

**STANDING COMMITTEE ON RAILWAYS
(2005-06)**

FOURTEENTH LOK SABHA

**MINISTRY OF RAILWAYS
(RAILWAY BOARD)**

PROCUREMENT OF WAGONS

THIRTEENTH REPORT



**LOK SABHA SECRETARIAT
NEW DELHI**

August, 2005/Bhadrapada, 1927 (Saka)

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Presented to Lok Sabha on 24.08.2005
Laid in Rajya Sabha on 24.08.2005



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COMPOSITION OF THE STANDING COMMITTEE ON RAILWAY (2005-06)**Shri Basudeb Acharia - Chairman****MEMBERS****LOK SABHA**

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LOK SABHA SECRETARIAT

- | | | | |
|----|---------------------------|---|----------------------|
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INTRODUCTION

I, the Chairman of the Standing Committee on Railways (2005-06), having been authorised by the Committee to present the Report on their behalf, do present this Thirteenth Report of the Committee on 'Procurement of Wagons'.

2. The Committee took evidence of the representatives of the Ministry of Heavy Industry & Public Enterprises (Department of Heavy Industries) on 7th and 20th July, 2005 and the representatives of the Ministry of Railways on 20th July, 2005 .

3. The Committee considered and adopted the Report at their sitting held on 22nd August, 2005. Minutes of the sittings held on 7th, 20th, July and 22nd, August, 2005 form Part-II of the Report.

4. The Committee wish to express their thanks to the officers of the Ministries of Railways (Railway Board) and Heavy Industry & Public Enterprises (Department of Heavy Industries) for appearing before the Committee and furnishing the material and information which the Committee desired in connection with the examination of the subject 'Procurement of Wagons' and sharing with them the issues concerning the subject which came up for discussion during evidence.

NEW DELHI;
August, 2005
Bhadrapada, 1927 Saka

BASUDEB ACHARIA
Chairman,
Standing Committee on Railways

REPORT

PROCUREMENT OF WAGONS

An Over View

The freight traffic has been a life line for the Indian Railways, which has cross subsidized passenger traffic over the years. The Indian Railways started acquiring steady growth in the freight sector in the late nineties and touched a target of 600 million tonnes in 2004-05 from 473.5 million tonnes in 2000-01 registering a growth of 25%. The targets of 635 million tonnes projected in the 2005-06 Rail Budget has been revised to 675 million tonnes keeping into account buoyancy in the general economy and a parallel efficiency acquired by the Railways in terms of better utilisation of their rolling stock and freight management techniques. The efficiency acquired by Railways in freight sector has led to increase in Railways revenues. However, it is essential to examine the state of affairs prevailing in Public Sector Units engaged in manufacturing wagons which are beleaguered with low level of efficiency, surplus manpower, inadequate working capital and declining morale of workforce. Due to non-availability of adequate and timely orders from major buyer - the Railways, have provoked a serious debate about the survival of the wagon manufacturing PSUs. It has also not permitted these units to prepare their perspective plan by not projecting their future requirements at least for 2-3 years. Moreover with complete switchover to the tender system of the wagon procurement since 1998-99 and the delay in placing orders after finalisation of bids, have further aggravated the situation. In the background of the Governments effort to revive the sick PSUs, the Committee has examined indepth the extent to which the Ministry of Railways would supplement the former's efforts.

Brief Profile of Wagon Manufacturing PSUs

1.2 There are 11 companies operating in the country at present who are manufacturing wagons. Five companies are in the public sector domain under Department of Heavy Industries and five companies are in Private Sector and one company is in Joint Sector. Besides this, Railway Workshops also manufacture wagons. Three of the public sector undertakings namely Burn Standard Company Limited (BSCL), Bharat Wagon Engineering Company Limited (BWEL) and Braithwaite & company Limited (BCL) are subsidiaries of Bharat Bhari Udyog Nigam Limited (BBUNL), Kolkata and Bridge & Roof Company Limited (B&R), Kolkata is a subsidiary

of Bharat Yantra Nigam Limited (BYNL). The public sector companies occupy 30-40% market share of wagon industry in the country. A brief profile of the wagon manufacturing PSUs under BBUNL and others alongwith their installed capacities are as under:-

Name of the unit	Installed capacity in FWUs	Location
Burn Standard	8660	Howrah, Burnpur (West Bengal)
Braithwaite	4350	Kolkata
Bharat Wagon	2500	Mokama, Muzaffarpur (Bihar)
Bridge and Roof	1000	Howrah (West Bengal)
Southrn Structural (SSL)	1500	Tamil Nadu
Total Public Sector (5 companies)	18010	

