

## Foreword

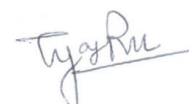


I am pleased that our Company has brought out the revised Purchase Manual (Issue 3-2013) and this will provide the essential information and serve as step-by-step guide for procurement of goods and services. It has come at the right time as we brace ourselves to meet the demands for improved transparency and standardization of financial information in all our activities in general and procurement in particular.

Having an effective procurement system that offers a high level of transparency, accountability and value for money is what the organizations strive for. By launching the improved Purchase Manual, we have made an attempt to meet the needs of changing procurement scenario. The manual lays down the frame work for purchase policy and procedures within HAL. The users' attention is specially drawn to the sections "Purchase without Tendering" and "Tender Receipt, Opening and Evaluation" as they will find large-scale revision in the processes they have been following till now.

The manual has new chapters on Procurement from Russian sources, eProcurement, Grievance Redressal, Requirement of Professional Standard and Training and Interpretation of Purchase Procedure.

We had to review our purchase policy norms keeping in line our ever growing business plans. The earlier version has been modified and new processes/chapters are added and explained taking into account technical complexity of procurement activities. The team identified to take up this task has submitted its work in form of revised manual and I hope users, especially those involved in the procurement process will find the manual as handy reference book. It should help them in taking the right decision by following the due commercial procedures.

A handwritten signature in blue ink, appearing to read 'Tyagi R.K.'.

Dr. R.K. Tyagi



## Preface



The Purchase Manual, for guidance of and use by Purchase and allied Departments, was issued in 1985. This Manual was revised and re issued in October 2007. A necessity has been felt to update the Purchase Manual to incorporate Material Management Circulars issued internally and Guidelines issued by various Govt. Agencies like CVC and MOD on Purchase Procedures, including the experience gained during the period since the last revision to the Purchase Manual.


In this Manual the Chapters on “Market Exploration and Source Selection”, “Purchase Enquiry and Selection of Appropriate Purchase Mode”, “Purchase without Tendering” and “Tender Receipt, Opening and Evaluation” have been revised. Further, “Sub-Contracting” has been deleted from Purchase Manual in view of separate Manual for Sub-Contract Procedure. However, provision of sub-contracting to OEM or Foreign vendors introduced in the Purchase Manual. New Chapter on Procurement from Russian sources, e-Procurement, Grievance Redressal, Requirement of Professional Standard and Training and Interpretation of Purchase Procedure have been suitably incorporated.

This Manual brings out guidelines and broad frame work of Purchase Policy and procedures. Procurement is a Complex process and it is unique for different categories of items. During the procurement process certain unique situation may arise which has not been provided or addressed in the Purchase Manual. Since all such situations cannot be foreseen and laid down in the Purchase Procedure, Persons involved in the Procurement Process are expected to take decisions exercising normal commercial prudence taking into consideration the canons of Financial propriety and move forward.

The Purchasing Groups and Users of this manual are expected to ensure fair , transparent, healthy competition and equitable treatment to all sources in the procurement process. They shall also take timely actions for planning, issuing RFQs, Placement of Purchase Orders, award of Contracts, administration and documentation of all Purchases / Contracts entered into by them.

This Manual will aid those involved in the Procurement Process in making timely availability of materials on one hand and ensuring the Commercial and Financial interest of the Company.

Bangalore  
Date: 28th June, 2013

  
Director (Finance)



अनुराग सहाय भा. रा. से.  
मुख्य सतर्कता अधिकारी

**ANURAG SAHAY, IRS**  
Chief Vigilance Officer



Codification of Rules and Procedures is a significant Preventive Vigilance mechanism. Public Procurement is the most important area having clear vigilance sensitivity. It is therefore extremely important that the Rules and Regulations governing procurement are updated regularly to be in sync with the existing guidelines of the Central Vigilance Commission as well as the directives of the Ministry of Defence.

I am pleased to note that all the stakeholders were involved in the finalization of the new Purchase Manual. An attempt has been made to simplify the Rules and clarify the areas of ambiguity. Suggestions offered by the Vigilance Department were given serious consideration by the Drafting Committee.

However reality is dynamic and not all the situations can be covered in a given set of Procedures. It is therefore extremely important for the executives to record the reasons in writing in case guidelines on a given situation is not covered/adequately covered in the Purchase Manual or where there is a departure from the given procedure. All the facts and circumstances governing the decision along with the competing possibilities and the reasons for favouring a particular course of action may be recorded unambiguously on the Note Sheet by the executives concerned. This will go a long way in ensuring transparency and enhancing ethical standards in procurements. It will also greatly reduce the involvement of oversight and regulatory agencies on our procurement decisions.

I compliment the officers involved in the framing of the New Purchase Manual and sincerely hope it enables our executives to take decisions without fear or favour.

*Anurag Sahay*  
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Chief Vigilance Officer



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### Corrections/amendments included

SL. No.	Title	Para / Annexure
1	Services	2.4.10.c (new clause)
2	Vendor Registration	3.5.1
3	Purchase Enquiry	5.2.11
4	Earnest Money	5.3.1.d.v
5	Return of EMD	5.3.2
6	Open Tendering	5.4.1
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8	Spot Tendering	5.10.3
9	Procurement from Customer Nominated Source	5.11.h (new clause)
10	Telephonic Enquiry	5.19 (new clause)
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17	Draft Purchase Order	8.2.e
18	Agent / Agency commission	8.8.7
19	Agent / Agency commission	8.8.7.2
20	Integrity Pact	8.8.10 (h) - (new clause)
21	Custom duties and system of classification of Goods	10.2 (being statutory in nature)
22	Rights of appeal CESTAT	10.10 (being statutory in nature)
23	Custom duties - imports	10.13.1.b.ii & iii (being statutory in nature)
24	Countervailing duty (CVD) of customs	10.15 [existing 10.15 on surcharge has been deleted as the same is not applicable (being statutory in nature) and 10.16 (additional duty of customs) is re-numbered as 10.15 and titled "Countervailing duty (CVD) of customs"]
25	Countervailing duty (CVD) of customs	10.16.1, newly added (being statutory in nature)
26	Countervailing duty (CVD) of customs	10.16.2, newly added (being statutory in nature)
27	Exemptions	10.19.2 (being statutory in nature)
28	Purchase order progression register / database	11.4.2
29	Legal aspect of purchasing	14.1.1
30	Grievance Redressal Committee	16.7.1
31	Bill of entry	Chapter XIX, Sl. No. 22.A
32	Bill of Lading	Chapter XIX, Sl. No. 22.B (new "title" introduced)
33	Receiving report	Chapter XIX, Sl. No. 153
34	Small scale industrial undertaking <b>(Public Procurement Policy for MSEs and MSME development act 2006 may be referred, policy placed at Annexure-17)</b>	Chapter XIX, Sl. No. 168 (No amendment incorporated, as this class considered as invalid)
35	Small scale service & business (industry related) enterprises <b>(Public Procurement Policy for MSEs and MSME development act 2006 may be referred, policy placed at Annexure-17)</b>	Chapter XIX, Sl. No. 169 (No amendment incorporated, as this class considered as invalid)



36	Off-line EMD payment	22.6.4.g
37	Planning of Indents	23.2.4
38	Procurement from Russian Sources	Sl. No. has been corrected from 23.4 onwards in chapter XXIII
39	Receipt of Offers/ Tender Opening	23.8.4
40	Indenting Dept / Functional Head responsible for various procurement activities as given below	Annexure-1 : Under Column 2 against Project Material
41	Role of indenting / Purchase / Finance Dept. in Procurement activity (MPR-Finance)	Annexure-1 : B Under MPR against Finance role, Sl. No.i
42	Applicant profile	Annexure-4, Sl. No. 2.2.a
43	Applicant profile	Annexure-4 A, Sl. No. 2.2.a
44	Application for Registration as Approved Supplier (Indian Supplier) Drugs/Non-Drugs/Medical Equipment	Sl. No. has been corrected from 4 onwards in Annexure-4 A
45	Service Purchase Request (SPR)	Annexure-7A
46	Earnest Money Deposit (If applicable)	Para 15 (e), Annexure-11, Part-II (Conditions of Tender (Indigenous))
47	Earnest Money Deposit (If applicable)	Para 15 (e), Annexure-12, Part-II (Conditions of Tender (Foreign))
48	Agent / Agency commission	Sl. No. 28 Para 1, Annexure-12, Part-II (Condition of Tender (Foreign))
49	Receiving cum discrepancy report (Imprest purchases)	Annexure – 16
50	Non-project material, purchase proposal format.	Annexure-20, Sl.No. 4 (Tendering, 3rd column, 2nd bullet)
51	Capital item, purchase proposal format.	Annexure-21, Sl.No. 4 (Tendering, 3rd column, 1st bullet)
52	Agent / Agency commission	Sl. No. 30 Para 1, Annexure-23(a) (General terms & conditions of contract)
53	Integrity Pact (Revised format)	Annexure-24
54	Letter of intent (LoI)	Annexure-29
55	Summary of Enquiries released during a month (Rs.10 lakhs and above)	Reference-3 (Format-1(A))

#### **General correction**

- i. Chairman / CH has been replaced with CMD
- ii. Managing Director / MD has been replaced with CEO
- iii. D(CP&M) has been replaced with D(OPS)
- iv. GM / ED has been replaced with Head of the Division
- v. GM(Finance) has been replaced with Head of Finance

## INTRODUCTION

### Duties and Responsibilities of Materials Management

#### Material Planning & Control

- a) Timely provisioning of materials and raise demands in appropriate proforma (MPR/PRs) considering production programme, Bill of Materials, available stock, dues in, production allowances, contingency, shelf life, procurement lead time based on stage of build/ structural breakdown and other factors like indigenisation plan etc.
- b) Follow up for progression of MPRs.
- c) Liaise with related departments like design, methods for updated documents.
- d) Authorise issue of materials
- e) Liaise with shop engineering for day-to-day production problems relating to materials.
- f) Inventory Control and analysis
- g) Review of slow moving / non-moving stocks and take corrective action including disposal.

#### Purchase

- a) Preparation of RFQ and tendering
- b) Receiving quotations/Tender opening, commercial, vetting, evaluation of quotes and compilation of comparative statement.
- c) Convening and coordinating PC/MPC meetings.
- d) Arrange for negotiations if any,
- e) Arrange for Long Term Business Agreement/Rate Contract if any.
- f) Issuance of Purchase order after coordination with Finance and approval of proposal at Division/ Complex/ Corporate Office level as the case may be.
- g) Purchase order progression for ensuring availability of material in time.
- h) Ensure prompt payment to supplier after receipt of material.
- i) Follow up of replacement /rectification against any rejections and warranty claims.
- j) Vendor evaluations and directory.
- k) Coordinate with regards to contract management, licence agreement, co-production agreement etc.
- l) Resolve commercial dispute / arbitration.
- m) Preparation of Purchase Budget
- n) Tendering, evaluation and finalization of the Service Contract for Services as defined in DoP.

## **Stores**

### **Stock Control**

- a) Identification of Stock items
- b) Raising of indents in appropriate forms (MPRs) based on fixing of stock levels/re-order levels, consumption data, supply lead time etc.
- c) Rationalization and variety reduction

### **Receiving**

- d) Arrange for custom clearance and collection of goods.
- e) Prefer claim on vendor/Insurance as the case may be in case of rejection/damage.
- f) Preparation of receiving report and arrange for clearance of goods from inspection.
- g) Arrange for storing of rejected material in a separate quarantine stores, advise purchase to take up with the supplier, organize periodical discrepancy. Review committee meeting for disposal of rejected items.

### **Dispatch**

- h) Arrange for all dispatch documents, packing of goods after inspection, custom clearance and handing over the consignment to carrier/consolidating agency. Inform vendor/customer of dispatch details.
- i) Coordinate with Finance, to finalize insurance policies and ensure continuity of coverage by prompt payment of premium.

### **Holding Stores**

- j) Proper storage / preservation of materials, issue against authorized material requisitions.
- k) Carry out perpetual stock/physical verifications.
- l) Review of slow-moving / non-moving lists and take appropriate disposal action.
- m) Ensure FIFO for lifed items and arrange for disposal of life expired items.

### **Tool Crib**

- n) Proper storage / preservation of tools, issue against token.
- o) Keep up to date record of calibration status and arrange for periodical calibration/reconditioning of tools.

### **General**

- a) M.I.S. to various agencies
- b) Compilation of procurement / commercial data bank
- c) Commercial policies / policy matters
- d) Training & Development
- e) Computerization/E-Commerce.

## CHAPTER - I

### PURCHASE OBJECTIVES, FUNCTIONS AND ORGANISATION

#### 1. Objectives

1.1 The fundamental principle of procurement function is to ensure

- a) Efficiency, economy and transparency
- b) Competition wherever it is non-proprietary, non-licensor procurement and non-customer nominated source.

