

RAILWAY CONVENTION COMMITTEE (2009)

(FIFTEENTH LOK SABHA)

FOURTH REPORT

ON

PENDING ON-GOING PROJECTS OF THE MINISTRY OF RAILWAYS –
COMMISSIONING OF THE AUTOKAST FACTORY AT CHERTHALA,
KERALA - A CASE STUDY



LOK SABHA SECRETARIAT
NEW DELHI

August, 2012 /Sravana 1934 (Saka)

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Presented in Lok Sabha on 14.08.2012

Laid in Rajya Sabha on 14.08.2012



LOK SABHA SECRETARIAT
NEW DELHI

August, 2012/ Sravana, 1934 (saka)

RCC No. 122

Price: `

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Published under Rule 382 of the Rules of Procedure and Conduct of Business in Lok Sabha (Fourteenth Edition) and printed by the Manager, Government of India Press, Minto Road, New Delhi-100 002.

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RAILWAY CONVENTION COMMITTEE (2009)

Shri Arjun Charan Sethi, MP – Chairman

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3. Dr. Baliram
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18. Vacant

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- | | | |
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| 1. Shri Brahm Dutt | - | Joint Secretary |
| 2. Smt. Abha Singh Yaduvanshi | - | Director |

* Nominated vide Bulletin dated 15.02.2012 as Member of RCC vice Vacancy caused on account of resignation of Shri K. C. Venugopal, MP from the Committee w.e.f 21 December, 2011.

** Ceased to be a Member of the Committee on his retirement from Rajya Sabha on 27.01.2012. Re-nominated w.e.f. 02.02.2012 vide Bulletin Part-II No. 3634 dated 06.02.2012.

INTRODUCTION

I, the Chairman, Railway Convention Committee (2009), having been authorized by the Committee to present the Report on their behalf, present this Fourth Report on 'Pending on-going projects of the Ministry of Railways – Commissioning of the Autokast Factory at Cherthala, Kerala – A Case Study'

2. While examining the subject 'Pending on-going projects of the Ministry of Railways in the country and its time and cost overrun effects' the Committee as a case study examined the undue delay in commissioning of Autokast Factory at Cherthala, Kerela. The Committee took evidence of the representatives of the Ministry of Railways and of Government of Kerala on 4 February, 2011 on the subject.

3. The Report was considered and adopted by the Committee at their sitting held on 18 July, 2012.

4. The Committee wish to express their thanks to the representatives of the Ministry of Railways and Government of Kerala for placing before them their views and for furnishing the desired information to the Committee in connection with examination of the subject.

5. The Committee place on record their appreciation for the valuable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

6. For facility of reference and convenience, the observations and recommendations of the Committee have been printed in bold letters in the Report. The Minutes of the sittings of the Committee are appended to the Report.

New Delhi ;
26 July, 2012
4 Sravana, 1934 (Saka)

ARJUN CHARAN SETHI,
Chairman,
Railway Convention Committee.

REPORT
Part-I
NARRATION ANALYSIS

Introductory

1. Railways is the largest Public Sector Undertaking in the country with manpower strength over 13 lakh. Indian Railways is one of the world's largest rail networks with 64,460 route kms. of route lengths covering almost the whole country. In keeping with the demands of the growing national economy, the Railways have plans to implement long term measures to augment carrying capacity of the Indian Railway system in both passenger and freight business. Though run on commercial lines, the Indian Railways developmental plan contains the strategy of balanced development of various regions, particularly the underdeveloped and relatively less developed regions. The location of manufacturing units reflects this strategy.

2. Considering the need to improve financial position of Railways as also the need to urgently develop the railway infrastructure including modernization and safety related works besides meeting the expectations from the flagship projects, it was inter-alia significant to increase production of coaches, new coach manufacturing units and set up electric/diesel locomotive manufacturing units through Joint Venture route. At present, Indian Railways have the following eight Production Units manufacturing passenger coaches, diesel & electric locomotives, wheels, axles, wheel sets and diesel loco components (including rebuilding Diesel locomotives):-

1. Integral Coach Factory, Chennai established in 1952 producing coaches.
2. Rail Coach Factory, Kapurthala established in 1986 significantly contributes to Indian Railways' ability to meet the demand for more trains in the country.

3. Chittaranjan Locomotive Works, Chittaranjan established in 1948 manufacturing Electric Locomotives.
4. Diesel Locomotive Works, Vasanasi set up in 1961, manufacturing Diesel Locomotives.
5. Diesel Loco Modernisation Works, Patiala established in 1981 manufacturing ALCO Locomotives.
6. Rail Wheel Factory. Bangalore established in 1984, produces a variety of wheels axels and wheel sets for Locomotives, Coaches & Wagons.
7. Integral Coach Factory (ICF), Perambur.
8. Rail Coach Factory (RCF), Kapurthala.

