



EXPRESSION OF INTEREST

For the Upgradation and Operation of Pakistan Railways Carriage Factory, Islamabad (CFI) on Joint Venture (JV) basis

Pakistan Railways (PR) is soliciting a joint venture partner to undertake Balancing, Modernization and Replacement (BMR) of CFI. CFI is a rail coach assembling/manufacturing and rehabilitating unit located in Islamabad owned and operated by PR. CFI was established in 1970 with an objective to manufacture 120 rail coaches per annum on single shift basis.

PR seeks Expression of Interest (EOI) from technically qualified and financially sound private investor for undertaking BMR. The private investor is expected to invest in BMR of CFI for necessary upgradation and jointly operate CFI with PR for a predetermined time frame. The private investor is encouraged to explore product diversification opportunities at CFI in order to increase its revenue sources and make the venture successful.

Interested parties can download Project Information Memorandum from www.ipdf.gov.pk or www.railways.gov.pk and are requested to submit their EOI by April 5, 2017 (11.30 hrs) comprising information about their technical competence and financial capability to undertake the Project. The information should also include the private party's complete corporate and legal profile (single entity and/or consortium); nature of business and experience in assembling/manufacturing, rehabilitating, marketing and selling rail coaches; audited financial statements for the last three years; and contact details.

EOI should be submitted at the following address:

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**PROJECT INFORMATION
MEMORANDUM
FOR
UPGRADATION AND
OPERATION OF
PAKISTAN RAILWAYS
CARRIAGE FACTORY,
ISLAMABAD**



MARCH, 2017

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Introduction

Pakistan Railways Carriage Factory (CFI) is a rail coach manufacturing and rehabilitating unit which is owned and operated by Pakistan Railways (PR) and is located in Islamabad. CFI was established in 1970 with an objective to produce 120 rail coaches per annum on single shift basis.

CFI is spread over total area of 141 acres out of which 58 acres are being utilized by the CFI factory building while the remaining 83 acres accommodate CFI staff colony.

Since its commissioning in 1970 CFI has so far manufactured 2,130 rail coaches and 1,737 rail coaches have been rehabilitated out of which 994 rail coaches have been subject to the major repairs. Following table highlights the CFI's operational history in terms of completed projects:

Table 1: CFI's Completed Projects

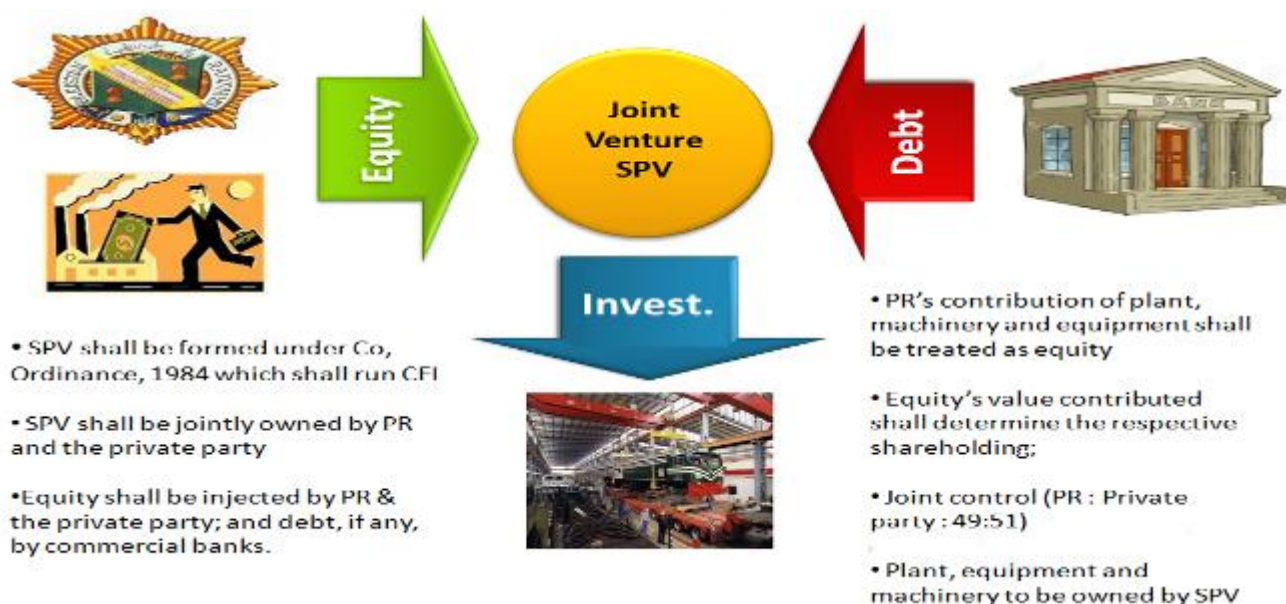
Year	Activity	No. of rail coaches	For . . .
1972 – 2004	Manufacturing	1,469	Passenger Coaches of German Design for PR
1977 – 1983	Manufacturing	223	Export to Bangladesh
1996 – 2004	Manufacturing	39	MBR Passenger Coaches
2004 – 2007	Manufacturing	135	New Chinese Design Passenger Coaches for PR
2006 – 2011	Manufacturing	30	Freight bogie brake van of German Design for PR
2007 – 2008	Manufacturing	50	Freight bogie brake van of Chinese Design for PR
2013 – 2015	Manufacturing	146	New Chinese Design Passenger Coaches for PR
2014 – 2015	Manufacturing	38	New Chinese Design Power Vans for PR
1993 – 2003	Rehabilitation	858	Overhauling/refurbishing for PR
2003 – 2015	Rehabilitation	859	Overhauling/refurbishing for PR
2000 – 2001	Rehabilitation	20	Export to Senegal (Meter Gauge)