1.3 The Private Sector Companies operating as wagon manufacturing units are :

1. TEXMECO
2. HEI
3. MODERN
4. BESCO
5. TITAGARH
6. JESSOPS

Number of Wagons

1.4 Availability and equitable distribution of rakes has been an area of attention for the Railways and the user industry. The wagon population over the years has decreased from 4,85,000 FWUs (Four Wheeler Units) in 1991-92 and 1992-93 to 4,40,000 FWUs in 2002-03. It has further plummeted during the years 2003-05. Despite placement of orders, replacement of wagons, the total number of wagons which Railways hold today is 45,000 wagons less than 12-13 years ago. As per the Ministry of Railways the planning of procurement of wagons is normally done for a particular five year plan based on traffic projections and replacement of wagons due for condemnation. The revision if required is done during the mid term appraisal. The target of wagons acquisition fixed for the X Plan as indicated in the plan document is

65,000 FWUs but in view of the consistent growth in freight traffic, this target has been revised to 94,214 FWUs during the mid-term appraisal of the X Plan. Railways in the first three years of the Plan have already acquired 53,148 FWUs leaving a balance of 41,066 FWUs. Out of this Railways have projected to acquire 22,500 FWUs during 2005-06 and 18,566 units during 2006-07.

Type of Wagons

1.5 The types of wagons generally used by the Railways to carry the commodities are as under:-

<u>Wagon Type</u>	<u>Commodities for which suited</u>
1. Open top wagon	- Coal, Ores, Minerals
2. Covered Wagons	- Fertilizer, Cement Foodgrains
3. Flat Wagons	- Steel, Container, Timber
4. Tank Wagons	- Oil, Milk, Acid, Caustic Soda
5. Tank Wagon (Pressurized)	- LPG
6. Tank Wagon (with air Fluidising system)	- Alumina, Cement
7. Hopper Wagon	- Coal, Ballast
8. Special purpose Wagon (Multi Axle/Well Type)	- Over sized/Extra heavy Consignments, Defence Equipments

Capacity of Wagon Manufacturing Units

1.6 Wagon industry has been delicensed in the year 1992. However, as assessed by CA (Cost), Ministry of Finance in 1991-92, the licensed/production capacity of the wagon builders in the public sector has been assessed at 15661 FWUs whereas in the private sector 19635 FWUs which makes the total capacity of wagons 35296 FWUs per year. The Railways also have their in-house capacity to manufacture wagons at three Railway workshops viz. Golden Rock, Smastipur and Amritsar, which constitute a capacity of 2200 FWUs when fully utilized. The break-up of the total capacity is as under:

S.No.	Wagon Builders	Licensed Capacity
	Public Sector	
1.	Bharat Wagon Engineering Ltd./Muzaffarpur, Bihar	2000
2.	Bharat Wagon Engineering Ltd./Mokama, Bihar	2000
3.	Braithwaite, Kolkata, West Bengal	3000
4.	Burn Standard, Burnpur, West Bengal	3911
5.	Burn Standard, Howrah, West Bengal	4750
6.	Bridge & Roof**, Howrah, West Bengal	-
	Total PSUs	15661
	Private Sector	
7.	TEXMACO	4800
8.	HEI	4056
9.	MODERN	2000
10.	BESCO **	-
11.	TITAGARH **	-
12.	JESSOPS	3279
	Total Pvt. Sec.	14135+5500
	Total Industry	35296

** Licensed capacity not assessed but capacity can be taken as 2500 FWUs each for M/s. BESCO and M/s Titagarh and 500 FWUs for M/s. Bridge & Roof based on past performance.

1.7 However, as per the Ministry of Heavy Industry the available wagon manufacturing capacity in the country is around 57060 FWUs. 5 PSUs (under Department of Heavy Industries) have a capacity of 18010 FWUs. While the capacity of 6 private & joint sector units is 39050 FWUs. Against the available capacities, the average wagon off take by the Railways in the recent past has been around 14789.38 FWUs per year which is much below the existing installed capacity.

1.8 The Railways are the major buyer of wagon manufactured by these wagon manufacturing units as about 95% of their production is purchased by the former. The demand of various types of wagons from public sector companies other than the Railways viz. NALCO, BALCO, NTPC and Container Corporation of India Limited etc. and from private sector as well as from overseas buyers is not much encouraging. It is only about 2 to 3 per cent of the total quantity. The Railways also have not placed their orders more than 25000 FWUs in a year. The average order placement hovered around 16000 FWUs, which shows gross under utilization of the capacity available in the market.