1.2 The purchase procedure outlined in this manual aims to fulfill the following objectives:

- a) To ensure uninterrupted/ timely flow of materials, equipment & services of goods of required quality to meet and support production plans and other requirements of internal and external customers.
- b) To buy competitively and wisely authorize supplies to desired specifications from approved / reliable sources at the available reasonable prices within the time schedule to support production plans and other requirements.
- c) To ensure that fair open and uniform purchase practices are followed to develop healthy and long term relationship with suppliers and to foster the commercial and technological interest of HAL in the local, national and international market.
- d) To ensure timely formulation and commitment of purchase budget, including foreign exchange requirements.
- e) To serve as information center on materials knowledge prices, sources of supply, specifications etc. to all other departments.
- f) To ensure that investment made on inventory is at an optimum level and continuously strive for reduction in material costs, Capital costs and Overhead expenses. Develop sources of supply to maintain competition and sustained supplies.
- g) Training of purchase personnel in the latest techniques of Materials Management.
- h) To keep management appraised of the likely shortfalls in purchase performance by introducing appropriate reporting systems with a view to seek management's intervention in time.
- i) To adhere to commercial procedures & maintain cannons of financial propriety to safeguard economic, legal and other interests of HAL. Commercial procedures cover the Purchase Manual as well as guidelines issued by way of Materials Management Circulars/ CVC guidelines/ MoD instructions etc. from time to time
- j) Maintain and improve the quality of materials procured. Lay emphasis on Quality Management.

1.3 **Purchase Functions :** Purchase Department is responsible for the following functions:

- a) Creation of a comprehensive and regularly updated directory of selected reliable vendors and exchange the same with other Divisions to expand sources of supply.
- b) Maintenance of vendor evaluation and rating records.

- c) Carry out Market surveys with a view to establishing / developing new reliable and better sources of supply and keep updated with information on latest products / developments.
- d) Analysing bids / offers for decision-making by the Competent Authority.
- e) Arranging negotiations with Vendors, when necessary.
- f) Issue of Purchase Orders in time.
- g) Follow-up of Purchase Orders till the arrival of materials and acceptance at destination and to ensure after sales service during warranty and post-warranty periods.
- h) To finalize the required rate contracts/ Long Term Agreements for regular stock items.
- i) To work out periodically procurement lead time for various categories of items from international and local markets and advise the same to user departments so, that they take timely action in initiating purchase requests. Maintaining a library of product catalogues and manufacturers/ distributor's price lists etc.
- j) Maintaining a library of product catalogues and manufacturers/Distributor's price lists etc.
- k) Maintaining up to date information regarding sales tax, excise and custom duty-rates etc.
- l) Submit MIS reports and other periodic returns.
- m) Entering into service contracts in line with the DoP.
- n) Entering into Transit Insurance agreements for goods in transit.
- o) Finalisation of Commercial Terms & Condition and operation of licence agreements in coordination with project/production engineering.
- p) To ensure that objectives of purchase are realized.
- q) To be alert about and responsive to the changes in production programme and change in requirements of material.
- r) Ensure timely payments to suppliers.

## 1.4 PURCHASE ORGANISATION

- 1.4.1 The Purchase Department shall be organised, depending on the work load at the Division in such a manner as to efficiently discharge the functions set out at para above.

▼ <u>Purchase Section</u> ▼			
Project Materials - Raw Materials Bought Out Parts Consumables Standard Parts	Non- Project Materials. M/c Spares Tooling Capital Items etc GSE/GHE & Eqpt.	Allied Services Custom Clearance Purchase Budgets MIS reports Information Bank	Contracts relating to Service Contracts & ToT/License agreements

- 1.4.2 Integration of the purchase function with other functions of materials management like planning, stores, transit etc at an appropriate level shall be based upon needs of the Division. An optimum balance between having as much centralization as possible and as much de-centralization as necessary will be implemented.
- 1.4.3 DoP defines the categories of procurements as “Goods”, “Works” and “Services”. The Purchase Procedure is applicable for procurement of “Goods” and “Services”.

## CHAPTER - II

### CLASSIFICATION OF MATERIALS

2.1 For efficient purchasing, it is necessary that the relevant classifications of materials are properly understood, so that suitable purchasing methods may be adopted for the purchases in question. Broadly, the following classifications are pertinent to HAL purchases:

#### 2.2 **Capital Equipment**

2.2.1 Capital equipment consists of machine tools, plant, office equipment, workshop / office furniture, vehicles etc. The requirements of capital items for the Divisions are sanctioned by the Board in the annual purchase budget. The Planning/Facility Department, in consultation with the Purchase Department, should draw up a detailed plan to meet the commitments.

2.2.2 Capital purchase requests are to be raised by the Head of Planning / Head of Facility Planning / authorised officer and on approval same to be provided to IMM.

2.2.3 A detailed procedure for Capital Procurement is given in **Chapter VII**.

#### 2.3 **Direct Project Material/ Production Material**

Direct Project Materials or Production Materials are those which form part of the end product and are either directly consumed in production/ Overhaul or are required for supply against indents/ RMS order/ Customers' orders. These are raw materials, consumables, components, spares and accessories, castings and forgings etc., which go into the manufacture / repair / overhaul of Aircraft / Engine and other Systems/ end products. The bulk of the production materials in the aircraft industry falls in the category of bonded / aero materials and is required to be purchased only from approved sources. (Refer Chapter III). Such stores are required to be covered by Release Note / Airworthiness certificate or any other document as prescribed by Quality, bearing the signature of an approved inspection authority. The requirement of production material is linked with production programme of the Company and Material Purchase Requests are to be raised by Material Planning/ Control Department.

#### 2.4 **Overhead Materials/ Commercial Materials**

All other types of materials which are not directly used in production but are required for the production process/ or functioning of the organisation are classified as overhead materials/ commercial materials. Such materials fall under two main categories:

2.4.1 **Stock Items:** These are regular consumption items where stock levels are maintained and procurement initiated based on re-order levels. Such items are required to be stocked for issue as and when required.

2.4.2 **Non-stock Items:** Demand for such items arise based on specific requirements of user departments as per Material Purchase Requisition (MPR) / First Time Requirements (FTR) raised by user departments and the same shall be got approved by Functional/Sectional/Divisional Head as per DoP (Level I, II & III). In such cases approved MPR to be provided by Indenting Department to Purchase Department for procurement. Such materials will generally be issued to respective users immediately upon receipt against MR as given / generated from ERP.

2.4.3 **Tool and Gauges :** The material purchase request for these items shall originate from Tool Planning Department. This category of items includes hand tools, standard / special cutting tools, measuring gauges, jigs, fixtures, grinding wheels and honing stones. Quality and volume of production

largely depends on timely supply of accurate tools and precision gauges. It is, therefore necessary that dealings are restricted to only reliable sources which should be approved after visiting the manufacturers, facilities and surveying their processes and quality assurance methods, financial soundness and commercial standing. MPRs for non-standard tools shall be approved by concerned Production Engineering / Project Heads under Level I, II, III in DoP.

**2.4.4 Maintenance Spares Including Vehicle Spares:** The supply of Maintenance spares is vital to keep the factory's capital equipment / machine tools / plant in serviceable condition. At the time of selecting plant and equipment, special care shall be taken to study in detail the after - sales services offered by the Supplier and Plant Maintenance Department shall undertake VED analysis in order to restrict purchases only to inescapable insurance items. Commonly available spares of general nature, like belts, bearings, lamp filaments etc. shall not be purchased in bulk and attempts shall be made to establish local reliable sources and where possible rate contracts shall also be finalised so that plant maintenance can avail of these facilities directly avoiding delay. Material purchase Requests for these items shall be raised by Plant Maintenance Department. Head of Maintenance or his authorised representative to give approved MPRs to IMM. The list shall be reviewed by Maintenance at least once in a year.

#### **2.4.5 Civil Engineering Requirements**

- a. Material Purchase Requests for items of Civil Works like steel, Cement, Pipes, Sand, Bricks, Sanitary items etc. will be raised by Civil maintenance and approved by competent authority for provisioning as per DOP.
- b. Civil items of emergent nature may be purchased by Civil department directly through Imprest purchase, as given under heading "Imprest Purchases" in **Chapter VI**.
- c. Other Civil items of emergent nature/ small quantity/ occasional requirement may be purchased by forming Local purchase committee through Spot tendering. Local purchase committee will have representatives of Civil, IMM and Finance.

#### **2.4.6 Welfare Items**

- a. HR Department shall raise Material Purchase Requests and approved as per competent authority for provisioning as per DoP for welfare items such as uniforms, personal utility items and requirement for running the canteen services etc.
- b. Generally non – provisioning / non - receipt of welfare items in time can create industrial unrest. Therefore, their timely availability even on short notice needs to be ensured. Welfare items of emergent nature may be purchased by HR department directly through Imprest purchase, as given under heading "Imprest Purchases" in **Chapter VI**.
- c. Other Welfare items of emergent nature/ small quantity/ occasional requirement may be purchased by forming Local purchase committee through Spot tendering. Local Purchase committee will have representatives of HR, IMM and Finance.

#### **2.4.7 Medicines and Hospital Requirements**

- a) The Chief of Medical Services or an officer / Committee authorized by him shall assess the requirements of Hospital related items including medicines and other pharmaceutical items, based on projected consumption, stocks available and shelf life. The sources and mode of procurement (including proprietary) shall be indicated by the authorized officer/committee. Officer nominated by Chief of Medical Services shall raise MPRs for the requirements so assessed and approved



by competent authority for provisioning as per DoP. Source recommended by the committee and incorporated in MPR is final. Committee to maintain a directory of approved suppliers and periodically reviews and update. In order to control inventory and to ensure prompt supply of correct medicine, the ordering and receipt shall be handled in close association with the Chief of Medical Services who will nominate a Medical Officer for the same.

- b) The requirements of first aid centre located at various divisions to be procured by purchase department under Chief of Medical Services and supplied to respective first aid centers.
- c) Purchase Department, in co-ordination with the Chief of Medical Services, shall carry out market survey and enter into rate contracts with manufacturers / accredited dealers for supply of medicines at the Hospital / Government controlled bulk rates. For emergent requirements and for medicines needed infrequently or in small quantities, local reliable dealers shall be appointed.
- d) In order to meet the day to day requirement of M&H unit / Hospital including the requirement of inpatient, if considered appropriate, rate contract(s) may be explored as an option with sources that are in the local vicinity offering the best discount from MRP at the same time ensuring the maximum available shelf life.
- e) Emergency purchase of medicines shall be regulated as per Delegation of Power for M&H units/ Hospital.

**2.4.8 Miscellaneous:** In respect of items which are not covered in the above Material Purchase Requests shall be raised by the head of the user department as per the delegation of powers.

2.4.9 All Non Project stock items' MPRs will be raised by Store dept. and certified by user dept for qty and specification & any specific sources and approved by competent authority for provisioning as per DoP. Wherever more than one user department is involved, consolidated requirement to be certified by Stores Department.

#### **2.4.10 Services**

- a) "Services" will mean any subject matter of procurement other the "Goods" or "Works" and includes all Outsourced services such as Hiring & Maintenance of Transport, Canteen, Repair/AMC/ Calibration of Machinery /Equipment/GSE/GHE/Computer including Medical & Office equipment, Repair of furniture, Operation & Maintenance Contracts, Performance Base Maintenance, Repair/Overhaul of Aircraft/Engines LRUs / Rotables outside HAL, engagement of agency for recruitment of personnel, Freight Forwarder, IT implementation/support, Printing, Publication, Laundry, Binder or any other activities not covered under the "Works" as per Works Manual and the definition of "Works" as given in the DoP. For "Services" purchase procedure will apply. The guiding principle will be for Maintenance of Assets, the procedure i.e., Purchase or works, which is applicable for acquiring the subject assets will also be applicable for maintenance of such assets. After award of the contract by the Purchase Department, the monitoring of the execution / completion of the contract along with required certification and other technical and statutory compliance shall be the responsibility of the Indenting / User Department. Services involving deployment of Man power for full time will not be covered under Purchase Procedure. This will have to be covered under the category of Works Procedures e.g. AMC for machine maintenance, IT hardware maintenance, work packages involving full time deployment of manpower within the factory / office premises.

- b) User / Indenting Dept. responsible for various procurements are as indicated in **Annexure-01**.
- c) For Repair/Overhaul of Aircraft, Engines , LRUs , Rotables, Calibration of GHE, GSE Test equipment i.e., all project items, MPR format (**Annexure-7**) may be followed in place of SPR format (**Annexure-7a**) with due accountability in ERP system.

**2.4.11 Approval for MPRs / CPRs:** MPRs / CPRs raised by various groups as identified above has to be coordinated by Finance and approved by CFA for provisioning as specified in DoP.

