

ESTIMATES COMMITTEE
(1982-83)

(SEVENTH LOK SABHA)
FORTY-FIFTH REPORT

ON

MINISTRY OF RAILWAYS
PRODUCTION UNITS

Presented to Lok Sabha on .



LOK SABHA SECRETARIAT
NEW DELHI

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CORRIGENDA

Corrigenda to 45th Report of Estimates
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(1982-83)

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INTRODUCTION

1. The Chairman of Estimates Committee having been authorised by the Committee to submit the Report on their behalf, present this Forty-Fifth Report on Ministry of Railway—Production Units.

2. The Committee took evidence of the representatives of the Ministry of Railways on 11 and 12 November, 1982. The Committee wish to express their thanks to the officers of the Ministry for placing before them, the material and information which they desired in connection with the examination of the subject and giving evidence before the Committee.

3. The Committee also wish to express their thanks to S|Shri C. Chalapati Rao and L.R. Gosain, retired General Managers of Railways, for furnishing memoranda to the Committee and also for giving evidence and making valuable suggestions.

4. The Committee also wish to express their thanks to all others who furnished memoranda, on the subject to the Committee.

5. The report was considered and adopted by the Committee on 31 March, 1983.

6. For facility of reference the recommendations|Observations of the Committee have been printed in thick type in the body of the Report and have also been reproduced in a consolidated form in the Appendix to the Report.

NEW DELHI;
April 4, 1983

Chaitra 14, 1905 (Saka)

BANSI LAL,
Chairman,
Estimates Committee.

CHAPTER I

ORGANISATION

A. Introductory

1.1 The Production Units of the Indian Railways are primarily and almost wholly intended to meet the various rolling stock needs of the Indian Railway System. There are three Production Units presently functioning under the Ministry of Railways. These are ---

(i) Chittaranjan Locomotive Works, Chittaranjan (C.I.W). This Unit produces Electric and Diesel Locomotives; Traction Motors and armatures; Steel castings; and Alloy Iron Castings.

(ii) Diesel Locomotive Works, Varanasi (DLW). This Unit produces Diesel Locomotives and Power Packs.

(iii) Integral Coach Factory, Perambur, Madras (ICF). This Unit turns out passenger coaches of various types such as conventional coaches as well as special coaches like air-conditioned first-class; air-conditioned 2-tier sleeper; and air-conditioned chair-cars.

Apart from these Units there are two Production Units under construction :—

(i) The Wheel and Axle Plant, Bangalore (WAP); and

(ii) Diesel and Component Works, Patiala (DCW).

1.2 The Production Units also manufacture the locos and coaches required by the Public Sector Undertakings like the Steel Plants and the Ministry of Defence to meet their specific needs and for export. However, such productions are of an occasional nature depending on specific requests or export orders.

B. Organisation Set up at Railway Board Level

1.3 It has been stated that the arrangements by which the Railway Board monitors the performance of the Production Unit is well established Periodical Reports that are submitted by the Production Units to the Board. The main reports is a Monthly Confidential D.C. letter from the General Managers of the Production Units to the Chairman, Railway Board, which covers all important aspects of working of the units. It gives a periodical review of the actual production performance vis-a-vis the production targets for the month. Reasons for shortfall, if any, are mentioned therein along with corrective action proposed to be taken by the Production Units. The

monthly report also highlights other important features such as industrial relations, availability of material and other inputs, addition and renewal of machinery and plant etc.

1.4 Apart from the monthly reports, there is a regular feed back in regard to performance through telephonic contracts, visits by Railway Board Officers to the Production Units and Production Units Officers to the Railway Board's Office. One Joint Director has been sanctioned in the Railway Board for the specific purpose of monitoring the performance of the Production Units. Performance of the Production Unit is discussed in periodical meetings held in Railway Board wherein achievements are noted, shortfalls identified and their reasons analysed and suitable direction given to the Production Units. Simultaneously any assistance sought by the Production Unit in matters required to be tackled at Railway Board level such as DGTD Clearance and release of foreign exchange for imported items, provision of requisite funds, changes in product mix, priority of production etc. are discussed and solutions found to enable Production Units to discharge their function efficiently.

1.5 The identification of problems and the institution of action to solve the problems is, it is stated, a continuous process and covers the areas in which production units face problems e.g. industrial relations, power shortages, raw material availability, addition and renewal of machinery and plant, addition of buildings and structures etc.

1.6 The representative of the Ministry was during the evidence asked that since a Production Unit was headed by an officer of the level of General Manager, whether the control and monitoring organisation at the Board level headed by an officer of the status of Joint Director was adequate and also appropriate. He replied :—

“The Joint Director's main function is to get the monthly reports of the production units, analyse them and put up a report to the Board for their information. In this respect he is to bring out any shortfall in production, any unsatisfactory features, any problem that may arise. He is virtually the Secretary of a meeting which is held periodically in the Board with Board Members in which the performance is scrutinised. Actually the Board scrutinises the performance alongwith the Joint Director.”

He added :—

“This Joint Director shall sift the data. There is one man exclusively looking after co-ordination. When he wants to contact somebody, he rings up GM, Additional & GM

and so on to get information. The evaluation of performance (of the Production Unit) comes to the individual Members of the Board and, if the problems are of a serious nature, to the full Board."

1.7 The organisation at the Railway Board level for monitoring and evaluating the performance of the Production Units of Railways and all matters connected therewith is headed by an officer of the level of Joint Director. Since the Production Units of the Railways are headed by General Managers who rank much superior to a Joint Director, the Committee are of the view that the head of the unit at the Railway Board should be upgraded suitably to have an effective monitoring and appraisal of the performance of the Production Units.

C. Status of General Managers of Production Units

1.8 It has been represented to the Committee that the status of the General Manager of a Production Unit is regarded subjectively as slightly less than that of the General Manager of a Zonal Railway.

1.9 It has also been represented to the Committee that General Managers of Production Units are rarely considered for appointment as Members of the Railway Board on the ground that they have no line experience of railway operations.

1.10 It has been suggested that the General Managers of the Production Units should have the same privileges and prospects as are available to the General Managers of the Zonal Railways.

1.11 Asked to offer his comments on the representation and the suggestion, the representative of the Ministry of Railway during evidence, observed that "they rank equal. Their financial powers are equal."

1.12 When specifically asked by the Committee whether the General Manager of a Production Unit could be considered for appointment as a Member of the Railway Board, the Chairman, Railway Board stated :

"He can be given consideration for (appointment to) the post of General Manager open line. We have a standing principle from time immemorial that he (Member, Railway Board) must have experience of open line General Managership before he comes to the Board...."

He will take over as Member of the Board only if he has an open line experience."

1.13 It was pointed out by the Committee that psychologically there was a feeling among the General Managers of the Production Units that there were two classes of General Managers—General

Managers of the Production Units and the General Managers of Zones. The General Managers of Production Units were having inferior status.

1.14 The witness explained that "so far as the powers of the GM are concerned... They are the same as the powers of the open line GMs. In regard to the financial powers and powers to create and sanction posts, there is no difference at all."

1.15 The Chairman, Railway Board has himself admitted before the Committee in his evidence that the General Managers of Production Units are not considered for elevation to membership of the Railway Board unless they have experience as General Managers of open line. This implies that in the matter of promotion prospects the General Managers of Production Units hold a position inferior to that of a General Manager of Zonal Railway. This, the Committee feel, would be a disincentive not only for attracting talented men to head Production Units important as they are, but also to get the best one of the men heading them. The Committee, therefore, recommend that the Ministry should have proper career planning in respect of top officials below board level so that the production units also get the benefits of the best talent and at the same time the men heading them suffer no handicap in further promotion.

D. Decentralisation of Powers

1.16 In respect of Chittaranjan Locomotive Works (CLW) it has been stated that the organisation of the unit is on the Departmental lines with horizontal level coordination at all levels. Similar pattern of organisation exists in the case of other Production Units of Railway also.

1.17 During evidence, the Committee desired to know as to how did the organisational pattern of Railway Production Units differ from that of Production Units elsewhere. In reply the representatives of Railways said that vis-a-vis the public undertakings, "our pattern is almost the same."

1.18 In reply to a question from the Committee whether the degree of autonomy available to the General Managers of the Production Units was adequate for efficient and economic operations of the Production Units, the witness replied that "we are quite satisfied that these powers are adequate."

1.19 The Committee observed that the Railway Convention Committee in their 4th Report (1977) on "Delegation of Powers to General Managers, Organisation of Zonal Railways and Organisation of Railway Board's Office" desired that the matter of delegations from

the Railway Board to Zonal Railways and the related issues should be got examined by a small team of outside experts. Accordingly, the Railway Board remitted the matter to the Indian Institute of Public Administration for a study of the problem and reporting thereon. The Institute submitted their Report in June, 1982 to the Railway Board. The study, however, dealt with the powers of General Managers and Divisional Railway Managers of the Zonal Railways and did not cover the powers of General Managers of Production Units.

1.20 The Committee recommend that the existing system of delegation of powers from the Railway Board to the General Managers of Production Units and their redelegation at lower levels in the Production Units should be got examined by a small team of outside experts with a view to rationalising the system for more efficient functioning of the Production Units.

E. Conversion of Production Units as Central Government Undertakings

1.21 It was suggested that since the production units were basically concerned with the process of manufacture, it would be better to convert them as public sector undertakings. This would also meet the demand of the employees of the Production Units that they be treated at par with the employees of the Public Sector Undertakings in matters of salary and other benefits.

1.22 In this context the representatives of the Ministry was, during evidence, asked whether the Railway Board had ever considered converting of the Railway Production Units into Public Undertakings and, if so, what considerations prevailed upon the Board on the basis of which the existing character of the Production Units had been retained.

The Chairman, Railway Board, replied :

“We do feel that there are so many variables in the demand of the Indian Railways.

In the Railways you take a composite decision in the interest of the organisation as you think it best. If it is public sector, it will not respond. It will be impossible for them to respond. Take for instance steel mills. They are not manufacturing rails because it gives them less profit”.

The Members (Mechanical) while supplementing the Chairman, Railway Boards, submitted :—

“We are taking capital for the Production Units from out of the Consolidated Fund of India and the interest rate is 6 per cent. In case the Production Units of the Railways

are in the public sector, we will have to pay higher interest. The product will become subject to Sales Tax and other Commercial Taxes.

There is a captive product to meet the requirements of only one customer."

1.23 The main argument of the Chairman Railway Board before the Committee against re-organising the Production Units of the Railways on the lines of public undertakings was that these units are catering exclusively to the requirements of the Railways and as the demands of the railways have many variables, a composite decision in the interest of the organisation has to be taken which would not be possible if the Production Units are reorganised as public sector undertakings. The Committee would like to point out that there are many public sector undertakings which are exclusively or mainly catering to the requirements of a Ministry/Department of Government e.g. public undertakings under the Ministry of Defence and the Department of Posts & Telegraphs. The Committee, therefore recommend that the Ministry of Railways should give a fresh thought to the question of converting the production units into public undertakings and evaluate the advantages and disadvantages of such a course in consultation with the Bureau of Public Enterprises before taking a final decision in the matter.

In the opinion of the Committee the balance of advantages lies in granting them autonomy—administrative and financial—as Public Undertakings so that they may function efficiently on business lines.

F. Training of Personnel

1.24 The Committee put a question to the representatives of the Ministry during evidence whether they were following a regular system/Scheme of training of personnel of the Production Units to refresh and up-to-date their technical skills. The witness replied :—

"There are two schemes in vogue; one for apprentice mechanic and the other for intermediate apprentice. The apprentice mechanic are those who are new recruits from the market; but intermediate apprentice is a category of trainees, who we take in the ratio of 25 per cent of the requirement of skilled staff and 25 per cent of the requirement of supervisory staff from unskilled and artisan staff respectively. They are given training in our basic training centres. Similarly, 25 per cent of the skilled staff are selected other than the open market recruitment for employment as supervisors. These people are given some training. Then, we are sending a large number of supervisory staff for training to different institutions.

In so far as refresher courses for workmen are concerned, we have some problem, because, by and large, it means, loss of incentive bonus earnings. While they are undergoing refresher training, we cannot provide for their getting incentive bonus. They are, therefore, reluctant to undergo these courses."

1.25 The Committee have been informed by the Ministry that the workers are reluctant to joint refresher course because it deprives them of incentive bonus during the duration of the course.

They therefore recommend that the Ministry should devise some ways and means to make the refresher courses more attractive to the workers. In this connection the Committee suggest that some incentive either in the form of advance increments or otherwise could be given to the workers after successful completion of refresher courses.