Wagon Procurement Policy

1.9 Explaining the need to go for tendering system, the Ministry of Railways informed the Committee that wagon acquisition is a need based activity which is dependent upon the traffic needs and availability of funds after taking into consideration the replacement of wagons due for condemnation etc. Target for acquisition of wagons for a particular year are fixed on the basis of traffic projections as intimated by Planning/Traffic Directorate of Railway Board. Bulk of this acquisition of wagons is funded through railway's own budget and funded through Indian Railway Finance Corporation. Till 1993-94, orders for wagons were placed directly on member units of Wagon Indian Ltd. (a company especially created to procure orders and their equitable distribution among all wagon manufacturers), without calling for tenders and the prices of wagons were determined on the basis of cost analysis by following a cost plus approach which consists 81% material cost including free issue materials, 13% fabrication cost and 6% transportation markup/contribution etc. cost. In this system, the wagon industry did not have any incentive to become cost efficient and competitive. A decision was, therefore, taken to go for competitive tender for part (10%) requirement for the year 1994-95. Procurement through competitive tender brought in reduction in prices and resulted in financial savings to the Railways. Keeping in view the financial savings which accrued to Railways against the tender for 1994-95, it was decided to increase the percentage of procurement of wagons through tender to 50% in 1995-96 and 1996-97.

1.10 The Ministry further submitted that in deference to the observation made by Standing Committee on Railways (1995-96), it was decided to restrict procurement through tender to 25% of annual demand from 1997-98 onwards. This, however, was resulting in dual prices being paid for the same type of wagon – one ordered through Wagon India Ltd. at built up prices which was higher and second through competitive tender. The earlier decision, therefore, was reviewed by the then Minister of Railways and it was decided to go in for open tender for 100% requirement from 1998-99 onwards to obtain competitive prices. Although 100% procurement is being made through tender, distribution of entire tendered quantity is not done on competitive bidding basis. Railways are now following a system of distribution of 75% of the quantity against the tender amongst all the established wagon building units as per their past performance with a view to make the distribution more broad based. Remaining 25% is considered for ordering on competitive basis. By following this method of distribution, all the established wagon building units are assured of orders based on

their past performance to the extent of 75% and at the same time it helps Railways to obtain competitive price in the tender. Thus, according to the Railways the present policy of wagon procurement ensures equitable distribution of load amongst established suppliers and at the same time it helps in obtaining competitive prices to bring savings to Railways facing financial crunch.

1.11 However, the Secretary, Department of Heavy Industry in regard to the extant policy of procurement of wagons, elaborated upon the constraints being faced by the PSUs as under:-

“Uptill 1993-94, the entire system of purchase in the Railways was different in which a senior officer and a person conversant with cost accountancy on deputation with the Railway board used to take into account various factors, inputs like labour and raw material costs on an average, of a wagon or a FWU and then add to that a margin. After that, it would distribute the orders amongst the public sector as well as private sector units depending on their capacity, installed capacity and their performance of the past. After 1993-94, they started shifting to an open market reforms system where they started issuing of tender notice and between 1994-97, they gradually shifted to part tender and part allocation on the basis of old system and raised it from 10 per cent to 50 per cent on the basis of tender and then from 1998-99, this system was totally changed. Then there was no calculation of costs. It is on 100 per cent by tender and whoever is the lowest tenderer gets 25 per cent of the orders approximately and the remaining 75 per cent of the order on the same rate as that of lowest tenderer is distributed amongst the remaining units both in the public and private sectors considering their past performance. Now when past performance comes into question, our performance because of our financial difficulties which grew from year after year because of working capital, because of non-supply of the free items in time, etc. gradually started to deteriorate in these years. Therefore, the vicious circle of poor performance, therefore, less orders, less orders therefore, less earning and generation of funds and therefore again poor performance started to dog these units more than the private sector units which have flexibilities and relatively speaking more cost cutting as well as taking faster decisions. That is the basic issue which we have to take it up with the Railways time and again.”

Placement of Orders

1.12 The Ministry brought to the notice of the Committee that although 100% procurement is being made through tender, Railways follow a system of distribution of 75% of the quantity against the tender amongst all the established wagon building units, 60% of 75% to PSUs and 40% to private entrepreneur as per past performance of the firms and capacity that exists at that time, with purchase preference to public sector units. To determine the past performance, Railways take into account the average performance of the units during the last five years as well as what has been the best production in any one year in the last five years. It makes the distribution more broad based and in line with the commitment given earlier to the Standing Committee of Parliament. Remaining 25% quantity is considered for ordering on competitive basis. By following this method of distribution, all the established wagon building units are assured of orders based on their past performance to the extent of 75% and at the same time it helps Indian Railways to obtain competitive price in the tender.