These units produce bulk of the requirement of the rolling stock. All of these Production Units are ISO-9000 certified for international parity in Quality Management Systems.

3. In regard to their production units' the Ministry of Railways stated as follows:-
 1. Railways' inhouse Production Units ensures adequate and timely supply of rolling stock assets and other critical components for smooth and productive operations
 2. Through indigenization and technology absorption costs of rolling stock have been significantly brought down.
 3. Improvement in production has been achieved through optimal utilization of existing human and physical infrastructure resulting in lowering of unit costs.

Joint Venture with Kerala Unit

4. Steel Industrial Kerala Limited (SILK) is a State PSU engineering services company set up by the Government of Kerala in 1974 for the purpose of developing State based industries in the State. This company has been engaged in designing, engineering, manufacturing, erecting and commissioning transmission towers, power vessels, turbines etc.

5. Autokast Ltd. was set up as a subsidiary of SILK in 1984 with an authorized share capital of ` 20 crore and paid up capital of ` 18.97 crore. This unit is located in Cherthala in the Alleppy District and owns 54 acres of land. This unit manufactures cast iron castings (GI castings and SGI castings).

6. Steel fabrication Unit (SFU) is a manufacturing unit of SILK which too is situated close to Autokast Ltd. The total net worth of SFU was estimated to around ` 2.84 crore and owns 26 acres of land adjoining the land owned by Autokast Ltd. This unit started production in 1980. It manufactures structural items including building structure, storage tanks, boiler parts, transmission towers, sub-stations structures etc.

7. Autokast Limited and SFU, both units under the umbrella of SILK were incurring huge losses and were referred to the Board of Industrial & Financial Restructuring (BIFR) which ordered their closure. However, the Appellate Authority of the BIFR stayed the order. The companies have adequate land for future expansion and are located strategically. The units have skilled manpower that was to be trained for producing items conforming to the railway requirements. Main reason for the loss making was inadequacy of working capital, high cost of production and subsequent decommissioning of steel casting lines leading to its

dependency on cast iron lines only for which the market demand was limited and ever shrinking.

8. In 2007 as per a decision of the Ministry of Railways, Railway Board, RITES (a PSU under the Ministry) was assigned the task of carrying out a pre-feasibility study of the industrial units under SILK, namely Autokast Ltd and SFU for the purpose of identifying suitable products to be manufactured in these units for the Railways. One of the point of the study was the development of the Business Plan for the identified product that included sensitivity analysis and RoR in case of various scenario.

9. On being asked how the proposal of Joint Venture came about, the representative of the Govt. of Kerala informed the Committee as under:-

“The feasibility study was done, the Railway Board Member - Mechanical, and Member - Finance had visited the place, had a detailed study. The RITES had conducted a pre-feasibility study and they found it feasible. Based on that there was an announcement in the Rail Budget in the Parliament in 2007-08 and in the same Demands for Grants a sum of ` 86 crore was allotted for this project.”

However, according to the Ministry of Railways the demands for grants for the year 2007-08 provided only a token budget of ` 10 lakh for the project.

10. RITES study inter-alia covered the following:-

- (i) Evaluation of assets and liabilities (of Autokast Ltd and SFU) arrive at the current value;
- (ii) Identify suitable products to be manufactured in these plants for Indian Railways; and
- (iii) Developing a business plan for proposed products indicating inputs required.

11. RITES completed the study of these units and submitted their report in 2007. The Report contained recommendations regarding JV Structures, various combinations of product mix in the form of scenarios for Autokast and SFU. A Business plan that included sensitivity analysis and RoR in case of various scenarios suggested was also a part of the Report.

12. Subsequently, in 2009 a shareholders agreement was signed between the Ministry of Railways and Government of Kerala for the purpose of forming a joint venture. In consideration of mutual commitments, covenants and agreements set-forth herewith the Ministry of Railways and the Government of Kerala agreed as follows:-

- (1) The objective of their agreement is to develop a joint venture company under Indian Companies Act, 1956 as one of the foremost units in the country in the field of fabrication of components. The units shall lay special emphasis for meeting requirements of the Railways so far as fabrication of bogies is concerned. The unit shall endeavour to ensure the highest level of quality and consumer satisfaction and shall work on signed principles.
- (2) The Railways shall hold 51% shares of the joint venture company and the Government of Kerala will hold 49% equity.
- (3) The Government of Kerala to provide a clear balance-sheet i.e. all the pending payments regarding employees or liabilities towards PSUs would have to be cleared by the Government of Kerala. It means that the Government of Kerala shall clear completely all their liabilities and obligations as owner, promoter and guarantor of Steel

Fabrication Unit and transfer all assets of Steel Fabrication Units of SILK to the joint venture along with employees in Phase-I.

The assets of Autokast of SILK will also be transferred to this joint venture along with employees in Phase-II of joint venture company in a phased manner within a period of three years with simultaneous clearance with all liabilities, obligations of Government of Kerala as Owner, Promoter and Guarantor of Autokast by the Government of Kerala.