Project Structure

The Project structure is proposed to be as follows:

1. The Project requires the private sector investor to make the necessary investment towards Balancing, Modernization and Replacement (BMR) for upgrading CFI - this may also include enhancing the CFI's production capacity from producing 120 to 250 rail coaches per annum - and operate the CFI under JV arrangement with PR;
2. JV arrangement between the private sector investor and PR will be entered into through a legally binding and enforceable agreement for a period of maximum 20 years or termination whichever is earlier;
3. At the completion of 20 years period the private sector investor's entire stake in the project company (SPV) will be transferred to PR as per mutually agreed terms and conditions in the JV agreement; however, compensation mechanism in case of early termination before the expiry of 20 years will be specified in the JV agreement. Nevertheless, the private sector investor will be required to complete minimum lock-in period in case of termination of the JV agreement;
4. A dedicated project company (Special Purpose Vehicle - SPV) will be formed to execute the Project under JV arrangement;
5. The equity contribution in SPV will be made by the private sector investor and PR; the equity contribution will be reckoned as follows:
 - a. For private sector investor: equity investment in BMR of CFI; and
 - b. For PR: Existing plant, machinery & equipment will be equity of PR and will continue to be property of PR
6. Land and factory building ownership to remain with PR and PR may opt to charge rent for the said facilities from SPV;
7. CFI staff colony and allied facilities' ownership and management to remain with PR;
8. SPV will be jointly controlled by the private sector investor and PR;
9. The SPV formed for executing the Project will be treated as a separate legal entity from PR and the SPV will be responsible for all of its costs incurred, risk management strategies and obligations entered into; it will not recourse to PR for seeking any financial assistance and/or satisfying any of its liabilities or costs incurred;
10. CFI's land, factory building and staff colony will not be pledged as collateral for raising the debt financing for the Project.

The diagrammatic view of the proposed transaction structure is as follows:



Rights and Obligations of the Private Sector Investor and PR:

Following table highlights the rights of private sector investor and PR under the JV arrangement:

Table 2: Rights of Private Sector Investor & PR under JV arrangement

Private sector investor	PR
Manufacture/rehabilitate, market and sell the rail coaches	Retain the ownership over land, factory building and CFI staff colony
Utilize CFI’s assets to the fullest for optimizing the SPV’s earnings from the Project	Contributing as equity in SPV existing plant, machinery and equipment at current market value with ownership of PR
Jointly control the SPV operations	Jointly control the SPV operations
Declare dividends and repatriate the profits	Jointly control the profit and loss sharing
Raise debt financing for the Project upto 70% of the BMR cost	Acquire the entire stake in SPV at end of JV arrangement
Right to manufacture and sell other allied products like structure of Overhead cranes, Water/Oil storage tanks, Tractor trolleys etc.	First right to refusal for buying stake in SPV if the private sector investor desires to step out of the Project after the completion of lock-in period
Opportunity to sell stake in SPV after a predetermined lock-in period	Charge rent for the factory building and land from SPV at mutually agreed terms and conditions.