1.13 The Ministry also stated that adequate orders had been placed on all PSUs in the past. However, the table given below indicates that all the PSUs have not been able to execute the orders and are continuously under performing for the last three years. Every year each PSU had order, much more than what they could produce. As on 01.07.2005, the total outstanding orders on PSUs are 7100 FWUs which is around their 1 ½ years' production capacity.

SN	Wagon Builders	2002-03			2003-04			2004-05		
		New Orders	Total Orders In Hand	Actual Supply	New Orders	Total Orders In Hand	Actual Supply	New Orders	Total Orders In Hand	Actual Supply
	Public Sector									
1.	BWEL/MFP	850	1060	497.5	1335	1897.5	125	1157.5*	1157.5*	225
2.	BWEL/MKA	730	1330	430	0	900	160	845*	845*	220
3.	BRAITHWAITE	1765	2310	1430	1572.5	3077.5	1232.5	190	2035	980
4.	BURN/BP	1320	1480	1345	3215	3350	820	375	2905	735
5.	BURN/HWH	1205	1842.5	1507.5	1902.5	2237.5	1420	1110	1927.5	1440
6.	Bridge & Roof	100	452.5	452.5	735	735	320	385	800	360
	Total PSUs	5970	8475	5662.5	8760	12197.5	4077.5	4062.5	9670	3960
	Private Sector									
7.	TEXMACO	1830	-	1830	3955	-	3055	5547.5	-	3920
8.	HEI	1360	-	2146.5	2595	-	871	2352.5	-	2647.5
9.	MODERN	1027.5	-	955	1412.5	-	1257.5	2627.5	-	1695
10.	BASCO	1887.5	-	1684	2325	-	2176	3282.5	-	2265
11.	TITAGARH	1782.5	-	1607.5	2440	-	2020	3467.5	-	2400
12.	JESSOPS	517.5	-	430	922.5	-	640	9090	-	625
	Total Pvt. Sec.	8405	-	8653	13650	-	10019.5	18267.5	-	13552.5
	Total Industry	14375	-	14313	-	-	-	22330.0	-	-

*This does not include the outstanding orders of 2003-04 of BWEL/MFP and BWEL/MKA which have been frozen.

1.14 In-house wagon manufacturing capacity of individual workshop, order placed on them and wagon supplied by each Railway Workshop during last five years are as under:-

Railway Workshop	Capa-City	2000-01		2001-02		2002-03		2003-04		2004-05	
		Ordered Qty.	Production	Ordered Qty.	Production	Ordered Qty.	Production	Ordered Qty.	Production	Ordered Qty.	Production
Golden Rock	800	725	825	800	860	800	842.5	635	1227.5*	700	1152.5*
Samastipur	750	625	635	750	527.5	750	685	750	757.5	750	665
Amritsar	650	650	388	615	412	450	703.5	615	561	600	661.5

* Also include wagons manufactured for CONCOR.

1.15 According to the Ministry of Heavy Industry, the outstanding wagon orders as on 01.06.2005 pending with the subsidiaries of Bharat Bhari Udyog Nigam Limited (BBUNL), Kolkata are as under:-

Burn Standard Co Ltd. Burnpur Works	819 Vus	(2047 FWUs)
Braithwaite & Co Ltd.	364 Vus	(910 FWUs#)
Bharat Wagon & Engg Co Ltd. Mokama Works	296 Vus	(740 FWUs)
Muzaffarpur Works	709 VUs	(1772.5 FWUs)
Total	2188 Vus	(5470 FWUs)

includes balance 225 VUs of BOXNWL wagon which however is not covered by 2003-04/ RSP orders.

1.16 As per the Ministry of Railways the entire ordered quantity of wagons could not be executed during the years 2002-03 and 2003-04 due to coherent problems of wagon builders and under performance of Public Sector Units. There was lock out in M/s Hindustan Engg. Industries Ltd., Kolkata, a private sector unit, in 2003-04 for five months. The public sector units under performed due to financial problems. As against 17000 FWUs and 20050 FWUs budgeted for 2002-03 and 2003-04, the actual production made by wagon builders were 16584 and 16573 FWUs respectively. However, in 2004-05 production was almost as per target. However, performance of Public Sector Unit was poor.

