

RAILWAY CONVENTION COMMITTEE

(2009)

(FIFTEENTH LOK SABHA)

SEVENTH REPORT

ON

**ACTION TAKEN BY THE GOVERNMENT
ON THE RECOMMENDATIONS
CONTAINED IN THE FOURTH REPORT OF
RAILWAY CONVENTION COMMITTEE (2009)
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

May, 2013/ Vaisaka 1935(S)

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Presented to Lok Sabha on 08.05.2013

Laid in Rajya Sabha 08.05.2013



LOK SABHA SECRETARIAT

NEW DELHI

May, 2013/ Vaisaka 1935 (S)

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COMPOSITION OF RAILWAY CONVENTION COMMITTEE (2009)

Shri Arjun Charan Sethi, MP - Chairman

LOK SABHA

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

RAJYA SABHA

13. Shri Shyamal Chakraborty
14. Shri A. Elavarasan
15. Shri Parvez Hashmi **
16. Shri Rama Chandra Khuntia
17. Dr. Bharkumar Raut***
18. Shri D.P.Tripathi***

SECRETARIAT

- | | | | |
|----|----------------------------|---|-------------------------|
| 1. | Shri Hardev Singh | - | Joint Secretary |
| 2. | Smt. Abha Singh Yaduvanshi | - | Director |
| 3. | Shri S. Chatterjee | - | Additional Director |
| 4. | Smt. Juby Amar | - | Deputy Secretary |
| 5. | Shri Yogender Kumar Indu | - | Sr. Executive Assistant |

* 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.

*** Nominated *w.e.f.* 10.10.2012 *vide* Bulletin Part-II No. 4545 dated 18.10.2012.

INTRODUCTION

I, the Chairman of the Railway Convention Committee (2009), having been authorized by the Committee present this Seventh Report on Action Taken by the Government on the observations/recommendations contained in their Fourth Report on 'Pending on-going Projects of the Ministry of Railways –Commissioning of the Autokast Factory at Cherthala,Kerala - A Case Study.'

2. The Fourth Report was presented to Lok Sabha on **14th August, 2012** and laid on the Table of Rajya Sabha on the same day. It contained 5 observations/recommendations. Action Taken replies on all the 5 observations/recommendations were received from the Ministry of Railways (Railway Board).

3. The Committee considered and adopted the Draft Report at their sitting held on **7th May, 2013**. The Minutes of the sittings of the Committee are given at Appendix-I.

4. An analysis of action taken by the Government on the observations/recommendations contained in their Third Report is given at Appendix-II .

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.

NEW DELHI;
7th May, 2013
Vaisakha 17, 1935 (S)

ARJUN CHARAN SETHI
Chairman,
Railway Convention Committee

PART -1

REPORT

CHAPTER-1

This Report of the Committee deals with the Action Taken by the Government on the observations and recommendations contained in their Fourth Report (Fifteenth Lok Sabha) on “Pending on-going Projects of the Ministry of Railways–Commissioning of the Autokast Factory at Cherthala, Kerala - A Case Study’ which was presented to Lok Sabha on 14th August, 2012 and laid on the Table of Rajya Sabha the same day. It contained five observations/recommendations.

2. The Action Taken replies on both the observations and recommendations have been received from the Ministry of Railways (Railway Board) and the same have been categorized as under:

- | | | |
|-------|---|--------------------------|
| (i) | Recommendations/Observations which have been accepted by the Government:
Para Nos. 36 & 40 | Total : 2
Chapter-II |
| (ii) | Recommendations/Observations which the Committee do not desire to pursue in view of the Government’s replies:
NIL | Total : 0
Chapter-III |
| (iii) | Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee and which require reiteration:
Para Nos. 37,38 & 39 | Total : 3
Chapter-IV |
| (iv) | Recommendations/Observations in respect of which final reply of the Government is still awaited.
NIL | Total 0
Chapter-V |

3. The Committee will now deal with the Action Taken by the Ministry of Railways (Railway Board) on those recommendations /observations that require reiteration.

