

HINDUSTAN PAPER CORPORATION LTD

HPC Coal Procurement Policy

1.0 Annual Paper Production Target

HPC is having two Units:

- Nagaon Paper Mill (NPM), Jagiroad, Assam
- Cachar Paper Mill (CPM), Panchgram, Assam
- Annual Paper Production Target of each mill (NPM & CPM) :: **1.00 lakhs MT**

2.0 Annual Requirement of Coal

Coal requirement for each unit: **1.8 lakhs MT p.a**

Buffer stock for each unit: **15,000 MT** (One month stock)

3.0 Configuration of Boilers in NPM and CPM

Three nos. Stoker Fired Boilers at each mill.

One no. of AFBC Boiler at NPM

4.0 Availability of coal in North Eastern Region

4.1 Govt. Sources

- **NECL (A subsidiary of Coal India Limited – CIL)**

Fuel Supply Agreement (FSA) & Linkage

Paper Industry falls in Non Power (Non-regulated sector). In the revised coal policy, CPSEs are treated at par with Private Sector, as such; there is no preference for CPSE over Private Sector, whether for linkage, quantity or premium pricing.

Detailed coal policy is available on **CIL** web site.

HPC is having FSA of 90,000 MT of coal for NPM with NECL which is equal to approximately 50% of its requirement. In case if minimum quantity out of FSA is not lifted, stringent penalties are applicable.

There is no FSA for CPM.

As per the revised coal policy, fresh FSA has been discontinued irrespective of CPSE or Private Sector.

- **Linkage policy:** CIL/ NECL periodically publishes notice for bidding cum auction process. For procurement of coal, corporation has to participate in the bidding cum auction process.
- For participation, bidders need to deposit EMD at a fixed rate for the bid quantity.
- The quantity is available to the highest bidder/ bidders on H-1 prices proportionately

Detailed allocation policy is available on **CIL** web site

- **Minimum Quantity:** A rake load of 3500- 4000 MT.
- **Availability of Coal & Wagons:** Rakes are placed on first cum-first basis.
- **Placement – loading - Delivery period:** 2-3 days
- **Spot Auction by NECL:** From time to time, NECL sales coal on e-auction basis depending on their availability. We may participate in e-auction.
- **Quality:** As supplied. At times coal received is fully wet, mainly during rainy season. **No redressal Mechanism.**
- **Payment terms:** Strictly advance whether towards FSA or linkage.

This source is much preferable over others subject to availability of sufficient funds vis-a-vis other sources where credit/ LC facility are available.

NPM procure coal from NECL against advance payment and also from private sources on credit terms.

After conversion of MG in to BG within CPM premises NECL may become major source.

4.2 Private Sources

- **Nagaland:** Coal block are held by private parties.
- **Meghalaya:** This has been major source for decades from where NPM & CPM had been sourcing their 60 % and 100 % requirement respectively.
- However, now National Green Tribunal has put a blanket ban on mining and transportation in the state of Meghalaya w.e.f. May, 2014. However, time to time NGT has been relaxing and allowing transportation of extracted coal. As per the information available, large quantity of extracted coal is available, but depending on this source is a risky proposition.

- However, for CPM this source is still a better option till conversion from MG to BG is completed.
- **Imported:** Indonesian grade, US grade, Australian grade and South African based coal had been procured by HPC earlier.

For the stoker fired boilers, the imported coal has not been found as suitable as the coal sourced from NER. However, in case of exigencies it can be used by blending with NECL, Nagaland and Meghalaya coal.

NECL, Nagaland and Meghalaya coal is best suited for Stoker fired boilers.

In the AFBC boiler, all varieties of coal can be used, provided the coal is dry. Wet coal is not usable in AFBC boiler.

At present, NPM is having AFBC boiler and CPM is in advance stage of commissioning of AFBC boiler.

Damped / Wet coal is not suitable. The consumption goes up and efficiency i.e coal steam ratio goes down. Therefore it is desirable to maintain adequate level of stock so that dry coal is continuously available. However, due to paucity of fund, maintaining of adequate coal stock level has not been possible.

5.0 Procurement Mechanism for the sources other than NECL

5.1 Procurement through Gate Purchase Scheme (GPS)

This scheme has been floated to encourage small traders/ vendors whereby they can offer/deliver even one truck load of material, collect the payment directly after against the supplies without involvement of any middle man. There is no quantity/contractual obligation, prerequisite for submission of EMD or security deposit, penalties are not applicable on the part of supplier.

Normally a price difference of 10 % is kept between GPS price and tendered price as such this source is cheaper in comparison to other sources. However, since vendors of this source are not financially strong, this source is vulnerable to fund constraints vis -a - vis procurement through tendering.

5.2 Procurement through Tendering

HPC follows a transparent procedure. The tendering is normally done periodically by way of open tendering process via e-tendering through an approved Service provider.

Present approved service provider is **M-junction**.

Separate tenders are floated for indigenous and imported coal as per the requirement.

HPC has Procurement Manual Guideline **PMG** (Effective Sept/2005- Under Revision). The purchase and procurement activities are carried out in compliance with PMG.