(4) The Ministry of Railways shall provide necessary inputs in the form of investment, technology, management and training to start fabrication activity for their components and assemblies such as ICF bogies and side/end walls etc., for the wagons as per the requirements of the Indian Railways subject to manufacture being competitive in terms of price including transportation costs.

(5) The MoU also mentioned that the parties shall form a joint venture group (JWG) to be headed by the Advisor (Mechanical) Engineering Workshop, Railway Board (Indian Railways) and will consist of the following members:-

- (i) Director Railways Stores (W)/Railway Board/IR.
- (ii) Director Finance Exp-II/Railway Board/IR
- (iii) Principal Secretary, Industries, Govt. of Kerala.
- (iv) Secretary (I&P), Govt. of Kerala

(6) The JWG shall carry out the following functions:

- (i) To prepare business plan and work out the modalities for the formation of Joint Venture. This would include carrying

on the existing activities of production of castings at Autokast independently which would taper down as soon as the fabrication work picks up in Phase-I and completely integrate in JVC in Phase-II in three years period.

- (ii) To finalise the obligations, responsibilities, contributions, cooperation and comforts to be provided by each party including cost of project, means of financing, provision of technical know-how, other services and termination and the terms of conditions related to placement of orders and fixation of prices for the joint venture.
- (iii) To explore the possibility of fabrication business of other than Railways.

(7) According to the agreement it was agreed to constitute the joint venture within six months from the date of signing of MoU. The Board of Directors of the Joint Venture Company was proposed with the following composition:

- | | | |
|-------|-----------------------------|--|
| (i) | Chairman | Member Mechanical,
Railway Board/IR |
| (ii) | Managing Director | Nominee of IR |
| (iii) | Part Time Director (2 nos.) | Nominees of IR |
| (iv) | Part Time Director (3 nos.) | Nominees of GoK" |

13. As per shareholders agreement signed jointly between the Ministry of Railways and the Government of Kerala, the funds were to be infused in two phases, first phase being when the Joint Venture is formed and at that time Indian Railways

was to put in ` 18.36 crore and the Government of Kerala was to put in ` 2.69 crore. The balance of the ` 14.94 crore of the equity of the Government of Kerala was to come in as assets of SFU. In the second phase as Autokast was to be taken over in the next three years, Indian Railways were to put in sufficient equity to make its share of 51% after the entire valuation of the assets of the joint venture company including land. This agreement has not been implemented yet as Joint Venture has not been formed. For forming a Joint Venture the matter of actual disbursement of funds by both Indian Railways and Government of Kerala as envisaged in the shareholder's agreement has however remained only under active consideration and there has been no investment so far.

14. As per the suggestions of the RITES the products to be manufactured in these units were wagon and coaching components. Wagon components would be the side/end walls of the wagons and coaching component would be for the ICF bogie frame. In the meantime the Railways decided to manufacture only LHB coaches and phase out the ICF coaches as part of its modernization plan.

15. During the oral evidence, the Chairman, Railway Board, while explaining the rationale behind the new plan submitted before the Committee:

“The change which has taken place is that we had planned for an ICF bogie frame for the coaches there. But now with our modernization process of the Railways, we have decided that we will manufacture only LHB coaches and we are going in for the Fiat bogies also. This will give us the potential for running future trains at a very high speed, maybe up to 200 KMPH and since we are going to phase out the ICF design of coaches, we have already taken a decision that our Regional Coach Factory at Kapurthala will only build LHB coaches and the ICF coaches with the ICF bogie design will be built only in the Perambur unit of the ICF and the new factory which is going to come up at Raibareilly will be totally wedded to the manufacture of LHB coaches and even an advanced technological design of coaches for the time to come so that we can modernize our railway system. So, it was thought that for these ICF bogie frames, we already have capacity to build them in house in our units

and those already available in the trade and gradually within the next two to three years our requirements for ICF bogies will go down sharply.”

16. When asked why the Ministry did not take into account the modernization aspect at the time of signing MoU with the Government of Kerala, the Chairman Railway Board stated:

“In 2007 what we have envisaged we did not even know that Raebareilly would make only LHB kind of coaches. We had at that time not taken a decision that we will be going in for 100 per cent LHB design which is a German technology design for coaches in Kapurthala. It was thought that the ICF bogies were needed as per the calculation at that time, but we now know that we are going to have only the modern designs of coaches and had we also gone ahead, we would have been required to stop in between and then decide because we cannot just change a bogie design from one to other, now we are taking a decision which will be valid for next 15-20 years at least because the design that we are going in for will take us forward to a very high speed of running of trains and once the company starts manufacturing it will continue to do that for many years to come.”