A. Implementation of the Revised Business Plan

Recommendation Sl. No. 2 (Para No. 37)

4. The Committee had noted that as a follow-up action on Shareholders agreement entered into in 2009 between the Railways and the State Government of Kerala, the Government of Kerala had already delinked the two units', viz Autokast Ltd. and Steel Fabrication Unit(SFU) from Steel Industrial Kerala Limited (SILK), production activities were halted and their liabilities were shifted to the main company (viz. SILK) due to which a number of Audit objections were brought against the main company regarding losses (since Autokast and SFU had stopped operations). The employees were getting salary without any work. The Committee had also felt that assured off take or hand-holding by the Railways for a period of 5 years as per the revised decision, was 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, Railway Board had himself assured the Committee of coming up with business plans for the Joint Venture and trying to take decisions which were not contrary to the MoU which had been signed. The Committee had, therefore, recommended that the Railways should honour their own initial commitment of setting up the Joint Venture as envisaged instead of dragging

their feet by 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.

5. In their action taken reply, the Ministry of Railways have stated as under:

"The Memorandum of Understanding (MoU) signed in 2008 for setting up the Joint Venture by utilizing the assets of Steel Fabrication Unit (SFU) and M/S. Autokast was based on a RITES study of 2007 which had concluded that while SFU can take up manufacture of ICF coach bogie frames and BOX/BOXN sidewalls and end walls, Autokast is viable only if it is taken up for wheel assembly by closing the foundry unit. The MoU clearly spelt out that this was subject to the manufacture being competitive in terms of price including transportation cost. The sustainability of the proposed JV hinges on the viable manufacture of components required by the Railways in the future.

The Chairman Railway Board in his oral evidence had only mentioned that the design changes being done at this stage would be valid for next 15-20 years. In any case the proposed JV was envisaged as a PSU only and not as a departmental unit.

As regards using evasive tactics pointed out by the RCC, it is mentioned that the second study by RITES had become inescapable considering the fact that RITES in their 2007 report had envisaged tapering down and closing of foundry units at Autokast. However taking into account the fact, that over last 03 years, with support from GOK and their own initiative, the foundry units have done well, they need to be further nurtured and not closed down as envisaged in the MoU of 2008. Following the RITES report would have meant closure of the foundry unit and its replacement with wheel set pressing facility. The MoU had also clearly spelt out that the manufacture was subject to it being competitive in terms of price including transportation cost. The transportation cost when factored in adversely impacted the viability of units even at that stage.

M/S. RITES in their 2011 study have factored in the fact that with an investment of Rs. 10 crore by Govt. of Kerela in Autokast foundries and through the initiative of the present management, a substantial non Railway foundry business has already been captured by Autokast with a turnover of more than Rs. 20 crore. Given the fact that an existing and lucrative revenue stream should be nurtured, coupled with the fact that the Railways have no experience in manufacture and marketing non-Railway products, the option as suggested by RITES of the units continuing with GOK, supported and supplemented by an assured off take from the Railways has been preferred being the only

viable option to sustain these units in the long run. It has been clearly brought out by RITES in their report of 2011 that formation of JV would make these units unviable and hence not sustainable in the long run.

This is also announced by the then Hon'ble Minister of Railways in her budget speech of 2011-12 which reads:

"Railways are interested to partner with Autokast and SILK at Cherthala, for which business plan is being revised to bring it in line with the current needs of the Railways."

6. The Ministry of Railways have stated that the MoU had clearly spelt that manufacture was subject to it being competitive in terms of price including transportation cost. The transportation cost when factored in adversely impacted the viability of units even at that stage. The Committee are unable to understand the need for MoU between the Ministry of Railways and the Government of Kerala (GOK) since both the SFU and Autokast were in the red, hence the non-implementation of MoU was almost a foregone conclusion.

