives. Delay in project locks up the funds of the customers without assets under construction put to operational use. **GSL has been consistently delivering high quality ships at fixed cost and before scheduled timelines. The time has come, to factor this performance in the form of incentives both financial and otherwise, for preserving the eco-system of efficiency and innovation that GSL has created for itself.** On the basis of the new strategic direction and sound policy correctives, along with accountability introduced at all levels, the Company is on firm foundation to achieve much improved performance in the years to come.

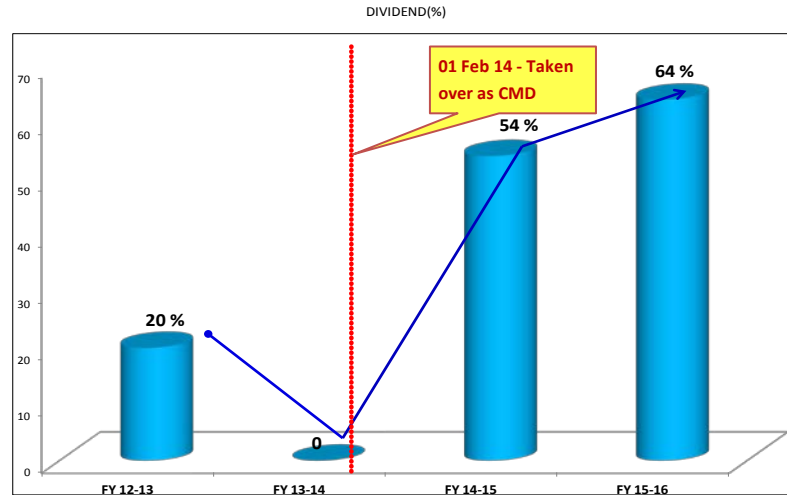
VALUE OF PRODUCTION AND PBT



Dividend, Splitting of Shares and Bonus Shares

7. With a view to share the fruits of excellent results with the shareholders of the Company and on occasion of 50th AGM, the Board of Directors are pleased to recommend higher Dividend of 64% on the Paid-up Share Capital of Rs. 2910 lakh for the financial year 2015-16, **an increase of 10%** as against 54% Dividend in the previous year. Further on account of the sterling performance of the company and good visibility going forward, Board has given its consent subject to necessary approvals from the Govt of India and Shareholders in the General Meetings, for Splitting of Shares whereby each share of value Rs 10, would be split into two shares of value Rs. 5 each and issue of Bonus Shares in the ratio of 1:1 to the existing shareholders as on Record Date to be fixed and communicated later. As a consequence of these decisions to split and issue bonus shares, each share holder holding 01 share of value Rs 10 would be issued 04 shares of Rs 5 each.

