

## Chapter 5 – Public Sector Undertakings of Indian Railways

There are 27 Public Sector Undertakings (PSUs) of Indian Railways as on 31 March 2014 under control of Ministry of Railways. These PSUs were set up by the Ministry with varied and specific objectives of raising finance for its rolling stock, manufacture of wagons and locos, developing specialization in construction projects, developing containerization of rail traffic and rail infrastructure.

This Chapter highlights issues of two PSUs viz., Pipava Railway Corporation Limited (PRCL) and Indian Railway Catering and Tourism Corporation Limited (IRCTC), wherein Audit commented on imprudent decision of PRCL to obtain permission for container operation and on violation of provisions of Employees Provident Fund Scheme by IRCTC. The details findings were discussed in the concerned paragraphs.

### ***5.1 Pipavav Railway: Corporation Limited***      ***Imprudent decision to obtain permission for container operation from Ministry of Railways resulted in unfruitful expenditure of ₹ 11.66 crore***

Ministry of Railways (MOR) announced (January 5, 2006) the scheme containing the policy to permit rail linking of inland container depots (ICDs) by private parties and allowing them to move container trains on the same for both International and Domestic traffic. The scheme was open to all registered Indian Public/Private Sector Companies/persons either individually or in joint venture. Clause 4.5 of the scheme envisaged that this scheme would be open for one month every year. In order to regulate the entry of new container operators on Indian Railways (IR) network various routes were grouped into four categories. At the time of submission of request to run container trains every applicant was required to deposit a non-refundable registration fee of ₹50 crore for applying for all categories of routes (including category I) and ₹10 crore for each individual category of routes (except category I). The scheme provided that the operator was required to set up Inland Container Depots (ICD), track connecting ICD, procurement of containers and maintenance of track at his own cost. The validity of permission would be for a period of 20 years from the date of operation of container trains by the operator (clause 8.1)

As per Clause 4.3, Railways would give their 'In principle approval' (IPA) based on the documents. In case the prospective operator failed to indicate his readiness to operate his container trains to Railway's satisfaction within three years of grant of (IPA), it would be deemed to have lapsed unless prior extension is given by railways at its sole discretion.

The Board of Director of Pipavav Railway Corporation Limited, New Delhi (Company) in its meeting held on 17 th January, 2006 gave approval to the

Company to deposit ₹ 10 crore as Registration fee to MoR for permission to run container trains by obtaining short term loan from bank. The Ministry of Railways issued IPA (08.02.2006) to the company for movement of container trains on Indian railways.

Audit observed that the company failed to commence the business within the permitted period i.e. upto February 2009 due to non-availability of funds. The Company approached (February 2009) MoR for grant of exemption for one year to enable the company to start container train operation and MoR allowed (March 2009) the extension of time limit up to February 2010 to commence operation of container trains. In order to prevent the IPA from lapsing, the company discussed with many parties to commence container train operation business in partnership without any investment from the Company. Vikram Logistic & Maritime Services Private Limited., Bangalore, a private ltd. company (Firm) agreed for the same and accordingly Company entered (July, 2009), into an agreement with the Firm to operate the container trains using its IPA. The firm however operated the business only in 2009-10 and thereafter the container operation was discontinued after running of 10 trains due to non viability of the project. The Company terminated (December 2011) the contract due to non performance by the firm.

Since then the company has neither appointed other business partner nor has it started container operation business on its own. Thus, non consideration of the poor financial capability of the company before depositing the registration fee of ₹10 crore with the MOR, the company has not only suffered a loss of ₹ 10 crore but also loss of interest of ₹1.66 crore on loan obtained from bank for depositing registration fee.

In the reply management stated (September 2014) that in the past the financial condition was not allowing to continue the container train operation in view of huge losses, debt liabilities and burden of heavy O&M cost. However, over the last three years, the Company had been able to turn around its financial position by converting itself into a profit making Company. The validity of container train operation permission is for twenty years and in case the market study indicated a possibility of entering the container business, the company might start container operation in the near future. The Ministry of Railway also furnished the same reply (September, 2014).