The Railways in their reply have also stated that the Minister of Railways in her budget speech of 2011-12 had announced that "Railways are interested to partner with Autokast and SILK at Cherthala, for which business plan is being revised to bring it in line with the current needs of the Railways." The Committee are unaware about the implementation of this announcement as the 'business plan' mentioned above is nowhere to be seen even after two years. The Committee, therefore, recommend that the Railways should bring out the business plan as declared by the Minister of Railways and implement it at the earliest. The Committee would like to be apprised of the 'business plan' which is reportedly being revised in line with the current needs of the Railways as also its implementation.

B. Lack of proper communication between Railways and RITES

Recommendation Sl. No. 3 (Para No. 38)

7. The Committee found 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 found 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 RITES' first Report, a budget provision of Rs.10 lakh was kept in the Railway Budget (2007-08) for the project and a share holders agreement was signed in 2009. The Committee were unable to understand the purpose of conducting another RITES study within a period of 2 years for the same project. They felt 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 felt 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 foolproof 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.

8. In their action taken reply, the Ministry of Railways have stated as under:

"The first study of RITES was made in the year 2007. The product mix suggested by RITES in their report viz. castings (I option) and wheelsets (II option) projected a negative or low rate of return. The subsequent MOU of 2008 had envisaged tapering down and closing of foundry units at Autokast. However considering the fact, that over last 03 years, with active support and investments from GOK, the foundry units have done well (with a turnover of Rs 20 Crs), they need to be further nurtured and not closed down as envisaged in the MOU of 2008. Following the RITES report would have meant closure of the foundry unit and its replacement with wheel set pressing facility. The MOU had also clearly spelt out that the manufacture was subject to it being competitive in terms of price including transportation cost. The transportation cost when factored in adversely impacted the viability of units even at that stage.

As already explained under ATN of recommendation no. 01 that when this project was envisaged it was not yet decided that the new coach factory at Rae-Bareilly would be making only LHB coaches. It was also not envisaged at that time that Railways would be gradually shifting to 100% LHB design coaches as was also recommended subsequently by the expert committees. Therefore while the JV was envisaged taking ICF coaches into consideration, once it was decided to shift over to the new design rolling stock, which would be valid for next 15-20 years it was necessary to take it into account a suitable product mix for viability and long term sustainability of these units. This was also announced by the then Hon'ble MR in her budget speech of 2011-12 which reads:

"Railways are interested to partner with Autokast and SILK at Cherthala, for which business plan is being revised to bring it in line with the current needs of the Railways."

9. The Committee are at a loss to understand the need for conducting the RITES study twice. The suggestions given in the second study by RITES are contrary to those given in the first study. RITES in their first study in 2007 had 'envisaged tapering down and closing of foundry units of Autokast' whereas in their second study in 2011 RITES had recommended that 'formation of JV would make these units unviable and hence not sustainable in the long run'. Such contrary reports within a span of just four years also raises a question mark on the competency of RITES. The Committee feel that the study on the same project twice raises serious doubts not only on the foresight of Railways but also brings out glaring gaps in communication between the Railways and its PSU, RITES while carrying out pre-feasibility study. The Committee, however, find it strange that the Ministry of Railways have not responded to such an important recommendation of the Committee regarding necessary inputs being provided by the Ministry of Railways to RITES at the time of their pre-feasibility study for the Autokast Project. They would, therefore, like to reiterate their earlier recommendation and would desire to be apprised as to why necessary inputs were not provided to RITES (1st RITES study) at the time of pre-feasibility study for the Autokast Project. They would like to be apprised of the same within three months of presentation of this Report.

C. Assured Offtake by Railways

Recommendation Sl. No. 4 (Para No. 39)

10. The Committee found that the RITES Report of 2011 had recommended that proper investment should be made in the Autokast unit for manufacture of Wagon castings. This report of RITES had 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 were aware that in order to expedite the project the Government of Kerala had already met all commitments like providing land, delinking Autokast and SFU from SILK, etc. The Committee were also aware that the proposed Joint Venture Company was an important project so far as Railways and the Kerala State were concerned. The Committee expressed their unhappiness over the undue delay which had occurred in finalization of this project. Therefore, the Committee strongly recommended 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 would not only be a positive step for honouring 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.