G. Non-Technical Staff

1.26 The following position has been indicated in regard to technical and non-technical staff in the Railway Production Units :

Unit	Year	Technical	Non-Technical
CLW	1980-81	10765	5372
DLW	1981-82	4422	3600
ICF	1981-82	11416	3074

1.27 During evidence, the Committee asked the representative of the Ministry to explain the reasons for the disproportionately large number of non-technical staff in CLW and DLW and whether this could be reduced. The witness replied as follows :

"..... the number of non-technical staff—both CLW and DLW—are more than the ICF. There are major differences in the set ups of all these organisations. At ICF the schools are run by the States. At DLW and CLW schools are run by the Railways. There are four separate Girls and Boys' schools. There are three elementary schools . . . and CLW the hospital facilities are exclusively of the Railways. Therefore, there is some provision for this. One more reason for DLW having more non-technical staff, is that DLW has been given the responsibility of procurement of diesel locomotives components from abroad."

1.28 In reply to a query whether there was any possibility of reducing the number of the non-technical staff, the witness said, that "there is always scope for reduction of staff; particularly in DLW non-technical staff there may be some scope for reduction."

The representative of the Ministry, replying to a suggestion that vacancies occurring on retirement might not be filled up because no retrenchment was possible, said :

“The Committee’s deliberations have brought this to my knowledge and I will look into itno retrenchment will be done.”

1.29 The Committee drew the attention of the representatives of the Ministry to a representation received by them from a non-official stating that improvement in the lay-outs and material handling methods could bring about a substantial decrease of 25 to 33 per cent in the strength of unskilled staff in the ICF which, according to him, was very large. The witness explained that the material handling at ICF had been properly planned and designed so that the material flows with the help of mechanical equipment. Prima facie there was very limited scope for reduction of unskilled labour. However the possibility of reducing labour and of introducing mechanical devices was always kept under review by the Ministry. The witness further clarified :

“Whether it is the labour saving device or anything, we have to keep in mind the employment potential. However, we are always trying to see that mechanisation can be done to reduce the labour costs. The normal ratio is 3 : 1 : 1 i.e. 3 skilled, one non-skilled and one semi-skilled labourer.”

1.30 The Committee recommend that the strength of non-technical staff in the Production Units of the Railways, which is admitted to be high, should be got reviewed by an outside agency such as the Staff Inspection Unit of the Ministry of Finance and the Staff found surplus to the requirements should be retained, if necessary, and re-deployed on new projects of the Railways provisionally.

H. Labour Incentive Scheme

1.31 It has been represented to the Committee by a non-official that the existing incentive scheme in the Integral Coach Factory has become obsolete and restricts productivity.

1.32 During their evidence, the Committee enquired of the representatives of the Ministry about the salient features of the production incentive scheme at present in force and whether this scheme was applicable to all the Production Units. The witness replied as follows :

“I will try to explain the incentive schemes that we have in all our production units and in all our repair workshops. Basically they are based upon piece-rate method. Each

job is time-studied by a competent supervisor. In order to avoid a worker from being dilatory, he is given some rating person who adopts dilatory methods, is given a very low rating of 40 per cent. Then his timing is adjusted to raise his rating to 60. If he wants to earn incentive he must work at a high rating. At the rating of 80 he gets 33-1/3 per cent incentive bonus."

1.33 When asked whether such a scheme affected the quality of the product adversely, the witness clarified :

"The system is: time allowed minus the time taken constitutes the saving. That amounts to real rate of worker. That is given as bonus. If he works slightly higher, he gets 50 per cent bonus. That is a limit fixed by us because we do not want people to exhaust themselves by overwork or to damage the machine. So 50 per cent is the limit that has been fixed. Now, Sir, the question is: if the scheme is satisfactory or is it working well? These are very major issues that you have raised. In so far as quality is concerned, when the incentive schemes were introduced we were aware that in order to produce more, the worker is likely to tend to drop in quality and therefore similtaneously very intensive inspection systems were introduced, much more intensive than were hitherto in existence. So, in fact the quality has to be taken care of by management introducing a stricter level of inspection. Whether the schemes succeed or do not succeed depends upon method of timing that had been adopted in the early days. The supervisor may tend to give slack timing. In that case it becomes a permanent feature. This is the thing that perhaps has been brought to your notice. I am afraid, Sir, under our conditions and agreements with the unions we cannot revise the timing of a particular operation unless the method or the operation of the machine is changed. Even if we feel that the timing has been fixed slack, we cannot, in terms of our agreement, change the system."

1.34 The Committee asked the representatives of the Ministry whether the workers were getting productivity linked bonus also. The witness submitted :

"I would like to submit, Sir, that first of all the workers in the production unit are getting both incentive bonus and productivity linked bonus. It applies to all the workers throughout the country as a group bonus. It is very difficult to motivate an individual worker. Where large

groups of worker are involved, the rule that each one has to play in order to produce more is not so clearly defined. Incentive Schemes in the workshops are much more clearly defined. A worker knows that if he works more, he will get more but his colleague may not work."

1.35 When asked whether there was any scope of favouritism in the incentive scheme, the witness replied that the scope was there and there have been disputes between the workers and the inspectors on a number of occasions. The witness further observed that registers were kept in the Production Units; Man-hours have been fixed, Man-hours for each item of work had been fixed and a continuous comparison is made in the working of the various units. Surprise checks are also made to ensure that the jobs are done according to the norms. In spite of all these the possibility of malpractices could not be ruled out. If certified by the Inspector that the work had been done, payment has to be made to the worker. Detailing the mode of calculation of the piece-bonus, the witness clarified that if the time fixed for completion of job was $1\frac{1}{2}$ hours and the worker completed it within 1 hour then he would become entitled to $\frac{1}{2}$ hour extra payment.

1.36 The Committee would like the Ministry of Railways to update the incentive schemes in the light of the technical sophistication in the machinery and processing introduced in the Production Units from time to time and to ensure that the schemes are operated in a manner that leaves no scope for any malpractice.

I. Labour Relations

1.37 During evidence the Committee asked the representatives of the Ministry about the state of industrial relations in the Production Units and how those affected the performance of the Units. The witness replied as follows :

"From the earliest times, they were considered as units of national importance. Instead of having a labour union representation, it was decided to have representation by means of staff council, So., in all the three production units staff councils prevail. The representatives of workers are elected to the staff council by the workers in different constituencies. The workshop is divided into different constituencies, depending upon the strength of the staff. Approximately 200 to 500 workers are allowed to elect one representative to the staff council.

Our experience has been that these staff councils are working very satisfactorily. By and large, they are able to bring

up to the management the problems of labour in the area of the maintenance of the colony, medical facilities, security and so on. I would say that particularly in DLW and ICF the staff relationship is very satisfactory. In CLW the situation has not been so very good and there have been labour unrest and disturbances and gherraos. The climate in that part of the country has always been somewhat agitative, and that continues to prevail, so far as CLW is concerned. So, despite the fact that there is a staff council, there is inter-union rivalry. There are a number of unrecognized groups of people, who have registered themselves with the Union. In fact, there are a large number of unions which are registered with CLW. To the extent there is inter-sectional rivalry, there are some disturbances at Chittaranjan. But DLW has extremely good relationship. ICF has good relationship."

1.38 The Committee pointed out to the witness that during their tour to Chittaranjan they realised that not to mention of the labour, even the officers were not happy about the conditions there. The main complaint was the non-availability of the educational facilities for their children at the places of their postings. They had to send their children far away and spend huge amounts on their education. The Committee asked the witness what solution the Ministry had for the redressal of this complaint. He replied that the only solution could be the transfer of officers who had been at the far flung areas for long. The Committee asked the witness whether a special education allowance could be paid to such officers. This could serve as an incentive to postings in remote areas. The witness replied that the Ministry had formulated a scheme in this regard. The officers who had foreign postings and had earned enough money were now being posted to remote areas. The Committee asked whether any allowance was paid to officers posted to far off areas. The witness stated that a special project allowance was paid to such officers. The Committee asked whether a special allowance known as "backward area allowance" could be sanctioned to officers who were posted in remote areas. The witness replied that such a allowance was already paid to some of the officers such as General Manager, Brahmaputra Project. In this context the witness submitted that they had been pressing the Education Ministry to open more Central Schools in the vicinity of the Production Units. The Education Ministry had promised to open two new Central schools every year. However, the demand of the Railway Ministry was for much more. The Ministry had been asking for four Central Schools every year to ease the situation. The witness further added that officers and staff posted to NEF Railway had another complaint. Because of their postings far away from their homes a lot of time was taken during visits to home towns. Now they have been allowed to travel upto Calcutta by air.

1.39 It was represented to the Committee during their visit to Chittaranjan Locomotive Works that the educational facilities for the children of the employees of the factory were not adequate and that they had to send their children to far off places for education. The Committee consider their difficulty as genuine and recommend that in case it is not possible to set up adequate educational facilities either by Railways or by the Central Schools Organisation in and near the factory complex, there is a case for the grant of education allowance to such employees of the factory who are compelled to send their children outside the places of their posting entailing considerable additional expenditure to them.

1.40 The Committee appreciate the fact brought to their notice that the labour-management relations in the DLW and ICF have been very satisfactory. They hope that in course of time the situation in CLW, which has lately not been so very good, would improve.

CHAPTER II

CAPACITY UTILISATION—AND ACHIEVEMENT OF TARGETS

A. Chittaranjan Locomotive Works

2.1 It is stated that the performance of CLW in the matter of utilisation of installed capacity is governed by the orders placed on CLW which is limited by the funds made available by the Planning Commission for the purpose of Loco Production for Indian Railways. The statement given below indicates the production of electric and diesel locomotives in years from 1977-78 to 1981-82.

Year	Electric					Diesel				
	ACMT WAM4	ACMT WAM4	ACMT RAJ- B(WK)	ACDC WC AML	Total	ZDM 4	ZDM 3	WDS 4	WDS 8	Total
Installed Capacity					60					35
1977-78	41	..	..	18	59	31	..	..	..	31
1978-79	40	5	..	11	56	27	..	..	1	28
1979-80	43	2	..	6	51	39	..	..	..	39
1980-81	54	11	4	..	69	27	10	..	..	37
1981-82	33	17	..	..	50	20	9	..	3	32

2.2 During 1977-78 and 1981-82 the number of diesel locos manufactured at CLW was 31 and 32 respectively as against the installed capacity of 35 diesel locos per annum. The reason for short-fall in the production is stated to be "lack of demands."

2.3 When asked during evidence to elaborate the import of "lack of Demand", the representative of the Ministry replied :—

"The demand is there. We want to replace 7000 steam locomotives at the earliest possible time because they are uneconomical. These would be ideal for meeting our requirement. It was really the paucity of fund that forced us to restrict the production. The funds we get we have to utilise them for using mainline locomotives. They have to give the priorities to mainline passangers and goods".

2.4 The witness added that in the year 1982-83, thirty-two locomotives were planned to be produced. The manufacture of locos

depended on the allocation of funds by Planning Commission. According to him:—

“the production capacity in a production unit is not the criterion by which we can judge the Railways requirements. It is very difficult, Resources cannot be Allotted on the basis of production capacity set up. Requirements have necessarily to be based on actual needs of traffic. We are not totally guided by the production capacity that is available. So far as total requirement is concerned, we put it up to the Planning Commission, but they do not agree to allow a single extra paisa because of the total paucity of fund. We had several meetings and discussed it at the highest level. Time and again, we have discussed this matter and we are told that it is not possible to do it. The total available resources are only so much.”

2.5 When the Committee enquired of the witness whether the number of locos with the Railways exceeded the demand, the witness observed that the number of locomotive as well as coached available was inadequate. The witness added that Railways had 7,000 steam locomotives. Steam locomotives were neither in use anywhere in the world nor were those necessary. Their efficiency was much low and the loss in running them too high. Heavy expenditure had to be incurred on coal, staff and their maintenance. It was imparative that they were phased out at the earliest. By including them, some people said that we had more locomotives than required. It was a matter of one's perception. The Chairman, Railway Board, further clarified:—

“We have got to get rid of them (steam engines) at the earliest. These are highly uneconomical to the total economy of the country. Further, this country does not have steam coal to meet the prime needs of the industry. For every steam engine that I run I close down one small scale industry. The quality of coal that is now required for burning in the boilers is not available adequaely. There were years when we burnt coal required for our steel plants on our steam engines We require diesel and electric traction at the fastest rate possible. Every single steam engine will be a poison in the system, and unless this is taken out; you cannot hope to achieve what you want.”

