

HANDOUT: E-AUCTIONS

Why Auctions?

Auctions are a means of discovery of market price of a commodity, whose price is otherwise not fully ascertainable by the seller.

What is the difference between auction and tender?

TENDERS	AUCTION
Sealed bids	Open bids. Bidders can see the highest current bid.
All lots end at the same time	Lots end in a staggered way
Bid cannot be changed once submitted	Bid can be increased in real time.
Discovery of value against a reserve price	Discovery of price against an estimated potential.
Reserve price is disclosed.	Earning potential is not disclosed. Thus, no bias is created in the market.
Long process of assessment and award	On the spot allotment of asset.

Auctions can be categorized in the following ways:

- **Forward Auctions:** Auctions initiated by sellers where bidders bid up the purchase price of the commodity offered for sale.
- **Reverse Auctions:** Auctions initiated by the buyer where the supplier bid in real time, driving the price down. Typically, the only point of concern here is the price and the supplier capabilities have already been confirmed.

The Change:

Indian Railways moved from the system of tenders for earning contracts to e-auction. Why?

There were several issues in the tendering system:

- It was time taking. Open tender for earning contracts meant that it would take at least 30 days to allot an asset on contract. All this while, Railways lost potential revenues.
- There was always a possibility that an open tender for an earning asset would have no bids. This information was known only on completion of the tender notice period, which would be a minimum of 21 days. Re-tendering also took time. All this while, Railways lost potential revenues.
- The reserve price or the estimated earning potential was critical in determining the success of the tender. Since this reserve price was put in public domain at the time of tendering, it had the impact of introducing bias in the market response to the tender. If the price was on the higher side, the tender would get no bids. In such a scenario, the administration had no way of finding out the actual market expectation of the earning potential of the asset tendered. If the reserve price was on the lower side,

bids offered were only marginally higher than it, causing potential revenue losses to the Railways.

- A tender offered only limited choice to the bidder as only one asset was tendered at a time. In case of auctioning, the entire Auction catalogue is visible to the bidders. They may optimize their bids depending on the choices they would like to bid for.
- Auctions are more competitive than tenders. In tenders, each bidder knows only about his own bid which depends on his valuation of the asset. In an auction, the bidders are aware of the bids of other bidders. This drives up competition.
- Provides a unified approach to all earning contracts with uniform eligibility criteria.
- Since offerings are open for bidding pan India, it enlarges the market and allows for more bidders to bid.

IMPORTANT CONCEPTS

- **Asset-** Resource with economic value
- **Lot-** An asset for which a contract period has been determined.
- **Asset Schedule-** The chosen date and time of auction of any selected auction catalogue
- **Asset Catalogue-** a list of all the lots of a particular category of assets which go to auction at a predetermined auction schedule.
- **Lien marking-** A lien means putting a lock. So, the lien amount is the amount which the bank has put a hold on. That amount is frozen, and you can't withdraw those funds or use them until the lien is removed. The bank may put a lien on a specific amount in an account, or on the entire account.
- **Bid Sheet-** akin to the Letter of Award which is generated in favour of the successful bidder on auto allotment of contract.
- **Close Ended auction-** a system of auctions where the number of auto extensions is limited. In open ended auction, there is no limit on the number of auto extensions.

WHAT BIDDERS HAVE TO DO?

- Register on IREPS. Existing registration for e-tendering module will suffice.
- Rs 10,000 registration fee for e-auction module.
- A current account in SBI (or any other bank) with the facility of lien marking.
- Linking SBI current account with the e-auction account of the user.
- Signing of auto generated Contract Agreement within 5 days of receipt.
- Payment of the first instalment of licence fee within 15 days of issue of contract.
- Commence work: the contractor will get atleast 15 days from the date of signing of bid sheet to commence work. The Contract start date is fixed in advance in the auction catalogue and the same is mentioned in the Contract Agreement.

WHAT BIDDERS SEE?

- All lots available for bidding at all India level can be seen.
- When bidding starts, the bidder can see the bids submitted by other bidders.
- Reserve price is not visible.

- The balance available in the account for lien marking is visible.

What divisions have to do?

- Identification of assets by the division- parking, pay and use, publicity, leasing (VP/SLR)
- A bundled asset can also be created as per policy but the e-auction module do not provide mixed asset categories so far. So divisions create assets as per the categories allowed in the module.
- Creation of lots from the assets identified and created on IREPS.
- Creation of the asset catalogue from the created lots. An asset catalogue will contain similar type of asset lots. E.g. There can be an asset catalogue for parking consisting of parking asset lots. The logic of the asset catalogue is that assets of one type can be made available for auctioning at the same time.
- Within the parking auction catalogue, for example, all lots go on auction online together.
- The reserve price is fixed by the ACO (JA Grade). No finance vetting is required for this. The RP is not disclosed to the bidders.

Important points of note:

- Special conditions of contract have been framed for each category of asset by the Railway Board- leasing, parking etc.
- These special conditions have to be uploaded as part of asset details along with standard conditions of contract.
- Reserve price has to be uploaded by the ACO atleast 7 days before the auction date. If this not done, the lot is dropped from the auction catalogue, automatically.
- The Contract Agreement has to be signed by the successful bidder within 5 days of its receipt.
- Contract allotment happens automatically on the close of auction to the successful bidder.
- If the bid is lower than the reserve price, the bid is cancelled, and the lot is not awarded.

SIMPLIFIED ELIGIBILITY CRITERIA

The eligibility criteria is simplified and unified for all kinds of earning contracts (except catering). There is no technical eligibility criteria. The minimum annual financial turnover, in 'anyone' of the just preceding three financial years of the entity, for participation in the e-Auction, shall be as below:

<p>Estimated Annual Revenue (for contract period one year or more) 'or ' Estimated Total Revenue (for contract period less than one year) — excluding taxes, duties and other charges</p>	<p>Minimum Annual Financial Turnover required</p>
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Up to Rs. 40 lacs	Nil
Above Rs. 40 lacs and up to Rs. 1 crore	Rs. 20 lacs
Above Rs. 1 crore	Rs. 50 lacs

It allows for start-ups which do not have substantial turnover, to participate in the bidding for small value contracts.

RESERVE PRICE

- To be fixed by the Auction conducting officer (ACO).
- No finance vetting required.
- The system of arriving at the reserve price is same as earlier- LAR or Surveys.
- RP has to remain confidential.

DOCUMENTS REQUIRED:

The bidder has to upload audited balance sheet and P&L of atleast one of the preceding three financial years. If the audited balance sheet and P&L is not uploaded for any of the three preceding FYs, the bidder will be able to participate in only those auctions where the minimum turnover requirement is nil.