11. In their action taken reply, the Ministry of Railways have stated as under:-

"Board in its meeting on 01.11.12 has considered the matter regarding formation of Joint Venture Company with the Government of Kerala for manufacture of Rail Components and has decided to continue with its earlier decision wherein it was decided that instead of forming the JV, a commitment to be made of assured off-take quantities of 3000 CASNUB bogies and 2000 couplers to these units, under Government of Kerala, at a market determined price, for a period of 05 years as communicated to the Government of Kerala vide Chairman Railway Board's D.O. No. 2009/M(W)/814/67/SILK/DUP Pt I dated 29.02.12.

12. The Committee had noted that as per the report of RITES, 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 Ministry of Railways in their action taken reply have stated that 'Board in its meeting on 01.11.12 has considered the matter regarding formation of Joint Venture Company with the Government of Kerala for manufacture of Rail Components and has decided to continue with its earlier decision wherein it was decided that instead of forming the JV, a commitment be made of assured off-take of 3000 CASNUB bogies and 2000 couplers from these units, under Government of Kerala, at a market determined price, for a period of 05 years'. It is, however, not clear from this reply as to what would be the mode of operation and the basis of the assured off take in future. The Committee are apprehensive that like the initial MoU which has not been honoured, the assured off take may also be left mid-way. The Committee observe that as stated by the Railways in their reply, the design changes of LHB coaches would be valid for 15-20 years and the assured off take for 5 years (presuming the parts are being used for LHB coaches) have been worked out . The Committee, therefore, recommend that the Railways should work out the assured offtake for atleast 15-20 years instead of 5 years.

The Committee would urge the Ministry of Railways to honour their proposal of assured offtake and not leave it midway on any pretext as was the case with implementation of JV. They would also like to be apprised with clarity about the mode of operation and the basis of the assured off take by the Ministry of Railways.

CHAPTER-II

RECOMMENDATIONS AND OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation Sl. No. 1 (Para No. 36)

The Committee note that the Ministry of Railways mooted a proposal to set up a Joint Venture with Kerala Government 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 Rs.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.

Reply of the Government

During oral evidence before the RCC, the Chairman Railway Board has already stated that when this project was envisaged it was not yet decided that the new coach factory at Rae-Bareilly would be making only LHB coaches. It was also not envisaged at that time that Railways would be gradually shifting to 100% LHB design coaches as was also

recommended subsequently by the expert committees namely the SAM PITRODA committee on modernisation which recommended "Modernisation of Rolling Stock with investment in High Speed potential LHB coaches (160/200 kmph)" and the KAKODKAR committee on safety which stated that "the committee is of the view that ICF design coaches of passenger coaches that served IR for many decades are no more safe at the present operational speeds of 100-120 kmph with trailing loads of 20-24 coaches."

Therefore, while the JV was envisaged taking ICF coaches into consideration, once it was decided to shift over to the new design rolling stock, which would be valid for next 15-20 years it was necessary to take it into account a suitable product mix for viability and sustainability of these units. This was also announced by the then Hon'ble MR in her budget speech of 2011-12 which reads:

"Railways are interested to partner with Autokast and SILK at Cherthala, for which business plan is being revised to bring it in line with the current needs of the Railways."

[Ministry of Railway (Railway Board) O.M. No.2009/RCC/206/3 Dated 18.12.12.]

Recommendation Sl. No. 5 (Para No. 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 within a period of 3 months.

Reply of the Government

The project 'Autokast Factory at Cherthala, Kerala', proposed as a Joint Venture Unit between Ministry of Railways and Government of Kerala, is an isolated case amongst a number of Joint Venture infrastructure projects conceived and implemented by Indian Railways. There is a rigorous multi layered system of project scrutiny adopted on the Indian Railways before it is sanctioned and given shape to ensure that project outcome and deliverables are in line with the overall goals and objectives of the organisation. As regards the ongoing projects as on 31.3.2011 is Rs 2,18,110 Crore. As a result, the available funds are distributed over a number of projects, thereby, resulting in time and cost overrun of the project.