17. Detailing it further the Chairman, Railway Board explained:

“Actually in 2007 when the feasibility report for this was prepared it was for making ICF bogie frames. In 2008 when MoU was signed it was making ICF bogie frames. This was the major component that was to be manufactured there. In 2006 or 2007 we never had an idea that we would be modernizing Railways so fast or doing things in a manner as you will see the coaches are now coming out. The Durantos are running, many new trains are now coming with new designs of coaches.

We have now decided (sometimes in 2009) that we will shift from ICF bogie frames to LHB bogie frames which will probable give us more than 200 kms. of speed. If I do not have a bogie frame which can befit a higher speed we cannot increase the speed of the trains later on. So it should be possible for us to get the ICF bogie frames from our own capacity and those already available in the trade.”

18. In the context of implementation of the agreement entered into between Ministry of Railways and Kerala Government, a representative of the Government of Kerala stated:

“We have signed a joint venture agreement in January 2009, once a joint venture agreement is signed it has to be honoured. We have been honouring

it in the State. We honoured agreements... I have signed a joint venture agreement with GAIL, SAIL, BHEL and all of them have followed the same procedure. The joint venture is signed, company is formed and business plan is done in consultation with whichever agency is there...let us finalise it.”

19. The Ministry in their written reply have stated that the viability and profitability of this Joint Venture would depend upon the right selection of product mix. Unless the scope of the products is aligned to meet the Railway's future requirements and the viability of these products is firmly established, it may be difficult to sustain the Joint Venture.

20. The matter was deliberated by the Railway Board wherein Board has decided that in view of changing technology, the scope of the Joint Venture needs to be aligned with the components that will be needed by the Railways in future.

21. In this context, the Railways have stated that the requirement of ICF bogies will go down sharply in a couple of years, as the Railways would switch over to LHB coaches. Thus, the products which will be manufactured in the Autokast and SFU units meant for ICF coaches will have no takers. Therefore, the Railways asked RITES on 27.12.2010 to study afresh this aspect and find out (i) Whether the LHB bogies frame and components for high capacity freight stock etc. could be manufactured in these units; (ii) The cost factor; (iii) The technological upgradation required; (iv) Investment needed.

22. Accordingly, RITES were awarded the study with following terms of reference:-

- (a) Financial due diligence to identify and assess all stated and un-stated liabilities of SILK (steel Fabrication Unit & Autokast Units).

- (b) To suggest restructuring plan i.e. conversion/re-scheduling/waiver of loans/liabilities of the units or concession to be provided by the Kerala Govt. which may have positive impact on the financial status of the units.
- (c) Suggest alternative business plans for manufacture of components for LHB coaches, high capacity freight stock and any other new generation rolling stock in use on Indian Railways. For developing business plans, 5 alternative options for manufacturing line will be considered in consultation with IR.
- (d) Investment scheme for each option bringing out:
 - (i) Requirement of funds including capital expenditure.
 - (ii) Estimated rate of return.
- (e) To prepare financial plan/cash flow model for the new entity to undertake sensitivity analysis of the financial plan and its impact on cash flows.

23. RITES made this study in the following overall backdrop:

1. A share-holders agreement has already been signed in May, 2009 between the Indian Railways and the Government of Kerala though not executed yet.
2. There has been a changed scenario in the Indian Railways since considerable new type of rolling stock has been inducted and there is a need to assess whether the investment being made will serve the long term requirement.

3. Autokast have already gone ahead with spending `8.96 cr. towards setting up a steel foundry with possibility of supply of steel castings to Indian Railways in mind.*

24. The Final Report of RITES regarding commissioning of Autokast factory at Cherthala, Kerala was submitted to the Ministry of Railways in November, 2011.

The findings of the RITES are as under:

“Details examined during the study have revealed that as far as Autokast is concerned, the following facts make it stand out as a foundry that can economically deliver in the long run:

*At the time of factual verification by the Ministry of Railways it was stated that the MoU as well as the shareholders agreement clearly stipulated tapering down the foundry business at Autokast within a period of three years.

1. It is located on a land that is rich in high silica sand. The company in fact is self-sufficient as far as its own sand requirements are concerned. All it has to pay for sand is the mining costs in its own premises with no additional transportation charges.
2. Being close to Kochi it has good access to the imported scrap. The company has so far been able to procure imported scrap at rates of less than ` .30 per kg allowing it to price its end product reasonably.
3. It has good foundry skills already available in house and can therefore adapt easily for steel foundry.
4. It has a low wage structure that makes it competitive in the industry. There are also no industrial disputes which gives it stability for making on time deliveries.”

While Autokast needs a captive market during the formative years of its steel foundry, IR also has a need for steel castings for its own workshops and PSU's that are engaged in wagon manufacture. A total of nearly 4000 wagons are going to be made annually in the near future in these units and most of these are dependent on Railway Board for procurement of the castings. Therefore, IR may commit assured offtake for a period of 5 years.

This may be reviewed after 5 years and the commitment may be extended based on mutual agreement.

