

## Chapter 4 Performance of Railway PSUs, SPVs and JVs

This Chapter takes a look at the performance of Public Sector Undertakings (PSUs), Special Purpose Vehicles (SPVs) and Joint Ventures (JVs) under IR. The performance of these has a bearing on overall IR finances, since IR apart from an equity share in these organizations also has income sharing agreements with some of the PSUs.

### 4.1 Introduction

IR created/taken over 13 PSUs with the objective of raising finance for its rolling stock, manufacture of wagons, manage catering and tourism potential, specialize in construction projects and consultancies, operate container traffic, etc. Out of these, two PSUs (IRCON International Ltd. and CONCOR Ltd.) are listed on the stock exchange. As of 31 March 2010, IR had invested ₹11,854.98 crore in these units in the shape of equity (₹4,596.18 crore), non-cumulative preferential shares (₹3,771.34 crore) and project advance (₹3,487.46 crore). The overall financial position of the 13 PSUs as of 31 March 2010 is given below.

**Table 4.1 Financial Status PSUs/JVs**

(₹ in crore)

Company	Paid up Capital	Net Block	Capital Employed	Net worth	Turn Over	Profit before tax and interest	Net profit/ Loss as after tax and interest
Konkan Railway Corporation Limited (KRCL)	4,577.80	3,014.36	3,306.63	1,246.87	733.25	175.45	11.63
Container Corporation of India Limited (CONCOR)	129.98	2163.86	4107.76	4336.40	3705.68	1006.71	786.69
IRCTC	20.00	80.70	147.37	162.76	694.94	124.73	92.99
Rail Vikas Nigam Limited (RVNL)	2,085.02	2.72	7,083.40	2,191.78	1,749.08	121.05	105.46
Railtel Corporation of India Limited (RailTel)	320.94	684.38	660.36	552.62	399.70	132.47	112.29
Dedicated Freight Corridor Corporation of India Limited (DFCCIL)	559.13	12.37	399.56	559.13	0.00	-30.44	-33.04

Company	Paid up Capital	Net Block	Capital Employed	Net worth	Turn Over	Profit before tax and interest	Net profit/ Loss as after tax and interest
Mumbai Railway Vikas Corporation Limited (MRVCL)	25.00	2.62	338.80	132.27	14.28	25.80	25.80
IRCON International Limited.	9.90	227.39	978.52	1199.28	3152.16	257.55	175.73
RITES Ltd	40.00	127.79	538.00	694.84	602.36	165.65	111.95
IRFC	1,091.00	13.69	39,477.90	3,404.30	34,44.86	3,349.25	442.69
Bharat Wagon and Engineering Company Limited (BWECL) <sup>€</sup>	9.07	5.30	7.37	2.81	12.43	-7.99	-8.63
Braithwaite and Company Limited (BCL) <sup>Ω</sup>	18.60	18.55	33.88	10.61	127.61	5.00	1.75
Burn Standard Company Limited (BSCL) <sup>Ω</sup>	137.20	34.88	-1,146.09	-1,636.76	222.77	-0.30	-136.36

€-Figures pertain to 2008-09. Accounts of 2009-10 are not ready (Dec. 2010). Taken over by IR in August 2008.

Ω- Taken over by IR in August/ September 2010

Table above indicates that the net profit after tax as of 31 March 2010 was negative in respect of three companies viz BWECL, BSCL and DFCCIL.

In addition to the above mentioned PSUs, IR also set up three SPVs/JVs to develop railway related infrastructure in various parts of the country. These are (i) Kutch Railway Company Ltd., (ii) Pipavav Railway Corporation Limited (PRCL) and (iii) Hassan Mangalore Rail Development Company Limited (HMRDCL).