In respect of the Joint Ventures, MOR has implemented a number of projects successfully for Gauge Conversion as well as New Line works in participation with State Governments, major Ports and other Stakeholders. PRCL (Pipavav Railway Corporation Limited), HMRDC (Hassan Mangalore Rail Development Co. Ltd.), Kutch Railway Company and BDRCL (Bharuch Dahej Rail Development Company Ltd.) have been commissioned in 2003, 2006, 2007 and 2012 respectively. The Phase-I of Krishnapatnam Railway Company

was commissioned in 2008. These Joint Venture Companies have been earning revenue since they were operationalised.

The implementation of other Joint Venture Projects such as Haridaspur-Paradeep, Angul-Sukinda and Phase-II of Krishnapatnam line is in progress.

The detailed status of the Joint Venture projects is given below:

PRCL (Pipavav Railway Corporation Ltd.)

Pipavav Railway Corporation Limited is the first Joint Venture Company of Ministry of Railways having 50% equity from the private sector. Gujarat Pipavav Port Limited is the other equity partner in the Joint venture having equal stake. The Concession Agreement was signed in March 2001. The project has become operational in 2003. The SPV line has a route length of 264 kms. from Surendranagar to Pipavav port.

HMRDC (Hassan Mangalore Rail Development Co. Ltd.)

Hassan-Mangalore Gauge Conversion project was implemented through a Special Purpose Vehicle named Hassan Mangalore Rail Development Co. Ltd. (HMRDC). Ministry of Railways holds about 40.2% of the equity and the rest are with the Government of Karnataka and other strategic investors. The length of the Hassan-Mangalore section is approximately 189 kms. The Concession Agreement was signed in March 2004 and the project has become operational in 2006-07. This project is an important connectivity for Mangalore port.

Kutch Railway Co. Ltd.

Kutch Railway Co. Ltd. (KRCL) is a Joint Venture Company of RVNL and was incorporated in 2004. RVNL holds 50% of the equity on behalf of the Ministry of Railways and the rest of the equity is held by Kandla port, Government of Gujarat and others. The Concession agreement was signed in 2005 and the line has become operational in 2007. This is an important link with a route length of 301 kms. for connecting Kandla port and Mundra port with northern hinterland.

Krishnapatnam Railway Co. Ltd.

Krishnapatnam Railway Co. Ltd. is a Joint Venture Company of RVNL and for linking of Obulavaripalle with the Krishnapatnam port (route length 113 kms.). The Concession Agreement was signed in 2007 and the phase I of the project from Venkitachalam to Krishnapatnam has been commissioned in 2008 (about 25 kms.). The rest of the portion is under construction. RVNL holds 30% of the equity on behalf of the Ministry of Railways and the rest of the equity is held by Government of Andhra Pradesh, Krishnapatnam port and others.

Bharuch Dahej Rail Development Company Ltd.

The Bharuch-Dahej Railway Company Limited (BDRCL) is an SPV formed for implementation of the Gauge Conversion of the existing 63 km NG line. The equity invested by the Railways in the company through RVNL is 26% and the rest of the equity is held by Government of Gujarat and others. The Concession Agreement was signed between Ministry of Railways and BDRCL in 2008. The project has been commissioned in 2011-12.

Haridaspur Paradip Railway Co. Ltd.

Haridaspur Paradip Railway Co. Ltd. (HPRCL) is a Joint Venture for the provision of a new link (length 82 kms.) between Haridaspur with the Paradip port. The Concession agreement for the project has been signed in 2007. The project is at construction stage. RVNL holds approximately 48% of the equity with rest of the equity is being held by Government of Orissa, Paradeep Port, SAIL and others.

Angul Sukinda Railway Co. Ltd.

Angul Sukinda Railway Co. Ltd. (ASRL) is a Joint Venture for construction of a new rail link between Angul-Sukinda (95 kms.). The Concession Agreement was signed in 2010. RVNL holds 45% of the equity with rest of the equity shared by Government of Orissa and others. The project which was planned to link the industrial clusters of coal and steel sector is presently at construction stage.

The observations of the Railway Convention Committee (2009) are noted for taking necessary action.

