

## Chapter 8

### Public Sector Undertakings (PSUs)

There are 37 Public Sector Undertakings (PSUs) as on 31 March 2017 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, executing infrastructure projects, managing containerization of rail traffic, catering and tourism, station development, utilise railway telecommunication network etc. During 2016-17, Indian Railways invested ₹ 7184.13 crore in various Railway PSUs.

This Chapter includes two individual paragraphs on grant of mobilization advance to contractors and deficient planning in procurement of high speed bogie assemblies by MRVC.

### 8.1 Mumbai Railway Vikas Corporation Ltd. (MRVC): Injudicious payment of Mobilization Advance to contractors

*In contravention of codal provisions and Railway Board's guidelines, MRVC granted mobilization advance of ₹ 6.17 crore to contractors in nine contracts. The value of these contracts was below ₹ 25 crore prescribed by Railway Board. The rate of interest charged by MRVC was also much lower than that prescribed by the Railway Board. None of the nine works could be completed within the scheduled date of completion. Besides, MRVC was unable to ensure full recovery of Mobilization Advances granted as ₹ 0.09 crore is yet to be recovered. Even the amount recovered involved significant delays.*

Codal provisions<sup>229</sup> stipulate that Executive should, as far as possible, abstain from giving advances. However, in case of works which are capital intensive and of specialized nature and estimated value of tender exceeds ₹ 25 crore, suitable provisions may be included in the special conditions of the tender for grant of mobilization advance and advance against machinery and equipment, if the work warrants grant of such advances. It further stipulates that the advance shall be limited to a maximum of 10 per cent of the contract value. As per Railway Board's orders of April 2012, the rate of interest on mobilization advance was revised from 12 per cent per annum to 4.5 per cent per annum above the Base Rate of State Bank of India, as effective on the date of approval of payment of Mobilization Advance. It was also stated that mobilization advance clause shall be restricted only for high value tenders of ₹ 25 crore and above. This order<sup>230</sup> was applicable to all concerned including MRVC.

Central Vigilance Commission (CVC)'s expressed (8 October 1997) its concern about payment of mobilization advances by PSUs and desired that adequate steps may be taken to ensure stipulation of mobilization advance only for selected works and advance should be interest bearing so that contractor does not draw undue benefit. It was stated that timely execution/completion of all projects is an essential requirement of mobilization advance and the contractor would like to draw interest bearing mobilization advance only when he needs to maintain his cash flow. Further, CVC in its guidelines (10 April 2007) expressed that provision of mobilization advance should essentially be need based and decision to provide such advance should rest at the level of Board (with concurrence of Finance) in the organization. It was also mentioned that mobilization advance should be clearly stipulated in the tender document and its recovery should be time-based and not linked with progress of work.

Mumbai Railway Vikas Corporation Ltd. (MRVC) is a Public Sector Undertaking (PSU) under Ministry of Railways. As per norms set by MRVC for discharge of its functions, the projects handled by MRVC shall be dealt with as per guidelines issued by World Bank/Railway Board/RDSO/Quality Manual. The technical specifications are followed as issued by RDSO/Railway Board /various Codes and Manuals. Audit reviewed the records pertaining to execution of works by MRVC

<sup>229</sup> Para 1264 of Indian Railway Code for Engineering Department

<sup>230</sup> This order has been added to the Engineering Code vide Correction Slip no.46

related to projects under Mumbai Urban Transport Project (MUTP-2B). It was noticed that

- MRVC sanctioned (December 2009 to November 2013) mobilization advance amounting to ₹ 6.17 crore to contractors in nine contracts which were well below the threshold levels of ₹ 25 crore prescribed for grant of such advances as per Railway Board's order of April 2012 and codal provision.
- None of the above works could be completed within the scheduled date of completion. While two works were completed after a delay of around three years each, two were terminated after completing 21 *per cent* to 26 *per cent* of the work. Remaining five works were running behind schedule by two to three years up to May 2017. As such, purpose of granting mobilization advance for timely execution/completion of projects was defeated.
- The mobilization advance was granted to contractors at the interest rate of six *per cent* and eight *per cent*, which was well below rate prescribed by Railway Board<sup>231</sup>. Audit assessed the loss of interest as ₹ 0.63 crore on account of recovery of interest at lower rate.
- Out of the mobilization advance of ₹ 6.17 crore granted, ₹ 6.07 crore have been recovered after delays ranging between three months to 52 months from the scheduled date of completion. As on May 2017, an amount of ₹ 0.09 crore was yet to be recovered from one contractor.