Table 4.2 Financial Status of JVs/SPVs

(₹ in crore)

Company	Paid up Capital	Net Assets	Capital Employed	Net worth	Turn Over	Profit before tax and interest	Net profit/ Loss as after tax and interest
Kutch Railway Company Limited	200.00	439.05	551.96	280.26	291.18	116.73	88.60
Pipavav Railway Corporation Ltd. (PRCL)	196.00	240.76	209.42	115.55	76.62	-18.03	-18.03
Hassan Mangalore Rail Development Company Ltd. (HMRDC)	112.00	216.34	423.70	241.49	1,856.01	274.58	175.28

Besides this, IR had also invested ₹158.97 crore in Bharat Bijli Company Limited (BBCL), a subsidiary of NTPC, engaged in the development of thermal power earmarked for railway. IR also hold 26 per cent equity (₹1.30 crore) in Karnataka Rail Infrastructure Development Corporation (K-RIDE), a Company set up with the objective of developing and implementing rail infrastructure projects in Karnataka with private sector participation.

IR had also set up two autonomous bodies, namely Centre for Railway Information System (CRIS) for development of all computer activities on IR and Rail Land Development Authority for developing vacant land for commercial use for the purpose of generating revenue by non-tariff measures.

Based on the objective some of these PSUs/SPVs/JVs were involved in core railway operations; some were specialized in consultancies, some in construction, engineering and infrastructure development and others in support services. The details of the PSUs operating in each of these areas are discussed below:

#### 4.2 PSUs in Railway Operations

Two out of the 13 PSUs, viz. KRCL and CONCOR were involved in railway operations. The details of operations of these PSUs are given below:

##### 4.2.1 Konkan Railway Corporation Ltd.

KRCL was incorporated as a public limited company under the Companies Act, 1956 in 1990 to connect Mumbai and Mangalore. The 760-kilometre line connects Maharashtra, Goa and Karnataka States and all three States, along with Kerala, are partners in it. The first train on the completed track was flagged off in January 1998.

IR had been providing financial assistance to KRCL, which was subsequently converted into non-cumulative preferential shares. As of 31 March 2010, an amount of ₹3,771.34 crore given by IR as financial assistance to KRCL had been converted into non-cumulative 15/20 year redeemable preference shares. The Corporation, in March 2010, still had debt liabilities of ₹ 2,118.50 crore to meet its redemption and interest obligations.

KRCL had also been entrusted with engineering projects by IR and State Governments including Anti-collision device for IR. KRCL besides IRCON was the major partner of IR in construction of Katra-Dhampur section of Udhampur-Srinagar-Baramulla Rail Link. This project is substantially delayed.

Total revenue of the Corporation in 2009-10 was ₹766.27 crore, of which train operations yielded ₹588.28 crore. The operating surplus for 2009-10 stood at ₹246.94 crore. Cumulative loss of the Corporation had come down from ₹3,342.55 crore at the end of 2008-09 to ₹3,330.93 crore at close of the year 2009-10.

#### 4.2.2 Container Corporation of India Ltd.

CONCOR was set up in 1988, to provide high- quality, cost-effective logistics services. It is a Multimodal Logistics Organization moving the general cargo through sea and land in the containers and provides door-to-door service to its customers. In addition to providing inland transport by rail for containers, it is also involved in management of ports, air cargo complexes and establishing cold-chain. Shares of CONCOR are listed with both National Stock Exchange and Bombay Stock Exchange.

IR adopted a policy of transporting only bulk traffic/ full rake load traffic and diverting all other piece-meal container traffic to CONCOR and other Private Container Operators. This had a salutary effect on the traffic handled by CONCOR and its revenues had increased substantially from freight over the last few years. IR earned freight revenue of ₹2,255.93 crore in 2008-09 and ₹2,772.43 crore in 2009-10 as haulage charges from CONCOR.

*Audit studies revealed that IR had suffered loss of revenue, as the haulage charges recovered from the container operators for the traffic handled were at suboptimal rates resulting in short-recovery of operational costs. Audit studies, further, revealed that container operators including CONCOR were allowed to carry bulk traffic in view of the shortage of covered wagons in IR. Further details in this regard are given in the paragraph no.2.1 of the Report of (No. 34 of 2010-11) the Comptroller and Auditor General of India – Union Government (Railways) for the year ended 31 March 2010.*

#### 4.3 PSUs in Support Services

##### 4.3.1 Indian Railway Catering and Tourism Corporation Ltd.

IRCTC Ltd. was incorporated in 1999 as an extended arm of IR to upgrade, professionalize and manage the catering and hospitality services at stations, on trains and other locations and to promote domestic and international tourism through development of budget hotels, special tour packages, information and commercial publicity and global reservation systems.