[Ministry of Railway (Railway Board) O.M. No.2009/RCC/206/3 Dated 18.12.12.]

CHAPTER III

RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE REPLY OF THE GOVERNMENT

__NIL__

CHAPTER IV

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH REPLIES OF THE GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION

Recommendation Sl. No. 2 (Para No. 37)

The Committee note that as a follow-up action on Shareholder's agreement entered into in 2009 between the Railways and the state 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 it is not showing any output). 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.

Reply of the Government

The Memorandum of Understanding (MOU) signed in 2008 for setting up the Joint Venture by utilizing the assets of Steel Fabrication Unit (SFU) and M/S. Autokast was based on a RITES study of 2007 which had concluded that while SFU can take up manufacture of ICF coach bogie frames and BOX/BOXN sidewalls and end walls, Autokast is viable only if it is taken up for wheel assembly by closing the foundry unit. The MOU clearly spelt out that this was subject to the manufacture being competitive in terms of price including transportation cost. The sustainability of the proposed JV hinges on the viable manufacture of components required by the Railways in the future.

The Chairman Railway Board in his oral evidence had only mentioned that the design changes being done at this stage would be valid for next 15-20 years. In any case the proposed JV was envisaged as a PSU only and not as a departmental unit.

As regards using evasive tactics pointed out by the RCC, it is mentioned that the second study by RITES had become inescapable considering the fact that RITES in their 2007 report had envisaged tapering down and closing of foundry units at Autokast. However taking into account the fact, that over last 03 years, with support from GOK and their own initiative, the foundry units have done well, they need to be further nurtured and not closed down as envisaged in the MOU of 2008. Following the RITES report would have meant closure of the foundry unit and its replacement with wheel set pressing facility. The MOU had also clearly spelt out that the manufacture was subject to it being competitive in terms of price including transportation cost. The transportation cost when factored in adversely impacted the viability of units even at that stage.

M/S. RITES in their 2011 study have factored in the fact that with an investment of Rs. 10 crore by Govt. of Kerela in Autokast foundries and through the initiative of the present management, a substantial non Railway foundry business has already been captured by Autokast with a turnover of more than Rs. 20 crore. Given the fact that an existing and lucrative revenue stream should be nurtured, coupled with the fact that the Railways have no experience in manufacture and marketing non-Railway products, the option as suggested by RITES of the units continuing with GOK, supported and supplemented by an assured off take from the Railways has been preferred being the only viable option to sustain these units in the long run. It has been clearly brought out by RITES in their report of 2011 that formation of JV would make these units unviable and hence not sustainable in the long run.

This is also announced by the then Hon'ble Minister of Railways in her budget speech of 2011-12 which reads:

"Railways are interested to partner with Autokast and SILK at Cherthala, for which business plan is being revised to bring it in line with the current needs of the Railways."

Comments of the Committee

(Please see Para No. 6 of Chapter – I of the Report)

Recommendation Sl. No.3 (Para No. 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 Rs.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 RITES) of the Autokast Project.

Reply of the Government

The first study of RITES was made in the year 2007. The product mix suggested by RITES in their report viz. castings (I option) and wheelsets (II option) projected a negative or low rate of return. The subsequent MOU of 2008 had envisaged tapering down and closing of foundry units at Autokast. However considering the fact, that over last 03 years, with active support and investments from GOK, the foundry units have done well (with a turnover of Rs 20 Crs), they need to be further nurtured and not closed down as envisaged in the MOU of 2008. Following the RITES report would have meant closure of the foundry unit and its replacement with wheel set pressing facility. The MOU had also clearly spelt out that the manufacture was subject to it being competitive in terms of price including transportation cost. The transportation cost when factored in adversely impacted the viability of units even at that stage.