1.17 As per the Ministry of Railways, the major reason for spill over of this huge quantity of wagon orders was non receipt of free issue items – steel and wheel sets

against 03-04/RSP order by the Units. The representatives of Department of Heavy Industry stated that another factor was co-ordination in furnishing steel in specifications and configuration as per requirement of wagons, that is, in correct proportion. Further there was shortage of wheel sets since 2001-02.

1.18 The Secretary, Ministry of Heavy Industry stated:

“The financial position of the companies also was not well and the position of working capital was not very happy and sound..... The mismatch in steel supply, shortage of wheels and uncertainty about the future and overstaffing have all contributed towards the erosion in effective production of wagons by our Public Sector Units.....”

1.19 He further added:

“all these companies were slated for disinvestments but the policy has changed now and attempt is to be made to revive them. Within a year of the announcement of the policy, nearly all the companies have prepared, the government has seen and the Board for Reconstruction of Public Sector Enterprises has also approved three out of four cases and they are going to the competent authority, which is the Cabinet for approval of revival package. The case of M/s Braithwaite and company has already been cleared by BRPSE and it is pending before the Cabinet. We expect that the Railways will heed our request.”

1.20 In regard to the pending orders, the Secretary, Ministry of Heavy Industry stated:

“For the year 2003 we have a backlog of 979 FWUs and the year 2004-05, the backlog is 1566. That give us a total of approximately 2500 FWUs. There are some companies which have greater resilience and agility. We can supply about 500 of these. But the units which are not so resilient and not so agile, they will find it back breaking, during the time when their revival packages are being implemented, to be compelled to give these 2000 wagons at low rates. They have gone down tremendously both in real terms as well as in absolute figures. Now to be asked to supply 2000 wagons at Rs. 4,23,000 or Rs. 5,17,000 when the steel prices have admittedly gone up through the roof, then these incipiently sick companies will face tremendous problem.”

1.21 Expressing the inability of the Public Sector Units to honour the backlog orders of 2500 wagons, the Secretary, Department of Heavy Industry submitted that some way must be found out to see that out of these 2500 wagons backlog, 500 may be asked to supply and 2000 may be condoned. To revive these units and to see that they function well in future, we are giving a lot of waivers, the Government is waiving hundreds of crores of rupees by way of loans given to these Units and interest on that and some money is also going for their rehabilitation, for modernization of their equipment etc... simultaneously if we say that PSUs should supply these wagons, which would be a clear loss of Rs. 60 crore or Rs. 70 crore, that means what we are giving with one hand, we are taking back with other hand. We have to have a holistic approach... you could perhaps advise the Government that they should have a Coordination Committee of sorts which should meet every quarter or atleast twice a year to iron out the difficulties such as supply of raw materials etc. Discussions do take place but an institutionalized and systematic approach and support system will have to be created.

Time taken for release of orders

1.22 Regarding the time taken for placement of orders for wagons, the Ministry of Railways submitted before the Committee that every possible effort is made to place the wagon order in time. However, sometimes due to the reason beyond control such as cartel formation by the wagon manufacturers, the finalization of the tender gets delayed. As soon as any tender is finalized, wagon contracts are immediately released. Generally 15-20 days are taken in placement of orders on all wagon manufacturers including PSUs after finalization of orders. However, while finalizing tender for year 2004-05, a decision was taken that the order of the firms having huge backlog of orders would be released only after their completing 75% of the outstanding orders. Accordingly, order for these firms (all PSUs) were released at later stage.

1.23 The projection for requirement of 22500 additional wagons (FWUs) has been approved for the year 2005-06, which will be sufficient to carry the projected level of traffic viz. 675 million tonness. The tender for the wagon procurement for 2005-06 is under consideration.

1.24 The Ministry of Heavy Industry, however, held a contrary view in this regard and submitted that on an average, there is a gap of minimum 3-4 months between the tender opening and placement of orders. This gap sometimes becomes very high. For

RSP/05-06, the tenders were opened on 18.02.2005 but till date orders have not been finalized. As per the Ministry of heavy Industry the tender opening date and date of issuance of letter of Intent (LoI) for the last five years is as follows:-

Year	Date of Opening of Bid	Date of Placement of Order
RSP 01-02	29.01.01	Counter offer received on 28.09.01
RSP 02-03	18.01.02	19.04.02
RSP 03-04	30.12.02	19.05.03
RSP 04-05	09.01.04	Counter offer was given on 11.5.04
RSP 05-06	18.02.05	Not yet finalized