2.6 Commenting on the suggestion that the Ministry should scrap out the steam engines forthwith, the witness stated that it was being done as and when replacements were available. In this connection, the Chairman, Railway Board informed the Committee that “We have made extra allocations by our own adjustment and added 240

engines in the plan period to ensure that we could phase out more steam engines.”

2.7 The production of diesel locos during 1978-79 was 28 against the installed capacity of 35 diesel locomotives per annum and the production of electric locos in 1979-80 was 51 against an installed capacity of 60 locos per annum. The reasons for short fall was given as “late arrival of certain critical components.”

2.8 When asked about reasons for late arrival of components, the witness replied :—

“There is a transmission fitted in the diesel locomotives. These are manufactured by Kirloskar Company. The factory went into lock out. When we needed this transmission, it could not be made available. We had no other source of supply. So far as electric locomotives production is concerned, there was go slow in the works of M/s HBB, Baroda in July 1979 and it went on till September, 1979. During September and October there was a lock out. Since Hind Brown Boveri was a single source of supply there was shortage. Therefore the production of locomotives was affected.”

2.9 The Committee pointed out to the witness that dependence on a single source of supply was always fraught with such difficulties.

2.10 The Committee asked the witness if any effort had been made to create an alternate source of supply of components. The witness replied that efforts had been made in this direction. But because of heavy investments involved and limited off take of these sophisticated components, it was extremely difficult to create new sources of supply.

2.11 The production of Steel castings in CLW has been indicated for the five years since 1977-78 as follows:—

Year	Production in Tonnes (Installed capacity— 5100 tonnes).
1977-78	5190
1978-79	4686
1979-80	4254
1980-81	4261
1981-82	3296

2.12 One of the reasons for low production of steel castings is stated to be “poor supply of liquid oxygen” by M/s Indian Oxygen Ltd. It is further stated that with other alternative sources of oxygen developed and a pick up in the performance of M/s Indian Oxygen, the position is expected to improve.

2.13 The Committee asked the representatives of the Ministry as to why was this situation allowed to continue for more than 4 years and what was the alternative source of supply and why it could not be cultivated earlier. The Committee further asked if there was a penalty clause in the agreement with M/s Indian Oxygen and if so, was it enforced.

The witness replied :—

“The system of supply of oxygen, which is so essential for steel foundry, is that we have to instal a liquid oxygen plant where supplies are made by the Indian Oxygen Company. We had a contract that every third day, they should send a refill. During the years under consideration, there was a very severe power cut. Due to that, their total production was very low. That is why, they did not meet our full requirement. And the problem with liquid oxygen is that if the power fails, then the whole process has to be redone. What we have done is that we have been able to get some cylinders from other suppliers. Side by side, we have reduced the consumption of liquid oxygen. In fact, this would not have met our requirement but for the fact that Indian oxygen have increased their supplies. Therefore, the production at Chittaranjan has come up.”

2.14 Another factor that inhibited the production of Steel Castings at CLW is stated to have been the heavy power interruptions. The Committee had been informed that CLW had already diesel generating sets capable of generating 1.45 MW capacity each. The Committee enquired if more diesel generating sets could solve the problem of shortage of power. The witness replied:—

“... the power supply to Chittaranjan Locomotive Works was by means of two general feeders from DVC on which a number of other industries are being tapped. Whenever the DVC generation dropped, power supply was being interrupted. At the time when the Steel foundry was set up in 1964, a direct feeder was installed from DVC to Chittaranjan. Unfortunately the DVC restricted the supply through direct feeder to a very small amount. Therefore, the load had to be fed from the general feeders. Total number of interruptions averaged 143 per month and the total hours that the power was shut off was 76 hours per month. Therefore the Steel foundry was suffering adversely. Later on sometime in May, 1982, DC agreed that they will give us six megawatt on the direct feeder which will meet the full requirements of the steel foundry. This they have started doing from end of

April onwards. The number of interruptions on this direct feeder has been only three per month with a total average interruption of one hour thirty three minutes. By and large the direct feeder will look after the problem of steel foundry. Unfortunately, there is another difficulty. The total load is 6.5 MW for the workshop and six MW for the steel foundry. Loco-Workshop itself is not getting the uninterrupted power supply load while steel foundry is getting. Therefore, we are asking the DVC to give us the full 12.5 MW through direct feeder which is immune from load shedding. They are saying that they will ensure full supply without interruption as soon as another generating unit is commissioned. So, the solution that was suggested in the answers that the diesel generating sets will be able to solve the problem is not possible. Diesel generation sets have maximum capacity of 1.45 megawatts each and they cannot run uninterruptedly day and night. CLW cannot run efficiently unless it gets full power supply from DVC."

2.15 It was suggested that the three existing diesel generating sets could generate power to the tune of 4.35 MW and that it could take care of the interruptions. The witness agreed with the Committee but observed that the cost of generation of power with diesel sets was too high and it would push up the overhead expenses of the Unit."

2.16 The Committee drew the attention of the witness to the information given by the Ministry that an O and R team of the Railway Board had been directed to undertake a study regarding operation of Steel Foundry at CLW. The Committee wanted to know the circumstances necessitating the study and the time required by O and R Team to finalise their Report.

The witness replied :—

"The draft report is in front of me, it has been finalised. It has yet to be put up officially to the Board. Since I was appearing before this Committee I obtained the draft, and I have gone through it, in so far as the summary is concerned. The circumstances under which this OR Study was adopted were that consequent on the stoppage of steam locomotive project at Chittaranjan, the project changed totally. Although the installed capacity was much higher, actual production was related to the type of castings we produced. We were unable to judge the performance. So the study was made in order to assess what is the optimum capacity under the present product mix. That capacity has been determined and it

is contained in the Report. The Report also brings out a few of the items which need attention in the steel foundry. The Report is in the draft stage. It would be coming to the Board shortly, within a month. Then, we will take action on the recommendations contained in the Report."

2.17 The witness further clarified that the capacity of the foundry had been exaggerated. At the time of installation the capacity of the foundry was stated to be twenty thousand tons. Now its capacity is much less. It is estimated that at present its capacity is 5 thousand tons only.

2.18 When asked as to when the foundry was set up, the witness replied that it was set up in 1963-64.

2.19 The Committee pointed out that it had been known since 1965-66 or 1966-67 that there was a yawning gap between the installed capacity and the actual production at the foundry. The Committee wanted to know why did it take so long for the Ministry to conduct the study by the Operational Research Cell. The witness replied that the short-fall in production was presumed to be due to power interruptions. The Committee observed that power interruptions could not be the sole reason to retard the production at the foundry. There could be other reasons. The witness replied the major cause was considered to be power shortage. Even now against an estimated capacity of 5,000 tonnes, the actual production was to the tune of 37,00 to 4,000 tonnes only.

2.20 When asked why the matter was allowed to hang on for so long and not examined earlier, the witness replied that the matter was examined earlier also and it was always hoped that the production would pick up.

2.21 Yet another reason given for low production of Steel Castings at CLW is stated to be "aging of machinery and plant". The Committee asked the representatives of the Ministry if this reason was applicable to low production in other fields also. The witness replied:—

"In addition to the Rs. 50.45 crores modernisation programme which we have undertaken so far, as far as steel foundry is concerned, there are already replacement programmes. One is electric arc furnace, where steel is melted. Then there is the and mill. With these replacements, some improvement in the performance of steel foundry is expected.

Progressively, as each equipment is brought into position, some improvement will be there. Already, with the ready availability of power and oxygen which we discussed

yesterday there is some improvement over the performance of last year, I am expecting that we should be able to reach 5,000 tonnes per year."

2.22 It is further stated that "some of the deficiencies observed in the technologies adopted by CLW have been sought to be overcome with the implementation of the scheme for modernisation for CLW that was sanctioned in September, 1979 and is now expected completion in 1985-86." The cost was estimated to be Rs. 7.33 crores in 1979. The cost has been revised and now it is expected to touch Rs. 15.43 crores. The time lag in implementation of the project due to paucity of funds allotted for the project from time to time, has resulted in cost escalation.

2.23 The Committee asked the representatives of the Ministry to indicate the year-wise expenditure since 1979-80 and whether it would be completed as now scheduled and what further cost escalation was envisaged. The witness replied:—

"In 1979-80 the expenditure was Rs. 175 lakhs, in 1981-82 Rs. 306 lakhs and in 1981-82 Rs. 118 lakhs and in 1982-83 Rs. 240 lakhs. By 1982 the percentage would be 35 per cent. The progress has been slow because we did not get adequate funds. We propose to allot next year Rs. 7 crores so that it can be completed by 1985-86. So, the target date of 1985-86 would be adhered to. We feel now we will have to allot more funds in the next two years to complete this project. The need is becoming increasingly great. We have given the cost on the present day prices. The normal escalation is 10 per cent, which is over and above this Rs. 15 crores."

2.24 The Committee observed that the cost escalation was 100 per cent during the last three years. Asked to indicate the reasons therefor, the witness replied that "the escalation is very high because the prices have been shooting up."

2.25 The Committee note that whereas the installed capacity of the Chittaranjan Locomotive Works (CLW) was for the manufacture of 35 diesel locomotives and 60 electric locomotives, the actual production of diesel locomotives during 1977-78 and 1981-82 was 31 and 32 respectively and that of electric locomotives during 1979-80 and 1981-82 it was 51 and 50 respectively. The factory's reason for shortfall in the production of diesel locos was stated to be "lack of demand" and for Ministry of Railways not placing the adequate orders to utilise the capacity to the full was stated to be "lack of funds" provided to them by the Planning Commission for the purpose despite the Railways need for replacing the 7000 steam locomotives still with them whose uneconomic functioning was a considerable drain on the

resources of the Railways. The Committee are unable to appreciate the situation where a substantial part of the production capacity of the factory was allowed to go waste for want of funds to procure raw material and components which go into the manufacture of locomotives. They would like the Ministry to undertake a cost benefit analysis of postponing the investment on replacement of obsolete Steam locomotives and keeping the Production capacity of diesel locomotives substantially idle and take up with the Planning Commission suitably.

2.26 The reason for shortfall in the manufacture of electric locos by the CLW has been indicated as "late arrival of certain critical components". This, it is stated, was due to "go slow" in the works of the sole suppliers of these components, namely M/s. Hindustan Brown Boveri. The Committee would like the Ministry of Railways to develop alternative sources of supply of all such single-source components so that the production of CLW does not suffer on account of failure to supply the requisite components by the sole supplier.

2.27 The Committee are surprised at the statement of the representative of the Ministry of Railways before them that the capacity of the steel foundry of CLW had been "exaggerated" and that instead of 20,000 tonnes which it was supposed to be, it was only 5000 tonnes. The Committee would like the Ministry of Railways to investigate as to how, at the time of installation, the capacity came to be determined as 20,000 tonnes and accepted as such.

2.28 The Committee would also like the Ministry of Railways to take expeditious action on the report of the O&R team of the Railway Board in regard to the operation of the steel foundry of CLW with a view to its optimum utilisation.

2.29 The Committee note that the production of steel castings in CLW has been much below the capacity of 5000 tonnes per annum. The production during 1981-82 was only 3296 tonnes. One of the reasons for low production of steel castings is stated to be "poor supply of liquid oxygen" by M/s. Indian Oxygen Ltd., on account of severe power cut in their own plant which reduced their overall production. As stressed in the foregoing paragraph the Ministry of Railways should develop alternate sources of supply of liquid oxygen and farm out the supply orders to two or more parties so that the production is not held up on account of non-supply or short supply of material by the sole supplier.

2.30 Another reason given for low production of steel castings was "heavy power interruptions." The Committee suggest that the Ministry of Railways should ensure uninterrupted power supply by taking up the matter with the DVC authorities through the administrative Ministry concerned. In the meantime the existing diesel generating sets

could be pressed into service whenever necessary to ensure uninterrupted production as the benefit resulting therefrom will outweigh the additional cost of Power from these sets at least in the long run.

B. Diesel Locomotive Works

2.31 It has been stated that DLW was set up in 1961 with an installed capacity of 120 locos per annum. This capacity was raised to 140 locomotives|150 power packs in 1978-79. The out turn of locos and power packs from 1977-78 to 1980-81 has been as follows:--

Year	Target of Loco Manufacture	No. of Loco Manufactured	No. of Power Packs Manufactured
1977-78	144	114	140
1978-79	105	110	150
1979-80	139	102	150
1980-81	177	166	150
1981-82	125	125	148

2.32 The main reason for under-utilisation of capacity and non-achievement of targets in certain years is stated to be "difficult supply position of BHEL electrics" and "non-availability of important electrics."