The reply of the Ministry and Management was not tenable as from the books of Accounts of the Company for the 2013-14, Audit noticed that Company had written off<sup>208</sup> the residual value of 'Registration Fee' (shown as intangible asset) amounting to ₹7.38 crore by charging loss to Profit & Loss account, which confirmed that the chances of running the container train operation by the Company were remote.

<sup>208</sup> The company had performed the impairment test for intangible assets namely License for container operation, which indicated that there was need of impairment of the license fee. Accordingly impairment loss equivalent to the net carrying amount of the license fee was booked as expense.

Thus the decision to obtain the permission for container operation requiring further capital investment of ₹322.48 crore required for commencing the business, was not prudent and without due diligence resulting in avoidable loss of ₹ 11.66 crore to the Company as the company was well aware of its poor financial position<sup>209</sup> at the time of applying for permission to run container operation.

**5.2 Indian Railway Violation of provisions of 'Employees Catering and Tourism : Provident Funds Scheme, 1952' Corporation Limited resulted in excess expenditure of ₹9.07 crore during 2010-11 to 2013-14**

Para 29 (1) of the Employees Provident Fund Scheme, 1952 (Scheme) provides that the contribution payable by an employer under the scheme shall be twelve per cent of the basic wages, dearness allowance and retaining allowance (if any) payable to each employee to whom the Scheme applies.

Paragraph 26 A (2) of the Scheme provides that where the monthly salary of an employee exceeds ₹ 6500, the contribution payable by the employer shall be limited to the amount payable on a monthly pay of ₹ 6500, subject to the provisions contained in Section 26(6) of the scheme. Para 26 (6) of the scheme further provides that Assistant Provident Fund Commissioner, on the joint request in writing by employer and employee may (i) enroll a person drawing the salary more than ₹ 6500 for this scheme and (ii) may also allow him to contribute more than ₹ 6500 of his pay per month if he is already a member of the fund.

Thus the provisions of Para 26 A (2) read with the paragraph 26 (6) & 29 (1) empowers the employer and the employee to contribute at the applicable rate of 12 per cent on the salary of more than the limit of ₹ 6500<sup>210</sup>.

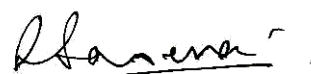
Test check of the records relating to the year 2010-11 to 2013-14 revealed that the Indian Railway Catering and Tourism Corporation Ltd. (Company) was not limiting their contribution (12 per cent) up to the salary of ₹ 6500 in respect of the employees drawing more than ₹ 6500 as per requirement of Section 26 A (2) of the scheme. It was specifically enquired from the Company whether they had taken required permission under Section 26 (6) of the scheme for such excess contribution. However rather than furnishing the specific reply, the Management in their reply (August 2014, March 2015) stated that, as per guidelines, contribution of Central Public Sector Enterprises to these schemes should be limited to such extent that the contribution to the total Superannuation benefits viz. PF, Gratuity, Pension and Post Superannuation Medical Scheme is limited to 30 per cent of Basic plus DA. In any case, the superannuation benefits to the employees did not exceed 30 per cent of basic pay plus DA.

<sup>209</sup> During 2005-06, Company had accumulated loss of ₹ 68.89 crore.

<sup>210</sup> 'Pay' includes basic wages dearness allowance, retaining allowance and cash value of food concessions admissible thereon

Thus contribution of 12 per cent on pay to the Scheme paid by the Company was not in contravention to PF rules. The reply was not relevant to the issue and therefore not acceptable. In fact the Company's contribution to the Scheme was governed by Provisions of the Scheme which did not permit contribution on the pay of more than the limit of ₹ 6500 and hence their action was in violation of provisions of 26 (6) and para 26 A (2) of the scheme and resulted in excess contribution of ₹ 9.07 crore during 2010-11 to 2013-14.

The matter was brought to the notice of Railway Board in June 2014; their reply has not been received (May 2015).



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