## CHAPTER - III

### MARKET EXPLORATION AND SOURCE SELECTION

3.1 The main objective of the Purchase Department is timely procurement and supply of material to the indenting departments. Non-receipt of materials ahead of time would be a burden on the cash flow of the Company and add to inventory carrying costs. It is therefore important that right source is contacted. To achieve this aim each Division shall carry out intensive market survey and prepare a register/ Database of Approved Suppliers. The following procedure shall be followed in respect of market survey, source selection and registration of suppliers in each Division.

3.2 Market exploration, Vendor sourcing and registration of approved suppliers shall be the responsibility of the Head of the IMM Department in each Division. For regular reference the Division shall maintain the list of approved suppliers in the format as prescribed by ERP system (**Annexure-02**), in database format. Such database will be readily reproducible or printable as follows:

The vendor directory is required to be maintained with category and sub-categories of goods / services for which the vendor has been registered. This would help in selecting the correct supplier for sending enquiry for different categories of goods / services.

(a) Product wise suppliers with category/sub-category (b) Alphabetically listed suppliers

3.3 The Divisions shall utilize the database of other Divisions for widening their source of supplies.

- a) The databases shall be regularly updated, once in two years. It is recommended to have Press Advertisement once in every two years for Non-Project materials. Whenever a new vendor is approved, the details to be hosted in HAL website on monthly basis.
- b) A separate list of items proprietary in nature with details of vendor to be maintained by the division and to be updated.
- c) It is suggested to have a separate cell under IMM for the above.

#### 3.4 Vendor Sourcing

3.4.1 Potential Vendors will be identified from one or more of the following sources:

- a) Design Documents:
  - a. Proprietary sources as specified in the aeronautical products design documents.
  - b. Sources identified in TOT agreements.
- b) Published Sources:

A number of sources may be identified from published sources. The following is a representative list and not limited to-

- i) Vendor Directories
  - a. Kompass
  - b. ABC Inventory
  - c. Jane's Directory

- d. SBAC
- e. Gifas
- f. World Aviation Directory
- g. Internet and On-line Directories like ILS (Inventory Locator Service) etc.
- h. Thomas's Register
- i. Directory of Indian Industries
- ii) Industry Sources
  - a. Industry associations
  - b. Trade associations
  - c. Trade papers, Journals and Purchase Magazines
  - d. Professional Associations
  - e. Industry Buyer's Guides
  - f. Various Aeronautical Magazines
  - g. Sources from various embassies of foreign countries/ Indian Embassies in foreign Countries and Trade Consulates.
  - h. Classified telephone directories
  - i. Manufacturers' catalogs, sales literature and self-introductory letters.
- iii) Random Sources
  - a. Trade and Product Shows
  - b. Sources suggested by known, qualified agencies
  - c. Customer nominated sources/Customer web portal of approved vendor.
  - d. Responses received against regular open tenders.
  - e. Through pre-qualification advertisements issued by the Division.
- iv) Others:
  - a. Sources identified and approved by other Divisions.
  - b. Indigenisation Compendiums prepared by various Divisions of HAL.
  - c. Compendium of Registered Firms for Aeronautical Stores approved by DGAQA, DTD&P (Air), Ministry of Defence, and firms approved by DGCA.
  - d. OEM Sources identified from the information/ labels/ part numbering on products supplied by non-OEMs.
  - e. Converting OEM's part numbers to MIL standard or other aviation standards part numbers and identifying sources of supply.

- f. OEM authorized distributors / stockist
  - g. Mill approved stockist
  - h. OEM registered with Federal Service for Military – Technical Co-Operation (FSMTC, Russia)/ Ex-CIS Government.
- c) While vendor directory is required to be hosted on HAL website, the Indigenisation Compendiums prepared by various Divisions shall also be hosted on HAL website.

3.4.2 Format as per ERP (**Annexure-03**) shall be used for suggestions to include a Vendor in the Directory. This form may be filled up by anyone in the concerned departments including IMM.

### 3.5 **Vendor Registration**

3.5.1 Each Division may issue an advertisement for registration of suppliers in

English language in one (1) English Newspaper having wide circulation

and

Hindi language in one (1) Hindi Newspaper having wide circulation

and

Local (regional) language in one (1) local newspaper, if required.

Wherever, advertisement is released in English Newspaper, it should be mentioned in the end in Hindi that Hindi translation of the advertisement is available at HAL website hal-india.com.

- 3.5.2 Firms who seek registration on their own may also be considered for registration. A party who has been registered as a Supplier / in any of the Divisions of HAL shall be considered for registration as approved supplier by other Divisions for similar items of the same class / nature without resorting to the formality of application and scrutiny. Necessary records may be called for from the Divisions who have registered them. At any point of time during the validity of vendor registration if it has come to the knowledge of the division, any change in the information with reference to the details provided at the time of registration, the same needs to be updated and/or independent verification by the Division may be carried out if considered necessary.
- 3.5.3 Firms seeking registration will be responsible for disclosing complete and correct information. Once registered, they will also be responsible for sending information updates on their own, within one month of any changes.
- 3.5.4 Firms desirous of registration shall be issued with Form at **Annexure-04** (in case of indigenous suppliers) or Form at **Annexure-05** in case of Foreign OEMs or form at **Annexure-06** for stockist/ distributors. The forms shall be issued free of cost. Though, as per the registration form, details of three years are being sought, the same should not be considered as eligibility criteria for registration as an approved vendor. In case vendors who are new or furnishing data for one to two years, depending upon commencement of their business/ establishment of facilities, committee may decide on merits for registration of the vendor considering their facilities and expertise.
- 3.5.5 It is observed that some of the manufacturers of repute / public sector undertakings normally do not apply for formal registration. In such cases, IMM Deptt shall send the applicable form to prospective Vendors, informing them of HAL's intentions to include their name on the approved supplier list and gather details about their products/ capabilities/ financial standing etc. Such firms may be registered with exceptions also (to be recorded) upon specific approval of Head of Division, even if they have

not furnished the full details but they are considered potential vendors based on past transactions/ reputation of organization/ brand image/ leading position in market etc.

3.5.6 Vendors are to be advised to register through e-procurement portal. Centralised vendors directory should be available in e-procurement portal for the selection of vendors for procurement.

3.6 a) **Design Development**

Press advertisements to be issued with broad scope of work, qualification requirements and the criteria of selection spelt out besides sending requests to known and likely source and source that hold current approval from CEMILAC/DGAQA for design and development. The press advertisement needs to be considered with full details/documentation available at HAL's Website.

b) **Indigenisation: Source Selection**

- i. If the value of procurement for next 5 years is more than Rs. 2 lakhs per annum but less than Rs. 10 lakhs/per annum, then the vendor can be chosen from indigenization compendium, sources prescribed in para-3.4 subject to meeting the qualifications requirement, with minimum of 3 vendors.
- ii. Press advertisement to be called for value more than Rs. 10 lakhs per annum.
- iii. On single source basis for value upto Rs. 2 lakhs per annum.

3.7 Based on above, a list of approved Vendors, identified for a product or a class of product, shall be prepared after taking into consideration their capabilities, capacity and other factors as given at next para.

**3.8 Approval**

3.8.1 Registration of Vendors will be done based on recommendations of a committee consisting of representatives from Finance, Quality Control, IMM, Methods and User Department where ever applicable. The committee shall consider one or more of following criteria :

- a. The Vendor is called up in Design Documents/ToT agreement/Technical documents of particular aeronautical product.
- b. The Vendor for Aeronautical items shall have necessary authorization to supply such items.
- c. Technical capability and production capacity
- d. Financial soundness / stability
- e. Quality assurance
- f. Past performance
- g. Reputation of supplier's product
- h. After-sales service organisation and depth of service
- i. Details of major customers

3.8.2 The committee may obtain requisite details from concerned vendors to arrive at their recommendations. If required, the committee may visit/ inspect the works / business premises of the suppliers applying for registration.

- 3.9 It is to be ensured that the Vendor possesses the necessary professional, technical, financial and managerial resources and competence required. In case of stockist / distributors of proprietary items document evidencing OEM's authorization to be made available. In case of items of common use or standard specification items the information of stockist / distributors available in the OEM's web portal / catalogues can be considered.
- 3.10 The suggested parameters for scrutiny of application forms submitted by vendors shall be as per the format **(Annexure-04, 05, 06)**:
- 3.10.1 In case of stockist /distributors of foreign OEMs located in foreign country, credentials to be established through information obtained vide **Annexure-06**. If required, credential to be established by a team visiting the stockist / distributors.
- 3.10.2 Based on the findings and recommendations of the committee, Head of IMM Deptt shall recommend the vendor/s to Head of Division for formal approval with initial period for five years. After Head of Division's approval the vendor shall be allocated a registration number and advised the registration number allotted to them.
- 3.10.3 Vendors shall be allotted a registration number in format as prescribed by ERP system. IMM Dept. should re-register the vendors over a block of five years by obtaining information afresh as per vendor registration requirement, and update the records.
- 3.10.4 At any point of time during the validity of vendor registration if it has come to the knowledge of the Division any change in the information with reference to the details provided at the time of registration the same need to be verified and updated.
- 3.10.5 A concerted effort shall be made to update the vendor directory with detailed category of items against each vendor. This will help in selecting right vendors for tendering and to obtain competitive offers.

### **3.11 Removal of firm's name from the approved list**

- 3.11.1 A firm/vendor may be removed from the list of approved suppliers, if on account of its performance or other disabilities, it is no longer considered fit to remain on the approved list. Orders, removing a firm/ vendor from the list of approved suppliers, will not be endorsed to Agencies/ Depts. other than HAL.
- 3.11.2 A firm's name may be removed from the approved suppliers' list for one or more of the following reasons:
- a. Failing or neglecting to quote in response to invitation to tender for 10 successive enquiries, for their range of products.
  - b. Failing to execute the contract / order to HAL's satisfaction, except in case of Force Majeure Conditions.
  - c. Failing to abide by the agreed terms and conditions under which contract was signed or purchase order placed.
  - d. Making a false declaration to HAL.
  - e. Failure to meet Quality standards or when concerned Aeronautical Authorities have withdrawn, or denied renewal of, approval of the Vendor as supplier of aeronautical stores.

- f. Scoring a vendor rating of less than 50 consecutively for over last 3 years.
- g. When the required technical staff or equipment is no longer available or there is a change in the production line.
- h. The firm is declared bankrupt or insolvent.
- i. The Directors or officers of the firm are convicted of any criminal offence
- j. The retention of the firm's name in the list of approved suppliers is not in public interest.
- k. Any other reasons, which might disable the supplier from satisfactorily performing the execution of likely contracts or purchase orders.
- l. Using corrupt or unfair means to gain advantage.
- m. Recommendation of Vigilance duly approved and by an officer not below the rank of Director of the Company.

3.11.3 Head of IMM shall recommend removal of the firm from the Approved Suppliers List for any of the above reasons. In such a case an opportunity for representation by the vendor to be given to response within a time period of 10 working days. The firm's name shall be deleted from the vendor directory and from e-Procurement portal also after obtaining Head of the Division's approval in case the vendor fails to provide justifiable reason for continuation. Orders removing a firm from the list of approved suppliers shall be communicated to IT together with reasons there-of. Such an order shall also be endorsed to other Divisions for their information and caution. Copy to be marked to CVO for information.

3.11.4 The firm shall not be considered for fresh registration for a minimum period of one year or for such extended period(s) as may considered appropriate by Head of Division, based on IMM's recommendations. Once removed, the name of a firm may not be restored on the approved list unless it satisfies the normal registration requirements and the competent authority is satisfied that the firm should be re-registered for which clear speaking orders must be attached by the Competent Authority. During such period(s), offers received from such firms against open tender shall not be considered.

3.11.5 If at any stage it is revealed that the proprietor or any of the partners of the firm whose name has been deleted from the approved list is a working partner in any other firm registered with HAL or has managed to get the deleted firm registered with a new name, the name(s) of such firm(s) shall be deemed as deleted from the approved supplier's list.

### **3.12 Suspension**

3.12.1 Suspension of business may be ordered where, pending full enquiry into the allegations, if it is considered undesirable that business with the firm should continue. Such an order may be passed:

- a. If the firm is suspected to be of doubtful loyalty to India;
- b. If the Central Bureau of Investigation or any other investigating agency recommends such a course in respect of a case under investigation; and
- c. If the Company/ Ministry/ MoD is prima facie of the view that the firm is guilty of an offence involving moral turpitude in relation to business dealings which, if established, would result in business dealings with it being banned.



3.12.2 An order of suspension shall be passed by the Head of the Division. During suspension period, vendor will continue to execute the existing orders. No fresh enquiry needs to be issued to the vendor during suspension period by the Division.

3.12.3 Such an order shall also be endorsed to other Divisions for their information and caution. Copy to be marked to CVO for information.

### **3.13 Banning of Business Dealings with Firms**

3.13.1 Banning of business dealings with a firm shall be of two types:

- a). Banning by one Complex/Division including its attached and subordinate offices.
- b). Banning by the Company/ Ministry including their attached and subordinate offices.