It has further been stated that :—

"Whilst DLW has completed its expansion programme for production of 140 locos BHEL has yet to complete a similar programme. Consequently, availability of electrics has been around 100 sets per annum. Gap has had to be met by limited importation to meet core production and it is expected that this may no longer be necessary from now onward."

2.33 The Committee posed the following questions to the representatives of the Ministry:—

- (a) Why was the expansion programme of DLW not properly coordinated with BHEL when the production of locos at DLW was entirely dependent upon the supply of electrics by BHEL? Were the Railway Board and the Ministry of Industry ever brought into the picture? If so, what efforts were made by the Board to solve the problem.
- (b) If a part of the DLW production of locos was to depend upon imported electrics, then why adequate imports could not be made timely so as not to hamper production.

- (c) The number of electric sets imported during each of the years from 1977-78 to 1980-81.
- (d) When was BHEL likely to achieve production to meet the demands of DLW in full.

The witness replied :—

“We are having co-ordination meeting with BHEL almost continuously regarding our requirement of electric sets. As far back as in 1974, when we were undertaking programme for expansion of DLW, we were in dialogue with BHEL, indicating our enhanced requirement. They came to an agreement with us that they would be able to meet our requirement, provided we gave them 15 months notice in advance of production of our total requirement during the year. We have been communicating our requirement to them regularly. But, despite all the best efforts, they have not been able to meet the production targets. Several meetings were held at the level of the Board. I myself conducted a meeting with the Chairman of BHEL in 1976. I will read the relevant portion of a letter written by the then Industries Minister to the Railway Minister :—

‘As regards the long term requirements, BHEL has to put in fresh investments, and this has already been done. It is expected that by 1980-81 it would be possible to meet the requirements of the DLW..’

In the beginning of the year, because of this assurance of BHEL, it was not possible for us to import. In 1978-79 our demand was 153; they promised they will give 110; they actually gave us 103. In 1979-80 they promised 110 and actually supplied 96. The corresponding figures for 1980-81 were 108 and 105 and for 1981-82, 112 and 107. **The difference** between what they promised and what they actually gave was the gap. To the extent the promise was short of our requirements, we did import. In the last three years; from 1979-80 to 1981-82 we imported 91 electric sets. Therefore, as a result of this, we were able to make up the deficiency of BHEL. Since the import can be done only when there is failure by BHEL, for some years there was a gap in production, which was met later. In one particular year the production went up to 175 locomotives. In 1980-81 it again dropped to 140. So,

while the overall production target has been met, fluctuations in the out-turn each year have been there.”

2.34 The Committee asked the witness if in the agreement with BHEL there was a penalty clause. If not, could it be due to the fact that BHEL was a Public Undertaking. The Committee further pointed out that in such agreements there was always a penalty clause that the defaulting party would compensate the other party to the extent it suffered losses on account of breach of the terms of the agreement| contract. The witness replied that in their agreement with BHEL, there was no penalty clause. Efforts were made to incorporate it but this was not acceptable to BHEL. The witness added that a number of meetings were held by the officials of the Railway Ministry with the authorities of the BHEL to find a solution of the problems. The witness however, added :—

“We are in touch with them. Supplies in 1982-83 have improved. We are expecting a major shift.”

2.35 The Committee wanted to know if any cushion of materials was maintained. The witness replied that a cushion of three months was usually kept. But in the face of huge short falls in supplied by BHEL, this had been proving insufficient.

2.36 The Committee asked the witness if the inadequacy of the capacity of BHEL was within the knowledge of Railway Board. The witness replied that the capacity was there but BHEL had orders from others also.

2.37 In regard to the number of sets imported and the losses incurred because of the non supply of electric by BHEL during the period 1977-78 to 1980-81, the Ministry furnished the following information to the Committee:—

“On account of non-supply of Electrics by BHEL, 60 sets of BG Electrics, 31 sets of FG Electrics and 30 sets of MG Traction Generators had to be imported at a cost of Rs. 20.92 crores (Excluding customs duty) as against the BHEL cost for the same equipment amounting to about Rs. 24.46 crores. However, the amount of customs duty paid towards the imported equipments was Rs. 11.5 crores approximately.”

2.38 Dealing with the question of delay in imports, the Chairman, Railway Board explained :—

“Although we may get all facilities, certain delay might take place. Actually the procedures are so involved that after

its (BHEL's) failure only, the D.G.T.D. will give us permission to import. If these procedures are to be streamlined and if the thinking is recognised, we should change them."

2.39 The Chairman, Railway Board further clarified that the D.G.T.D. did not give the certificate for imports unless and until the physical failure on the part of BHEL to supply electrics occurred and without this certificate the Ministry of Commerce did not give the import licence.

2.40 It was pointed out to the Chairman, Railway Board, that relaxation in the import controls procedures was likely to hit the goal of indigenisation and self reliance. His answer was :—

"If an engine is ready in all respects, it should not be allowed to lay idle for want of some small component. This is a vicious circle of overall loss to the economy. Certain flexibility has got to be there."

2.41 Another reason for pruning the production targets of DLW has been stated to be inadequacy of funds available for manufacture of locos.

2.42 The Committee asked the representatives of the Ministry why was the likely availability of funds not considered while fixing the production targets. The witness replied :—

"...in regard to the availability of funds, the lead time for ordering these spare components for the DLW is almost 2½ years. In anticipation of availability of funds, DLW is given a tentative production programme based upon our minimum needs requirements. On that basis the production programme has gone ahead. Planning Commission gives us fund on annual basis. This is finalised in January-February of the year, but it is only in January-February next year that we know how much funds we will get. We cannot wait till that time for the funds."

2.43 It was pointed out to the representatives of the Ministry that when targets of production were fixed annually and the money was allocated accordingly, how could be the paucity of funds be the reason for pruning the targets of production. The witness replied that for the Sixth Plan, the requirements of the Ministry were projected as 1020 locomotives. However, the locos sanctioned were 780. The Ministry had planned for more locos with the hope that adequate funds

would be sanctioned. When pointed out that more funds had been allocated during the year 1982-83 as compared to last years, the witness replied that by exercise of their advanced planning they had been able to utilise these funds. Had the advance planning not been done the funds would have remained unutilised.

2.44 The Diesel Locomotive Works (DLW) had until 1978-79 an installed capacity for manufacture of 120 locos per annum. In that year the capacity was raised to 140 locomotives|150 power packs. The production pattern during the last five years shows sizeable shortfalls in production of locomotives except in the year 1980-81. The reason indicated for the shortfall is "difficult supply position of BHEL electrics" and "non-availability of imported electrics."

2.45 The Committee are constrained to observe that BHEL, who are the sole suppliers of electrics for diesel locomotives to the DLW, have not only failed to cater to the requirements of DLW which were intimated to them well in advance but did not honour even their own supply commitments. On this account, the Ministry of Railways were not able to make timely imports of electrics and it adversely affected the Factory's production programme. The representative of the Ministry of Railways had deposed before the Committee that BHEL had not made the requisite supply because they had other orders. The Committee are informed that as BHEL had not agreed to "penalty clause" being included in the contract, no action could be taken against them for non-supply of required number of electrics. The arrangement between the Railways and BHEL, a Public Undertaking, is thus far from satisfactory. The Committee would like the Ministry of Railways to sort out the matter with the Ministry of Industry and in case it is genuinely not possible for BHEL to supply to the DLW their full requirements of electrics and this component is not indigenously available elsewhere additional production capacity therefore could be established in Railway Production Units and in the meantime the Ministry of Railways should have the liberty to import the same well in advance so as to keep the production programme of the factory going.

2.46 The Committee have been informed that another reason for lower production of locos by DLW as against its installed capacity and the production targets originally fixed was "inadequacy of funds". The Committee have dealt with the idle capacity of the CLW as a result of paucity of funds earlier in this Report. They suggest a similar study as commended therein for optimum utilization of the additional capacity of the DLW ensuring adequate funds. The Committee wish to emphasise the need for replacing the obsolete Steam locomotives with more efficient Diesel locomotives early.

C. Integral Coach Factory

2.47 It has been stated that ICF has an installed capacity for producing 750 coaches per annum. The out-turn of coaches during the years 1977-78 to 1981-82 has been indicated as below :—

Year	Out turn of coaches
1977-78	671
1978-79	752
1979-80	712
1980-81	720
1981-82	730

It is further stated that in 1977-78, a target of 670 coaches was fixed on account of limited availability of funds.

2.48 During evidence, the Committee asked the representatives of the Ministry whether better utilisation of the installed capacity of ICF could not be ensured by manufacturing more coaches for other users or for export. The witness replied :

“Railways are the only buyers who buy coaches. Otherwise they are to be exported. In 1977-78 we had no export. We sent only a small supply of spares to Taiwan in 1977-78. Beyond that we only undertook repair programme of coaches which needed overhauling. We sent them to the ICF and utilised the manpower for repairing coaches for short period of three years. For three years in succession, we used ICF capacity manpower for the corrosion repairs of coaches. Otherwise there was no way for us to manufacture coaches without the availability of funds.”

2.49 The Committee wanted to know that in the context of non-availability of funds and the pressing need for more coaches, what steps had been taken to replace the out dated coaches. The witness replies that after a lot of persuasion, Planning Commission had agreed to allocate additional funds. Saudi Arabia had been requested to provide foreign exchange. World Bank had also been approached. Both these agencies were examining the matter. The witness further submitted that out of 20,700 coaches 2,500 coaches were out dated. With the proposed additional capacity the entire programme of replacing the out-dated coaches could be accomplished in 5 or 6 years.

2.50 Elaborating further on the manufacturing capacity with reference to the need for replacement of coaches, the representatives of the Ministry during evidence stated that there was acute shortage of Coaches in the country. When enquired about the steps taken for manufacture of more Coaches, the witness replied that because of the increase in the traffic, the need for coaches had increased. At present, Coaches were manufactured by I.C.F. with a capacity of 750 coaches,

Bharat Earth Movers with a capacity of 300 coaches and Jassops with a capacity of 200 coaches per annum. This means the total capacity was 1250 coaches. This was insufficient to meet the demand of the country. The number of over-aged coaches had also increased. The Ministry was finding it difficult to replace them. However, Planning Commission had sanctioned a new factory with a likely capacity of 400 coaches per annum. As the money had not been arranged, the work on the new factory had not started.

2.51 Out of 20,700 coaches held by the Railways, 2,500 coaches were out-dated and needed replacement. The Integral Coach Factory has the installed capacity to manufacture 750 coaches per annum. Another factory is proposed to be set up with a capacity for manufacturing 400 coaches.

2.52 The Committee expect that the outdated coaches would be replaced within a maximum period of 5 years. In the opinion of the Committee the proposed new factory should be located at Perambur itself to take advantage of the existing infrastructure and other facilities. The new factory should also come up soon. In view also of the export potential of the coaches, there should be no financial constraints in regard to expansion of the production capacity and sustaining the production programme as per the capacity.

D. Budgeted and Actual Expenditure

2.53 Some major variations in the budgeted and actual expenditure given in the statements furnished to the committee in respect of budget provisions under Grant No. 15 relating to open Line Works—Capital, Depreciation Reserve Fund Development are indicated below :

Year	Budget Estimates	Revised Estimates	Actual Expenditure	Variations between revised Estimates & Actual Expenditure
(Rs. in thousands)				
C.L.W.				
1976-77	50,24,71	50,99,93	43,94,53	—7,05,40
1977-78	57,30,99	53,03,80	51,76,96	—1,31,84
1979-80	64,00,83	66,28,19	67,54,72	+1,26,53
1980-81	78,26,45	84,06,86	88,89,42	+4,82,56
D.L.W.				
1976-77	60,55,19	60,67,44	54,38,88	—6,28,56
1977-78	79,00,14	69,71,54	65,68,33	—4,03,21
1979-80	78,62,91	98,10,19	83,37,59	—14,72,60
1980-81	97,60,69	1,15,35,31	1,21,69,05	+6,33,74
I.C.F.				
1977-78	47,80,28	42,86,25	41,22,86	—1,63,39
1980-81	58,39,91	60,34,26	61,84,19	+1,49,93

2.54 During evidence, the Committee asked the representatives of the Ministry of Railways whether there was no remedy, procedural or otherwise to reduce the variations to the minimum. The representatives of the Ministry replied as under :

“The statement given to the Committee earlier, showed a comparison between the revised estimates and the actuals. There is one more step in between. After the revised estimates are finalized, there is a final grant given to the production unit, as also to the Railways. Our attempts are to minimize the variations and we have a mechanism for that. At the unit level, a monthly financial report is made to see how the expenditure compares with the budget grant. Railway Board also gets a monthly report from which we see how the expenditure is varying. This is reviewed, and we alert the production units and the Zonal Railways when we see aberrations. Apart from the monthly financial review, we have 2 or 3 budgetary stages, viz, the revised estimate for the current year, and the budget estimates for the next year. Then we also have an August review, i.e. review upto the end of August which comes to Railway Board in September. At this stage, we have to have some anticipation about the likely level of additional funds required or saving expected during the whole of the year. There are certain lacunae. In fact, it is continuously revised. When price levels are stable, there is no problem because we do not have to be bothered by the escalation factor. But when the prices are unstable, variations become very large. Similarly, when the production schedules get affected, inventory levels can get affected. These unexpected factors create some problems; but we are continuously watching this. In the later years, we have achieved some success. We carried out a review two years back, as to how this mechanism worked. We found that while estimating liabilities for next year, for making budget estimates, the escalation was taken at a low level, say 10 per cent. But towards the end of the year, when we tabulated the variation in costs of various items, we found that the average escalation was 30 per cent. For 1981-82, we went to Parliament for Supplementary Demands to correct the imbalance”.