As already explained under ATN of recommendation no. 01 that when this project was envisaged it was not yet decided that the new coach factory at Rae-Bareilly would be making only LHB coaches. It was also not envisaged at that time that Railways would be gradually shifting to 100% LHB design coaches as was also recommended subsequently by the expert committees. Therefore while the JV was envisaged taking ICF coaches into consideration, once it was decided to shift over to the new design rolling stock, which would be valid for next 15-20 years it was necessary to take it into account a suitable product mix for viability and long term sustainability of these units. This was also announced by the then Hon'ble MR in her budget speech of 2011-12 which reads:

"Railways are interested to partner with Autokast and SILK at Cherthala, for which business plan is being revised to bring it in line with the current needs of the Railways."

Comments of the Committee

(Please see Para No. 9 of Chapter – I of the Report)

Recommendation Sl. No.4 (Para No. 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 honouring 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.

Reply of the Government

Board in its meeting on 01.11.12 has considered the matter regarding formation of Joint Venture Company with the Government of Kerala for manufacture of Rail Components and has decided to continue with its earlier decision wherein it was decided that instead of forming the JV, a commitment to be made of assured off-take quantities of 3000 CASNUB bogies and 2000 couplers to these units, under Government of Kerala, at a market determined price, for a period of 05 years as communicated to the Government of Kerala vide Chairman Railway Board's D.O. No. 2009/M(W)/814/67/SILK/DUP Pt I dated 29.02.12.

Comments of the Committee

(Please see Para No. 12 of Chapter – I of the Report)

CHAPTER V

**RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH REPLIES OF THE
GOVERNMENT ARE STILL AWAITED.**

-----NIL-----

**NEW DELHI;
7th May, 2013
Vaisakha 17, 1929 (S)**

**ARJUN CHARAN SETHI
Chairman,
*Railway Convention Committee***

APPENDIX - I

MINUTES OF THE TWENTY EIGHTH SITTING OF THE RAILWAY CONVENTION COMMITTEE (2009) HELD ON 7th May, 2013.

* * *

The Committee sat on Tuesday, the 7th May, 2013 in Main Committee Room, Ground Floor, Parliament House Annexe from 1500 hrs. to 1545 hrs.

PRESENT

Shri Arjun Charan Sethi - Chairman

MEMBERS LOK SABHA

2. Shri Marotrao Sainuji Kowase
3. Shri Vilasrao Baburaoji Muttemwar
4. Shri R.K. Singh Patel
5. Shri Ramsinh Rathwa
6. Shri C.L. Ruala

RAJYA SABHA

7. Dr. Bharatkumar Raut
8. Shri D.P. Tripathi

SECRETARIAT

- | | | |
|----|----------------------------|---------------------|
| 1. | Shri Hardev Singh | Joint Secretary |
| 2. | Smt. Abha Singh Yaduvanshi | Director |
| 3. | Shri S. Chatterjee | Additional Director |
| 4. | Smt. Juby Amar | Secretary |

2. At the outset, the Chairman welcomed the Members to the sitting of the Committee. Thereafter, the Committee considered and after due deliberations adopted the (i) Draft Sixth Report on 'Rate of Dividend for 2013-14 and other ancillary matters' and decided that for the year 2013-14 the rate of dividend payable by Railways to the General Revenue be

determined at 5% on the entire capital (excluding dividend free capital) and; (ii) Draft Seventh Report on Action Taken by the Government on the observations/recommendations contained in the Fourth Report (Fifteenth Lok Sabha) on Pending ongoing projects of the Ministry of Railways-Commissioning of the Autokast Factory at Cherthala, Kerala- a case study'.

3. The Committee also authorized the Chairman to finalise the Reports and present the same to the Parliament after making consequential changes, if any, arising out of the factual verification of the draft Sixth Report by the Ministry of Railways or otherwise.

The Committee then adjourned.

APPENDIX - II

(Vide para 4 of Introduction)

Analysis of the action taken by Government on the Recommendations/Observations contained in the Fourth Report of Railway Convention Committee (2009)

I	Total number of recommendations	05
II.	Recommendations/Observations which have been accepted by Government Paras No. 36 & 40	02 40%
III	Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies: NIL	NIL
IV	Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee and which require reiteration: Paras No. 37,37 & 39	03 60%
V	Recommendation/Observation in respect of which final reply of the Government is still awaited: Nil	NIL