3.13.2 Banning by one Complex/Division

- a). An order of first type for banning business dealings with a firm shall be passed by head of the Division concerned, if applicable at Division level. If it is recommended by the Division for Complex level, banning shall be with the approval of Head of the Complex.
- b). Such an order may be passed in cases where the offence is not considered serious enough to merit a banning order of the second type, but, at the same time, an order removing the name of the firm from the list of approved suppliers is not considered adequate.
- c). It shall be passed for a specified period.
- d). It shall be extended to allied firms also.
- e). It shall be circulated to other Divisions/ offices of the company for information and caution. However, the order shall cover all the attached/ subordinate offices, of the Complex/Division issuing the order. A copy of the order should also be sent to the respective Vigilance department for information.
- f). No contract of any kind whatsoever shall be placed with a banned firm including its allied firms by the Complex/Divisions issuing the order and its attached and subordinate offices after the issue of banning order. Contracts concluded before the issue of the banning order shall, however, not be affected by the banning order.

3.13.3 Banning by the Company/Ministries

An order for banning business dealings with a firm implies that all Departments/Offices of the company are forbidden from dealing with that firm and its allied firms also.

3.13.3.1 The grounds on which banning may be ordered are:

- a. Government Order to that effect
- b. If security considerations including question of loyalty to the State so warrant
- c. If the proprietor of the firm, any of its partners or the Company itself is convicted by a court of law following prosecution by the Central Bureau of investigation or under normal process of law for offences involving moral turpitude in relation to business dealings
- d. If there is strong Justification for believing that the proprietor or employee, or representative of the firm has been guilty of malpractices such as bribery, corruption, fraud substitution of tenders,

interpolation, misrepresentation/ misinformation/ poor or substandard quality of work/ evasion or habitual default in payment of any tax levied by law

- e. Gross negligence or default in dealing with HAL enquiry/ Purchase Order.
- f. If the firm continuously refuses to return Company (Corporate Office, Complex/Division) dues without showing adequate cause, and is satisfied that this is not due to a reasonable dispute, which would attract proceedings in arbitration or court of law.
- g. If the firm/party employs a company servant, dismissed/removed on account of corruption, or employs a non-official convicted for an offence involving corruption or abetment of such an offence, in a position where he could corrupt Company servants,
- h. If at any stage, it is discovered by HAL that a person, whose Company/firm had been banned dealings earlier and again enters HAL with a new/different name of his company or as a partner of another company,

3.13.3.2 The banning if required to be introduced at instance of requirement of Division of HAL at company level, detailed reasons along with justification and recommendation to be forwarded through Complex Office to C.O. IMM.

3.13.3.3 Such an order shall be endorsed to and automatically implemented by all of the Company/Complex/ Division/Departments including their attached and subordinate offices.

3.13.3.4 A banning order shall specify

- a. The specific Period (permanent if required) for which it will be effective; and
- b. The names of all the partners, directors etc. of the firm and its allied concerns.

3.13.3.5 No contract of any kind whatsoever shall be placed with a banned firm, including its allied firms by all Departments/offices of the Company after the issue of a banning order. Contracts concluded before the issue of the banning order shall, however, not be affected by the banning order. Even in cases of risk purchase, no contract should be placed on a banned firm.

3.13.3.6 A banning order will be circulated to all Departments/offices. Copy to be marked to CVO for information.

3.13.3.7 Orders for banning a firm shall be passed by Chief of IMM, Corporate Office with approval of Director, with a provision to appeal to CMD. Banning and suspension orders shall be classified as "CONFIDENTIAL".

### **3.14 Revocation of Orders for Banning/ Suspension of a Firm**

- a) Suspension : Duration of suspension can be for a minimum period of 6 months and a maximum period of 2 years except for condition in 3.14.1 & 3.14.2.
- b) Banning : Duration of Banning for a minimum period of 2 years can be extended after review for additional period of 2 years or permanent if required except for condition in 3.14.1 & 3.14.2

3.14.1 An order for banning/suspension passed for a certain specified period shall be deemed to have been automatically revoked on the expiry of that specified period and it will not be necessary to issue a specific formal order of revocation, except that an order of suspension/banning passed on account of doubtful loyalty or security consideration shall continue to remain in force until it is specifically revoked.

3.14.2 An order of banning on grounds of conviction by Court of Law may be revoked if, in respect of the same facts, the accused has been wholly exonerated by a court of law.

3.14.3 Under exceptional circumstances, the authority (who has approved the suspension/banning) may on a review; revoke a banning/suspension order if it is of the opinion that the disability already suffered is adequate in the circumstances of the case. Revocation order must be unambiguous and very clear.

### **3.15 Communication to Firms regarding removal from registration/suspension/banning**

The decision regarding removal from Registration/ Suspension/Banning of business dealings taken after the issue of a show cause notice and consideration of representation, if any, in reply thereto should be communicated to the firm concerned. However, in the case of suspension of Business due to the reasons mentioned at para 3.11, the same will be communicated to the firm only if firm approaches the authorities seeking the reasons for suspension.

### **3.16 Review of Suspension/Banning Order**

The Complex/Division, who originally suspended/banned the firm or recommended for suspension/ banning may, on representation or appeal from the firm or for any other well founded reasons, review and recommend revocation of banning/ suspension orders, for approval by the same authority who has originally approved the suspension/ banning.

### **3.17 Maintenance of Up To Date List of Firms issued with Suspension/Banning**

All the Divisions/Offices shall be responsible for keeping an up to date list of firms against whom orders of suspension/banning have been issued. Corporate Office (IMM) will issue amendments to the “Directory of Firms with whom Business Dealings have been Banned” as and when additions/ deletions to the same take place. The directory of banned firms should be centrally accessible.

### **3.18 Definitions**

- a. Firm: the term ‘firm’, used in the above para includes an individual or person, a company, a cooperative society, a Hindu undivided family and an association or body of persons, whether incorporated or not, engaged in trade or business.
- b. Proprietor: This term includes directors of a private limited company, members of a Hindu undivided family, a member of an association of persons and a Director of a Public Limited Company.
- c. Allied Firm: All concerns, which come within the sphere of effective influence of the banned/ suspended firms, shall be treated as allied firms. In determining this, the following factors may be taken into consideration:
  - i. Whether the management is common;
  - ii Majority interest in the management is held by the partners or directors of banned/ suspended firm;
  - iii Substantial or majority shares are owned by the banned/ suspended firm and by virtue of this, it has a controlling voice.

## CHAPTER - IV

### ASSESSMENT AND AUTHORISATION OF REQUIREMENTS FOR PURCHASE AND SCRUTINY

#### 4.1 Purchase Request

All purchase requirements are to be properly assessed and are to be formally authorised by the competent authority as per the delegation of powers in force. The provisioning of the stores needs to be done with utmost care taking into account the available stock, outstanding dues / supplies, the past consumption pattern, average life of the equipment/ spares. The requirements also need to be consolidated so as to get the most competitive and best prices. Purchase request to be raised if practicable by grouping similar type of items. The requirement can also be consolidated vendor-wise taking into consideration the annual requirement. Any MPR which is issued for an item for a particular project in less than 6 months from the previous MPR for the same item under the same project will amount to splitting unless the same is necessitated due to additional orders received in the interim period or increase in production plan. Procurement for production hold up or AOG requirement is not considered as splitting. The requirements should not be bifurcated / split, without valid reasons or to avoid approval from higher authorities. Draft Supplementary Agreements (DSAs) negotiated against different indents/MPRs, if processed separately, shall not be considered as splitting. No purchase action is to be initiated without a valid written request. Purchase requests shall be raised as per details given below:

- a. MATERIAL PURCHASE REQUEST (MPR): Form **Annexure-07** shall be used by indenting departments for all revenue items. MPR for Project Materials should accompany with Material adequacy statement / review sheet based on Production Programme/task (includes manufacturing and ROH programme). The bill of material certified by Production Engineering and amended from time to time is the base document. In respect of Repair/Overhaul programme for the Mandatory/ Non mandatory spares along with P-factor to be certified by Production Engineering. For recurring requirements efforts should be made for entering into LTBA/LTRAs. However where MoQ/ Standard package size is involved the same can be considered.
- b. CAPITAL PURCHASE REQUEST (CPR): Form **Annexure-08** shall be raised by the Head of Planning or any other officer specifically authorised for purchasing the sanctioned capital equipment.
- d. URGENT PURCHASE REQUEST (UPR): Form **Annexure-09** shall be used.
- e. PETTY PURCHASE REQUEST UPTO Rs. 15000 (PPR): Form **Annexure-10** shall be used.

#### 4.2 Estimates

As the estimated rate is a vital element in establishing the reasonableness of prices, it is important that the same is worked out in a realistic and objective manner on the basis of prevailing market rates, last purchase Prices, economic indices for the raw material/ labour, other input costs, wherever applicable and assessment based on Engineering estimates, intrinsic value etc. Preparation of estimated rates by merely extrapolating the last purchase price or by applying a uniform yearly compounded escalation over previous price may not be sufficient. It should be ensured that the estimates are not accessible to outside agencies. Estimates which are more than one year old or where there is a drastic change in the market can be revised before the bid opening (technical bid in case of two bid system) with the approval of Head of Division where CFA for provisioning is Head of Division or below, and approval of concerned CEO in case where CMD/CEO is the authority for approving for provisioning. Estimate once made shall not be revised after opening of commercial bids. In case it is found that due to

assumptions adopted that estimates are not realistic, the same shall be brought to the notice of CFA at the time of approval of the purchase proposal.

#### **4.3 Purchase Committee (PC)/Material Provisioning Committee (MPC)**

PC/MPC meetings should be held regularly at the Divisions, at least once every week, with all members present. Head of Division may review/issue necessary directives to ensure compliance. The PC/MPC to be chaired by Head of Division with Head of Planning, Head of Finance, Head of Quality, Head of Design liaison, Head of IMM as members and Head of Purchase as member secretary for PC and Head of Material Planning/user for MPC. Other members can be co-opted on need basis.

- 4.3.1 Secretary of the meetings (normally Head of IMM/his representative) shall ensure that Indenting Sections/ Material Planning have given all required documents like specifications, drawings, list of probable vendors in case of MPRs and copies of RFQ, Quote, comparative statement and other documents as prescribed by the “Purchase Proposal Formats” are available for discussion during the meetings of PC/ MPC. As per Chapter-II, various departments are authorized to raise the MPRs covering their requirements, and all such departments should ensure their MPRs are prepared on above lines and presented to MPC at the scheduled meetings for review / discussion/approval.
- 4.3.2 PC/MPC shall always refer to “Adequacy Statement” prepared by Indenting Section, in accordance with enclosed format, and submitted with every proposal.
- 4.3.4 Formal minutes of every meeting recording MPRs/PO proposals discussed, the discussions held and decision taken in each case, shall be issued by the secretary of the PC/MPC.
- 4.3.5 Approval by circulation shall be resorted to, only in exceptional cases, where the MPR/Proposal cannot wait for next meeting to take place. In such cases, the movement of Proposal/ MPR shall be by hand.
- 4.3.6 All provisioning and procurement of value more than Rs. 15 lakhs in case of project materials and value more than Rs.5 lakhs in case of non-project materials should be cleared through PC/MPC. All provisioning/procurement on single tender basis except proprietary, licensor/OEM, customer nominated and licensor nominated sources should also be cleared by PC/MPC

#### **4.4 Registration of Purchase Requests**

All Purchase Requests shall be centrally registered in the Purchase Department in the Purchase Request Progression Register/Database.

#### **4.5 Scrutiny of Purchase Requests**

- 4.5.1 Purchase requests are to be scrutinized preferably within 2 working days of their receipt by the concerned officer.
- 4.5.2 Scrutiny of purchase requisitions shall cover the following points:
  - a. Description of Part No., Code No., Specification, Quantity, etc., indicated appears to be correct.
  - b. Catalogue number is given against each item wherever required.
  - c. Drawings, wherever applicable, are enclosed in sufficient number of sets.
  - c. In case of repeat purchase, last purchase price, and source of supply is mentioned.
  - e. Delivery requested is realistic.

- f. Price estimate is realistic and the basis of preparation is kept in record.
- g. Purchase request for imported capital items is supported with technical justification for import and catalogues / pamphlets describing the machine tools.
- h. CPR shall also make reference to item serial No. in the Capital Budget.
- i. The officer after scrutiny shall endorse clearly the tendering mode on the purchase requisition and send the same to purchase assistant for further progression.