Thus, in contravention of the Railway Board's instructions and CVC guidelines, MRVC sanctioned mobilization advance in contracts below the stipulated contract value at lower interest rate than prescribed by Railway Board. Besides, MRVC was unable to recover the mobilization advance granted to the contractor fully and even recovered after significant delays.

In reply, MRVC stated (July 2017) that they have their own Schedule of Powers, manuals, bidding documents and guidelines for contract management and they do not necessarily follow all the codal provisions and directives issued by Railway Board in management of works contracts. They stated that the orders mentioned by Audit were not applicable to them. They also stated that since a number of major activities being carried out by MRVC are funded by World Bank, the guidelines issued by World Bank are followed by MRVC for preparation of Bid documents. To maintain uniformity the same guidelines are adopted in all contracts irrespective of the source of funding. They stated that, there is no direct link between the mobilization advance and the completion of work.

Audit, however, noticed that Finance department of MRVC during vetting had raised the issue about non-uniformity in granting mobilization advance in contracts and stated that for the same project Chief Engineer's office had not given the mobilization advance and suggested deletion of the clause. However, his views were not considered stating that 'no internal order had been issued in

<sup>231</sup> 12 *per cent* per annum before April 2012 and with effect from April 2012, it was revised to 4.5 *per cent* above the Base Rate of State Bank of India

MRVC to follow Railway Board's orders of May 2015 regarding Mobilization Advance in Works Contracts'.

Grant of mobilization advances to contractors should be governed by the directives of Ministry of Railways (Railway Board). The orders of Railway Board mentioned by Audit were duly addressed to all Railway PSUs including MRVC. Besides, the said project (MUTP-2B) is not funded by World Bank, but funded by Government of Maharashtra and Ministry of Railways on 50:50 basis. Therefore, MRVC needs to follow guidelines issued by the Railway Board while granting Mobilization Advance in Works Contracts. As regards, linkage of mobilization advance with completion of projects, CVC guidelines of October 1997 clarifies that timely completion/execution of all projects is an essential requirement, for which mobilization advance may be granted.

The matter was brought to the notice of Railway Board on 18 October 2017; their reply is yet to be received (28 February 2018).

### **8.2 Mumbai Railway Vikas Corporation Ltd.: Deficient planning in procurement of high speed bogie assemblies**

*Mumbai Rail Vikas Corporation Ltd. (MRVC) awarded contracts for procurement of high speed bogie assemblies from M/s Siemens-Austria without assessing availability of the required infrastructure for conducting oscillation trials. There were delays at various stages of execution and consequently the contract was terminated. This resulted in blocking up of capital of ₹ 42.57 crore.*

Mumbai Urban Transportation Project (MUTP) was conceived in 1993 with an objective to improve public transport system in Mumbai, with participation of Indian Railways (IR) and Government of Maharashtra (GOM) and financial assistance of World Bank. Phase I of MUTP included procurement, manufacture and retrofitment of Electrical Multiple Units (EMUs), which were to be executed on Mumbai suburban Railways by Mumbai Rail Vikas Corporation Ltd.<sup>232</sup>(MRVC). Railway Board (July 2000) decided that MRVC shall invite tenders for procurement of EMUs adhering to the specifications and conditions approved by IR, under technical scrutiny of Research, Design and Standards Organization (RDSO). These EMUs could achieve higher speed up to 130 kmph, as compared to 110 kmph of ICF conventional EMU cars.

Accordingly, MRVC invited global tenders with the approval of Railway Board (July 2003) and awarded a contract (December 2008) to M/s Siemens Transportation System, Austria for supply of 108 high speed bogie assemblies<sup>233</sup> at a cost of EURO 9461491 plus ₹ 1.3 crore. The cost was finally revised to EURO 9552383 plus ₹ 1.30 crore (totaling to ₹ 63.72 crore). The delivery time initially fixed as 6 June 2010, was extended from time to time up to 15 August 2014. Some of the reasons for granting extensions included want of approval of coach lay out and allotment of transportation codes by Railway Board, issue of Speed Certificate and clearance of Railway Safety Commissioner (CRS) for main line

<sup>232</sup>A PSU under Ministry of Railways

<sup>233</sup> 108 high speed bogies were to be used for manufacture of 54 cars of EMU; per car two bogies are required

trials etc. RDSO made a request (May 2013) for issuing of transportation Code for the purpose of oscillation trials, which was finally issued by Railway Board in April 2014. This Transportation Code was also required for speed certificate from CCRS and as such clearance of CRS was also delayed. The first 18 bogie assemblies were required to undergo oscillation trials for prototype approval within 26 weeks from the date of receipt of rake at purchaser's end, while remaining 90 bogies were to be supplied thereafter in series. Integral Coach Factory (ICF), Chennai was required to manufacture the EMU coaches (shells) to be mounted on these bogies in Prototype two 9-car rakes and three 12-car rakes.