During 2009-10, the Corporation earned a total income of ₹721.97 crore (a growth of 17 per cent over the previous year). IR had a revenue sharing agreement with IRCTC. It made a contribution of ₹82.28 crore to IR revenues in 2009-10, an increase of 8 per cent over the previous year. In addition tickets worth ₹6,011 crore were also booked through IRCTC.

Review of revenue sharing arrangement of IR with IRCTC included in the Report of the Comptroller and Auditor General of India – Union Government (Railways) for the year ended 31 March 2008 (No.PA-26 of 2008-09) highlighted that rationale behind the revenue sharing ratio was neither properly documented nor in the best interest of IR. The monitoring mechanism in the zones was weak both in maintenance of records relating to area and market value of land transferred and in monitoring the receipts of railways shares of revenue and recovery of cost of essential services provided.

#### 4.4 PSUs/SPVs/JVs in Infrastructure Services

There were four PSUs and three SPVs in infrastructure sector viz. RVNL, RailTel, DFCCIL, MRVCL, Kutch Railway Company Ltd (KCL), PRCL and HMRDCL.

The main operations of each of PSUs/SPVs involved in infrastructure services are discussed below:

##### 4.4.1 Rail Vikas Nigam Ltd.

Rail Vikas Nigam Limited (RVNL) was established in 2003 to undertake capacity augmentation works and port connectivity projects by establishing SPVs, mobilize financial resources and develop corridors to hinterland including multi-modal corridors for movement of containers. RVNL's role is that of a developer, who develops the project through non-budgetary funding, mobilizes financial resources and executes the project by adopting various models for implementation of the projects including formation of project specific SPVs. The project is offered to IR for train operation and maintenance under the specific financial arrangement. The major source of

profit is realized as management fee for execution of IR projects, which is levied at one to two *per cent* of project cost.

*Audit observed that RVNL, even after seven years since its inception, continued to be largely dependent on the resources of IR. Failure to generate resources necessitated diversion of IR's scarce resources to RVNL at the cost of other important projects of IR. Till March 2010, IR had already given ₹3,487.46 crore to RVNL as interest free Project Advance. Further details on working of RVNL are given in paragraph no.7.2 in the Report (No. 34 of 2010-11 ) of the Comptroller and Auditor General of India–Union Government (Railways) for the year ended March 2010.*

#### **4.4.2 Railtel Corporation of India Ltd.**

RailTel Corporation of India Limited was formed in September 2000 as a Telecom Service Provider. It provides communication requirements of IR for administration, passenger information system, ticketing, train operations and control. It further aims to plan, build, develop, operate and maintain a nationwide broadband telecom and multimedia network to supplement national telecom infrastructure to spur growth of telecom, broadband and Information Technology (IT) enabled value added services in all parts of country specially rural, remote and backward areas. In the process, it generates revenue through commercial exploitation of its telecom network. IR had a revenue sharing agreement with RCIL and received ₹13.79 crore in 2009-10.

*Audit review of the arrangement of IR with RCIL with regard to revenue sharing and recovery of IR dues revealed that there was inadequate internal control within IR in respect of transaction with RCIL leading to receipt of lower revenue share than actually agreed upon. IR was totally dependent upon RCIL for documentation relating to transactions with it, leading to inadequacy of data and consequent risk to IR's financial interests. Further details in this regard are given in paragraph no.7.1 in the Report (No. 34 of 2010-11 ) of the Comptroller and Auditor General of India–Union Government (Railways) for the year ended March 2010.*

#### **4.4.3 Dedicated Freight Corridor Corporation of India Ltd.**

Dedicated Freight Corridor Corporation of India Ltd. (DFCCIL) was set up in November 2006 under the Companies Act 1956 under the administrative control of IR to undertake planning and development, mobilization of financial resources and construction, maintenance and operation of dedicated freight corridors to provide high speed connectivity to transport freight through IR network. To start with, DFCCIL has been tasked with the construction of two corridors – the Western DFC and Eastern DFC- spanning a total length of about 3236 route km. The work is at a rudimentary stage.

