



EXPRESSION OF INTEREST

For the Upgradation and Operation of Pakistan Railways Locomotive Factory, Risalpur (PLF) on Joint Venture (JV) basis

Pakistan Railways (PR) is soliciting a joint venture partner to undertake Balancing, Modernization and Replacement (BMR) of its locomotive factory. PLF assembles/manufactures and rehabilitates locomotives at its plant located 145 kilometers North-West of Islamabad in Risalpur, Khyber Pukhtunkhwa. PLF was established in 1993 with the assistance of Government of Japan and has an annual capacity to produce 25 locomotives on single shift basis which can be further enhanced to produce 50 locomotives per annum.

PR seeks Expression of Interest (EOI) from technically qualified and financially sound private investor to undertake BMR of PLF. The private investor is expected to invest in BMR for necessary upgradation and jointly operate PLF with PR for a predetermined time frame. The private investor is encouraged to explore product diversification opportunities at PLF 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 Feb 10, 2016 (11.30 Hrs) comprising information about their technical competence and financial capability to undertake the Project. The information should also include the private investor's complete corporate and legal profile (single entity and/or consortium); nature of business and experience in assembling/manufacturing, rehabilitating, marketing and selling locomotives; audited financial statements for the last three years; and contact details.

EOI should be submitted at the following address:

(ASAD AHSAN)
[General Manager/Manufacturing & Services]
Pakistan Railways,
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**PROJECT INFORMATION
MEMORANDUM
FOR
UPGRADATION AND
OPERATION OF
PAKISTAN RAILWAYS
LOCOMOTIVE FACTORY,
RISALPUR**



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Introduction

Pakistan Railways Locomotive Factory (PLF) is a locomotive manufacturing and rehabilitating unit which is owned and operated by Pakistan Railways (PR) and is located 145 kilometers North-West of Islamabad in Risalpur, Khyber Pukhtunkhwa. PLF was established in 1993 at a cost of then PKR 2.284 billion with the assistance of Government of Japan. The objective of PLF was to manufacture 25 Diesel Electric (DE)/Electric locomotives per annum on single shift basis. PLF uses the following locomotive manufacturing technology:

1. Hitachi Limited, Japan;
2. General Electric (GE), United states of America (USA);
3. ADtranz, Germany; and
4. DLRW, China.

PLF is spread over total area of 257 acres out of which 100 acres are being utilized by the PLF factory building while the remaining 157 acres accommodate PLF staff colony.

Since it's commissioning in 1992 PLF has so far manufactured 102 locomotives ranging from 2000 - 3000 Horse Power (HP); 26 locomotives have been rehabilitated and 138 locomotives have been subject to major repairs. Following table high-lights the PLF's operational history In terms of completed projects:

Table 1: PLF's Completed Projects

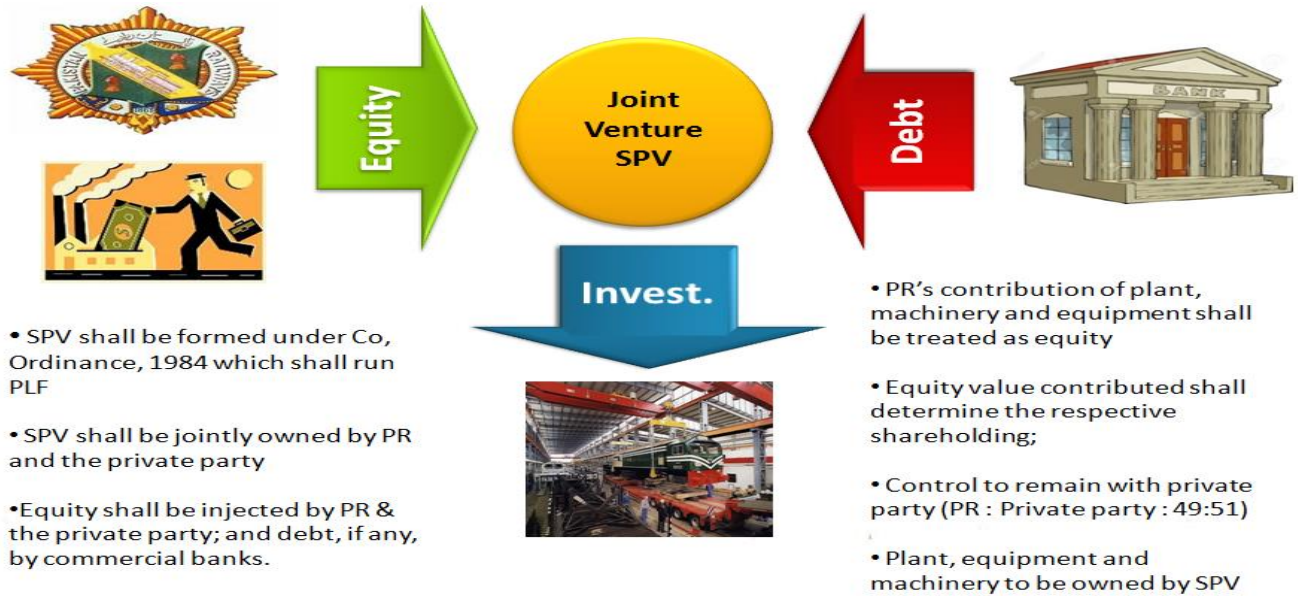
Year	Activity	No. of locos	Type of locomotives
1993 - 1994	Manufacturing	5	DE locomotives (2000 HP, Hitachi design)
1994 - 1997	Manufacturing	18	DE locomotives (2000 HP, Hitachi design)
1997 - 1998	Rehabilitation	5	DE locomotives (2000 HP, GE design)
1999 - 2001	Manufacturing	30	DE locomotives (2000 HP, GE and ADtranz design)
2001 - 2003	Rehabilitation	21	DE locomotives (2000 HP& 2400 HP, GE design)
2003 - 2008	Manufacturing	69	DE locomotives (2000 HP& 3000 HP, Chinese design)
2014 - 2015	Manufacturing	5	DE locomotives (3000 HP, Chinese design)

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 PLF - this may also include enhancing the PLF's production capacity from producing 25 to 50 locomotives per annum - and operate the PLF 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 compete 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 PLF; and
 - b. For PR: transfer/contribution of existing plant, machinery and equipment to SPV at current market values as certified by an Engineering Firm recognized by Pakistan Engineering Council;
6. Land and factory building ownership to remain with PR and PR may opt to charge rent for the said facilities from SPV;
7. PLF 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 the 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. PLF'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 locomotives	Retain the ownership over land, factory building and PLF staff colony
Utilize PLF'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
Jointly control the SPV operations	Jointly control the SPV operations
Declare dividends and repatriate the profits	Participate in profit and loss sharing
Raise debt financing for the Project upto 70% of the BMR cost	Acquire the entire stake in SPV at the end of JV arrangement
Right to manufacture and sell other allied products like cargo containers, moulds for concrete sleeper manufacturing, spare parts 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
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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 PLF from its own resources	Provision of existing PLF 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 locomotives per annum
Utilizing PLF’s assets and land only for the Project’s purposes (any of the PLF’s assets will be collateralized to raise project financing)	PLF colony area and the costs not related to PLF operations will be borne by PR
Jointly managing and controlling the SPV’s operations	
Utilizing existing competent PLF staff and giving 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 PLF and transforming PLF into world class locomotive manufacturing and rehabilitating facility and an export oriented unit
Smooth entry into local and regional locomotive manufacturing industry;	PR to retain the title and ownership of land, factory building & staff colony at PLF
Minimum off-take guarantee by PR for procuring ‘x’ number for locomotives 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 will be treated as equity contribution in SPV;
Opportunity to sell stake after lock-in period	No recourse to PSDP allocation for PLF; PLF 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 PLF:

1. Manufacturing, rehabilitation and repairing of locomotives of different designs and capacity;
2. Manufacturing of freight wagons, Hooper Wagons, bogies of coaches, Dovetail Sheets etc;

3. Major fabrication work, like Vessels. Electric poles, heavy vehicles chassis, Trailers, Containers, Agriculture equipment, Fabrication work like follower and gates, Spillway for Power Generation Sector and tunnel arches;
4. Manufacturing of Moulds for Concrete Sleeper factories;
5. Manufacturing/re-qualification of DE locos spare parts and components for running maintenance; and
6. Rewinding of traction motors and allied motors and manufacturing of rewinding kits.

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 and financial bids from the interested parties; afterwards an investors’ conference will be called up to firm up the Project’s transaction structure, decide on the technical 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 winning 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 Locomotives 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 locomotives 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 500 locomotives during next 10 years in Pakistan Railways PLF, Risalpur. (Plan for product diversification and capacity building of Locomotives 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).