Free Supply Items

1.25 After certain major changes in the design of Bogies and Coupler adopted by Indian Railways around 1980s, materials like steel, wheel sets, bogie and coupler etc. were introduced as 'free supply' items by IR due to significant cost involved in manufacturing of these items. However, these items were converted to 'bought out' category in the contracts released by Railway after November, 1995 onwards. This practice has continued till 2004-05. In the current year 2005-06 IR has again agreed to issue these items as 'Free Supply' for the orders to be placed on Central PSUs. Before the introduction of tender system to purchase wagons, the Railways used to issue the orders through administrative price mechanism. This price used to be determined by BICP. Moreover, two major bought out items viz. 'Bogie' and 'Coupler' were taken out of the purview of free issue items. Some Bogie and Coupler manufacturers were also allowed to become wagon manufacturers. This change in the system/policy resulted in many bottlenecks for the wagon manufacturers in the Public Sector.

1.26 The Ministry of Heavy Industry brought to the notice of the Committee that the manufacturers of bogies and couplers, in the Private Sector did not quote / accept the same prices against BBUNL Group tender for these items as per awarded prices of Railways against orders placed by Railway Board on them. Even, they did not honour to accept the stipulated prices of bogies and couplers in Railway Board's wagon contract. In all occasions BBUNL Group had to pay higher prices than the stipulated prices in the wagon contract. Besides, they used to offer stringent payment term (proforma payment) not in conformity with Railway Board's payment in terms of bogies and couplers contract on them. Such imposition and differential pricing not only affected the profitability of BBUNL Group Companies but also affected cash flow to

maintain production. A table indicating the differential prices charged by these manufacturers from Burn Standard Co Ltd (BSCL) vis-à-vis that from Railway Board is given below:

Period	L1 Price Against BSCL's tender		L1 Price against Rly. Bd's tender	
	Bogies	Coupler	Bogies	Coupler
2000-01	83100 (HS)	28672	73900 (all type)	25270
2001-02	79000 (NL)	26510	73900 (all type)	25739
2002-03	79070 (HS)	29000	75339 (all type)	25870
	73400 (NL)			
2003-04	83000 (HS)	26870	75920 (all type)	25000
	79500 (NL)			
2004-05	116500 (HS)	38225	98642 (all type)	32000

1.27 According to the Ministry of Railways supply of free items to wagon manufacturers are planned based on the projections furnished by respective wagon manufacturers for next 6 months and timely supply is monitored closely by the Railway Board.

Pricing of Wagons

1.28 The Ministry of Heavy Industry submitted before the Committee that there has been a declining trend in the realizable value of wagons during the past few years. The reduction in the price of BCNA/BCNAHS type which forms a major part of orders is given below:

Year	Price Rs Lakhs	Increase over Prev. Year
1997-98	6.16	
1998-99	5.42	-12.01
1999-2000	5.55	2.40
2000-01	4.84	-12.79
2001-02	4.93	1.86
2002-03	4.43	-10.14
2003-04	4.23	-4.51
2004-05	5.17	22.22

1.29 It can be seen from the above table that there is a reversal trend of wagon price since 1997-98. The offered price of BCNAHS wagon is Rs. 5.17 lakhs each in the 2004-05. However, the Ministry of Railways in response to a query regarding price differential of limited tender and open tender, put forth before the Committee that the mechanism for price fixation was in vogue when procurement of wagons was done

through Wagon India Ltd. However, since 1998-99 onwards, 100% requirement of wagons is met through open tender. Therefore, the question of differential rates does not arise. The competitive bidding ensures that reasonable rates are obtained.

1.30 Asked about the reasonability of price of wagons, the Secretary, Ministry of Heavy Industry submitted before the Committee as under:

“Certainly we will take up this point with the Railways that there may be certain undercutting possible by the private sector units which we in the public sector are not capable of emulating. We cannot cut our costs below a particular level. In the public sector there will be a level below which we cannot bring down the price. So, at that point certainly we will address our colleagues in the Ministry of Railways and request them to consider not a reversal to the earlier method but at least considering whether there is some possibility of determining what is the bare cost of a wagon and then giving us some kind of a reasonable margin or profit on which to survive.”

RECOMMENDATIONS

A Perspective Plan

1. The Committee note that the projected target of freight traffic for the year 2005-06 has been revised from 635 million tonnes to 675 million tonnes during the mid term appraisal of the X Plan keeping into account the buoyancy in general economy and steady growth in freight sector. With the sustainable growth in the general economy over the last few years, the requirement of adequate number of wagons has assumed a significant role. Though the total number of wagons has declined to about 4,40,000 in 2004-05 from 4,85,000 in the years 1991-92 and 1992-93, the loading of freight by the Indian Railways have registered an upsurge particularly during the years 2001 to 2005.