Results of financial analysis for chosen products manufactured at possible assured off take levels shows that both Autokast and SFU become

financially viable only if they remain a State PSU of Government of Kerala since:

1. Wages can remain as per the agreements between the SILK Union and Autokast/SFU management thereby maintaining competitiveness and
2. The units remain Government of Kerala, PSU, therefore, land valuation and its impact on IRR ceases to be an issue.

The IRR obtainable for Autokast at the investment of level of ₹.35 cr is about 14.14% in the above scenario and that for SFU at an investment level of ₹.23.5 cr is about 12.99%. Both the units are considered viable in such a scenario.

Another alternative scenario has also been considered. Autokast is a brown field investment whereas the SFU is in reality a green field investment as most of the existing SFU machinery is not usable and there are also limited in house skills available to make the fabrication identified. Therefore, there would be better chances of success of Autokast as against SFU. To leverage Autokast's strength, it is considered that SFU be merged with Autokast and merged entity gets out of fabrication business. This merger would give the following benefits to the resultant entity viz.

1. Autokast will get access to 26 acres of SFU land that can be used for it to mine sand for its foundry use.
2. Autokast will also get access to the welding skills that would be useful in fettling and finishing of its castings.
3. SFU staff can be easily accommodated in a growing organization of Autokast as staff strength of SFU is only 36 as against total staff strength of Autokast expected to go upto 715.
4. Fund requirement will be reduced to ₹ 35 cr only as against ₹.58.5 cr.
- 5.

In view of overall synergies and safety of investment, it is, therefore, recommended that investment in Autokast is made for manufacture of the wagon castings identified.

An important aspect though with any assured off take is the matter concerning mode of procurement that enables discovery of prices. An important aspect for survival of any business entity is the price it will be able to command for the products and services it delivers to its customers. This will depend to a large extent on the way it is able to conduct its business with its customers. In the initial stages of the company/entity will have to deal with only Indian Railways and an assessment will have to be made on how it will achieve the supply prices in reality.

There are various facets of supply arrangements that Indian Railways has with its own PSU's as well as PSU's of some other Ministries. Thereafter, Indian Railways would focus on the arrangement it needs to have with the company/entity.

Indian Railways have various arrangements with its main suppliers of rolling stock as well as its components. Some have assured AOT where there are other long standing associations with such clarity. The other aspect is of the price at which Indian Railways procures. This limits the quantity of off take that Indian Railway can give even if there are benefits of backward integration. This study has therefore, taken only 30 to 40% of the overall quantity that IR indents for the sake of possibility of assured off take.”

25. The conclusions and recommendations of RITES made in their second Study Report are as follows:

1. The existing shareholders agreement is no longer relevant in the changed circumstances and cannot be further pursued.
2. Autokast takes up the project for manufacture of steel castings required for manufacture railway wagons.
3. IR commits itself for providing an assured off take for a period of five years for the annual quantities of 3000 CASNUB bogies and 2000 couplers at a market determined price. This can be reviewed after 5 years and extended based on mutual understanding. This has to take in account the progress of Jelligham project.
4. Investment of ` 35 cr required to make the project functional is made by Government of India or Government of Kerala.
5. These units should continue to work as Government of Kerala PSU.

26. As per the business plan suggested by RITES, Autokast could continue the current line of product, namely GI casting and SGI castings and augment its product portfolio by adding to it suitable steel casting products for the Railways. It concludes that most suitable product-mix will be CASNUB bogie with its variants and new type of couplers. The report says that the quantity of products suggested for manufacture is based on the current capacity of Autokast and also the ability of

Indian Railways to offer the same at an assured off take in such a way that price determination is possible during procurement.

27. As regards the Steel Fabrication Unit, the report suggests that it should discontinue its existing products as the return on them is low and concentrate on manufacture of components to meet the requirements of the Railways. This will necessitate significant upgradation of its skill level. The product which can be manufactured by the Steel Fabrication Unit is for LHB Frame Front Part. However, the alternate option suggested by RITES is merger of SFU with Autokast and the merged entity to get out of fabrication business.

28. During the evidence it was brought to the notice of Committee by a representative of the Government of Kerala that after a detailed study done by the RITES in 2007 the feasibility of the project was established and the Railways had provided for ` 10 lakh in the budget of 2007-08. The Government of Kerala had taken steps for facilitating the setting up of the Joint venture as per the shareholder's agreement before the Ministry of Railways and the Government of Kerala. The Government of Kerala had initiated steps to take over the liabilities of the two units so that they could be handed over to the proposed Joint Venture free of liabilities. The Government of Kerala wanted the Joint Venture to be set up without further loss of time.