#### **4.6 Provisioning for Repair Overhaul of Aircraft/Engine Components & Test equipments:**

- a) 1<sup>st</sup> time repair Overhaul (RoH): The charges for repair/overhaul are known only after OEM/or licensor examines the items. In such cases, the items can be despatched to the vendor on 'zero value' Purchase Order based on provisioning approval by Head of Division.
- b) Subsequent arisings of ROH: Un serviceable LRUs/Rotables/other items can be consolidated based on the estimate and previous ROH charges. Approval of CFA for provisioning is to be taken. Item can be dispatched to OE/Licensors on Zero value PO.
- c) Amendment of the PO after receipt of repair charge will be approved by CFA as per DoP.
- d) Long Term Repair Agreement: Attempt should be made based on firm & forecast repair arising for next 3 – 5 years. LTRA can be entered with OEM & licensors.
- e) Item can also be repaired through OEM approved Repair Centers. In case of availability of more than one such centre, limited tendering procedure to be followed.

## CHAPTER - V

### PURCHASE ENQUIRY AND SELECTION OF APPROPRIATE PURCHASE MODE

- 5.1 Tendering method should be flexible enough to accommodate different procurement methods. The most transparent method is to allow all the potential suppliers to participate in the tendering process without limitations. However limited tendering is justifiable wherever it is not feasible or efficient to consider and evaluate large number of potential suppliers. The limited tendering should be equally transparent and to be conducted in accordance with the procedures laid down in this manual. Selection of suppliers for tendering should ensure that items planned for procurement is in the supply range of the bidders. Procurement of non-project material through Proprietary / single tendering could be used only in exceptional circumstances since the selection criteria for suppliers are not available. Once in every two years review of the items procured on proprietary/single tender to be made and the scope for competition to be explored. A Committee needs to be constituted with the approval of Level I executive to carry out the review.

#### 5.2 Purchase Enquiry

The invitation to tender and instructions at enquiry stage are an important step as the vendor's offer is based upon these instructions. Any ill-conceived, indifferent and incomplete action at this stage will result in unnecessary delays, increase in paper work and rush purchases. The enquiry shall be carefully prepared indicating requirements in clear terms. Some suggested Conditions of Tender for inland and foreign enquiries are placed at **Annexure-11** and **Annexure-12** respectively.

#### I Specification

- a. The enquiry/tender shall indicate full description and specifications of the required material. The user department to ensure that :
  - i) The specification should be such to meet the essential needs.
  - ii) To the extent practicable the specification should be objective, functional, generic and measurable.
  - iii) The specification should spell out the relevant technical, quality and performance related parameters.
- b. Drawings, wherever available, shall be sent along with the enquiry/tender.
- c. Enquiry/Tender must be invited to standard specifications as far as possible. Under no circumstances, terminology such as 'best quality', 'commercial quality' or 'as per previous supply' etc. shall be used. Wherever applicable and available a technical specification shall be in conformance with national/international standards.
- d. Where the specification cannot ensure required quality standard and there are prominent makes of such items in the market, if so considered appropriate, the makes/catalogue numbers of more than one manufacturer (not less than three) can be indicated along with the specifications. The makes/ catalogue numbers, brand and models should be finalized by a Committee comprising of User and Planning/Method Engineering with approval of head of Division and by a specifically constituted committee with the approval of Head of HMA, Medical, other offices and establishments, respective GM/ED in Corporate Office. The purchase under this will be limited to Rs.10 lakhs in each case.



- e. In case where no drawing is available and which cannot be correctly described, a sample is to be shown to the vendors or they may be requested to submit their sample. The specific need of making trial/sample testing and other additional methods of technical evaluation of the offer shall be clearly mentioned in the tender documents. RFQ should have a clause for submission of samples along with the quotation (technical bid in case of two bid) wherever samples are required for evaluation. Samples should be submitted by the bidders on or before the due date and time of the tender failing which the offer will not be considered.
- f. In case of procurement of Capital equipment, Divisional Technical Committee will be responsible for preparing, finalizing and approving the technical specification of equipment, following the procedure as per para-7.10.
- g. Any change to specifications recommended after tendering shall be approved by the same committee/ authority that approved the specifications originally. Such changes will be notified in the same manner as the original tendering was done.
- h. Post tender (after opening of bids) changes in the technical specification, in case of competitive bidding, are not acceptable. In case the change in specification required then the same need to be justified and retendering action may be taken.

## II Others

- a. In cases where HAL reserves the option to supply material, the firms may be asked to give alternative offers with their own supply of materials and with HAL supplied material.
- b. **Indent Delivery Date**
- c. Delivery expected shall be realistic and specifically indicated. (Words like “Urgent” / “Immediate” etc are to be avoided). In order to meet the project requirement, it would be prudent to incorporate an acceptable range of delivery period with the stipulation that no credit will be given for earlier deliveries and offers with delivery beyond the acceptable range could be considered at discretion of HAL.
- d. In case quantity required is not readily marketed, Minimum Order Quantity stipulation shall be requested in the tender enquiry. In case of raw materials and other such specific items where exact qty. cannot be supplied qty. tolerance of  $\pm 10\%$  for supply can be considered.
- e. Clauses relating to Earnest money, if called for, Delivery Schedule, Payment terms, Performance/ Warranty Bank Guarantee, Predespatch inspection, Arbitration, Liquidated Damages/Penalty for the delayed supplies and Risk purchase etc. must be incorporated in the bid/ enquiry documents. The mandatory, desirable or other conditions to be clearly specified in the bid documents. Clearly indicating that the offers not fulfilling the mandatory conditions shall be liable for rejections and the offers in variance to desirable condition shall be considered but with corresponding loading, in tender evaluation. All non priced evaluation should be objective and quantifiable and indicated in the tender document. Wherever applicable relative weight to be attached to each criterion should specified in the tender.
- f. Tender document should indicate whether the quote to be offered by the vendor is fixed price quote or escalation if any will be acceptable. Price escalation provisions are not necessary in simple contract involving delivery of goods within 18 months. The tender document for contracts for longer duration may include price escalation.



- g. Bid received in different currencies should be converted to a single currency stated in the tender. The criteria for conversion of different currencies to single currency to be spelt out in the tender. The currency of payment and terms & method of payment to be spelt in the tender. Tender document should also specify if alternative payment method and terms are allowable and how this effects bid evaluation.
- h. All requests for quotations/tender enquiry must specify “Last Date for submission of Quotes”. The tender must also state “Tenders received after due date and time shall not be opened and shall not be considered.” This should be prominently mentioned in the tender enquiry. In all cases of Open/Limited Tendering, in addition to specifying Date, Time & Place of opening of Tenders in the tender documents, the Tender shall make a specific mention that “Tenders shall be opened on stipulated date & time in presence of the intending Bidders and that Bidders or his authorised representative may attend the Tender Opening.
- i. A clause in the tender/enquiry shall be included stating that HAL will not be responsible for the loss or delay in receipt of tender documents/tender in transit, inability of vendor to upload the tender documents in E-Procurement portal and HAL reserves the right to reject Late/incomplete tenders.
- j. The exemptions/relaxations applicable to SSI's, ancillary units, PSUs should be specified in the tender notice (in line with prevailing Govt. directives). The current directive is placed at **Annexure-17**. The same would be updated periodically as and when Govt. issues new guidelines.
- k. The RFQ/enquiry should indicate that bidders shall be required to submit bids/offers directly to HAL either through post/courier/drop in tender box in sealed cover with clear marking of bidders' details. Response received, without bearing the bidder address not to be entertained. This does not apply to e-Tenders.
- l. Tender document/enquiry should specify the name of the Bank with respect to adoption of exchange rate for commercial evaluation purpose.
- m. Commercial evaluation criteria should be mentioned in RFQ/enquiry.
- n. Evaluation criteria whether on “package basis” or “line item basis” to be indicated in the tender based on recommendation of the User Department. In case the criterion is not spelt out in the tender then the evaluation will on the line item basis.
- o. Option of seeking offers with or without High Sea sales provision if applicable to the particular procurement to be indicated in the RFQ. (Guidelines for High Sea sales and draft agreement is placed at **Annexure-13**). Supplier needs to provide/disclose the name and address of the OEM/ Foreign Supplier to HAL prior to supply. The goods to be Custom cleared and delivered on FOR HAL Division basis by the supplier.
- p. Applicability of the taxes (Sales Tax, Excise Duties, Octroi etc) should be explicitly indicated by the vendor in his response either in percentage or in absolute terms. In the absence of this input the offer would be considered all inclusive. RFP should incorporate the above appropriately.
- q. No criteria or procedure other than those mentioned in the tender documents can be used in evaluation of tenders.
- r. Canvassing by tenderers in any form, including unsolicited letters on tenders submitted or post tender corrections shall render their tenders liable for summary rejection.

- s. A clause in the RFQ needs to be included indicating, in case of limited, single, proprietary tender, the tender received from authorized dealer/distributor/channel partner to whom RFQ was not sent, will not be accepted, if the tender is not accompanied with the authorization letter from the vendor to whom RFQ/tender enquiry was issued.
- t. While evaluating the bids covering a longer period (more than one year), the quoted prices pertaining to second year onwards (beyond 12 months from the last date for submission of bids), i.e. cash outflow from HAL to the Vendor/Contractor/Service provider from 13th month onwards are to be discounted to the net present value (NPV) as per the procedure defined in **Annexure-28** for comparing the bids on equitable basis and deciding the lowest evaluated responsive bid.

- 5.2.1 **Source Selection:** In order to ensure that enquiries are sent to the right sources, the Purchase Groups shall use the Approved Supplier's List both for imported and indigenous purchases besides sources suggested by user / indenting department. Sources suggested by user/indenting department should be in the registered list of sources. It shall be the responsibility of the Head of IMM Department to ensure periodical updating of this list.
- 5.2.2 To generate adequate competition, it is necessary that sufficient number of sources is addressed. For this purpose, a system of calling tenders by giving equal opportunity to all approved suppliers should be followed.
- 5.2.3 The selection of vendors, communication details like postal address, E-mail ID, Fax No, Contact Person etc of RFQ with standard terms and conditions should be duly approved by Officer handling the respective procurement not below the rank of Gr-III, where CFA is Head of Division and the cases of procurement which require approval by CEO/CMD/PSC/Board should be approved by Head of IMM. RFQs for ToT/Co-development/Co-production programmes should be prepared by a Committee comprising of Project Planning, IMM, Finance and other members as approved by the Head of Division.
- 5.2.4 **Mode of Dispatch of Enquiry:** Proof of dispatch of Enquiries to the prospective bidders must be placed in the respective purchase file. Depending upon mode of dispatch of enquiry, it could be Certificate of registration (dispatch by post), or Courier's receipt, or Fax Transmission record or a receipt acknowledgement or E-mail confirmation or E-Tender report. For this purpose, Central Registry shall be instructed to maintain separate folios for dispatch of each tender enquiry, paste the postal registration slips and forward to IMM so as to file in the respective purchase files. This applies to normal mode of tender and not for e-tender.
- 5.2.5 Enquiries by E-mail may be resorted to only after having ensured that system provides for confirmation regarding dispatch of enquiries.
- 5.2.6 In case of purchases of highly technical stores, where, although technical requirements are fully established, specifications of the stores to be purchased are not defined to the last detail and there exists possibility of offer of alternative systems meeting the technical requirements listed in the enquiry, two-bid system shall be followed.
- 5.2.7 **Two Bid System:** In this system, the firms are requested to give two separate offers, both in sealed covers. Both the offers will be exactly the same, except the offer No. 1 will have all prices/rates/values blanked out and will be called TECHNICAL Bid. The offer No. 2 will be PRICE Bid having the prices/rates. Each bid will be put in separate sealed covers, each marked with the Tender number, due date and as TECHNICAL Bid or PRICE Bid as the case may be. Both the sealed covers will be put in a single cover, which will be again sealed and super scribed with tender number and due date.

- 5.2.8 In order to ensure that the invitation to bid is extended only to those who have the capability, pre qualification of bidders can be considered if required. Tenders are issued only to pre qualified bidders.
- 5.2.9 On the opening date, only the Technical Bids are opened in the presence of representatives of the firms, who have quoted and choose to be present.
- 5.2.10 The offer No. 2 (PRICE Bid) will be opened only after the Technical Bids are technically evaluated. The Price Bids of only those firms, whose technical bids are found to be technically acceptable, will be opened with due notice to be present for the opening, if they choose to. However, when only one offer is found technically acceptable, this Price Bid may be opened without calling Firm's rep. for tender opening, so that the concerned firm will not get the information that only their offer is technically acceptable which may affect possible negotiations if required.
- 5.2.11 Firms which have not been accepted by Technical Committee shall be intimated of rejection and the unopened price bid shall be returned within 15 working days of receipt of TEC report.
- 5.2.12 For ensuring that only competent and financially sound parties are invited to quote in the case of time bound programme or for entering into long term rate contracts, the enquiry shall clearly spell out the basis on which parties offering their services will be selected and short listed for participating in the subsequent price tendering.
- 5.2.13 Tender Enquiry must clearly ask for Vendor's ability to arrange export License from his Govt and supply goods to India, in case an order is placed.
- 5.2.14 In general a period of three weeks for indigenous sources and four weeks for foreign sources may be given for submission of quotations. except, in cases of recorded emergent requirements/ proprietary/ single tender, wherein also, a reasonable time should be permitted and tenders should be sent by faster means like speed post/ fax/ e-mail, after taking approval of Head of IMM with recorded reasons.
- 5.2.15 The tender will be given free of cost.
- 5.3(l) **Earnest Money:** The primary objective of submission of Earnest Money Deposit is to establish the earnestness of the bidder so that he does not withdraw, impair or modify the offer within the validity of the bid. It also helps in restricting, if not eliminating 'speculative', 'frivolous' or 'wait and see' bids. Except in case of Proprietary/Single/Limited Tender or a mode of tendering, where selection of Vendor/s has been made by taking care of suitability, reliability and capability of the Vendor to quote suitably, thereby eliminating the need for EMD, submission of EMD should invariably form a condition of Tender in all other cases. In case of relaxation of conditions relating to EMD, for reasons to be justified, approval of competent authority as per DOP should be obtained based on merits of each case, prior to invitation of bid. The terms & conditions, where EMD has been asked, should clearly stipulate that the offers without Earnest Money Deposit would be considered as unresponsive and rejected.
- 5.3.1. The following guidelines may be observed while calling for EMD –
- a. Earnest Money Deposit (EMD) shall be specified in all cases of Open Tender.