**4.4.4 Mumbai Railway Vikas Corporation Ltd.**

Mumbai Railway Vikas Corporation Ltd. (MRVCL) was incorporated in 1999 with the objective of developing world-class infrastructure for an efficient, safe and sustainable railway system in Mumbai suburban section to provide comfortable train services to the commuters. It is also entrusted with the task of commercially developing IR land and airspace in Mumbai area to raise funds for suburban railway development.

The financing model of MRVC was Public-Private-Participation. The cost of the project was being shared equally by IR and Government of Maharashtra. Approximately 50 per cent of the project cost had been raised through World Bank loan. The repayment of the loan to World Bank was done by IR and Government of Maharashtra in equal ratio by levying surcharge on the exiting passenger fares on suburban traffic.

*According to the agreement entered by MRVC with IR in September 2002, all operating assets of Rail Component under MUTP would be the property of IR only and hence does not form part of the Fixed Assets of the Company. Audit noticed that fixed assets created by MRVC were not being included in the block assets of IR.*

**4.4.5 Kutch Railway Company Ltd.**

Kutch Railway Company Ltd. (KRC) is an SPV promoted by RVNL with the objective of improving connectivity to Mundra and Kandla Ports. According to the Memorandum of Understanding, the Company would finance, construct, maintain and manage the Palanpur - Gandhidham project (301 kms Broad Gauge section) for a period of 32 years. This project cut short the rail transportation distance between Gujarat ports and the northern hinterland by about 28 per cent.

KRC is a public-private partnership venture, owned by Rail Vikas Nigam Ltd (50 per cent), the Kandla Port Trust (26 per cent), Gujarat Adani port (20 per cent) and the Gujarat Government (4 per cent).

Commercial operations on KRC section started from July 2006. KRC, in 2009-10, generated operational revenues of ₹2,621 crore which included IR share of ₹2,330 crore.

**4.4.6 Pipavav Railway Corporation Ltd.**

Pipavav Railway Corporation Ltd. (PRCL) is a JV of IR and Gujarat Pipavav Port Limited with both holding equity on a 50:50 basis. It was set up to construct, maintain and operate 271 kilometer long broad gauge railway line connecting the Port of Pipavav to Surendranagar Junction of Western Railway, in Gujarat. The Company had assured commitments from its key shareholders



viz Gujarat Pipavav Port Limited for guaranteed cargo throughput and IR for guaranteed supply of rolling stock and evacuation of the cargo.

PRCL, through private sector participation, had concessionaire rights for this project line for 33 years. PRCL carried food grain, gypsum, cement, fertilizers, coal, steel, etc. The Company, in 2009-10, had earned revenue of ₹76.61 crore from operations as against ₹68.38 crore in the previous year, an increase of 12 per cent.

#### **4.4.7 Hassan Mangalore Rail Development Company Ltd.**

Hassan Mangalore Rail Development Company Ltd. is a JV of IR, Karnataka government and Rail Infrastructure Development Company (Karnataka) Ltd. (K-RIDE). It was set up for development, establishment, financing, construction, operations, maintenance and management of Hassan- Mangalore railway link for a period of 32 years. The Company had an unsecured loan of ₹140.78 crore as Subordinate Debt from IR. The Shareholder agreement between IR and the Company did not provide for any specific rate of interest to service the debt and also the schedule of repayment of the same.

In 2009-10, the fourth year of commencement of its business, the net profit after tax dropped by 54 per cent from ₹77.64 crore in 2008-09 to ₹35.90 crore in 2009-10. The decline in profit was attributed to less loading of Iron Ore, increase in Operating Cost (mainly staff cost), more expenditure on new works and reduction in freight structure in 2009-10 by 11.7 per cent.