2.55 The Committee posed a question to the representatives of the Ministry as to whether the under utilisation of the allotted money did not mean retarding of development. The witness explained that the major shortfall pertained to DLW during the year 1979-80, being

of more than Rs. 14 crores because DLW had given undertaking regarding the turn over of certain number of locomotives but could not achieve it. The witness further explained as follows :

“The major constraints were at DLW. There was a difference between the anticipation and what they gave; and this continued till almost end of the year. So, we had no occasion to change our budget. The same thing happened with CLW. Now it has improved considerably”.

2.56 The Committee find that despite several mid-year exercises taking place regarding budgetary allocations to the Production Units, their have been in the case of all the Production Units sizeable shortfalls in expenditure against revised estimates. It is surprising that, on the one hand, the production Units complain of shortage of funds for not being able to bring up their production to the level of their installed capacity, on the other hand, funds allocated to them have remained unspent for one reason or the other. The shortfall in expenditure against budgetary allocations indicates primarily bad production planning on the part of the Production Units and laxity of controls on the part of the Ministry. The Committee expect that the Ministry's budgetary appraisals would be more effective and the Production Units would gear up their operations in such a manner as to absorb fully their budgetary allocations.

2.57 When asked about the state machinery in all the Production Units of the Railways, the witness replied that 75 per cent machinery was over aged and needed replacement. The Ministry were constantly trying for funds to replace it on a programmed basis.

2.58 The Committee pointed out that when 75 per cent of the machinery was allowed to be over-aged then it was a case of bad planning on the part of the Ministry. The witness replied that the Ministry have been pressing for more allocations for modernisation but Planning Commission's allocation of fund was insufficient to match the requirements. He further submitted that the World Bank had given a loan of 190 million dollars which had gone a long way to meet the requirement of the Railways. The Ministry's requirement was Rs. 600 to Rs. 700 crores in one instalment but the Planning Commission had been allotting Rs. 50 to 60 crores annually.

2.59 In this regard, a suggestion was made that another increase in fares could be resorted to provide more funds to the Production Units.

2.60 A common reason for low production of Railway Production Units is stated to be “ageing of machinery and plant”. It was stated by the representative of the Ministry before the Committee that 75 per cent of the machinery was overaged and needed replacement, but the Ministry

of Railways had to go slow in their replacement programme because the allotment of funds for this purpose was only Rs. 50 to 60 crores annually whereas the Ministry's requirement for the purpose was of the order of Rs. 600 to Rs. 700 crores. The Committee attach great importance to the modernisation of the machinery of the production units and desire that the Ministry of Railways should accelerate the programme for modernisation providing higher allocation of funds for the purpose in consultation with the Planning Commission.

CHAPTER III

MISCELLANEOUS

A. Indigenisation of Production

CLW :

3.1 In the written information furnished to the Committee the indigenous content of production in terms of cost of raw materials and in terms of total cost of production has been shown as in the tabular statement given below :—

Indigenous content of production (%)

year	Electric loco		Diesel Loco		Traction	
	In terms of cost of raw materials	In terms of total cost of production	In terms of cost of raw materials	In terms of total cost of production	In terms of cost of raw materials	In terms of total cost of production
1977-78	*	89.00	81.21	84.31	*	84.6
1978-79	*	89.02	81.86	84.93	*	84.12
1979-80	87.5	89.5	80.62	83.92	*	85.59
1980-81	87.54	90.1	80.88	84.18	*	90.28
1981-82	89.45	91.5	81.07	84.37	86.7	89.5

*Figures in terms of raw material not available.

3.2 Pointing out that the indigenous content in terms of total cost of production in respect of electric locos, diesel locos and traction motors was in 1981-82, 91.5 per cent and 84.37 per cent and 89.5 per cent respectively, the Committee desired the representatives of the Ministry to indicate the average foreign exchange content of the cost of components and raw materials required for an electric loco, Diesel locos and traction motors in that year. The Committee also wanted to know the programme for further indigenisation of components and raw materials. The witness replied that the total cost of an electric loco was Rs. 70 lakhs of which the cost of imported components was Rs. 5.71 lakhs; the total cost of a diesel loco was Rs. 47 lakhs and of its imported components Rs. 5.15 lakhs. Describing the efforts at indigenisation, he said :

“I will submit a few examples of the developments that have taken place in the last few months. What we termed as hard core items have now been indigenised. This is a

continuing process and we are tackling it concurrently all the time. One item is exhaust manifold in the diesel locomotive. This item was hitherto imported. We have now developed two sources of its supply. One is Bharat Heavy Plates and Vessels (BHPV) at Vizag, and the other source is in Calcutta.

The next item we have developed is radiator fan. We have two new sources. One is ACC, and the other Premier Spares Ltd. The third item is valve seat insets. Three new sources have been developed for these. Ex-pressors were first a single source item. KPCC was the supplier. Now another firm has developed it. This is a massive fitting, costing about Rs. 2 lakhs or Rs. 3 lakhs. Originally, pistons were all being imported, from USA and Germany. Now at Bangalore, we have developed one of the two types of pistons sources. Similarly for the electric locomotives, high capacity transformer was being supplied by BHEL. Now NGEF, Bangalore are also doing it. There are a large number of such items. We purchase them mainly on tender basis. With BHEL it is a negotiated contract, because they were the original suppliers, and there was no competitor. Otherwise, it is an open tender, mostly for each item. —I mentioned these specific items which we have developed in the last few months. These are very hard core, i.e. very sophisticated items. There are very few people who are willing to manufacture them in the country, because the off-take is very limited, and the machine tool development effort is very costly. However, we are pressing them all the time, to see that they do manufacture and come upto quality. I mentioned also about the exhaust manifold, radiator fans and pistons which were imported till recently. The Bangalore factory of Escorts has started manufacturing a design of the pistons. They are under test. When they are proved, we will stop the import totally”.

D.L.W.

3.3 Indigenous capability for manufacture of Diesel Locomotives at DLW has been given as below :

Year	(%indigenous capability)	
	WDM-2	YDM-4
1977-78	92.70	91.70
1978-79	93.20	92.00
1979-80	93.30	92.05
1980-81	94.24	92.34
1981-82	94.25	92.01

The actual imports are, however, higher than those indicated by the above statement as balancing imports have to be resorted to in case of indigenous suppliers failing to meet our demands.

3.4 During evidence the Committee asked the representatives of the Ministry to indicate the average foreign exchange content of the total cost of components and raw materials required for these locomotives and what the programme was for further indigenisation. The witness replied :

“In 1981-82 the import component of WDM-2 was Rs. 12.1 lakhs and of YDM-4 Rs. 16.3 lakhs. This is a little higher than what we need, because we had to import some electrics on account of the failure of BHEL. If this could have been avoided, the actual importation would have been Rs. 8 lakhs each”.

When asked to indicate in terms of percentage the witness observed that it was 20.2 per cent for WDM-2 and 37.5 per cent for YDM-4.

3.5 The Committee enquired of the witness whether the percentage of imports were not on the higher side, the witness explained :

“This particular order of 7 WDM-2 electrics and 9 YDM-4 electrics had to be imported. So, the figure went up. If we go by what we can do indigenously, the figure would be lower”.

3.6 In regard to the programme for further indigenisation, the witness stated :

“One of the items which we have recently tackled is the piston. We have tried it from Germany, which has proved satisfactory. It is being manufactured in Bangalore. The next item is governor. A firm is going to manufacture full governor. Then there is the piston ring. One company in Bangalore has agreed to manufacture them. We hope we will be able to get it from them. Then, for turbo-charger, we are in touch with HAL to see whether they can manufacture them. Then, for main bearings a firm has got collaboration abroad. They are taking interest in the matter”.

3.7 The Committee enquired of the witness as to when the Ministry started making attempts to find an indigenous source for supply of pistons. He replied :

“For pistons we approached India Pistons, Madras, almost 15 years ago. They had collaboration with a company in UK. We tried some of their pistons. Unfortunately, in

the tests they failed and India-Pistons were not willing to come forward with something better. Then we imported 500 pistons for trial. After two or three years of testing we found they were working satisfactorily. We accepted it as an alternative and we started importing them. Simultaneously, Escorts went into collaboration and they started manufacturing in India, which took quite a long time. Therefore, so far as pistons are concerned, we have been in touch with the manufacturers for almost 15 to 20 years".

I.C.F.

3.8 The following statement furnished by the Ministry shows the position regarding the indigenous content in Coaches manufactured by I.C.F. :

Year	(In crores of Rs.)		
	Total value of indigenous content	Total value purchases made	Total cost of production
1976-77	17.54	23.18	33.40
1977-78	24.05	28.31	38.44
1978-79	26.84	30.88	38.88
1979-80	30.21	37.36	51.46
1980-81	29.46	41.84	49.96
1981-82	Figures not yet finalised		

3.9 During evidence, the representative of the Ministry was asked to give the percentage of import content of raw materials and components required for the coaches manufactured during the above years. The witness gave the following information :

1976-77	24%
1977-78	15%
1978-79	13%
1979-80	19%

the main items are wheel, axle and steel plates. Rourkela have taken interest. In so far as wheels and axles are concerned, by next March we will be able to indigenise everything."

3.10 The Committee enquired whether after the setting up of the Wheel and Axle Plant, Bangalore the manufacture of generators used for coaches would also be undertaken there. The witness replied that only Wheels and Axles for wagons would be manufactured in the new plant because their demand was pressing. So far as the Wheels and axles etc. for the coaches were concerned, those would be manufactured at Durgapur.

3.11 In reply to a query by the Committee whether the quality of wheels manufactured at Durgapur was upto the mark, the witness replied that wheels manufactured according to specifications of Railways only were accepted. At present the Durgapur Plant was supplying 1000 wheel sets.

3.12 The witness added that the requirement of the Railways of the Steel for manufacture of coaches was estimated at 1 lakh tonnes per annum valued at Rs. 40 crores. It was met through import as the Steel Plants did not have the capacity to produce plates of required quality. Whatever Steel was manufactured by Steel Plants was purchased by the Ministry of Railways as a bulk buyer and was distributed among wagon makers. For the manufacture of coaches, the steel was imported from every country in the world—Germany, Poland, Rumania, Czechoslovakia, Japan and others. This was done after thorough check up. The witness further observed that the Ministry of Railways was in constant touch with SAIL. As soon as SAIL produced the steel required by Railways, its import would stop.

3.13 The Committee note that the cost of imported components for each electric locomotive being manufactured at CLW was Rs. 5.71 lakhs and for each diesel locomotive being manufactured at the same factory was Rs. 5.15 lakhs. The cost of imported components for each diesel locomotive being manufactured at DLW has been indicated as Rs. 8 lakhs. In regard to the coaches manufactured by the ICF, the value of the imported components and material are stated to have been 19 per cent during 1979-80 and the main imported items were wheels, axles and steel plates. The Chairman, Railway Board during evidence before the Committee related the efforts being made for developing indigenous capacity of certain core components which are still being imported i.e. exhaust manifold, expresser, radiators fans, piston, governor, turbo-charges etc. with some success. In the case of wheels and axles a new plant is being set up at Bangalore which will obviate the necessity of import of these items. In the case of steel plates which have to be imported because the steel plants are not manufacturing the type of steel required by the Railways, it is stated that Rourkela Steel Plant has taken interest and in case its production is undertaken by SAIL, it would go a long way in reducing the value of imported components and material for manufacturing coaches. The Committee need hardly emphasise the importance of fuller indigenisation of raw material and components of locomotives and coaches being manufactured at the production units of the Railways. The Committee would like the Ministry of Railways to make concerted effort to promote indigenisation of components and material at present being imported by making available R & D support as also the financial support for manufacturing proto-types, to private manufacturers keeping in view the inhibiting factors of limited market for such components and materials.