Following table highlights the responsibilities of private sector investor and PR under the JV arrangement:

Table 3: Responsibilities of Private Sector Investor & PR under JV arrangement

Private sector investor	PR
Investment into BMR of CFI from its own resources	Provision of existing CFI land and necessary infrastructure to SPV to execute the Project
Manufacturing, marketing and selling of the products; special pricing formula for PR will be devised (one of the option is Cost plus 10% margin);	Provision of desired existing work force to kick start the operations
Maintain SPV's proper 'Books of accounts' and provide access to PR as and when required	Facilitating in seeking the necessary public sector approvals for executing the Project
Compliance with the applicable laws and regulations and pay duties, taxes and levies	Provision of minimum off-take guarantee for procuring 'x' number of rail coaches per annum
Utilizing CFI's assets and land only for the Project's purposes (any of the CFI's assets will not be collateralized to raise project financing)	CFI colony area and the costs not related to CFI operations will be borne by PR
Jointly managing and controlling the SPV's operations	
Utilizing existing competent CFI staff and to devise mechanism for surrender of rest of employees to PR or diving compensation for the rest of employees	
Distributing profits, paying dividends and revenue share to PR as per JV agreement	

Project Benefits to Private Sector and PR:

Following table highlights the expected Project benefits accruing to the private sector investor and PR:

Table 4: Project Benefits to Private Sector Investor & PR

Private sector investor	PR
Less additional capital investment and human resource required to kick-start the operations	Upgradation, through BMR, of CFI and transforming CFI into world class rail coach manufacturing and rehabilitating facility and an export oriented unit
Smooth entry into local and regional rail coach manufacturing industry;	PR to retain the title and ownership of plant & machinery, land, factory building & staff colony at CFI
Minimum off-take guarantee by PR for procuring 'x' number for rail coaches will help easing the cashflow burden	Joint venture between PR and the private sector will help sharing risks and transferring the risks to the party that can best manage them;
Expedite facilitation in securing the necessary approvals as PR is itself a party in JV	No additional investment by PR; leveraging existing plant and machinery , land and building will be treated as equity contribution in SPV;
Opportunity to sell stake after lock-in period	No recourse to PSDP allocation for CFI; CFI will be able to generate consistent income for PR
Cheap debt financing available in local markets	Labour productivity and job security of existing competent employees
Smooth repatriation of profits and dividends	One stop shop; manufacturing and repairing at the same location
Cheap labour force available in local markets	Saving of foreign exchange

Following is the list of products and services that can be manufactured at CFI:

1. Passenger Coaches of all types;
2. Freight Wagons of all types;
3. Steel Girders/Structures for Overhead Cranes;
4. Body of Trailers;

5. Fabrication of 20 feet & 40 feet steel Containers besides other items of Steel, Aluminum;
6. Water/Oil Storage Tanks;
7. Tractor Trolleys;
8. Agriculture Implements viz. Cultivator, Front & Rear Blades, Thrashers, Diggers etc;
9. Overhead Pedestrian Bridges;
10. Electric Poles, Telecommunication Towers of all types;
11. Wooden Doors, Wooden Almiras, Kitchen Cabinets;
12. Aluminum Frames, Structures, Partitions, Windows, Doors etc;
13. Steel/Wood furniture;
14. Steel Doors/Gates, Windows, Grills etc;
15. Steel Structures for fuel oil filling Stations, Sheds/Workshops; and
16. Pre-fabricated houses.

Procurement Process:

The procurement process for the Project will be carried out on ‘Two Stage Two Envelope’ basis.

1. In the first stage Expression of Interest, against Project Information Memorandum (PIM), will be floated inviting technical indicating financial capabilities from the interested parties; afterwards an investors’ conference will be called up to firm up the Project’s transaction structure, decide on the technical & financial parameters and the expected way-forward;
2. In the second stage the agreed upon parameters, as above, will be reflected in Request for Proposal (RFP), which will be floated to the interested parties, inviting the revised technical and financial bids.

The successful bidder will enter into JV arrangement with PR for a period of maximum 20 years. The terms and conditions of JV agreement will be mutually agreed upon by the two parties.

Sr. No	Evaluation Criteria	Points Allocation
1	Professional Standing of Bidders(Technical Competency & Capability to undertake the project besides bidder complete corporate and legal profile)	10
2	Firm experience in Carriage manufacturing sector (Locally & Abroad)	40
3	Nature of T.O.T exported abroad to Foreign Railways identifying the extent of indigenization achieved thereof. (The details of Joint Venture Models be elaborated)	15
4	Performance of Carriages exported by the bidders to Foreign Railways.	10
5	Financial capabilities of bidders to undertake the project by enclosing Audited Financial Statement for the last 05 years.	15
6	Business Plan for manufacturing around 1500 Carriages during next 10 years in Pakistan Railways Carriage Factory, Islamabad. (Plan for product diversification and capacity building of Carriage Factory be also elaborated).	10
Total		100

Note: Bidders securing a total score of 70 points and above would qualify for Request for Proposal (RFP).