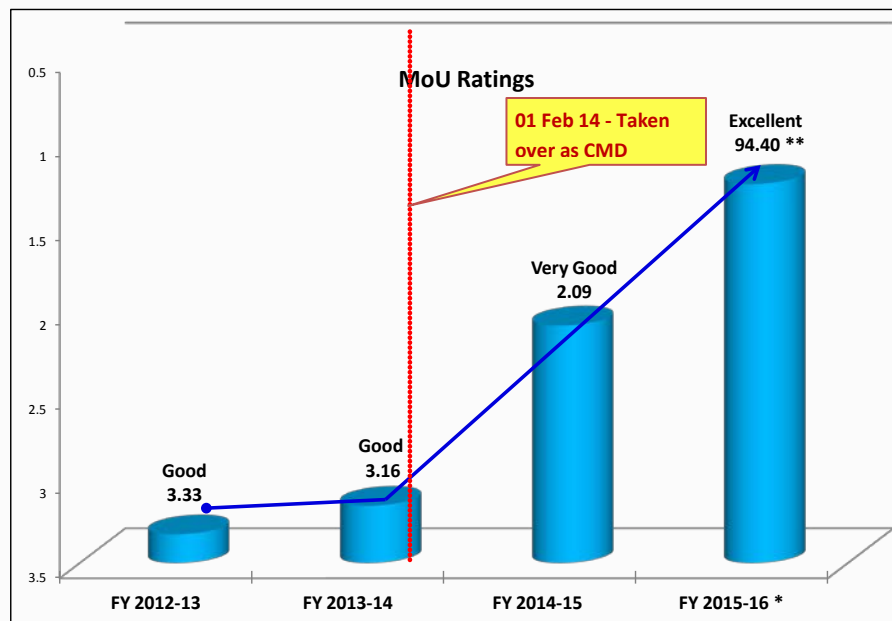
DIVIDEND



MOU Rating

8. In terms of parameters laid down in the Memorandum of Understanding signed with the Government, your Company is expected to be rated 'Excellent' in its performance for FY 2015-16, as against 'Very Good' in the previous financial year and 'Good' rating achieved during earlier three financial years. On the basis of strong corrective measures introduced, the Company is confident of achieving 'Excellent' MOU rating and improved performance in the years to come.

MOU Rating



*As per GSL assessment

** Excellent Rating as per new method of calculation.

Order Book Improvement

9. As on 31st March, 2016, the net value of outstanding work against orders received for Ship Construction, Ship Repair/Refit work & General Engineering Services amounted to Rs.2182 Crore (approx.). This includes orders of about Rs.1200 Crore from exports. During the year the Company has secured following orders from the Indian Navy for the construction of:

- (i) 04 x 1000 T Fuel Barges
- (ii) Setting up of Damage Control Training Facility at Visakhapatnam
- (iii) Setting up of Nuclear, Biological & Chemical Training Facility at INS Shivaji.

10. The Indian Navy has also entrusted AMC of training facilities DCS 'Akshat' & DCS 'Avinash' located at Lonavla and Kochi, respectively.

11. I am glad to share that your **Company in last six months has signed major contracts including construction and delivery of 5 CGOPVs along with some other important orders at a cost of over Rs 2000 Cr with Ministry of Defence.** 5 CGOPV Project was cleared by DAC in Jul 2014 and PNC was concluded in mid 2015. We have taken all steps to commence the construction of these ships shortly. **This is the biggest order received by GSL after 2012 and is a validation of the confidence reposed by Coast Guard. This is based on 'ahead of time deliveries' of ongoing 6 CGOPVs with excellent operational performance vis a vis Design specifications. Consequently the Order book as on 31st August 2016 has improved to Rs 3748 Cr (highest in last five years). This would further improve on signing of contract for MCMV project worth Rs 32,600 Crore with the Government, which is expected in mid 2017.**

Execution of Shipbuilding & other Projects

12. The '*focus on execution*' by your Company has resulted in all Projects being delivered ahead of original contractual delivery schedules, with no extension or revised dates sought, with / without LD what so ever. This is a feature, which distinguishes us from all other shipyards, and puts us on a different pedestal. Further, all 'Launching' mile stones of new vessels were well ahead of schedule, paving the way for deliveries ahead of schedule, for ships going forward too. Since the last Annual Report published in September, 2015, the Company delivered the following vessels all ahead of schedule:

- (a) First 105M large CGOPV - Yard 1218 commissioned at GSL by Shri Manohar Parrikar, Hon'ble Raksha Mantri on 10th November, 2015.

- (b) Second 105M large CGOPV - Yard 1220, commissioned at GSL by Shri Nitin Gadkari, Hon'ble Union Minister of Road Transport, Highways & Shipping, on 11th April, 2016. The vessel was delivered about a month and half, ahead of contractual delivery schedule.
- (c) 11 nos. Fast Interceptor Boats for Government of Mauritius, handed over to the Prime Minister of Mauritius at an impressive ceremony at Port Louis on 12th March, 2016, ahead of contractual delivery schedules.
- (d) The Damage Control Simulator (DCS) for Myanmar Navy was completed and handed over in the presence of the Commander of the Naval Dockyard of Myanmar Navy and H.E. the Ambassador of India in Myanmar on 10th May, 2016.
- (e) The third 105M CGOPV Yard 1219 was delivered two and half months ahead of scheduled delivery and commissioned by Shri Rajnath Singh, Hon'ble Union Home Minister on 9th September, 2016.
- f) The first Mauritius FPV was handed over to Mauritius Coast Guard on 26 Sep 16, again ahead of contractual delivery schedule. This is despite, the eight months delay in receipt of steel.