6.0 Salient features for e-tendering:

- a) NIB is floated online.
- b) Tender notices are also published in newspaper and also uploaded in HPC's website www.hinpaper.in.
- c) Interested bidders have to register first in M-junction.
- d) The vendors have the flexibility to quote on date or before the due of opening.
- e) MSME (Micro Small and Medium Enterprises): Micro Small and Medium Enterprises (MSMEs) who are registered with Udyog Adhar Memorandum shall be entitled to enjoy all the benefits as per provision under Public Procurement Policy for MSMEs Order 2012. Documentary evidences on this line are to be furnished.
- f) **Specification-** The standard specifications are mentioned in NIB.

g) Earnest Money Deposit (EMD)-

EMD for Coal sourced from NER is kept at 5 lacs only irrespective of the estimated value of tender. However, for imported coal, the EMD @ 2% has to be submitted subject to upper ceiling of Rs. 15 lacs .

If the outstanding of a vendor is overdue, at times, on request of vendor EMD are also adjusted out of their outstanding.

h) Bids are called online in two parts:

- (i) Techno- commercial bid and (ii) Price Bid

i) On due date bids are opened online.

- If in the first invitation, no offers are received, the due date of opening is extended.
- If in the first invitation, single bid is received, then tender is cancelled as per CVC guidelines and re-tendering is done.
- Even after re-tendering only single offer is received, it can be processed.

- j) Corrigendum Extension and Re-tendering are communicated through Service Provider and are also uploaded in HPC website.
- k) After opening of the tender online, technical bids are evaluated.

In NIB, there is a provision for a bidder to quote for minimum offered quantity. If any bidder quotes less than the minimum offered quantity, is subject to cancellation, without assigning any reason. Their price bids are not opened.

- l) **Estimates:** Prior to opening of price bid, a committee is constituted who makes a survey of the market and prepares a estimate price, as a base price, for the tendered commodity.
- m) Only the price bids of qualified bidders are opened.

Rates are normally called FOR (Delivered basis). However, if the material is sourced through rail, where freight component is very high, freight amount is paid on the proof of placement of indent for rake for HPC.

- n) In NIB, there is also a provision for splitting of orders among the bidders, as per the Apportionment Clause.
- Distribution of quantity, among the bidders is done as per the apportionment Clause, subject to acceptance of L-1 rate.
 - L-1 bidder is given the first opportunity to supply.
 - If L-1 bidder has offered the minimum offered quantity, then the bidder is given the first opportunity to accept additional quantity as per the apportionment clause of NIB.

- o) **Security Deposit (SD)-** Normally 5% of the contract value is taken as Security Deposit. EMD of the successful bidder(s) is converted as Security Deposit.

The difference between EMD and SD can be deposited by way of RTGS/Cheque/Bank Guarantee (BG).

In order to give comfort to vendors, there is also a provision to build up SD by way of deduction from the running bill.

If a vendor has huge overdue outstanding, at the request of vendor, SD can also be adjusted out of the same.

- p) **Penalty Deduction-** Penalty clauses are mentioned in NIB. Deductions are made in accordance with the same.
- q) **Credit Period-** Credit period are normally ranges between 30-90 days However, it is equal to all vendors.

In cases where material is transported by rail and freight element is very high, Freight is paid in advance subject to confirmation to placement of indent by vendor.

Due to Working Capital constraint, the Corporation has not been able to adhere to the payment schedule prescribed in NIB.

r) **Payment mode:**

a) RTGS

b) Letter of Credit (LC) are established for full or partial value of the material subject to availability of ILC limit with usance period of 90/180 days for supplies prior made prior to 90 days .

c) Bill discounting

s) **Assignment Order-**

• **Scenario no. 1.**

After floating of tender, in the event of exigencies, pending finalization of tender, assignment orders are placed on the bidders, who have already participated in the tender, subject to their acceptance of L-1 rate after finalization of tender.

• **Scenario no. 2.**

Assignment orders are also placed to new vendors in the following scenario:

a) the source is new

b) Existing bidders are not supplying.

c) There is a delay in supplying of materials.

Assignment Orders are placed at the same rate, terms and conditions or lower than the existing L-1 rate.

t) **Developmental Order-**

HPC has a policy to encourage and develop new vendors to increase competition. To achieve this objective, in NIB for indigenous coal, 10 % quantity is normally reserved for the new vendors who, though have participated in NIB, however are not meeting the PQC. Said 10 % of the quantity is equally distributed among such new vendors subject to acceptance of L- 1 rates and other standard terms & conditions.

u) **Short Tender-** In case of extreme exigencies, there is a provision for short tender. They are also floated through advertisement and online.

v) **Spot Purchase-** In the event of extreme exigencies, there is a provision of spot purchase to be done at unit level by a committee.

- Assignment order, trial order, spot purchases constitute a very small percentage of the total procurement.

w) **Repeat Order-** There is a provision for repeat order. Quantity of an order may be increased against a purchase order /contract, provided that:

- a) Period not exceeding 1 (one) year from the date of original order.
- b) There has been no downward trend in price, confirmed by a committee.
- c) There is no change in rates, terms and conditions of the original order.
- d) Quantity not exceeding original order quantity

x) **Delivery of Materials**

Vendors has to deliver the materials to stores directly or through approved transporters on freight to pay/paid basis as the terms stipulated / specified in the purchase order.

Information of receiving and acceptance of the materials is given by stores to Purchase by sending a copy of Goods Receipt Voucher (GRV) which is uploaded in ERP.

y) **Sampling**

Samples are drawn and tested in HPC lab and based on the test results payment are released on due dates.

In case of imported coal third party joint sampling is done.

Detailed procedure of sampling is always mentioned in the NIB.

z) **Release of Payments**

Payments are relapsed after receipt and acceptance of material at site and completion of all procedural formalities and clearance payments are released to vendors.

Due to Working Capital constraint, the Corporation has not been able to adhere to the payment schedule prescribed in NIB.