The Committee do appreciate the efficiency acquired by the Railways in terms of better utilization of their assets and scientific management of their freight operations. However, transparency in the availability and equitable distribution of wagons have been a prime concern of the Railways and the feeder industry. The Committee are equally concerned over the state of affairs of five wagon manufacturing units in the public sector, which are beleaguered with low level of morale and efficiency, inadequate, working capital and inadequate, untimely and unviable wagon orders from the Railways. As per the Railways the total installed capacity as on date is 35,296 FWUs consisting of 15661 FWUs in the public sector and 19635 FWUs in the private sector. The Railways also have an in-house wagon manufacturing capacity of around 2200 FWUs which is fully utilized. The off-take of wagons by the Railways has never crossed 24000 wagons a year during the last 6-7 years. The average off take of wagons has hovered around 15000 FWUs per year, which is much below the installed capacity of wagon manufacturing units. The utilization capacity of the wagon manufacturing public sector units have touched the lowest figure of 22.3% in the year 2004-05 due to unrealistic perspective Plan of the Railways particularly while projecting their wagon requirement and delay in placement of orders. Considering the current trend of upbeat growth in the industrial and services sector, the Committee are of the view that there would be a huge requirement of

wagons in the years to come. They, therefore, recommend that the Railways must formulate a perspective plan for their requirement of wagons on the realistic basis and simultaneously apprise the wagon manufacturing industry of the same well in advance. The Committee opine that this will go a long way in spiking the wagon industry to chalk out their strategy to meet the projected demand in time. They also stress that while placing orders to PSUs manufacturing wagons, Railways must avoid sharp variation in the order quantity.

Procurement Policy

2. The Committee find that up till 1993-94, Railways used to place orders for wagons directly on member units of Wagon India Limited without calling for tender and prices of wagons were determined on the basis of cost analysis. But this policy underwent a tremendous change after the year 1993-94 when the partial introduction of open tender was introduced. At present Railways execute 100% procurement of wagons through open tender. However, they follow a distribution system of tendered quantity amongst all the established wagon manufacturers both in the Public and Private Sector based on their past performance with a view to make the distribution more broad based. All the wagon builders are required to supply orders at the lowest rate determined by the open tender. The bidder who quoted the lowest price is provided with 25% of the quantity of wagon requirement and the remaining 75% are distributed in the ratio of 60:40 to the Public Sector Units and Private Sector Units respectively.

The Committee note that the wagon manufacturing units in the Public Sector are facing crisis. Their share in the new orders for wagons has drastically declined to 4057.5 in 2004-05 from 8760 in 2003-04. These units cannot go for cost cutting beyond a certain limit due to their coherent limitations such as overhead costs. As a result their utilization capacity has touched the lowest figure of 22.3% in 2004-05 from 40.4% in 2000-01. In view of the extant criteria of distribution of orders and their incompetiveness, the PSUs, cannot get more than 45% of the new orders every year. Moreover, new orders will further go down keeping into account the sizeable backlog of orders pending with these PSUs, which could not be honoured due to certain disputable reasons. Under

these circumstances the Committee visualize an imminent critical situation where no new orders would be awarded to these Units.

The Committee were also informed that all the wagon manufacturing PSUs were slated for disinvestments but with the change in disinvestments policy of the Government, an attempt is now being made to revive these public sector companies. In sequel to that, the Board for Reconstruction of Public Sector Enterprises has approved three out of four cases and the same is being placed before Cabinet Committee on Economic Affairs for approval of revival package. In this backdrop of affairs, the Committee are of the considered view that a holistic approach is required to deal with the revival and viability of these sick units. They are of the opinion that the Railways cannot formulate their perspective plan in isolation, and therefore they must work in tandem with the Government and supplement latter's efforts in this sacrosanct cause of revival. However, the Committee are equally concerned over the constraints of the Railways particularly in the context of maintenance of transparency and open bidding system in a contract regime prevailing all around. Nonetheless, they urge upon the Ministry of Railways to consider the following:-

Preferential Distribution

- (i) The Committee find that Public Sector Units are solely dependent upon the Railways for orders. They, therefore, desire that these PSUs should be given a probation period of 4-5 years to get adequate new orders at workable price as worked out mutually in consultation with the Ministry of Heavy Industry and Public Enterprises under the preferential distribution quota of 75 % in case they don't bid or are found incompetent in the tender. In any case, placement of orders should be made on workable and reasonable price to avoid unhealthy competition.