13. The Company also launched two CGOPVs paving the way for their timely delivery. The execution of so many deliveries / launchings reflects the magnitude of work which is in progress at GSL currently and is particularly significant because of work on MCMV Project and ongoing modernisation work which is being undertaken concurrently. The modernisation has involved demolition of old workshops / ship building Bays, shifting of workshops, as a result of new workshops getting commissioned, there by causing considerable disruption in production, albeit without affecting delivery schedules of ships.

14. **Refits & General Engg Services.** During the year, the Company undertook repairs of numerous vessels which include Patrol Vessels, Oceanographic Research Vessel and Sail Training Vessel. The Company took up the challenging task of refitting the Sail Training Vessel 'INS Sudarshini' and **the refit was completed in a record time of 37 days to ensure its participation, in the combined Commanders Conference chaired by The Hon'ble Prime Minister of India.** The efforts of the Company were well appreciated by the Indian Navy. **The company has also completed Guarantee Refits of all 4 NOPVs delivered in 2013 and 2014 to Indian Navy and also second D-448 reading in respect of first 3 NOPVs.** *Refit and General Engineering Services (SR/GES) group registered growth of over 70% in VoP with revenue moving up from about 103Cr to 171Cr. Thus the company registered strong growth in all its divisions.*

Current Year Prospects

15. Your Company has set target for Value of Production (VoP) of Rs 800 crore for FY 2016-17, as per the MOU signed by the Company with the Government. The Company is confident of delivery of two/three CGOPVs and 2 MFPVs during the year. The contract for the additional 05 CGOPVs signed on 26.08.2016 would help in optimal utilization of shipbuilding capacity of the yard. **Going by first six months provisional figures, Company expects to carry forward the momentum achieved during the last two years and register further growth of nearly 30% both in turnover and profits. The growth rate achieved in VoP with corresponding increase in Operational profits (without accounting for interest income) during the last financial year, is highest amongst shipyards in India. This is particularly significant as it is being achieved on 'Fixed Cost' projects with Nil 'Variable element' of cost,** which results in additional profits to other shipyards. Ahead of schedule deliveries, though reduces VoP, but it increases operational margins and is the main reason for GSL accomplishing highest operational profits amongst all shipyards. The Company is confident of retaining its distinction of being the '*Fastest growing shipyard in the country*'.

MCMV and Infrastructure Modernisation

16. Considering Indian Navy's operational requirement to induct high technology, strategic Mine Counter Measure Vessels in time bound manner, GSL has moved with a sense of urgency on this program. In order to start construction of these MCMVs at GSL, the top-management of your company is devoting considerable time and energy on day to day to basis for over two years, which will yield significant results in the times to come. All key facets of the Project including ToT for construction of MCMVs, Infrastructure and manpower augmentation, procurement of state of the art MCM suite have received focused attention and are progressing strictly on schedule. Tenders worth nearly Rs 5000 Crs have been finalized and floated. The Contract negotiation for Transfer of Technology is in the final stage of conclusion and is expected to be signed soon.

17. The Company has achieved steady progress in augmentation/ modernisation of infrastructure for MCMV Project. Phases 1 & 2 of the Modernization package have already been completed and commissioned, **Phase 3A of Modernisation plan, which was started in 2013 has been completed in Aug 2016 within the estimated cost of Rs 430 Cr. The facilities created include Outfit workshops, Ship Assembly Workshops, open construction berths, outfit jetty and steel stockyard, all of which are now fully functional.** The tendering activities for Phases 3B and 4 which mainly include advance infrastructure for construction of MCMVs, have been completed and other preparatory activities including demolition of old Ship Building Bays 1 & 2

are in progress to equip the yard with most modern and sophisticated infrastructure for advanced warship construction and Glass Reinforced Plastic (GRP) Hull Construction.