29. In this context, the Principal Secretary, Government of Kerala submitted before the Committee as follows:

“That the original company was divided into three portions of which two parts were included in the Joint Venture in 2007-08. As soon as the agreement was signed from 2009-10 both these units were de-linked from original company and their liability was transferred to the main company. Now the main company is showing the losses and audit has raised objection regarding the

amount of loss. Further, the main problem is that we have invested ₹.10 crores for the modernization plan as per the feasibility report of the RITES but how to proceed further in this case actually these two units are not doing anything at present. Earlier, these units were doing fabrication work for other departments and since they have been de-linked no work is going on in these units. However, the labour and the over-head charges for payment to the employees has to be made and to this extent the units are undergoing the losses.”

30. While responding to it, the Chairman Railways Board assured the Committee that:

“I would like to assure this Committee that the decision that we are taking is in the overall interest of the nation. It is in the overall interest of a JV. We have a MoU signed to form and we will soon come up, the moment the RITES Report is available, which we are ourselves chasing. Thereafter, we will come up with our business plans for JV and only then we can approach the Government of India with a Cabinet Note for giving us approval where we have to give details of the technology that we are adopting and what we are going to manufacture and the cost at which it will be done. All that will be forming a part of that Cabinet Note.”

31. After receipt of the final Report of RITES and in light of its findings the Ministry of Railways have taken a final decision and intimated the same to the Committee as follows:-

“...the subject has been deliberated in this Ministry and it has been considered to pursue option / scenario 3 as recommended by RITES i.e. the units to remain as Government of Kerala PSU. Indian Railway commit itself for providing an assured off take for a period of five years for annual quantities of 3000 CASNUB bogies and 2000 couplers at a market determined price. This can be reviewed after 5 years and extended based on mutual understanding. This has to take into account the progress of Jellingham project. The matter is accordingly taken up with Government of Kerala.”

32. The Ministry of Railways has also informed the State Government that the suggestion of M/s RITES that the two units would continue with Government of Kerala supported and supplemented by an assured off take from the Railways is preferred and considered viable option.

33. The Ministry of Railways have sought confirmation of the State Government's willingness to meet this assured business being offered by the Railways and agree for formation of a Joint Working Group comprising of the representatives from the

Government of Kerala, Autokast/SFU and the Railways to work out the detailed modalities for providing this assured business to these units for their sustained viability.

34. The Government of Kerala have intimated the Committee that:

“On 27th February, 2009, Government of Kerala (GOK) had entered into a Shareholders Agreement with Ministry of Railways for manufacture of fabricated Bogie Frames and Side/End Walls of Wagons and other items for Coaches, Wagons and Locomotives in a Joint Venture Company to be formed under the name and style of KERALA RAIL COMPONENTS LIMITED in the premises of AUTOKAST LIMITED, utilizing the Assets and Employees of both Steel Fabrication Unit of SILK and AUTOKAST. But unfortunately the project could not be implemented within the time frame as stipulated in the Agreement.

Government of Kerala has already met all commitments like providing land, delinking SFU from SILK etc in order to expedite project.

Hence, it is suggested that Ministry of Railways may be directed to implement the project as Joint Venture of which Agreement has already been signed.”

PART-II

RECOMMENDATIONS/OBSERVATIONS OF THE COMMITTEE

35. The Railway Convention Committee (2009) have inter-alia selected Pending ongoing projects of the Ministry of Railways in the country and its time and cost overrun effects as one of the subjects for detailed examination. In the context of projects formulation and implementation of the Railway Projects, the Committee decided to make a detailed study on commissioning of Autokast Factory at Cherthala, Kerala as a case study. The findings/recommendations of the Committee are detailed in succeeding paragraphs.

36. The Committee note that the Ministry of Railways mooted a proposal to set up a Joint Venture with the Government of Kerala in 2007 to manufacture wagon and coaching components for the Railways in Autokast and Steel Fabrication Units situated at Cherthala of Allapuzha district of Kerala. However, the developments thereafter shows that the Railways have not shown any enthusiasm in implementing it. The first pre-feasibility study report of RITES was available with the Railways in 2007 based on which, provision of ₹ 10 lakh was kept in the Budget (2007-08) for the project. The share holder's agreement was signed between the Railways and State Government of Kerala in 2009. Thereafter, the proposal for setting up the Joint Venture was put on the back burner. The Committee are surprised to find that even after a lapse of 5 years the project is nowhere in sight. The Committee find that the shareholder's agreement to set up a Joint Venture for manufacturing the components for wagons and coaches of ICF design was signed in 2009 and in the same year the decision was taken to shift from ICF bogie frames to LHB

bogie frames. It is difficult to believe that the modernization plan was not under consideration of the Railways when the share holder's agreement was signed in 2009 for manufacturing of ICF bogie frames in the above mentioned units of Kerala particularly when the LHB coaches were introduced in Railways as back as December, 2003. It is obvious that different wings of Railways were not working in a coordinated manner. The Committee are displeased to find lack of seriousness on the part of the Railways which has caused inordinate delay in the implementation of the project. The Committee would await necessary explanation as to how it happened.