Coordination Mechanism

- (ii) The Railways should work with the Ministry of Heavy Industry & Public Enterprises while finalizing the new orders from distribution quota for these Units and review the performance of these Units regularly. Both the

Ministries must have a Coordination Committee at least at the level of Secretary in Department of Heavy Industries and Chairman, Railway Board, to cope up with crisis-management situations such as supply of raw materials particularly to see the configuration of steel in correct proportions to these units through regular meetings. An institutionalised and systemic approach and support should be created. The Railways should also hold regular 'Buyer Seller' meet.

Freezing of Backlog Orders

- (iii) An undisputable way out to the existing backlog orders with these wagon building units in Public Sector be explored amicably without disturbing the extant contract regime and the obligations and it can be suitably done through mutual discussions between the Ministries of the Railways and the Heavy Industry & Public Enterprises. Freezing of these backlog orders may be one of the possible options.
- (iv) Associating wagon manufacturers in the development of new design of wagon right from the beginning, so that they are aware and prepared for manufacturing wagons of new specifications.

Timely Placement of Orders

3. The Committee were given to understand during the examination of the subject that there is a considerable delay in placement of orders with the wagon manufacturing units after finalisation of bids. According to the Ministry of Railways as soon as tender is finalized wagon orders are released immediately between 15-20 days. However, the Secretary, Department of Heavy Industry while contradicting this informed the Committee that on an average there is a gap of minimum 3-4 months between the tender opening and placement of orders. The Committee note that the RSP/05-06, the tender were opened on 18.2.2005 but orders have not been placed up till now i.e. even after lapse of 5 months. The Committee deplores this tendency of late finalisation of orders and recommend that Railways should take invariably minimum time while placing new orders after the opening of the tender and the finalization of L1 rate. The Committee feel that

early finalisation of tender and release of orders should be emphasized so that the PSUs are able to accomplish their task of supplying wagons as per the orders placed during the same year.

Supply of Free Items

4. Ensuring of timely availability of free supply items like steel, wheel sets, bogies and couplers has been an area of discord between the Railways and the wagon manufacturers in the Public Sector. The latter has submitted that erratic and delayed supply of these items by the Railways has resulted in the cost escalation of wagons and resultantly the concerned PSUs suffered Liquidated Damages. The Committee desire that the Railways should ensure adequate and regular availability of free supply items such as wheel sets, Steel, Couplers etc. Further, the liquidity damages should not be imposed on account of failure on the wagon manufacturers wherever these items are not supplied on time by the Railways or by any agency on behalf of the Railways. Imposition of liquidated damages for delays beyond control of wagon manufacturers should be exempted.

Option Clause

5. During the course of examination of the subject the Committee came across a fact that the Railways have an option clause in their order that the latter can increase or decrease the quantity of order by 30% at the same price. This clause proves detrimental to the interest of the wagon manufacturers in both the cases. In the first case, if the tender price of the wagon increases in the succeeding year, the wagon manufacturers may get 30% more orders at the price offered during the preceding year and hence it may cause loss to the manufacturer. Similarly, if the tender price for the next year go below that of the preceding year, the Railways may cut the order by 30%. Such arbitrary and not market savvy condition in the order should be done away with. These type of clauses be invariably withdrawn without any delay from the order of placement for wagons both for Private and the Public Sector Companies.

6. The Committee note that PSUs manufacturing wagons are continuously under performing for the last three years mainly due to coherent problems such as continuous and steep rise in steel prices, irregular supply of various free items, low efficiency level, inadequate working capital and low morale of workforce. They also find that now the proposed revival package for these PSUs includes concrete measures such as new remunerative prices taking into account the rise in cost of steel, liberal policy of free supply items viz. bogie and couplers and providing adequate working capital etc. The Committee feel that with this revival package and coordination the concerned PSUs should be able to execute the orders placed with them and enhance their supply percentage as compared to the previous years by optimum utilization of their capacity. They emphasize that in addition to the revival measures by the Government, these PSUs should make all out efforts to improve the efficiency and motivate their manpower. They stress that wholesome effort should be made by these PSUs with adequacy of material and motivated staff to enhance their performance and produce ordered number of wagons within the given time frame. This enhanced performance would also justify their demand for enhanced orders for the next year and lead to more capacity utilization.

7. The Committee had earlier recommended for making Public Sector Wagon manufacturing units as its captive units. The Committee reiterates that the Ministry of Railways must examine this proposal for assured supply of wagons.

NEW DELHI;
August, 2005
Bhadrapada, 1927 Saka

BASUDEB ACHARIA
Chairman,
Standing Committee on Railways