The contract conditions specified maximum speed of 110 kmph on main line and 130 kmph on Rajdhani route with 2 degree curve track for these bogie assemblies supplied by M/s. Siemens. The oscillation trials with prototype rakes were required to be conducted on both types of tracks i.e. Main line and Rajdhani track. A prototype 9-car rake was manufactured by ICF at a cost of ₹ 20.68 crore (cost borne by Indian Railways) and received in June 2011 at Mumbai Central Car shed for oscillation trials. The amount of ₹ 21.89 crore was paid (July 2010) by MRVC (March 2012) to M/s Siemens from the amount allocated from World Bank funds towards advance payment (Stage II) as per the contract.

During the review of records, Audit observed that trials could not be conducted within specified period of 26 weeks, due to non-availability of 2 degree curve track in Mumbai sub-urban area. In order to address this issue, RDSO (April 2012) revised the specification of curve on track for oscillation trials from 2 degree to 0.5 -1.0 degree, which was accepted by M/s Siemens. But, results of further trials were not in conformity with the laid down standards.

Subsequently, M/s Siemens proposed to modify the design by way of increase in pressure setting of air spring in the prototype bogie assemblies with the approval of RDSO. However, modified rake too did not achieve speed beyond 80 kmph in the trial held on 23 August 2014, due to speed restriction imposed on account of ongoing track renewal work in the section. In the meantime, Railway Board (April 2014), while according post facto approval to the layout of coaches and transportation codes required for Oscillation trials directed ICF not to manufacture more such coaches till further decision. MRVC was also advised to defer any further delivery of bogies from M/S Siemens till the Railway Board's decision was obtained.

Audit observed that deliberations related to plans for trials, speed certificates, extension of delivery schedule etc. were continued among MRVC, RDSO and M/s Siemens till January 2016 when sanction to conduct Detailed Oscillation Trials was accorded by CRS. MRVC advised (January 2016) M/s Siemens that it should make necessary arrangement and keep the rake with prototype bogies ready for oscillation trial under advice to RDSO. However, despite regular pursuance (February, March and April 2016), followed by notice (October 2016),

M/s Siemens did not revert back about readiness of bogies for trials as per specifications in the contract.

Finally, MRVC terminated the contract (14 December 2016) with M/s Siemens on account of failure to discharge its obligations under the contract and encashed (December 2016) the Bank Guarantee (BG) amounting to ₹ 17.09 crore. However, balance amount of ₹ 4.80 crore out of ₹ 21.89 crore paid to M/s Siemens for bogie assemblies up to March 2012 was yet to be recovered (July 2017). In addition to this, return of 40 bull gears and MSU assemblies worth ₹ 3.88 crore handed over by ICF to M/s Siemens was also awaited.

Thus, procurement of expensive bogies, without ensuring the availability of 2 degree curve track and ensuring feasibility of running such high speed bogies on Mumbai Suburban section for oscillation trials, was not judicious. Deficient planning on part of MRVC led to inordinate delays at various stages of execution and consequent termination of contract. This also resulted in blocking up of capital of ₹ 42.57 crore for more than four and half years on account of cost of shells manufactured by ICF (₹ 20.68 crore) and payments made to M/s Siemens (₹ 21.89 crore). Further, shells worth ₹ 20.68 crore were lying idle at Mumbai Central car shed, recovery of ₹ 4.80 crore and return of bull gear/MSU assemblies worth ₹ 3.88 crore from M/s Siemens were still awaited. Failure of the contract for procurement of high speed bogies for EMUs from M/s Siemens has also resulted in non-achievement of intended objectives related to reliability, safety and maintenance in suburban network under the MUTP.

The matter was brought to the notice of Railway Board on 18 October 2017; their reply is yet to be received (28 February 2018).

New Delhi

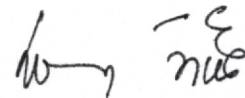
Dated: 15 March 2018



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