(Rec. Sl. No.1)

37. The Committee note that as a follow-up action on Shareholder's agreement entered into in 2009 between the Railways and the Government of Kerala, the Government of Kerala has already delinked the two units', from SILK, production activities have been halted and their liabilities have been shifted to the main company (viz. SILK) due to which a number of Audit objections have been brought against the main company regarding losses (since Autokast and SFU have stopped operations). The employees are getting salary without any work. The Committee also feel that assured off take or hand-holding by the Railways for a period of 5 years as per the revised decision is not an appropriate and workable solution since the Joint Venture project as conceptualized was to work for Railways without any time line restrictions. In any case after modernization, the Railways themselves have a policy of continuing the same for approximately 20 years period. The Chairman, Railways Board himself assured the Committee of coming up with business plans for the Joint Venture and trying to take decisions which is not

contrary to the MoU which has been signed. The Committee, therefore, recommend that the Railways should honour their own initial commitment of setting up the Joint Venture as envisaged instead of dragging their feet by evasive tactics such as conducting RITES study second time after making a Budget provision based on pre-feasibility study of RITES and taking a plea of policy of modernized LHB coaches.

(Rec. Sl. No.2)

38. The Committee find that a pre-feasibility study was conducted by RITES, a PSU of the Ministry of Railways, regarding formation of the Joint Venture Company in the name of Kerala Rail Components Limited. They find that in its report in 2007, RITES had inter-alia recommended formation of Joint Venture structure, various combinations of product mix and the form of different scenarios for Autokast and SFU. The Report had also suggested a business plan that included sensitivity analysis and RoR for various likely scenarios. Based on the RITE's first Report, a budget provision of ` 10 Lakh was kept in the Railway Budget (2007-08) for the project and a share holder's agreement was signed in 2009. The Committee are unable to understand the purpose of conducting another RITES study within a period of 2 years for the same project. They feel that not only this amounts to duplication of efforts, time and financial burden on public exchequer but also reflects on the RITES Study made in 2007. The Committee strongly feel that at the time of making pre-feasibility study on a project, RITES, being a PSU of Railways should have kept themselves abreast of the latest technology and the Railways should have shared the policy changes being considered so that a fool proof study valid for a longer period could have been made. A proper communication between

the Railways and RITES would have saved a lot of valuable time, efforts and money. The Committee would like to be apprised as to why necessary inputs were not provided to RITES, at the time of their pre-feasibility study (the 1st study by RITES) for the Autokast Project.

(Rec. Sl. No.3)

39. The Committee find that the RITES Report of 2011 has recommended that proper investment should be made in the Autokast unit for manufacture of Wagon castings. This report of RITES has also recommended that the Railways should commit itself for providing an assured off take for a period of 5 years for the annual quantities of 3000 CASNUB Bogies and 2000 Couplers and after 5 years, it could be reviewed and extended based on mutual understanding. The Committee are aware that in order to expedite the project the Government of Kerala has already met all commitments like providing land, delinking Autokast and SFU from SILK, etc. The Committee are also aware that the proposed Joint Venture Company is an important project so far as Railways and the Kerala State is concerned. The Committee expresses their unhappiness over the undue delay which has occurred in finalization of this project. Therefore, the Committee strongly recommend that the Railways should set up the Joint Venture as per the initial shareholder's agreement for the manufacture of the components for the new Wagons and Coaches without any further loss of time and utilize the land and other skills available at Autokast and SFU units by modernizing the units as per the requirement of the Railways. Similarly, all existing employees of the units should be given necessary training to upgrade their skills. These measures by Railways will not only be a positive step for honoring agreement between a Central Ministry

and a State Government but also will create productive infrastructure unit for the Railways. The Committee would like to be apprised of the concrete action taken in the matter within 3 months of presentation of this Report.

(Rec. Sl. No.4)

40. The case study of formation of this proposed Joint Venture has revealed that the project planning/implementation, technology upgradation / absorption in Railways projects require a thorough review so as to ensure that agreements of Railways are honoured in letter and spirit, funds provided in Budget are optimally utilized, latest technology/quality concepts are incorporated in project formulations, time lines are fixed and followed. Needless to emphasize, there should be in-built system of fixing responsibilities for delays, non-performance and ad-hoc decisions. The Committee, therefore, recommend that the Railways should make a review of the ongoing projects in light of the above parameters and apprise the Committee accordingly with in a period of 3 months.

(Rec. Sl. No.5)

New Delhi ;
26 July, 2012
4 Sravana, 1934 (Saka)

ARJUN CHARAN SETHI,
Chairman,
Railway Convention Committee.

**MINUTES OF THE SEVENTH SITTING OF THE RAILWAY CONVENTION
COMMITTEE (2009) HELD ON 4th FEBRUARY, 2011 IN COMMITTEE ROOM NO. 'D'
PARLIAMENT HOUSE ANNEXE, NEW DELHI**

The Committee sat from 1100 hrs. to 1145 hrs.