#### **4.5 PSUs in Engineering and Consultancy Services**

There are two PSUs involved in Engineering and Consultancy services viz. RITES Ltd. and IRCON International Ltd. The details of operations of these PSUs are discussed below:

##### **4.5.1 RITES Ltd.**

RITES was set up in 1974 to provide comprehensive engineering, consultancy and project management services in the transport infrastructure sector under single roof. The company carried out several studies/consultancies for IR and had diversified into new areas of business like export/leasing, maintenance and rehabilitation of IR rolling stock, operation and maintenance of IR systems under various PPP projects. It has international consultancy assignments in various countries in Africa, South East Asia, Middle East and Latin America.

##### **4.5.2 IRCON International Ltd.**

IRCON was incorporated under the Companies Act, 1956 in 1976 originally under the name Indian Railways Construction Company Limited. It is a



specialized construction organization covering the entire spectrum of construction activities and services in the infrastructure sector. It has a visible global presence, having done about 90 projects in various countries.

#### **4.6 PSUs in Financial Services**

##### **4.6.1 Indian Railway Finance Corporation Ltd.**

Indian Railway Finance Corporation Limited (IRFC) was set up in 1986 as a dedicated financing arm of IR. Its sole objective was to raise money from the market to part finance the plan outlay of IR for acquisition of rolling stock assets and for meeting other developmental needs. The borrowing programme of IRFC was guided by the requirements projected by IR and raised funds through issue of both taxable and tax-free bonds, term loans from banks/financial institutions and through off shore borrowings.

Till 31 March 2010, Rolling Stock assets – Locomotives, Coaches and Wagons – valued at ₹60,163 crore had been added to the asset base of IR with funding assistance from IRFC. The Company had brought down the cost of incremental borrowings to IR from 14.97 *per cent* per annum in 1996-97 to 8.21 *per cent* in 2009-10. It had now diversified its activities selectively through funding financially viable and remunerative railway projects involving port connectivity or specific industry based new lines/gauge conversion projects. So far a sum of ₹2,294 crore had also been financed to other IR entities such as Rail Vikas Nigam Limited, Rail Tel Corporation of Indian Limited for creation of productive infrastructure for IR.

#### **4.7 PSUs in Rolling Stock Manufacturing**

IR has taken over administrative control of three wagon manufacturing units from Department of Heavy Industry, Ministry of Heavy Industries and Public Enterprises as given below:

- Bharat Wagon & Engineering Company Ltd - Administrative control transferred in August, 2008. The Company recorded a net loss of ₹8.63 crore in 2008-09. Accounts of 2009-10 were still to be finalized (December 2010).
- Braithwaite & Company Limited (BCL) - Administrative control transferred in August 2010 (2010-11).
- Burn Standard Company Limited (BSCL) – Administrative control of BSCL transferred in September 2010 (2010-11).

#### 4.8 Other Autonomous Bodies and Authorities

##### 4.8.1 Rail Land Development Authority

Rail Land Development Authority (RLDA) was set-up in 2006 for development of vacant IR land for commercial use for the purpose of generating revenue by non-tariff measures. IR had approximately 43,000 hectares of vacant land. Land not required for operational purposes in the foreseeable future was identified by the zonal railways and entrusted to RLDA in phases for commercial development.

RLDA, up to 31 March 2010, was entrusted with commercial development of 132 sites. Of these, only two sites were successfully handed over to the developers for development of commercial complexes. An amount of ₹33.61 crore received in 2009-10 as upfront payments was transferred to IR.

RLDA had also been assigned the responsibility of developing Multi Functional Complexes<sup>39</sup>. Out of the initial 67 sites sanctioned by IR, in 2009-10, 54 MFCs were to be executed by RLDA. Development of these MFCs was yet to take off (December 2010).