- b. The EMD to be charged shall be a fixed amount, based on estimated value of stores as follows:

Estimated value of Tendered Equipment	EMD	
	Indian Rs. lakhs	Foreign* US\$
Less than Rs. 10 Lakhs	nil	nil
Rs. 10 – 25 Lakhs	0.20	400
Rs. 25 – 50 Lakhs	0.40	800
Rs. 50 – 100 Lakhs	0.75	1500
Rs. 100 – 250 Lakhs	1.75	3500
Rs. 250 Lakhs and above	3.00	6000

\*may be rounded to nearest \$ 10, depending upon exchange rate (TT selling rate to be considered for foreign currency exchange rate as on date of instrument of EMD).

- c. For tenders of the value of rupees ten lakh or less, EMD need not be called for.
- d. The tender documents/ Notice inviting Tenders must clearly specify:
- The form in which EMD shall be acceptable (DD/Bankers Cheque/Pay order/Bank Guarantee). In case, EMD has been specified to be deposited in DD only, no other form of EMD should be accepted. In case EMD is specified as Bank Guarantee, the same is to be submitted in the form of irrevocable Bank Guarantee from the scheduled Banks (or, in case of foreign suppliers, from Bank of International Repute) valid for 28 days beyond the validity of the Bid. The EMD can also be paid through WIRE / SWIFT transfer, the proof of which shall accompany the bidder's offer.
  - EMD needs to be submitted by participating bidder. However, the EMD remittance document, either in Indian currency or any other convertible currency of the specified amount, can be arranged by the Indian subsidiary/branch office in India of a foreign bidder which shall be submitted along with a certificate confirming the relationship of subsidiary/branch office in the bidder's offer. Offers not accompanied with requisite amount of EMD or EMD not submitted in the specified form shall be summarily rejected.
  - That in case of two Bid system, EMD should be submitted along with Technical Bid/ Offer. EMD in original form will only be acceptable. Copies of EMD documents/instruments in Technical Bid not acceptable.
  - In case technical bid does not contain original instrument towards EMD, offer will be considered as unresponsive and rejected.
- (In case pre qualification bid has been sought separately, in that case EMD should be called for in the original form along with pre qualification bid, instead of technical bid).
- That, Vendors exempted from submission of EMD as per Govt. of India directives must submit certified copy of GOI's authority for such exemption in lieu of EMD.
  - EMD will not carry any interest for the period it is retained with HAL EMD shall be forfeited if a tenderer withdraws, amends, impairs, and/or derogates from tender within validity.
  - The Bidders should indicate the reference & details of submission of EMD in their technical offer. In case of e-tender, the EMD in the form of hard copy in original to be sent by post/ courier /personal delivery to reach the concerned Division prior to the scheduled closing time for the tender. The copy of such documents/office should attach in the technical bid of the e-tender. In case the EMD document does not reach tender issuing authority by the time of closing of the tender, the offer will not be considered for evaluation. In case WIRE/SWIFT transfers the transaction code is to be mentioned in the technical bid.

- e. EMD received along with tenders should be forwarded to the Finance Deptt within 3 working days of the opening of the Tenders with the details of the participating firms.
- f. EMD furnished by the successful bidder may be appropriated for security deposit or Performance Guarantee for the warranty period.
- g. Proper record of submission of EMD by vendors and its refund to be maintained and monitored.
- h. In respect of tenders issued where evaluation is on package basis, EMD to be received should be as per the value specified in the tender document. In case of tender where evaluation is on line item basis, the EMD applicable will be in accordance with the value quoted by the vendor. For this purpose, applicable EMD (as per para 5.3.1.b) for various values to be included in the tender document.
- i. Approval of Head of Division to be obtained for forfeiture or encashment of Bank Guarantee towards EMD with the recorded reasons.

### 5.3.2 **Return of EMD:**

- a. Return/refund of EMDs preferably within 15 working days from the date of tender opening to the Bidders whose bids are rejected at the tender opening stage itself or bids which are not considered for evaluation (indicating the reason for returning)
- b. Refund of EMDs to bidders whose bids are disqualified either during pre qualification stage or technical evaluation stage (as the case maybe), within 15 working days of receipt of TEC report.
- c. Refund of EMDs to bidders whose bids are commercially not competitive (except L1 bidder) within 15 days of determination of L1 (i.e. after signature of price comparative statement by Finance & IMM)
- d. Refund of EMDs to all bidders in case the tender is cancelled or retendered preferably within 7 working days time from the date of approval for cancellation/re-tendering. However, if re-tender is resorted due to withdrawal of offer by L1 bidder, then the EMD of the L1 bidder will not be refunded.
- e. EMD may be returned with the approval of Head of IMM if the CFA for the proposal is Level-I or below & with the approval of Head of Division if the CFA for the proposal is above Level-I.
- f. In case of a & b above, it is to be ensured that the unopened price bids (in case of manual tender) of unsuccessful bidders (not acceptable offers) are also to be returned along with the EMD.
- g. Once EMDs returned and the proposal is further processed for evaluation/approval, then no re-visiting/re-examination of the offers, whose EMD has been returned shall be carried out.
- h. A suitable clause to be included in the RFQ to provide RTGS / Bank details of participating bidders for returning of EMDs.
- i. Declaration regarding refund status of EMDs for unsuccessful bidder to be given in proposal put up to CFA for award of contract/order.
- j. The following clause need to be incorporated suitably in the tender documents, if EMD is sought in the tender:

“The EMD shall be refunded to the unsuccessful bidder within 15 working days in various stages of disqualification of the bid i.e., tender open stage, pre-qualification / technical evaluation stage and identification of L-1 stage.”

- 5.3.2.1 Concerned department processing the tender duly concurred by Finance department shall maintain a proper record having details of EMDs submitted by the parties, & its refund / return and to monitor

outstanding cases of non-refund / return of EMDs. Suggested format is placed at **Reference-2**. Record should primarily maintained electronically and payments (dues in/out) re recorded in similar means.

### 5.3 (II) Security Deposit

- a. Security Deposit: Bidders will be required to submit the Security Deposit equivalent to 5% of the total value excluding taxes (If taxes and duties quoted separately otherwise total order value quoted) of the order within 15 days of issuance of purchase order by way of Demand Draft or Bank Guarantee in a prescribed format of HAL from a scheduled Bank in India/Bank of International repute (for foreign vendors) which shall be valid up to 60 days after the completion of contract period / last supply. Security Deposit will bear no interest. In case the supply order / contract is not executed to the entire satisfaction of HAL the Security Deposit will be forfeited besides initiation of risk purchase action. In case any claims or any other contract obligations (related to supplies excluding warranty) are outstanding, the bidder shall be required to extend the Security Deposit as required till such time the vendor settles all claims and complete such obligations.

The Security Deposit required to be obtained from the successful bidders for the procurement of following category of items:

- i. Capital items: Capital items of estimated value more than Rs. One Cr.
- ii. Services: Services procurement is through open tender.
- iii. Design, Development Projects: Estimated Value more than Rs. One Cr.
- b. Security Deposit will not be necessary for procurement or availing of services from Licensor/OEM/proprietary vendors and other Public Sector Undertaking. However, Indemnity Bond needs to be obtained of the equivalent amount from Public Sector Undertakings while procurement of items of as indicated at para-a above.
- c. Loading factor of 5% shall be considered while preparing Price Comparative Statement for bidders who have not agreed for submission of Security Deposit. This needs to be stipulated in the RFQ. In case loading factor has been considered in the CSQ due to non submission of security deposit, in such case approval for waiver is not required. However, this needs to be brought in the Purchase Proposal.
- d. Approval of Head of Division to be obtained for forfeiture or encashment of Bank Guarantee (BG) towards security deposit with the recorded reasons.

### 5.3 (III) Performance Bank Guarantee

- a. Vendor shall furnish a Performance Bank Guarantee as per HAL's format for 10% of the order value valid up to end of the warranty period from a scheduled bank in India / Bank of International repute (for foreign vendor) from the date of acceptance / commissioning or otherwise equivalent amount shall be retained till completion of warranty period and other obligation of Purchase Order / contract.
- b. Performance Bank Guarantee is applicable for Capital items and Design & Development orders, having estimated value more than Rs. 50 lakhs. Division may decide for incorporation performance bank guarantee requirement in case of estimated value less than Rs. 50 lakhs based on type of item.
- c. In case vendor does not agree for Performance Bank Guarantee / retention of equivalent amount, the offer should be summarily rejected.
- d. Approval of Head of Division to be obtained for forfeiture or encashment of Performance Bank Guarantee (PBG) with the recorded reasons.



## 5.4 **Modes of Tendering**

### 5.4.1 **Open Tendering:**

Open Tendering is the most preferred method to be followed. Open tendering is a system whereby even non-registered vendors are free to participate and allowed to quote against the tender advertised in

English language in one (1) English Newspaper having wide circulation

and

Hindi language in one (1) Hindi Newspaper having wide circulation

and

Local (regional) language in one (1) local newspaper, if required.

Wherever, advertisement is released in English Newspaper, it should be mentioned in the end in Hindi that Hindi translation of the advertisement is available at HAL website hal-india.com. In case the procurement is intended to be on global basis then the tender to be advertised in the Indian Trade Journal/Indian Export Service Bulletin (IESB). In addition, copies of the tender documents may be made available to the Indian Embassies in potential vendor countries abroad for issuing to the tenderers besides making the documents available to the Trade Commissioners of Foreign Embassies in India and HAL Resident Managers outside India. In open tendering all the known and possible sources for the supply of the particular material are made aware of the requirements by sending to them a copy of the Press Advertisement. The advertisement is also to be hoisted in the HAL's website.

- a. The complete bid documents along with application form shall be published on HAL web site. It should be ensured that, there is no necessity for prospective bidders to ask/ obtain some other related documents from the department manually for participation in the tender process i.e. all documents up to date are and remain available as equally legally valid for participation in the tender process as manual documents obtained from the department through manual process. Part Drawings, Lofts or quality documentation, which form part of tender documents but cannot be placed on web site, for reasons to be recorded, must be approved by Head of Division. A mention of such documents must be made on the web site notice and intending bidders be asked to obtain documents by a written request, by post/ by hand, before a specified date.
- b. The complete bid document should be available on the web site, till last date of submission of tenders, for purposes of downloading.
- c. Request for proposals for non-lethal items (i.e. items not connected with any warfare) will also be published on MoD Website [www.mod.nic.in](http://www.mod.nic.in) as well as Public Procurement Portal.
- d. The web site address must be given in the advertisement/ Notice Inviting Tender (NIT) published in the newspapers along with e-mail address of the Division/ Office.
- e. In case, it is considered necessary to charge for the tender document downloaded from the computer then the bidding party may be asked on the Web-site to pay the amount by draft/ cheques etc. at the time of submission of the bid documents.

5.4.2 This system is not mandatory for purchase of production items from already approved / proprietary / developed sources and also where Licence Agreements / Long Term Contracts are in force besides such other items where prices are controlled / administered by the Government.

5.4.3 The open tender method as indicated above is adopted for all tenders whose estimated value is as per DoP for this mode of tendering. However, due to special circumstances of the purchase, for valid reasons to be recorded, the open tender procedure may be waived and limited tenders issued with prior approval of the Head of Division except in case of Plant and Machinery.