PRESENT

Shri Arjun Charan Sethi - Chairman

MEMBERS

Lok Sabha

2. Shri Hansraj Gangaram Ahir
3. Shri P. Balram Naik
4. Shri R. K. Singh Patel
5. Shri Arjun Roy
6. Shri C.L. Ruala
7. Shri K. C. Venugopal

Rajya Sabha

8. Shri Shyamal Chakraborty
9. Shri A. Elavarasan
10. Shri Parvez Hasmi
11. Shri Ram Chandra Khuntia
12. Shri Shreegopal Vyas

SECRETARIAT

- | | | |
|----|--------------------|------------------|
| 1. | Shri Braham Dutt | Joint Secretary |
| 2. | Shri Abhijit Kumar | Director |
| 3. | Shri Ramesh Lal | Deputy Secretary |

LIST OF WITNESSES

MINISTRY OF RAILWAYS (RAILWAY BOARD)

- | | | |
|----|---------------------|--|
| 1. | Shri Vivek Sahai | Chairman, Railway Board & Ex-officio Principal Secretary to the Government of India. |
| 2. | Shri Samar Jha | Financial Commissioner, Railways & Ex-officio Secretary to the Government of India. |
| 3. | Shri Sudesh Kumar | Member Electrical, Railway Board & Ex-officio Secretary to the Government of India. |
| 4. | Shri V. N. Tripathi | Member Staff & Ex-officio Secretary to the Government of India. |

STATE GOVERNMENT OF KERALA

- | | | |
|----|-------------------------------|--|
| 1. | Shri Alkesh Kumar Sharma, IAS | Secretary (Industries –Investment Promotion) & MD, KSIDC |
| 2. | Dr. K. Gopakumar | Addl. Private Secretary to Minister for Industries |
| 3. | Shri K. P. Bharatan | Managing Director Autokast Limited |

(2) At the outset, the Hon'ble Chairman welcomed the Members of the Committee, representatives of the Ministry of Railways and State Government of Kerala. The Hon'ble Chairman also congratulated Shri K. C. Venugopal, a Member of the Committee, on his becoming Minister of State for Power in the Council of Ministers.

(3) Thereafter, the Chairman, Railway Board spelt out the factors/ reasons causing delay in commissioning the Joint Venture Project under the name Kerala Rail Components Ltd. (Autokast Factory) at Cherthala, Kerala.

(4) The Committee also heard the views of the representative of the State Government of Kerala regarding delay in commissioning this Joint Venture Project.

(5) The Committee discussed with the representatives of the Ministry of Railways (Railway Board) and the State Government of Kerala on the following important points relating to the project:-

- (i) Implementation of MOU by Railways and State Government.
- (ii) Reasons for delay in commissioning the Joint Venture Project under the name Kerala Rail Components Ltd. (Autokast Factory) at Cherthala, Kerala.
- (iii) Latest status of this Joint Venture Project.
- (iv) Budget provision for the project.
- (v) Time frame set for clearing the project.
- (vi) Time frame for RITES study for the project

(6) The Members sought clarifications on various issues relating to the project and the representatives of the Ministry of Railways (Railway Board) and the State Government of Kerala responded to the same.

(7) A verbatim record of the proceedings of the sitting of the Committee has been kept.

The Committee then adjourned.

MINUTES OF THE NINETEENTH SITTING OF THE COMMITTEE HELD ON
WEDNESDAY, THE 18 JULY, 2012

The Committee sat from 1100 hrs. to 1130 hrs. in Room No.133-A, First Floor, Parliament House Annex, New Delhi.

PRESENT

Shri Arjun Charan Sethi - Chairman

Members

Lok Sabha

2. Shri Hansraj Gangaram Ahir
3. Dr. Baliram
4. Shri Marotrao Sainuji Kowase
5. Shri P.Balram Naik
6. Shri R.K.Singh Patel
7. Shri Ramsinh Rathwa
8. Dr. Arjun Ray
9. Shri C.L.Ruala
10. Shri Radha Mohan Singh
11. Shri Vilasrao Baburaoji Muttemwar

Rajya Sabha

12. Shri Shyamal Chakraborty
13. Shri Parvez Hashmi
14. Shri Ram Chandra Khuntia

Secretariat

- | | | | |
|----|----------------------------|---|---------------------|
| 1. | Shri Brahm Dutt | - | Joint Secretary |
| 2. | Smt. Abha Singh Yaduvanshi | - | Director |
| 3. | Shri S.Chatterjee | - | Additional Director |

2. At the outset, the Chairman welcomed the Members to the sitting of the Committee. Thereafter, the Committee considered the draft report on 'Pending on-going projects of Indian Railways – The Commissioning of Autokast Factory at Cherthala, Kerala – A case study' and after due deliberations adopted the same.

3. The Committee also authorized the Chairman to finalize the Report and present the same to the Parliament.

The Committee then adjourned.

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