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Director General

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**Shri VK Tripathi**  
**Chairman & Chief Executive Officer**  
**Railway Board**  
**Government of India**

*Dear Shri Tripathi*

**Problems faced by Industry in Supply of Wheel Sets for Rolling Stock (Wagons & Locomotives)**

Greetings from FICCI.

At the outset, I would like to congratulate the Indian Railways for the ambitious National Rail Plan (NRP) for India-2030. This will certainly help in creating a 'future ready' Railway system and will be instrumental in increasing the modal share of Railways in freight traffic.

In a recent development, Indian Railways has floated an order for procurement of 90,000 wagons and 2,000 locomotives over a period of three years, for unhindered transportation of coal, cement and food grains among others, to achieve a loading target of 5 million tonnes per day. The floating of such a tender is a part of the Railway's big push in the infrastructure as envisaged in the 2022-23 Budget.

The move to increase the infrastructure of rail wagons is laudable. However, it has an unintended consequence. The private Container Train Operators (CTOs) and other private wagon owners are unable to source wheel sets for their new wagons, as the entire existing domestic capacity was asked to meet the requirements of Indian Railways only.

The Ministry of Railways is laying great thrust on increasing the private investments in Rolling stock (Wagons & Locomotives) as per the National Rail Plan with a view to increasing the share of railways in freight. However, the move is hampered by putting restrictions on supply of wheel sets for the private wagons.

Since 2015, the Rail Wheel Factory (RWF) has been the primary supplier of wheel sets for all private wagons and imports of wheels have been banned. Hence, RWF will be the key entity for supplying all wheel supplies for this order for 90,000 new wagons by the Indian Railways. Given the capacity limitation of RWF, it is only supplying wheels against IR orders, and all private investors in wagons have been asked to make alternate arrangement through import channels. As a result, wagon manufacturers, have stalled all private orders indicating that there will be a delay in supply and likely escalation in costs if at all these can be fulfilled.

Let me submit that the matter needs to be thoroughly reviewed as any disruption in supply of wheel sets is likely to disturb the policy aimed at encouraging private participation in wagons, by either increasing costs of private rake procurement or delays leading to business disruptions.

For your kind perusal, appended are some of the critical concerns that have emerged for the private sector due to this situation:

1. **The supply chain disruption impact of diverting to imported wheels will lead to at least a 6–8 months delay before any new imported wheels can be brought in.** This will lead to a significant gap in supply against existing and new orders of private wagons. There has been a considerable growth in container volumes over IR in the past year. Compared with 2020-21 (up to January), there has been a 10.36 MT increase in container traffic in 2021-22 (up to January). This represents a significant 20% growth much of which has come as diversion from Road to Rail.

At a time when there is a rapidly expanding demand for new rakes for the container sector, a 6–8 month-gap in supply of additional wagons will have a devastating impact on this growth performance.

2. **Besides the process and time delays, there is also likely to be a significant cost impact of having to import wheels.** Given the current global market scenario, the landed cost of imported wheels will be almost double that of what is supplied by RWF. In cost escalation terms, this would lead to a 20 per cent increase in Capital cost of wagons. Besides leading to a massive increase in logistics cost in a sector where commercial margins range from 10-12 per cent, a 20 per cent capital cost increase will likely render the whole operation unviable and result in a loss of the hard-earned traffic back from rail to road.

To mitigate the situation, we suggest the following for the kind consideration of Indian Railways:

- (i) Certain percentage (say 30%) supplies of wheels from the domestic wagon manufacturers may be reserved for supplying to Private Operators. In the meantime, building local capacity should be encouraged.
- (ii) Till the time sufficient capacity is unmet and private operators are required to meet demand through imports, there should be a mechanism to compensate for the difference in the landed cost-plus customs duties and the domestic supply cost.

The above will help in easing some of the losses & delays and assist in realizing the overall objective of increasing private sector participation of industry in rolling stock procurement.

We are confident that you will kindly consider our request positively and take appropriate measures to protect the interest of all stakeholders. If necessary, FICCI would be happy to bring in an industry delegation to brief the Ministry in detail on this matter.

Thank you for your valuable guidance and support.

*Best Regards*

Yours sincerely,



Arun Chawla