Further the Rourkela Steel Plant should be in a position to manufacture the type of steel plates required by the ICF without further delay. The Committee would await the action taken in this regard.

B. System of Cost Control

3.14 On the subject of cost control and overheads, the Committee have been informed in a written note by the Ministry of Railways that :

“When a product is taken up for manufacture for the first time an estimate of the cost of production is prepared taking into account the design parameters, quantum of materials and labour and other services needed for production. Material schedules and man hour requirements category-wise are assessed with reference to the detailed drawings and evaluated. Over heads applicable are added. After the completion of the batch, the batch cost report is drawn up to arrive at the actual cost of the batch. The actual cost is compared with the estimated cost by each element and the reasons for variation analysed for future guidance in the matter of cost control as deemed necessary.

In the case of manufactures undertaken for outside bodies like public sector undertakings, Defence departments, or for export, the estimates are prepared on the above lines and certain proforma charges like dividend ; payable to General Revenues, share of cost of Railway Board and special contribution to Provident Fund are also added. An element of profit is assessed and added in respect of the export orders. As these proforma charges and element of profit are to meet notional indirect cost over and above the actual cost of manufacture, if necessary, this percentage charges and proforma element are modified, reduced or eliminated to make our offer competitive. This decision is taken with reference to each individual case.

The design parameters of the various items of the rolling stock manufactured by the Production Units have stabilized over the years. Presently the Production Units are generally engaged in production activities of a repetitive nature. Estimates are prepared for the first batch when a new line of production is started. The batch cost report giving actual cost of production of the first batch is compared with the estimated cost of production of that batch. Thereafter, the comparison of cost of production is with reference to the cost of production of the preceding batch based on batch cost report drawn at the completion of each batch”.

3.15 The statements furnished to the Committee show the overheads portions of the total cost of manufacture of some of the products as follows :—

CLW

Type	Year	(in thousands of Rs.)	
		Total cost	Overheads
ACMT (Standard) Locos	1981-82	63,95	11,07
ACMT (WK) Locos	1981-82	67,58	11,76
WDS-4 Locos	1981-82	34,27	5,43
ZDM-3 (N.G. Diesel Locos)	1981-82	34,75	5,22
DLW			
WDM-2 (Locos)	1981-82	69,95	8,79
YDM- 2(MG) Locos	1981-82	53,22	8,05
WDS-6 (BG) Shunter	1980-81	52,84	7,81
ICF (BROAD GAUGE)			
2nd Class 3-tier sleeper	1980-81	6,23	1,86
AC-2-tier sleeper	1980-81	13,98	3,06
AC (EMU Motor coach)	1980-81	24,13	3,35

3.16 It was observed that in certain cases the element of overheads in the total costs was rather high. During evidence, the Committee asked the representatives of the Ministry about the norms in this regard and if the overheads exceeded the norms, what were the special reasons for it.

3.17 The witness replied :

“So far overhead cost is concerned, a judgment as to whether they are high or low is rather difficult to arrive at. We ourselves find it very difficult because it depends upon how sophisticated the equipment is. If it is very sophisticated it requires a lot of design technological improvement, rejections are very high and control has to be very carefully exercised and that is why you find a vast variation in the percentage of overhead cost for different products that we have”.

3.18 Replying to the enquiry from the Committee as to why the overheads in the case of ACMT (WK) locos were virtually double of the overheads in the case of WDS-4 locos, the witness stated :—

“As a percentage of the total, if you look at it, it is about the same. If we really compare, it would be seen that the cost has gone up and therefore the percentage has also gone up because of the escalation of cost in material and labour. The total cost is Rs. 34.27 lakhs and the overheads are also Rs. 5.43 lakhs”.

3.19 The Committee countered the argument of the witness that higher the cost, higher the overhead by pointing out that the cost of ACMT (standard) loco manufactured by CLW was Rs. 63,95 lakhs and overhead in this case were Rs. 11,07 lakhs. The cost of a WDM-2 loco manufactured was Rs. 69,95 lakhs and the cost of overheads was Rs. 8,79 lakhs only. The witness was asked to explain. He replied :

“DLW take a large portion of the equipment by buying from outside, whereas CLW take them from the BHEL. Therefore, the cost is very limited and the overhead is also not very high. Overheads are in terms of cost of electricity we use in the plant, the cost of water we use in the plant, cost of oil, machine, tools, etc. We use and then the administrative cost of the organisation is there. When we buy these things they do not get reflected here”.

3.20 The Committee asked the witness, the extent to which overheads were permissible. He replied that “in absolute terms, it is difficult to arrive at the overhead figures. We do not attempt to do so because the exercise will take long time”.

3.21 The Committee enquired as to how could their overheads be calculated. The witness replied :

“The main issue is comparison of budget cost. If the budget cost is compared from year to year, then the budget cost can be worked out. But the prime thing is the labour cost and the material cost”.

3.22 The Committee pointed out that in case the Railway Production Units were to compete with Private Sector, a comparative study of the overheads was a must. The witness informed the Committee that sometime back such a comparative study was made and it was found that the overheads of Railway Units were much low as compared to others. The witness added that overheads in Private Sector were very high.

3.23 When asked whether the overheads in respect of various items were reasonable, the witness observed that comparing with earlier years, the overheads were not going beyond control.

3.24 In reply to a query by the Committee whether any effort was made to minimise the overheads, the witness stated that the overheads of the Production Units of the Ministry were at starvation level, the Officers' supervision was very minimal. In this connection, the witness added that the overheads in Private Sector were very high. As compared to Bharat Earth Movers and JESSOPS, the overheads of the Railway Production Units were very low.

3.25 Though the Committee have been informed by the Ministry of Railways of the elaborate cost control system in the Production Units of the Railways, the Committee find that in respect of certain items manufactured in the Production Units, the overheads are on the high side. The Committee are unable to appreciate the position taken before them by the representative of the Ministry that "a judgment as to whether they (the overheads) are high or low is rather difficult to arrive at "nor do they agree with the statement that in absolute term it was difficult to arrive at the overhead figures" and that no attempt had been made to do so "because the exercise will take long time". The Committee recommend that there should be a regular system of determining the standard and actual costs especially overhead costs on the manufacture of various items being produced by the Production Units so as to control cost and keep a check on avoidable expenditure. This will facilitate appraisal of cost structure in the Production Units which might be helpful in locating pockets of extravagance which could be eliminated to reduce the cost.

C. Development of Ancillary Industries

3.26 It has been stated that no ancillary units are attached to CLW, DLW and ICF. One of the main reasons advanced is :—

"A single industry such as ancillary cannot be sustained with load for the whole year. Moreover, with the emphasis on multiple source procurement to create competition and the year to year tendering principles, the chances of development of ancillaries recede because they generally require steady long term lead and assurance of profit without which no manufacturer is in a position to consistently make profits."

3.27 Replying to the question from the Committee whether the principle of "multiple source procurement to create competition" could not be modified to encourage setting up of small scale units supplying goods of desired quality at competitive prices, the witness stated :

"This we have debated endlessly among ourselves and with the national small scale industry. We fail to understand why we should give a protection to an ancillary industry and pay a higher price for a product when we have an opportunity to open tender and buy the product at a fair price by a competitive bid."

3.28 When the Committee drew the attention of the witness to the National policy to encourage small scale industries, the witness observed :—

"We are, in fact, holding meeting with the small scale industries in different parts of the country. The GMS hold

periodical meetings, discuss with them what are the products which are in short supply, what they can develop I had meetings with the States of Bihar, Orissa and Bengal. It is not that we are not encouraging them. Railways have been in this business for a long time. The small scale industries came up after independence. We have got an established supply."

3.29 From the written as well as oral evidence tendered before the Committee by the representatives of the Ministry of Railways, the Committee cannot but conclude that the Ministry of Railways are not enthusiastic about development of ancillary industries catering for the requirements of Railways. The Committee are not convinced with the argument that "why we should give a protection to an ancillary industry and pay a higher price for a product when we have an opportunity to open tender and can buy the product at a fair price by a competitive bid." The ancillaries developed at the peripheries of production units need not necessarily be less cost effective. The Committee would therefore recommend that the Ministry of Railways should in consultation with the Development Commissioner of Small Scale Industries draw up a scheme to encourage development of ancillaries. This would be in accordance with the current policy of the Government of India applicable to all major industries under all the Ministries and the Ministry of Railways could not be an exception.

D. Purchase of Proprietary items

3.30 During evidence, the Committee desired to know from the the Chairman, Railway Board as to what was meant by "proprietary items". The witness replied :—

"Proprietary items are those where the officer concerned certifies that there is only one single source from which it can be procured, to the best of his knowledge. So, the tender procedure is done away with, and quotations are called for from that particular supplier. And based on that, the order is placed."

3.31 The Ministry of Railways were requested to indicate the special rules and procedures relating to purchase of proprietary items and the quantum, value-wise, of the purchases made under the special procedures for proprietary items and its percentage to the total value of purchases made, year-wise, for the years 1978-79, 1979-80 and 1980-81. In a written reply furnished to the Committee they have stated as follows :—

"(a) (i) Purchase on proprietary basis can be made only if the requisition is accompanied by a Proprietary Article Certificate to be issued in a prescribed proforma.

- (ii) The Proprietary Article Certificate is required to be signed by an officer of the indenting deptt. Level of the officer competent to sign the Proprietary Article Certificate depends on the value of purchase.
- (iii) Unless it is certified in the Proprietary Article Certificate that 'a similar article is not manufactured/sold by any other firm which could be used in lieu', the powers of purchase of stores officer are limited to Rs. 10 thousand only. Purchases beyond this value requires the sanction of General Manager.
- (iv) The system of examination of the offers by duly constituted tender committees as well as acceptance by approving authorities is applicable even in case of purchase under a Proprietary Articles Certificate.
- (b) Statistics for purchase of proprietary articles are not maintained separately on the Railways. The figures of values of purchase of these items vis-a-vis the total purchases for the years 1978-79, 1979-80 and 1980-81 are, therefore, not available."

3.32 The Committee further desired to know as to why statistics of purchases of proprietary articles were not maintained separately by the Railways. The witness submitted :—

"We can increase the paper work because in proprietary items, will be given. There are different levels. High value items are given at a very senior level. The same has to be based on some kind of trust. There is no harm in keeping another register. If you so desire, it could be done."

The Chairman, Railway Board further explained :—

"We can increase the paper work because in proprietary items, if I give a proprietary certificate to 'A' party and 'B' party has got the same commodity to sell, he is sure to make a noise and that noise is going to make much more effect."

3.33 The Committee asked what could be the difficulty if statistics for purchase of proprietary articles were maintained separately. The reaction of the witness was that "it would add to the work without being of any particular advantage."

3.34 The Committee pointed out to the witness that it had been brought to their notice that the system was being abused and that no real effort had been made to encourage development of alternatives with the result that dependence on a single source had continued. The witness replied that on the other hand the officers were afraid of giv-

ing proprietary certificates, because, if subsequently it was proved that there was another source of supply of the article, it became their direct responsibility.

3.35 In regard to the requirements of purchases from approved sources, the witness stated :—

“For amounts below Rs. 75,000, we have got a list of approved sources. We issue fortnightly bulletins only to these approved sources, from which they come to know what we have to purchase.”

3.36 In regard to the system of checking the supply of defective components, the witness informed the Committee that “the only way was to take risk purchase action.” If the firm still failed to maintain the quality it could also be black listed.

3.37 In regard to the inspection procedure, the witness explained that the articles obtained from the approved source were first inspected by the unit itself through its inspectors. Rail India Technical Services also did the inspection.

When asked what could be the solution if there was a collusion between the inspectors and the suppliers, the witness replied that in such cases drastic vigilance action was taken.