- 5.4.4 Tenders may be issued free of cost to Trade Commissioners of foreign countries, Govt. Undertaking, firms registered with DGS & D, DGTD, NSIC, Director (SSI) and ancillaries attached to other PSUs.
- 5.4.5 Open Tender method may also be followed in two stage tendering (refer para-5.12).
- 5.4.6 If considered necessary by the Indenter / User, a pre-qualification process can be followed through open tendering and invite bid from pre-qualified vendor.
- 5.4.7 **Web Tender:** Division can choose to host Tenders for non-project materials and services in “Open” mode of E-portal for tender value less than Rupees One Crore if considered necessary, without press advertisement. Such tenders are also considered as open tender. The potential registered vendors shall also be communicated for their participation besides hosting in HAL web-site for information.

## 5.5 **Pre Qualification of Bidders**

In Open and Global Tendering Pre Qualification requirement for participating in the tender may be called for depending upon the requirement. This is to ensure that the invitation to bid is extended only to those who have adequate capabilities and resources. The pre qualification criteria, performance criteria and evaluation criteria should be spelt out in the tender document and these criteria should be objective and measurable including relevant general and specific experience, financial position.

## 5.6 **Limited Tender**

- 5.6.1 In limited tender, the likely and all suitable sources based on website search or market surveys, if so required and included in Vendor Directory, are addressed. The vendor directory should be periodically updated based on the vendor rating. The acknowledgement for receipt of tender enquiry is to be obtained if it is sent through Registered Post/Courier/Fax. In case of email, the tender enquires should seek the receipt of delivery of the mail while sending the mail or self generated automatic delivery report may also be considered.
- 5.6.2 In respect of limited tender procurement the number of sources to be considered is as per the following table :

Estimated value less than Rs. 5 lakhs	Five sources
Estimated value between Rs. 5 lakhs to 15 lakhs	Seven sources or registered sources whichever is less but not less than five
Estimated value between Rs. 15 lakhs to 50 lakhs	Ten sources or registered sources whichever is less but not less than five
Estimated value above Rs. 50 lakhs	All registered sources but not less than five

For this purpose, a system of calling tenders by rotation giving equal opportunity to all approved suppliers, other things, like rating etc., being equal, should be followed. Where the number of available sources of supply is less than five, the number of suppliers to be addressed may be reduced with the approval of the Head of the Division based on estimated cost.

- 5.6.3 It is mandatory to include the name of last supplier unless the performance in terms of delivery, quality etc has been recorded unsatisfactory or the objective of tendering is to seek parallel source.
- 5.6.4 The requirement of Insurance cover such as Marine Insurance, Product Liability Insurance, Asset Insurance, Director Liability Insurance and other insurances shall only be tendered to Public Sector/ Govt. Companies on Limited Tender basis.

## 5.7 **Proprietary Tender**

- 5.7.1 An item is called proprietary in nature for which



- a. The requirement is for specific item and where no equivalent or near equivalent is available from any other source and/or all possible sources for the items quote only for the product of same manufacturer.
- b. Procurement from OEM/Licensors/Collaborator or vendor, sources listed by OEM/Licensors (other than agent/middle men).
- c. sources as per Design/Licensors document,
- d. product specifically developed by HAL from the vendors through limited/open tender
- e. Items standardized by HAL

5.7.2 Procurement of spares (including consumables like Cartridges/Tonnors etc. for Printers/Xerox/Fax machines) required for compatible with the existing equipment from OEM and procurement from manufacturer retail outlet/authorized distributors for an item of proprietary nature will also be covered under proprietary procurement. However, enquiry may be sent to number of outlets / distributors to facilitate procurement at best price, terms & conditions, unless OEM has nominated one of them for HAL supplies.

5.7.3 For this tendering, Proprietary Certificate (**Annexure-14**) needs to accompany MPR. Proprietary certificate shall be signed by the competent provisioning authority as per DOP.

5.7.4 Purchases of spares, components, accessories, and other items used in the repair/overhaul of aircraft should be sourced as much as possible from Original Equipment Manufacturers (OEM) i.e. the primary suppliers to the Licensors or from the licensors themselves.

5.7.5 Items are selected/developed for Aircraft/Engine/Accessories at the Design stage, based on specific technical requirement, tested and proved on the aircraft/engine/accessories and are certified for further use. The certification procedure generally takes 3 to 5 years. Selection of Vendors, in these cases, is done at the Design stage which is generally carried out through competitive bidding from multiple vendors. Having finalized the design of Aircraft/Engine/Accessories, these items are to be necessarily purchased from the same source on proprietary basis for subsequent serial production. Change in the source would require considerable investments in time and money and calls for extensive trials and recertification on Aircraft/Engine/Accessories.

5.7.6 Procurement from proprietary sources will not be considered as sourcing against single tender.

5.7.7 Vendor developed by HAL through limited/open tender taking into consideration anticipated requirement of the project/programme is considered as proprietary procurement. However, the developed source shall continue to be proprietary for any further requirement beyond that anticipated.

## **5.8 Licensors/License Agreements**

5.8.1 Tender is addressed to only Licensors/Licensors nominated sources, and designated sources based on inter Governmental Agreements and General Contracts approved by Government of India.

5.8.2 In case of License Manufacture, the licensor's document invariably indicates the details of items and the specific OEMs/vendors from whom these items are to be procured.

5.8.3 Procurement from Licensors nominated sources will be treated as proprietary.

## **5.9 Single Tender**

5.9.1 When the purchase is finalised on the basis of an offer from a single source, it is called a 'Single Tender Purchase'. It needs to be recognised that the competition is totally eliminated and the possibility of

paying higher prices cannot be ruled out. It is imperative that the purchase on Single tender basis be made with the detailed justification in its support and with the approval of Competent Authority, including associated finance. In a number of cases, the specifications prepared are copied from a manufacturer's catalogue in such a detail so as to exclude competition and result in a single source purchase. The specifications of the equipment need to be prepared in such manner as to give very essential requirements leaving other parameters as "desirable" or "preferred"

#### 5.9.2 Occasions where single tender can be made are as given below :

- a. When market research reveals that there is only one known reliable source of supply.
- b. When the management in the interest of real long term economy and quality assurance and assured service standards of delivery etc. standardizes on a particular brand / make (like Shoes, Khaki drill from reputed manufacturers, Gauges from a reputed manufacturer etc.).
- c. If after market survey, there is a single party ready to undertake the risk of provisioning / development of item required and the value of order is such that it is not economical to develop alternative sources of supply.
- d. The manufacturer / Government has canalised the supply only through a single source.
- e. The item is known to be in short supply and its stocks happen to be available only with one source at the time of purchase.
- f. Purchase of items of common use which are available at more or less at standard prices from fair price shops, super bazars, retail chains.
- g. Purchase from Government, PSU, Semi-Government, Co-operative undertakings and Welfare organizations.
- h. Urgent / emergent requirement to meet the immediate needs which cannot be catered within the required time lines by engaging any other method of procurement.
- i. Purchase of standard specification items of small quantities
- j. HAL's Customer has specified in writing the specific item to be purchased from a specific source and the need has been originated by the customer.
- k. Procurement of items from licensor/customer to take advantage of their long term agreement Pricing with their suppliers/where quantity to be procured is small and less than the minimum order value or order quantity suppliers willing to supply.
- l. Vendors currently approved by HAL even though not developed through limited/open tender would continue to be included until new source is developed through normal tendering process.

#### 5.9.3 As far as possible offers shall be invited from the manufacturers/their authorised Distributor/stockist of repute.

#### 5.9.4 **Single Tender (Nomination basis)**

Single Tender (Nomination) refers to a case where a purchase enquiry is sent to only one source without calling for tender even though other sources may be available, due to various reasons. Some of the single tender cases are procurement from Joint Venture companies promoted by HAL, sources specifically nominated by name by the customer. (If more than one source is nominated by Customers, limited tender will be followed) and procurement of strategic material from indigenized sources.

5.9.5 Tender enquires should be sent with the approval of Head of the Division.

The following requirement should be complied for approval of proposals on Single Tender (nomination basis):

- a. Reasons for not resorting to Open/Limited tender to be recorded in writing.
- b. Justification to be provided on proposed source for price reasonability.
- c. Pre Audit by System Audit for cases exceeding Rs.10 Lakhs each.
- d. Quarterly Report on order placed on Single Tender basis be submitted to the Board as per CVC guidelines.

5.9.6 Items sourced on single tender/ single tender (Nomination basis) are to be reviewed by Division once in two years to explore additional sources including indigenous development.

5.9.7 Procurement from JV promoted by HAL for supplies covered by the duly approved business plan of the JV and the same is notified by Corporate Office.

## 5.10 **Spot Tendering**

5.10.1 Spot tendering is to be resorted to

- i. Meet emergent requirements.
- ii. Procure limited quantities of readily available commercial off-the-shelf goods that are not specifically produced to a particular description and there is an established market Standard specification items of small value
- iii. Procurement of items required for office consumption and shop consumables.
- iv. Physical services that are readily available in the market
- v. Procurement of goods or services for emergent repairs

5.10.2 A Purchase Committee comprises of officers from the Purchase, Finance and the User Department accompanied by an Inspection Officer, where necessary, shall proceed to the market and obtain spot offers from at least three vendors after physically verifying and inspecting the goods The committee will be required to survey the market to ascertain the reasonableness of rates, quality and specification & identifying the supplier

5.10.3 Prior approval from Divisional head is required for resorting to purchase through spot tendering and constitution of the committee. Approval for placement of order will be as per DOP provisions under limited tender with more than one offer. However, Letter of Intent (LoI) can be issued by the Committee and the same shall be regularized by issuing confirmatory purchase order with approval of CFA. Format for Letter of Intent (LoI) is enclosed at **Annexure – 29**.

5.10.4 The purchase under this tendering is limited to Rupees one lakh on each occasion. However, it is to be ensured that requirement is not split in any circumstances with the objective of circumventing of limit of Rs. one lakh.

5.10.5 **Procurement on selection basis:** Spot tendering procedure can be followed where there are varieties of makes / Products are available in the market and purchase is required to be made on selection basis. Office furniture, Consumer Durables, Standard Electronic and Electrical equipments, Goods of common use, medical equipments are examples of items which would fall under this category. The committee constituted, after carrying out market survey would obtain spot offer and recommend the item that meet the requirement. Purchase order will be processed only for the item recommended by the committee as per the Delegation of power applicable for limited or single tender.

5.10.6 The purchase under this procurement on selection basis limited to Rupees five lakhs each occasion.

#### 5.11 **Procurement from Customer Nominated Source**

This mode of single source procurement is resorted to from a specific source nominated by name in writing by the customer. The following shall be taken care of while resorting to this mode of purchase:

- a. Procurement from customer nominated source can be resorted to only in case the purchase order/contract with the customer provides for such nomination by the customer. The same shall be regulated in the following manner.
- b. Reference of specific part numbers in the contract entered with customer should not be considered as basis for tendering on single source other than for airborne system.
- c. In case of other than airborne system, customer to be consulted for acceptance of equivalent system / item also so as to resort to competitive mode of tendering. In case the customer still insists for a particular make, the same may be purchased as a customer nominated procurement.
- d. When the customer has amended the contract so as to incorporate a specific item along with increase in contract price to compensate HAL towards increase in procurement cost included in the contract due to procurement from single source/brand without competition.
- e. In case the nominated vendor quotes unreasonable price / Terms and conditions and does not agree for reduction and waiving of unreasonable conditions, the division should take up the matter with the customer for their concurrence to accept price / terms and conditions of the vendor.
- f. It should be ensured that the customer nominated source essentially originates from the customer.
- g. Procurement from customer nominated single source shall not be classified as proprietary.
- h. In absence of specific written request from customer to procure from specific source, competitive tendering to be followed.

#### 5.12 **Two Stage Tendering**

Two stage bidding of procurement is considered under the following circumstances:

- a. It is not feasible to formulate detailed specifications or identify specific characteristics for the subject procurement without receiving inputs on technical aspects from vendors
- b. Requirement to enter into the contract for the purpose of research, experiment, study or development
- c. The vendor is expected to carry out a detailed survey or investigation and undertake a comprehensible assessment of risks, costs and obligations associated with procurement.
- d. The Two stage bidding shall include the following :
  - i. In the first stage, the bids are invited containing the technical aspects and contractual terms and conditions of the proposed procurement without price.
  - ii. The response received are evaluated through Technical evaluation committee,
  - iii. The committee may hold discussion by giving equal opportunity to all bidders to participate.
  - iv. The relevant terms and conditions are modified by addition, amendment or deletion of any specification of item under procurement or criteria for evaluation without changing the fundamental nature of the procurement.

- v. In the second stage of bidding process, bids are invited from all those bidders whose bids are not rejected in the first stage, final bid with bid prices in response to revised set of terms and conditions

### 5.13 **Sample Selection**

#### 5.13.1 **Bulk Procurement**

For bulk procurement of clothing and other textile items such as uniform, Sweater etc., a committee needs to be constituted with the approval of Divisional head to collect details about such items available in the production range of the manufacturers and finalize the generic specifications including the essential and desirable parameters if so required with the involvement of an independent external domain expert from Govt. organisation, on need basis. The tendering process may be initiated with the condition that the successful bidder (s) shall submit advance sample to evaluate the offer in line with the tender requirements.

