# Chapter 5 Conclusions and Recommendations

## 5.1 Conclusions

Indian Railways (IR) is the third largest network in the world transporting about 40 *per cent* of the freight traffic in the country. IR, however, experienced continuous and precipitous erosion in the share of railway freight traffic. The market share of IR in freight sector has declined substantially though the freight traffic of IR witnessed encouraging growth during the last two decades. Significant investments were required for augmenting the existing capacity conforming to the sustained growth of traffic. Realizing the resource gap between the requirement and availability of funds, IR initially started market borrowing through Indian Railway Finance Corporation (IRFC). Subsequently, IR launched schemes to supplement investment in partnership with private players for specific projects to develop port linkages. PPP is one of such initiatives to develop infrastructure in Railways.

The study of the approaches of the IR towards PPP initiative reflects that the IR resorted to PPP primarily to bridge the resource gap for financing its projects and also to develop the existing infrastructure. Resource constraint played a vital role rather than these routes being a more efficient and cost effective service delivery mechanism. IR initiated eight PPP projects comprising five gauge conversion and construction of three new lines since 2000. All the projects were considered economically viable except HMRDC and KRCL where the estimated IRR was less than the benchmark of 14 *per cent* prescribed by the MoF.

Shareholder Agreements with PRCL and KRCL were incomplete as the same were executed before finalization of the stakeholders and the modalities of recovery of subordinate debt were not specified in the Shareholder Agreement. Assessment of IRR was not realistic in all cases as was observed in case of PRCL and VMPL where the projects suffered losses since commencement of operation. Mode of implementation of VMPL and Kutch Railway projects was modified without the approval of CCEA. Modified approach adopted for implementing VMPL project resulted in additional financial burden of ₹127.88 crores to the SPC as access charges over a period of 12 years.

IR failed to secure minimum traffic guarantee in respect of Kutch Railway Company Limited though the project was conceived at the expressed interest of the stakeholders. Further, under-utilisation (42 *per cent)* of the shortest route (Gandhidham-Palanpur) resulted in avoidable loss on account of haulage charges due to diversion of traffic through 133Km longer route.

IR did not formulate any Model Concession Agreement for execution of the projects within the stipulated time frame, nor did it adopt the model prescribed by the Planning Commission for PPP projects in infrastructure sector. Absence of Model Concession Agreement led to adoption of varying approaches towards fixation of concession period, lease rent and liability of IR at the time of transfer of assets by the SPVs. Incorporation of incorrect book value of assets in the lease agreement of PRCL led IR to sustain loss of ₹3.60 crore per annum towards lease rent. IRR and traffic potentiality of the projects was not given due consideration while fixing concession period. Extant instructions of Railway Board were also not given cognizance in deciding lease rent for the area of land leased to the SPVs. IR could not freeze the project cost and debt liability in absence of 'Financial Close' clause in the Concession Agreements.

Progress of the HPRCL project was only 17 *per cent* resulting in escalation of project cost by 100 *per cent*. Delay was also observed in KRCL project (Phase II) where 39 *per cent* progress was recorded.

Prescribed period for deferring overhead charges was not uniform for all the projects and the reasons for adopting different duration was not available on record. Duration for recovery of overhead charges was not fixed with reference to the projected profitability of the projects such as PRCL and Kutch Railway Company Limited. CCEA's approval for deferring overhead charges in case of HMRDC was ignored. The agreement provided for deferring overhead charges for ten year instead of five years as approved by the CCEA.

Traffic Guarantee Agreement was not executed in respect of VMPL, HMRDC, Kutch Railway Company Limited and KRCL despite the expressed interest of the stakeholders. Traffic Guarantee Agreement executed with PRCL and HPRCL did not provide for revision of provisions in the event of unforeseen growth of traffic in future. Penal provisions for shortfall in achieving minimum guaranteed traffic were complex. Provisions laid down in the agreement executed with the SPVs were rigid with little scope for any revisions. Lack of effective monitoring was observed in case of HPRCL and KRCL where RVNL was the executing agency.

## 5.2 Recommendations

I. *IR needs to frame a Model Concession Agreement for execution of its projects with in the stipulated time frame adopting uniform approach to all PPP projects in IR. The provisions of the agreement need to be complete and clearly defined with requisite safeguards to address any unforeseen event during the concession period. Provisions of the Agreement should also conform to the extant instructions issued from time to time by the MoR and other statutory authorities of Government of India;*

II. *IR needs to resort to calling of Expression of Interest for selection of all equity partners other than principal stakeholder. IR should ensure securing minimum traffic guarantee from the principal stakeholder;*

III. *Adequacy and accuracy of data/information including assumptions needs to be exhaustively analysed for assessing IRR in order to judge the economic viability of the project ;*

IV. *IR needs to streamline the project approval process, formation of SPVs and signing of requisite agreements in a time bound manner to avoid delay in completion of projects;*

V. *Definite time line needs to be framed for achieving 'Financial Close' by the SPVs to discourage subsequent modification of the scope of the project and enhancement of project cost. Adequate care needs to be taken for realistic assessment of the project cost to reduce debt financing; and*

VI. *IR needs to strengthen its monitoring mechanism for effective monitoring of all PPP projects both at the Zonal Railway as well as Railway Board level.*

Vijaya Moorthy

**(VIJAYA MOORTHY)**

**New Delhi** **Deputy Comptroller and Auditor General**

**Dated:** 24 February 2014

**Countersigned**

**(SHASHI KANT SHARMA)**

**New Delhi** **Comptroller and Auditor General of India**

**Dated:** 28 February 2014