3.38 In view of the fact that the system of purchase of proprietary items could be abused, the Committee would like the Ministry of Railway to take the following measures which will facilitate a constant watch being kept on purchases made under this procedure :

- (i) Separate statistics should be compiled in regard to the type of articles purchased, and their value. This would enable the controlling authorities to identify the proprietary items consumed by the Railways and to keep a watch on the quantum and value of such purchases.
- (ii) These items should be widely publicised in the country so that the prospective manufacturers are induced to develop these articles. Manufacturers who show interest in developing such articles should be extended all help by the Railways. Although the cost of these items would be a little more initially, but in the long run, the Railways will benefit as single source dependence will end and price competition will be generated.

E. Export Sales

3.39 It is stated that the sale price for export or deemed export is determined “making due allowances for duty draw-back available for

exports". However, on case to case basis, part of the proforma charges and profit is reduced as may be necessary" to make our prices competitive with those of other foreign bidders."

3.40 During the evidence the Committee asked the representatives of the Ministry whether it was advisable to enter the export market even when there was a little or no profit on export sales. The Committee also wanted to know whether there was any case of export involving loss, and whether the profits were worked out taking into account the direct and indirect cost as well as overheads. The representative of the Ministry replied as follows :—

"I will just answer this. We are of the view that we must export even at the cost of our domestic requirement. This is because, in the years to come we will be able to establish the quality of the product and let people know that we also exist ; So, we do feel that even for marginal profits we should go into the export business. The Ministry of Commerce has been encouraging us. We have been getting 10 per cent market rate over and above the domestic one, in the export market. There has been no cause for loss on exports. (

It is true that in a number of cases the exports have been at the cost of our domestic requirements. We have to establish the quality of the product and then go in for export. As far as the last items is concerned, the direct and indirect cost are taken into consideration, and also the overheads. There is only one factor, the proforma cost, which we are able to adjust or reduce some times. We take a fairly liberal view of the proforma cost which the product does not bear in the market."

The witness further clarified that the proforma cost on the product was less than 4 per cent.

3.41 The Committee there-upon asked the witness whether it was advisable to undertake exports at the cost of domestic needs and economy. The witness replied that the exports were not of such a high magnitude as would injure our economy in a significant way. It was only a nominal export to have an imprint in the world; because we had to establish ourselves so that when we build up capacity we are not completely out of the market.

3.42 When asked by the Committee whether any effort had been made on exports to gulf areas, the representative replied that such efforts had been made.

3.43 The Committee enquired of the witness whether quality was maintained in respect of the goods exported. The witness replied that

all export goods were of special quality. The Project and Equipment Corporation dealt with them and specifications were different for different suppliers. Answering the question whether our goods had acceptability in international markets the witness stated that repeat orders from several countries like Philippines, Vietnam, Uganda and Nigeria had been received.

3.44 In regard to the export of wagons, the Chairman Railway Board explained the position as under :

“As far as wagons are concerned, they are mostly manufactured in the private sector and the industry is languishing for want of orders . . . It is not as if we are exporting wagons at the cost of our indigenous requirements. It is not so . . .”

3.45 According to the Chairman Railway Board locomotives and coaches must be exported “even at the cost of our domestic requirements” and “even for marginal profits to establish ourselves in foreign markets so that if in future we have a spare capacity we could undertake exports on regular basis. The Committee are unable to fully agree with his views. Whereas they agree that exports could be even with marginal profits only they would stress that domestic requirement ought to be given priority and only additional and otherwise unutilised capacity could be utilized for export production. The Committee wish to emphasise that the domestic requirements particularly of locomotives and coaches should be fully met for replacement of old stock, the continued operation of which is not only uneconomic for the railways but also is a safety hazard.

F. Research Support to Production Units

3.46 It has been stated that all the three Production Units are dependent on the Research Design and Standards Organisation (RDSO) of Indian Railways at Lucknow for R&D support. All research and long term developments are undertaken by RDSO with the individual units closely associating themselves with these works such as manufacture of special components, organising trials, field investigations, detailed design and manufacture of locomotive and coaches for which key designs are provided by RDSO.

3.47 Each Production Unit has got a small design cell which assists the Production Department on the following aspects :

- (i) Indigenous development of critical locomotive/coach components.
- (ii) Investigation of service failure and maintenance problem with a view to bring about product improvement for better performance reliability.

3.48 During evidence, the Committee enquired of the representative of the Ministry whether the RDSO had the latest and adequate equipment and machines necessary for an efficient discharge of its functions and also whether it has technically competent and contented staff at various levels. The witness replied :

“RDSO is currently the second best Research and Design Organisation in Asia after Japan. (Japan has pumped in more money in the ESCAP region and they also had assistance from western countries.) I had the privilege of attending an ESCAP Conference recently. After considering the available facilities in ESCAP region, the member countries representing Railways felt that we need a Regional Research Centre and this proposal was also accepted by the Inter-Governmental Railway Group. They recommended the proposal to ESCAP for further consideration. There we have been able to make a point that so far as intermediate technology is concerned, today we in India are in the best position in the region to offer assistance to all the ESCAP countries.....

Now, from the intermediate to sophisticated, it is a very big jump. Today a very few countries in the world have adequate facilities for sophisticated research and to follow up from the Research to Design and formulation of standards. So, we are in a very good position but at the same time I want to say that we have also got some of the most ultra modern equipment.... We are also simultaneously trying to process a case for UNDP assistance for acquiring some of the more recent and more sophisticated equipment. We have put up a proposal which is still in the state of being processed for about Rs. 53 crores worth of equipment which will bring us to a state comparable with many of the European railways also.”

3.49 When asked what was the attraction for the ESCAP countries to lean towards India instead of Japan, the witness observed :

“Whatever it be, the advancement and the sophistication that we have achieved are so high that none of the ESCAP countries seem, if they have the money, to have a chance of matching it. For example I am told that Uganda got a sophisticated track recording and research car and it had cost them several crores of rupees. But they did not know how to work that. In so far as India is concerned, there is no other country who can compete in this field in the ESCAP region, apart from Japan.”

3.50 In response to a query from the Committee whether India will be able to come to the level of sophistication as Japan has achieved, the representative of the Ministry replied that to achieve sophistication the Railways would have to go in for large scale and extensive inputs also. There were other multifarious factors which had to be considered.

3.51 In regard to the competence of the staff, the witness informed the Committee that RDSO had officers with a keen aptitude for research and a rich experience behind them. The Committee asked the representatives of the Ministry the reasons for the office of the Director-General of the organisation changing hands very frequently. The witness replied that it was not so.

3.52 However, in a subsequent written communication the details of postings to the office of the D.G. (RDSO) have been indicated as follows :

S/Shr

1. M.Srinivasan	23-9-68—23-3-74	Retd.
2. TV Joseph .	19-5-74—26-02-76	Trans to S. Rly (Con. as GM)
3. RM Sambamoorthy	27-2-76—28-6-76	Trans to S. Rly as GM
4. GN Bhattacharya	29-6-76—21-12-77	Retd.
5. B Mohanty	31-3-78—31-10-80	Retd.
6. LFX Frietas	1-11-80—30-11-81	Retd.
7. MK Kapur	21-12-81—11-1-82	Trans to W&AP as GM
8. KG Belliappa	20-1-82	Retiring on 31-12-82

3.53 The Committee note the assurance given to them and RDSO which provides research and design support to the Production Units, is manned by technically competent staff and is adequately equipped to carry out its functions.

3.54 Research, Design and Standards Organisation of the Railways is claimed to be the second best research and design organisation in Asia after Japan. There should however, be a constant endeavour to improve the quality of scientific and engineering personnel and equipment and facilities of the Organisation. To this end, the UNDP assistance being sought for purchase of latest equipment would be of great advantage not only to the Organisation but also to the whole region. The Committee desire the Ministry of Railways to continue to project the capacity and capability of the Organisation to disseminate expertise on intermediate technology in the region.

3.55 The Committee would like the Ministry of Railways to ensure that the post of Director-General of the RDSO is manned by Officers who have a research as well as line background and have a minimum of two years to serve on the Organisation. They also recommend that the Director General of the Organisation should have a minimum tenure of two years.

NEW DELHI;
April 4, 1983
Chaitra 14, 1905 (Saka)

BANSI LAL,
Chairman,
Estimates Committee.

APPENDIX

Statement of Recommendations/Observations

Sl. No.	Para No.	Recommendation/Observation
1	2	3
1.	1.7	The organisation at the Railway Board level for monitoring and evaluating the performance of the Production Units of Railways and all matters connected therewith is headed by an officer of the level of Joint Director. Since the Production Units of the Railways are headed by General Managers who rank much superior to a Joint Director, the Committee are of the view that the head of the unit at the Railway Board should be upgraded suitably to have an effective monitoring and appraisal of the performance of the Production Units.
2	1.15	The Chairman, Railway Board has himself admitted before the Committee in his evidence that the General Managers of Production Units are not considered for elevation to membership of the Railway Board unless they have experience as General Managers of open line. This implies that in the matter of promotion prospects the General Managers of Production Units hold a position inferior to that of a General Manager of Zonal Railway. This, the Committee feel, would be a disincentive not only for attracting talented men to head Production Units important as they are, but also to get the best one of the men heading them. The Committee, therefore, recommend that the Ministry should have proper career planning in respect of top officials below board level so that the production units also get the benefit of the best talent and at the same time the men heading them suffer no handicap in further promotion.
3	1.20	The Committee recommend that the existing system of delegation of powers from the Railway Board to the General Managers of Production Units and their redelegation at lower levels in the Production Units should be got examined by a small team of outside experts with a view to rationalising the system for more efficient functioning of the Production Units.

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- 4 1.23 The main argument of the Chairman Railway Board before the Committee against re-organising the Production Units of the Railways on the lines of public undertakings was that these units are catering exclusively to the requirements of the Railways and as the demands of the railways have many variables, a composite decision in the interest of the organisation has to be taken which would not be possible if the Production Units are reorganised as public sector undertakings. The Committee would like to point out that there are many public sector undertakings which are exclusively or mainly catering to the requirements of a Ministry/Department of Government e.g. Public undertakings under the Ministry of Defence and the Department of Posts & Telegraphs. The Committee, therefore recommend that the Ministry of Railways should give a fresh thought to the question of converting the production units into public undertakings and evaluate the advantages and disadvantages of such a course in consultation with the Bureau of Public Enterprises before taking a final decision in the matter. In the opinion of the Committee the balance of advantages lies in granting them autonomy-administrative and financial as Public Undertakings so that they may function efficiently on business lines.
- 5 1.25 The Committee have been informed by the Ministry that the workers are reluctant to join refresher course because it deprives them of incentive bonus during the duration of the course. They therefore, recommend that the Ministry should devise some ways and means to make the refresher courses more attractive to the workers. In this connection the Committee suggest that some incentive either in the form of advance increments or otherwise could be given to the workers after successful completion of refresher courses.
- 6 1.30 The Committee recommend that the strength of non-technical staff in the Production Units of the Railways, which is admitted to be high, should be got reviewed by an outside agency such as the Staff Inspection Unit of the Ministry of Finance and the staff found surplus to the requirements should be retained, if necessary, and redeployed on new projects of the Railways provisionally.
- 7 1.36 The Committee would like the Ministry of Railway, to update the incentive schemes in the light of the technical sophistication in the machinery and processing introduced in the Production Units from time to time and to ensure that the schemes are operated in a manner that leaves no scope for any malpractice.
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8	1.39	It was represented to the Committee during their visit to Chittaranjan Locomotive Works that the educational facilities for the children of the employees of the factory were not adequate and that they had to send their children to far off places for education. The Committee consider their difficulty as genuine and recommend that in case it is not possible to set up adequate educational facilities either by Railways or by the Central Schools Organisation : in and near the factory complex, there is a case for the grant of education allowance to such employees of the factory who are compelled to send their children outside the places of their posting entailing considerable additional expenditure to them.
9	1.40	The Committee appreciate the fact brought to their notice that the labour—management relations in the DLW and ICF have been very satisfactory. They hope that in course of time the situation in CLW, which has lately not been so very good, would improve.
10	2.25	The Committee note that whereas the installed capacity of the Chittaranjan Locomotive Works (CLW) was for the Manufacture of 35 diesel locomotives and 60 electric locomotives, the actual production of diesel locomotives during 1977-78 and 1981-82 was 31 and 32 respectively and that of electric locomotives during 1979-80 and 1981-82 it was 51 and 50 respectively. The factory's reason for shortfall in the production of diesel locos was stated to be "lack of demand" and for Ministry of Railways not placing the adequate orders to utilise the capacity to the full was stated to be "lack of funds" provided to them by the Planning Commission for the purpose despite the Railways need for replacing the 7000 steam locomotives still with them whose uneconomic functioning was a considerable drain on the resources of the Railways. The Committee are unable to appreciate the situation where a substantial part of the production capacity of the factory was allowed to go waste for want of funds to procure raw material and components which go into the manufacture of locomotives. They would like the Ministry to undertake a cost benefit analysis of postponing the investment on replacement of obsolete Steam locomotives and keeping the Production capacity of diesel locomotives substantially idle and take up with the Planning Commission suitably.
11.	2.26	The reason for shortfall in the manufacture of electric locos by the CLW has been indicated as "late arrival of certain critical components". This, it is stated, was due to "go slow" in the works of the sole suppliers of these components, namely M/s. Hindustan Brown Boveri. The