##### 4.8.2 Centre for Railway Information System

IR, in 1986, established the Centre for Railway Information System (CRIS) as an umbrella organization for all computer activities of IR. It started functioning from July 1987 as a registered society having an autonomous status. CRIS was mainly a project oriented organization engaged in development of major computer systems on IR.

##### 4.8.3 Railways Investment in Other Organizations

In addition to above IR had also invested ₹158.97 crore in Bhartiya Rail Bijlee Company Limited (BRBCL), a JV with National Thermal Power Corporation for setting up of Thermal Power Plants for availing direct power supply at a comparatively lower cost for rail network. IR had also invested ₹1.30 crore in Karnataka Rail Infrastructure Development Corporation (K-RIDE) set-up with an objective of developing and implementing rail infrastructure projects in Karnataka with private sector participation wherever found feasible / viable. IR did not receive return on these investments though it paid seven *per cent* dividend (₹11 crore) annually to general revenues.

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<sup>39</sup> Multi Functional Complexes provide multiple facilities like shopping, food stalls, book-stalls, PCOs booth, ATMs, medicine and verities stores, budget hotels, parking space and other amenities for rail users.

#### 4.9 Accumulated Losses

Of the above PSUs and SPVs/JVs<sup>40</sup>, KRCL, BWECL and PRCL were incurring losses. The total accumulated losses of these units as on 31 March 2010 was ₹3,435.67 crore. Of this KRCL alone accounted for loss of ₹3,330.93 crore. Accumulated losses of BWEL and PRCL were ₹6.25 crore and ₹98.49 crore respectively.

#### 4.10 Dividend

Details of dividend received by IR from its PSUs/SPVs/JVs during the last three years are given in Appendix- 4.1

Only seven out of the 12 PSUs/SPVs/JVs had paid dividend to IR despite ten of them making profits (Appendix-4.1). KRCL, MRVC and HMRDC did not pay dividend despite making profit in 2009-10. Reasons for non-payment of dividend by the profit making PSUs/JVs were not available.

Of the total investments of ₹4,535.67 crore (excluding investment in BRBCL and K-RIDE and Project advance given to RVNL), investment of ₹3,576.90 crore was made from Capital on which IR paid seven per cent dividend to general revenues. IR, however, earned an average dividend of nearly eight per cent on the investments during 2009-10

*The guidelines issued by Ministry of Finance in 1995 and 1996 envisaged that all profit making companies that were essentially commercial enterprises would declare a minimum dividend of 20 per cent either on equity or on post-tax profit, whichever was higher. However IRFC and RailTel did not comply with the above directives while declaring the dividend. The total shortfall on this account was ₹167.39 crore.*

Table- 4.3 Shortfall in dividend declared

Name of Entity	Total Paid up Equity	Profit after tax	Dividend Declared	(₹ in crore)			
				20 per cent of the paid up equity	20 per cent of the post tax profit	Minimum dividend to be declared	Short Fall
RailTel Corporation of India Limited (RCIL)	320.94	112.29	15.00	64.19	22.46	64.19	-49.19
Indian Railways Finance Corporation Limited (IRFC)	1,091.00	442.69	100.00	218.20	88.54	218.20	-118.20

<sup>40</sup> Excludes Braithwaite and Company Limited and Burn Standard Company Limited as these units were taken over in August/September 2010 (2010-11).

#### 4.11 Conclusion and Recommendations

PSUs/JVs/SPVs are strategic partners of IR in its growth and development. Off-loading of non-core activities to these enterprises enabled IR to utilize available resources in more productive ways. In the scenario where IR was facing resource crunch due to lower internal resources and reducing general budget support from Government of India, market borrowing through PSU (IRFC) and network expansion through JVs/SPVs had helped development, expansion and operation of railway system. In many instances audit observed that IR was not receiving its due share of revenues and operational cost, and depended totally upon these units for documentation relating to transactions with them.

#### Recommendations

- *IR needs to strengthen its system of controls as these units are receiving substantial concessions and financial support from IR.*
- *IR needs to encourage its PSUs to be more independent in raising resources instead of depending upon IR to fund their operations.*

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