Production / Design Improvements

18. The company has introduced large number of innovative measures and new processes in Production, R&D and Commercial areas, which are having a positive impact on productivity and through put of the company. **OT as % of VoP, wage bill as % of VoP have reduced considerably while Value additions per employee has shown significant improvement, validating company's efforts.**

Export Promotion

19. Your Company with the support of MoD / Government of India has taken several initiatives for export of its proven products to international customers. Your Company has a strategic advantage in establishing itself as a major international player in construction of vessels due to a proven product range and past track record of timely deliveries and for construction of ships with build periods comparable to international shipyards. Your Company's efforts have borne fruits as **GSL today is the largest exporter of defence ships from the country and is presently executing export orders of 2 OPVs for Sri Lanka Navy and 2 Water jet Fast Attack Crafts for Mauritius. The Company has successfully executed export orders of 11 FIBs for Mauritius and the Damage Control Simulator Project for Myanmar Navy during the year.**

National Recognition Awards

28. Your company has received the following recognitions/prestigious awards during the year:
- ❖ **Raksha Mantri's award for Design and Development for 29 M, 50 knots Interceptor Boat.**
 - ❖ **'Rajbhasha Kirti Award' from Hon'ble President of India**
 - ❖ **SCOPE Excellence Award** from Hon'ble President of India
 - ❖ Recognition of R&D Design Centre by Ministry of Science & Technology, New Delhi for next 5 years.
 - ❖ CIDC Vishwakarma Achievement Award for **"Best Professionally Managed Company"** 2016 (Turnover Rs. 500 to 1000 crore category).
 - ❖ Governance Now Award for CSR
 - ❖ Governance Now Award for HR
 - ❖ **SKOCH Award** for IT Implementation

ISO 9001: 2008 Certification

29. The Company's Quality Management System is certified in accordance with the requirements of the international standard ISO 9001:2008. The Company is in the process of upgrading to the new ISO Standard ISO 9001: 2015. Although a transition period of three years is permitted, the **Company is targeting to upgrade to the new ISO standard in the current financial year 2016-17.**

Welfare, Health and Safety

32. The Company continues to give due importance to Welfare measures of employees. In terms of DPE guidelines and MoD instructions, the Company has implemented Superannuation scheme for Executives and Non-Unionised Supervisors with effect from 01.01.2007 and already **settled the Pension claims of 141 Officers and Supervisors who had retired before 31.03.2016.** The Company has also **revised Sea Trial Allowance for Executives and Supervisors** to encourage participation of employees in sea trials. **Due to higher capacity utilization during FY 2015-16, as per scheme in vogue, the company has paid Productivity Linked Incentive of 15 % to the workers as compared to 12.50% in the previous year. This is the highest PLI paid to workers in the last 05 years.**

Appreciation

36. The Government policies and the support to function has been a major enabler in the continued journey for transformational reform at GSL. I am particularly thankful to Hon'ble Raksha Mantri, Defence Secretary, Secretary (DP), JS(NS), JS(Acq) and FA in particular and all other officers of MoD / DP, Acquisition and Finance Wings of MoD.

37. I acknowledge with gratitude the continued patronage and support received from the Company's clients, OEMs and Vendors. I also thank the Classification authorities, Company's Bankers, Insurers and Auditors for their help and co-operation. I would also like to thank my Directors on the Board, who play a very major role in steering the company to the higher levels. I am thankful for their support, co-operation and guidance. I acknowledge the efforts of 'Team GSL', every worker and officer involved passionately in driving GSL's strong growth.

Thank you for your kind attention.

Jai Hind

CHAIRMAN

NOTE: This does not purport to be a record of the proceedings of the 50th Annual General Meeting.