

Further, the World Bank while analyzing public procurement in India has remarked regarding IR's procurement organization: "The creation of a competitively recruited class one cadre of procurement specialists in the Railways and Department of Supply in the early fifties has contributed to comparatively higher professional standards in both organizations, and needs emulation in other ministries and sectors. Creation of such cadres fosters professional growth, pride in the profession, cross-fertilization of ideas, etc. Alternatively, professionals belonging to these services should be entrusted with the procurement activity in all ministries."(World Bank 2003, India Country Procurement Assessment Report: 17).

### **3.0 Statement of the problem**

The Operating ratio (ratio of working expenses to gross earnings) of Indian Railways (IR) has been above 90% for last 7 years. To improve the Operating Ratio, Indian Railways can look for either increasing the revenues or reducing the expenses.

IR spends more than Rs 50,000 crores on procurement of materials which provides an opportunity to link cost savings to Operating Ratio. The cost savings can be achieved by challenging the existing procurement practices and consumption norms.

In Budget Speech for 2016-17, Hon'ble Minister of Railways stated that:

*“One of the key priorities under the mission procurement and consumption efficiency (PACE) is not only for bringing our procurement practices in line with the International best practices but also to challenge our consumption norms and assimilating a culture of optimum usage”(http://www.indianrailways.gov.in/railwayboard/).*

Expenditure on procurement of material needed for operation, maintenance and production etc. (excluding cost of ballast, track related items, material supplied by contractors for civil construction works) was Rs 43,347.32 crores in 2016-17.

A broad analysis of purchases made is given in Table 4 below:-

**Table 4: Expenditure on Purchases**

	(in Crores of Rs)	
	2015-16	2016-17
Stores for operation, repairs and maintenance	11,700	11,403
Stores for construction	1,445	1,264
Fuel	13,036	11,949
Stores for manufacture of Rolling Stock and purchase of Complete units	16,951	18,731
<b>Total</b>	<b>43,132</b>	<b>43,347</b>

Source: Indian Railway Year Book 2016-17, chapter 21, page 150.

Indian Railways, total ordinary working expenses stood at Rs 1,18,829 crores for financial year 2016-17 with Operating Ratio (OR) of 96.50%. Out of this, expense for procurement alone was about Rs. 43,347 crores. About 43% of the procurement expenditure was for purchase of items required for manufacturing, 26% for purchase of items required for repairs, operation and maintenance, 27% percent for purchase of fuel and remaining for purchase of items required for construction. Items as diverse as rails, motors, paint, diesel, office supplies and medicines are regularly procured by IR in substantial quantities (source: Indian Railway Year Book 2016-17, chapter 16, page 101).

To improve the Operating Ratio, Indian Railways can look for either increasing the revenues or reducing the expenses. IR has been striving hard to increase its revenues, while keeping in mind the responsibility to impose minimal financial burden on the public and its social obligations. Therefore, in order to improve the Operating Ratio, there is no other option but to reduce the expenses. Almost 36.47% expenditure is on procurement alone, which requires to be challenged through best procurement practices and consumption norms.

#### **4.0 Objectives**

The objective of this study is to :

- Do a spend analysis on procurement and consumption patterns for high value items in Indian Railways.

- Analyze the policies and practices relating to the procurement, consumption efficiency & saving patterns in Indian Railways.

### **5.0 Rationale for the study**

The importance of reduction in expenses for improving the Operating Ratio (OR) has already been stated in para 3.0 above. Expenditure on procurement constitutes almost 36.47 % of total ordinary working expenses. Efficient procurement practices and consumption norms has huge ramifications in savings and efficiency of Indian Railway, thereby reducing Operating Ratio (OR) of Indian Railways.

### **6.0 Research Question**

- Are existing procurement policies of Indian Railways clear and in line with Govt of India policies? If not, what are proposed changes/ suggestions.

### **7.0 Research Design and Methodology**

The study has applied case study method followed by graphical and tabular presentation. The Research design adopted for the study is mainly descriptive. The research methodology for the study is mainly historical, observational and analytical using secondary data. It is based on analysis of procurement and consumption of Indian Railways. The facts and data has been generated through focussed discussions with the officials.

**8.0 Limitations:** The study is primarily based on the secondary data available on the matter and the information received from various authorities during discussion. Due to the paucity of time and limited resource, it was not feasible

to get the primary data from many of the field units and various stakeholders. There is lot of scope for studying on procurement and consumption efficiency patterns of materials on Indian Railways which can result in cost savings.

## **9.0 Scheme of Chapterization**

Chapter I-It provides background information about the size of Indian Railways, importance of Procurement system It also covers the statement of problem, purpose or objective of study, rationale for the study, research question, design and methodology and Limitations of the study.

Chapter-II- Reviews the existing literature on the material procurement and consumption efficiency and discusses their findings.

Chapter III- An overview of the process and procedures of Supply Chain Management in Indian Railways has been covered in this chapter.

Chapter IV- It elaborates spend analysis of material procured by Indian Railways.

Chapter V- It reviews the existing system and discusses salient features.

Chapter VI. It give conclusions and recommendations