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		Committee would like the Ministry of Railways to develop alternative sources of supply of all such single-source components so that the production of CLW does not suffer on account of failure to supply the requisite components by the sole supplier.
12.	2.27	The Committee are surprised at the statement of the representative of the Ministry of Railways before them that the capacity of the steel foundry of CLW had been "exaggerated" and that instead of 20,000 tonnes which it was supposed to be, it was only 5000 tonnes. The Committee would like the Ministry of Railways to investigate as to how, at the time of installation, the capacity came to be determined as 20,000 tonnes and accepted as such.
13.	2.28	The Committee would also like the Ministry of Railways to take expeditious action on the report of the O & R team of the Railway Board in regard to the operation of the steel foundry of CLW with a view to its optimum utilisation.
14.	2.29	The Committee note that the production of steel castings in CLW has been much below the capacity of 5000 tonnes per annum. The production during 1981-82 was only 3296 tonnes. One of the reasons for low production of steel castings is stated to be "poor supply of liquid oxygen" by M/s Indian Oxygen Ltd., on account of severe power cut in their own plant which reduced their overall production. As stressed in the foregoing paragraph the Ministry of Railways should develop alternate sources of supply of liquid oxygen and farm out the supply orders to two or more parties so that the production is not held up on account of non-supply or short supply of material by the sole supplier.
15.	2.30	Another reason given for low production of steel castings was "heavy power interruptions." The Committee suggest that the Ministry of Railways should ensure uninterrupted power supply by taking up the matter with the DVC authorities through the administrative Ministry concerned. In the meantime the existing diesel generating sets could be pressed into service whenever necessary to ensure uninterrupted production as the benefit resulting therefrom will outweigh the additional cost of Power from these sets atleast in the long run.
16.	2.44 & 2.45	The Diesel Locomotive Works (DLW) had until 1978-79 an installed capacity for manufacture of 120 locos per annum. In that year the capacity was raised to 140 loco-

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motives/150 power packs. The production pattern during the last five years shown sizeable shortfalls in production of locomotives except in the year 1980-81. The reason indicated for the shortfall is "difficult supply position of BHEL electrics" and "non-availability of imported electrics."

The Committee are constrained to observe that BHEL, who are the sole suppliers of electrics for diesel locomotive to the DLW, have not only failed to cater to the requirements of DLW which were intimated to them well in advance but did not honour even their own supply commitments. On this account, the Ministry of Railways were not able to make timely imports of electrics and it adversely affected the Factory's production programme. The representative of the Ministry of Railways has deposed before the Committee that BHEL had not made the requisite supply because they had other orders. The Committee are informed that as BHEL had not agreed to "penalty clause" being included in the contract, no action could be taken against them for non-supply of required number of electrics. The arrangement between the Railways and BHEL, a Public Undertaking, is thus far from satisfactory. The Committee would like the Ministry of Railways to sort out the matter with the Ministry of Industry and in case it is genuinely not possible for BHEL to supply to the DLW their full requirements of electrics and this component is not indigenously available elsewhere additional production capacity therefore could be established in Railway Production Units and in the meantime the Ministry of Railways should have the liberty to import the same well in advance so as to keep the production programme of the factory going.

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The Committee have been informed that another reason for lower production of locos by DLW as against its installed capacity and the production targets originally fixed was "inadequacy of funds". The Committee have dealt with the idle capacity of the CLW as a result of paucity of funds earlier in this Report. They suggest a similar study as commended therein for optimum utilization of the additional capacity of the DLW ensuring adequate funds. The Committee wish to emphasise the need for replacing the obsolete Steam locomotives with more efficient Diesel locomotives early.

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Out of 20,700 coaches held by the Railways, 2,500 coaches were out-dated and needed replacement. The

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Integral Coach Factory has the installed capacity to manufacture 750 coaches per annum. Another factory is proposed to be set up with a capacity for manufacturing 400 coaches.

The Committee expect that the outdated coaches would be replaced within a maximum period of 5 years. In the opinion of the Committee the proposed new factory should be located at Perembur itself to take advantage of the existing infrastructure and other facilities. The new factory should also come up soon. In view also of the export potential of the coaches, there should be no financial constraints in regard to expansion of the production capacity and sustaining the production programme as per the capacity.

19. 2.56 The Committee find that despite several mid-year exercises taking place regarding budgetary allocations to the Production Units, there have been in the case of all the Production Units sizeable shortfalls in expenditure against the revised estimates. It is surprising that, on the one hand, the Production Units complain of shortage of funds for not being able to bring up their production to the level of their installed capacity, on the other hand, funds allocated to them have remained unspent for one reason or the other. The shortfall in expenditure against budgetary allocations indicates primarily bad production planning on the part of the Production Units and laxity of controls on the part of the Ministry. The Committee expect that the Ministry's budgetary appraisals would be more effective and the Production Units would gear up their operations in such a manner as to absorb fully their budgetary allocations.

20. 2.60 A common reason for low production of Railway Production Units is stated to be "ageing of machinery and plant". It was stated by the representative of the Ministry before the Committee that 75% of the machinery was overaged and needed replacement, but the Ministry of Railways had to go slow in their replacement programme because the allotment of funds for this purpose was only Rs. 50 to 60 crores annually whereas the Ministry's requirement for the purpose was of the order of Rs.600 to Rs. 700 crores. The Committee attach great importance to the modernisation of the machinery of the production units and desire that the Ministry of Railways should accelerate the programme for modernisation providing higher allocation of funds for the purpose in consultation with the Planning Commission.

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| 21. | 3.13 | <p>The Committee note that the cost of imported components for each electric locomotive being manufactured at CLW was Rs.5.71 lakhs and for each diesel locomotive being manufactured at the same factory was Rs.5.15 lakhs. The cost of imported components for each diesel locomotive being manufactured at DLW has been indicated as Rs. 8 lakhs. In regard to the coaches manufactured by the ICF, the value of the imported components and material are stated to have been 19 per cent during 1979-80 and the main imported items were wheels, axles and steel plates. The Chairman, Railway Board during evidence before the Committee related the efforts being made for developing indigenous capacity of certain core components which are still being imported i.e. exhaust manifold, expresser, radiators fans, piston, governor, turbo-charger etc., with some success. In the case of wheel and axles a new plant is being set up at Bangalore which will obviate the necessity of import of these items. In the case of steel plates which have to be imported because the steel plants are not manufacturing the type of steel required by the Railways, it is stated that Rourkela Steel Plant has taken interest and in case its production is undertaken by SAIL, it would go a long way in reducing the value of imported components and material for manufacturing coaches. The Committee need hardly emphasise the importance of fuller indigenisation of raw material and components of locomotives and coaches being manufactured at the production units of the Railways. The Committee would like the Ministry of Railways to make concerted effort to promote indigenisation of components and material at present being imported by making available R & D support as also the financial support for manufacturing proto-types, to private manufacturers keeping in view the inhibiting factors of limited market for such components and materials. Further the Rourkela Steel Plant should be in a position to manufacture the type of steel plates required by the ICF without further delay. The Committee would await the action taken in this regard.</p> |
| 22. | 3.25 | <p>Though the Committee have been informed by the Ministry of Railways of the elaborate cost control system in the production Units of the Railways, the Committee find that in respect of certain items manufactured in the Production Units, the overheads are on the high side. The Committee are unable to appreciate the position taken before them by the representative of the Ministry that "a Judgement as to whether they</p> |

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(the overheads) are high or low is rather difficult to arrive at "nor do they agree with the statement that in absolute term it was difficult to arrive at the overhead figures" and that no attempt had been made to do so "because the exercise will take long time." The Committee recommend that there should be a regular system of determining the standard and actual costs specially overhead costs on the manufacture of various items being produced by the Production units so as to control cost and keep a check on avoidable expenditure. This will facilitate appraisal of cost structure in the Production Units which might be helpful in locating pockets of extravagance which could be eliminated to reduce the cost.

23. 3.29

From the written as well as oral evidence tendered before the Committee by the representatives of the Ministry of Railways, the Committee cannot but conclude that the Ministry of Railways are not enthusiastic about development of ancillary industries catering for the requirements of Railways. The Committee are not convinced with the argument that "why we should give a protection to an ancillary industry and pay a higher price for a product when we have an opportunity to open tender and can buy the product at a fair price by a competitive bid." The ancillaries developed at the peripheries of production units need not necessarily be less cost effective. The Committee would therefore recommend that the Ministry of Railways should in consultation with the Development Commissioner of Small Scale Industries draw up a scheme to encourage development of ancillaries. This would be in accordance with the current policy of the Govt. of India applicable to all major industries under all the Ministries and the Ministry of Railways could not be an exception.

24. 3.38

In view of the fact that the system of purchase of proprietary items could be abused, the Committee would like the Ministry of Railways to take the following measures which will facilitate a constant watch being kept on purchases made under this procedure:

- (i) Separate statistics should be compiled in regard to the type of articles purchased, and their value. This would enable the controlling authorities to identify the proprietary items consumed by the Railways and to keep a watch on the quantum and value of such purchases.
- (ii) These items should be widely publicised in the country so that the prospective manufacturers

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| | | are induced to develop these articles. Manufacturers who show interest in developing such articles should be extended all help by the Railways. Although the cost of these items would be a little more initially, but in the long run, the Railways will benefit as single source dependence will end and price competition will be generated. |
| 25. | 3.45 | According to the Chairman Railway Board locomotives and coaches must be exported "even at the cost of our domestic requirements" and "even for marginal profits" to establish ourselves in foreign markets so that if in future we have a spare capacity we could undertake exports on regular basis. The Committee are unable to fully agree with his views. Whereas they agree that exports could be even with marginal profits only they would stress that domestic requirement ought to be given priority and only additional and otherwise unutilised capacity could be utilised for export production. The Committee wish to emphasise that the domestic requirements particularly of locomotives and coaches should be fully met for replacement of old stock, the continued operation of which is not only uneconomic for the railways but also is a safety hazard. |
| 26. | 3.53 &
3.54 | The Committee note the assurance given to them that RDSO, which provides research and design support to the Production Units, is manned by technically competent staff and is adequately equipped to carry out its functions. Research, Design and Standards Organisation of the Railways is claimed to be the second best research and design organisation in Asia after Japan. There should however, be a constant endeavour to improve the quality of scientific and engineering personnel and equipment and facilities of the Organisation. To this end, the UNDP assistance being sought for purchase of latest equipment would be of great advantage not only to the Organisation but also to the whole region. The Committee desire the Ministry of Railways to continue to project the capacity and capability of the Organisation to disseminate expertise on intermediate technology in the region. |

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27.	3.55	The Committee would like the Ministry of Railways to ensure that the post of Director-General of the RDSO is manned by Officers who have a research as well as line background and have a minimum of two years to serve on the Organisation. They also recommend that the Director General of the Organisation should have a minimum tenure of two years.

20. Atma Ram & Sons,
Kashmere Gate,
Delhi-6.
21. J. N. Jaina & Brothers,
Main Gate,
Delhi.
22. The English Book Store,
7-L, Connaught Circus,
New Delhi.
23. Bahret Brothers,
188, Lajpatrai Market,
Delhi-6.
24. Oxford Book & Stationery,
Company, Scindia House,
Connaught Place,
New Delhi-1.
25. Bookwell,
4, Sant Narakari Colony,
Kingsway Camp,
Delhi-9.
26. The Central News Agency,
23/90, Connaught Place,
New Delhi.
27. M/s. D. K. Book Organisations,
74-D, Anand Nagar (Indir Lok),
P. B. No. 2141,
Delhi-110035.
28. M/s. Rajendra Book Agency,
IV-D/56 Lajpat Nagar,
Old Double Storey,
Delhi-110024.
29. M/s. Ashoka Book Agency,
2/27, Roop Nagar,
Delhi.
30. Books India Corporation,
B-967, Shastri Nagar,
New Delhi.

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