#### 5.13.2 **Low Volume Procurement**

However, for low volume procurement of clothing, office furnishing requirements, decorative items, utility items, mementos etc, of value Rs.5 lakhs or so, a committee constituted with the approval of Divisional Head shall make selection of the items based on market survey. Local Purchase Committee may be assigned the role of sample selection committee also, at discretion of Head of Division. If more than one sample is selected, price bid for such selected samples will also be collected in the sealed cover. Such samples/offers collected with the final recommendation will be submitted for processing the proposal.

### 5.14 **Procurement from OEMs, Distributors & Stockist**

- a) In case of procurement of LRUs/SRUs/Systems/Sub-systems/proprietary item, RFQs to be sent only to Original Equipment Manufacturer/licensor. To generate interest from the OEMs, long term requirement based on approved programme/forecast task may be projected with a provision for staggered annual deliveries. In case procurement of these items through Distributors/Stockist is unavoidable, necessary verification of credentials of Distributors/Stockist should be made. A confirmation for the verification be mentioned in the proposal.
- b) As regards procurement of raw materials, electronics equipment / components, standard parts / tools / tool grips / gauges / test equipment, commercial items (e.g., IT products / accessories, office equipment, vehicles, furniture, maintenance and other spares), obsolete items etc, where more than one manufacturer exists, the Divisions shall identify OEM and authorized Distributors / Stockist. It can also be ascertained through internet, manufacturers, Industrial, Trade directory, yellow pages etc., that the distributorship / stockist arrangement is a standard channel for all such customers and not exclusively for HAL transactions. Further, credentials of Distributor & Stockist needs to be established. In case of inability to identify OEMs, this needs to be recorded with justification.
- c) The RFQ would be issued to OEM, as far as possible, and Division needs to source from OEMs for required qty. / or LTBA requirement. However, if the quantity to be ordered is considered as inadequate for OEM to respond or OEMs do not respond then RFQ could be issued only to authorized Distributors / Stockist / approved Vendors, after recording a specific statement to this effect and this should necessarily form part of the proposal along with their credentials to be put up to CFA.

5.15 Formats for hosting of information with regard to “Administration by leveraging technology” are placed at **Reference-3**. In this regard, CO guidelines issued from time to time to be complied.

5.16 It is advised to use only the dedicated E-mail facility of HAL and their official E-mail IDs for all correspondence with outside parties. IT security guidelines need to be followed.

**5.17 Procurement for Production holdup / Customer's AOGs requirement :**

In case of stock out items resulting in production hold up (to be justified with approval of head of Division) and/or items are required to meet customer's AOG requirement, a part qty. as required to meet this immediate requirement may be purchased on emergent basis with justification (reasons to be recorded in writing), following Commercial procedures. However, procurement needs to be expeditiously carried out, and if required by reducing tendering time and MPC meeting may be called, with the approval Head of Division. If circumstances warrant, single tender may also be resorted to only for quantity required for immediate production or AOG requirement.

**5.18 Development order**

In the development order where technical inputs/assistance is provided to the vendors, the Intellectual Proprietary Rights (IPR) to be retained by HAL. For these items, vendor should not directly deal with HAL's customers.

- 5.19 Telephonic Enquiry:** In case of urgency, at the discretion of Head-IMM , where the total value of an indent does not exceed Rs.30,000, Quote may be obtained & noted telephonically (using speaker phone) from minimum 3 firms in the presence of members from IMM, Finance & User dept. Subsequently , hard copy of email/Fax to be obtained and filed.

## CHAPTER - VI

### PURCHASE WITHOUT TENDERING

#### 6.1 DGS & D RATE CONTRACT

- a. Director General of Supplies and Disposal enters into rate contracts for various items to cater to the requirement of different Govt. organisations. List of stores on rate / running contract is published by DGS & D from time to time for the use of Direct Demanding Officers (DDO). This list is available on DGS&D website (<http://dgsnd.gov.in/>).
- b. It may be mentioned that running contracts are distinct from rate contracts. Running contracts provide for guaranteed quantity to be supplied by the contractors with an agreed percentage of variation. These contracts can be operated by DGS & D only.
- c. Some of the Public Sector Enterprises are Direct Demanding Officers and can place orders directly on rate contract terms. All Divisions of HAL are not on the list of DDO. However, many Rate Contract holding firms are normally offering DGS & D Rate Contract prices to HAL and the same shall be availed. Orders to be released on the normal HAL purchase order form on DGS & D Rate Contract prices are as per mutually agreed other commercial terms. When there is more than one DGS & D Rate Contract for the same item, order can be processed on any one of the vendor based on the recommendation of the user department taking into consideration parameters like availability of service centers, past experience with the OEM, standardization, quality etc.
- d. Where a firm is not ready to offer DGS & D Rate Contract prices to HAL, these prices may be utilised for negotiation purpose while finalising the Purchase Order.
- e. In case the items of required specification if available under DGS&D Rate contract like IT Hard ware, Material Handling Equipments, Medical Equipments etc., tendering action to be considered only after recording the justifiable reasons for not considering the procurement through DGS&D Rate Contract.

**6.2 Purchase of standard specification items and items (non-capital) of common use:** (procured by common people and industries) which are available at more or less at standard prices from fair price shops, super bazars, retail chains, Government, Semi-Government, Co-operative undertakings, Khadi village industries commission, handloom units of association of cooperation and Apex Society of handloom (ACASH), welfare organization not exceeding a value of Rs. One lakh limited to annual ceiling of Rs.5 lakhs per division/office.

6.3 Purchase without tendering will also be applicable for procurement of news papers, journals, books, magazines, periodicals etc.

#### 6.4. HAL Rate Contract

6.4.1 HAL Corporate Office also enters into Rate Contracts for items which are commonly used in different Divisions of HAL. The advantages of this arrangement are:

- a. Supplier is assured of expected volume of business and hence can offer better prices.
- b. HAL is assured of continuous supply as per requirement.
- c. Assurance of sustained quality supplies.
- d. Effective controls on inventory buildup.
- e. Purchasing cost is kept low.



- 6.4.2 In respect of stock items for which HAL Corporate Office has not finalised Rate Contracts, Divisions shall enter into Rate Contract for as many items as possible. A copy of Rate Contract entered at the Division level shall be sent to the IMM at Corporate Office for the benefit of other Divisions for reference only. Suggested draft format for entering into Rate Contract is enclosed at **Annexure-15**.
- 6.4.3 Except in case of purchase of production items from already approved/ proprietary/ developed sources and where License Agreements/ Long Term Contracts are in force, Rate / Running Contracts or other long supply agreements should be entered with reliable and established sources of supply after obtaining competitive offers through Open Tender/limited tender. Where Rate / running Contracts are entered into, based on single response to open/limited tender, report of such contracts should be made to the next higher authority.
- 6.4.4 The rate contract entered into by one Division /Corporate office for their requirement cannot be utilized by other division for placement of order. However the division which has entered into a rate contract can place order on behalf of other division on emergent requirements within total qty. entered by the Division.

## 6.5 **HAL Licence Agreements**

At the time of finalisation of licence agreements Purchase Agreements are also entered which enable HAL to procure its requirements without calling for offers. The Purchase Agreement is valid for the period of main Licence Agreement and an agreed escalation clause governs the prices applicable on supplies to HAL.

## 6.6 **Repeat Order**

- 6.6.1 In this case also fresh tenders are not invited. Repeat Order refers to Purchase Order placed on the previous supplier (without obtaining fresh quotations) for the same items which were ordered on the firm as a result of Open / Limited Tender. Repeat Order may be placed up to 100% of the value of the original order after placement of the original order, but within 12 months from the date of completion of the original order unless, in the mean time, further market research has disclosed a cheaper source of supply. The prices, terms and conditions of the repeat order shall be the same as that of the original order. No price negotiation shall be held. Repeat order can be placed with the approval of the next higher level CFA. No Repeat order where qty is one in original order. However, the statutory levies shall be paid as applicable.
- 6.6.2 Repeat order (single order or multiple orders totaling to 100% value of the original order) may be placed by other Division of HAL including the Division which has originally placed purchase order. In order to exercise the control on the total value, the repeat order should be coordinated by the Division who originally placed order to ensure sum total of value does not exceed 100% of original order.

## 6.7 **Imprest Purchase System**

The Department authorized for imprest cash shall arrange for cash purchase in case of urgency as well as other items/services of low value. Here again no formal offers are invited. The indenting officer is authorised to record reasonableness of rates and approve the purchase. The value of each item will not exceed Rs.5000 for each case for this type of purchases. Purchase -cum-receiving report format **Annexure-16** is to be used. Imprest cash should be kept in locked cash box kept in the office and entry should be made in the imprest register before drawal of cash for procurement/availing service. Annual ceiling for imprest amount should be prescribed for each imprest holder, and notified by the Division with the approval of head of division/office.



## 6.8 **Petty Purchases**

Items / services of nominal value i.e. up to Rs. 15000 in each case can be indented and procured by various departments. This request shall be approved as per DoP Purchase up to a value Rs.15000 could be made directly from the market without issuing a formal order. Receipt of such materials will be certified by the user department on the Cash Memo for accounting purpose. No receiving report shall be raised and the value shall be charged off as expense under appropriate head. Petty Purchase Request – **Annexure-10** is to be used.

## 6.9 **Order on Ancillaries**

Ancillaries, which have entered into formal agreement with HAL for rates and volume of business for a certain period, shall be issued with orders without inviting offers subject to the ancillary meeting the quality and delivery requirements.

## CHAPTER - VII

### TENDER RECEIPT, OPENING AND EVALUATION

7.1 Proper care in the receipt, opening and sorting out of tenders is essential to avoid any suggestion or malpractice. The instructions to the suppliers for submitting their tenders should be comprehensive and clear. Suppliers shall be notified to submit tenders in sealed covers superscribed with Tender Number and Due Date etc.

7.1.2 E-Tendering to be adopted as per company guidelines.

#### 7.2 Tender Box

7.2.1 A locked and sealed Tender Box must be maintained in a prominent place for all tenders received against other than Proprietary/single tender enquiry. Tenders received by Post up to the prescribed closing date and time for the tender shall essentially be dropped into the Tender Box. This procedure is not applicable for the tenders issued through e-portal.

7.2.2 Individuals bringing tenders in person should be directed to drop them in the Tender Box.

#### 7.2.3 Receipt of Tender

Unsealed tenders or tenders received without any marking on them or through Fax/ E-mail which get opened like other incoming mail shall be sealed by the Office of the Head of IMM Department and the same shall be put in the tender box maintained for the purpose. An endorsement on the cover shall be made that tender was received without marking and got opened in the mail. The original cover of the tender is to be preserved as far as possible. Receipt of unsigned quotations including E-Mail should not be considered. E-mail quotations digitally signed can be considered. E-mail quotation without digital signature received from Licensor, Licensors approved sources/customer nominated sources can be considered. Further, e-mail quotations without digital signature received from sources on proprietary/single tender can also be considered.

The procedure for receiving the quotation through Fax/E-mail shall be followed as per existing Circular dtd.10.11.2008 (**Reference No.5** of Purchase Manual).

7.2.4 Incase the bid documents are bulky then the name & designation of two officers either of them can receive the bid is to be mentioned in the tender document.

#### 7.3 Opening of Tenders

7.3.1 All tenders must be opened by Tender opening Committee at the specified place on the date and time specified for their opening.

7.3.2 Tender Box shall be opened by the Tender opening Committee. Only tenders due on that date shall be taken out and Tender Box shall be sealed thereafter. The tender envelopes shall be initialed by them and handed over to Tender cell, who shall enter the same in a register maintained for the purpose

7.3.3 The tender opening Committee is required to ensure the following:

- a) Each page of the offer shall be initialed, dated and numbered indicating the Serial Number of the Tender vis-à-vis the total number of tenders.
- b) Any alterations in rates, additions, deletions, cutting and overwriting shall be encircled, initialed and the same should be recorded in first page in Red ink including any other observation/ deficiencies observed if any.

- c) Glaring abnormalities like striking similarities in text/language format, contents etc., from different sources/firms should be recorded. Their admissibility or otherwise should be decided by due diligence by PC/MPC. The decision of PC/MPC is final.
- d) Blank space, if any, is to be crossed out and initialed.
- e) All envelopes of tenders shall be initialed and shall carry the same markings as on the tender papers.
- f) Bidders or their representative (along with authorization letter from their OEM) who submit tenders are permitted to witness the tender opening. A record of the tenderers / representative present at the tender opening should be maintained. The officer opening the tender shall read out the important particulars regarding quality, price, etc., and shall prepare an abstract of the tenders received. Offers received should not, repeat not, be circulated amongst the bidders or their representatives present. No explanation should be sought from representative of bidders during opening of Tender.
- g) No amendments to the tenders shall on any account be permitted after the due date of submission of tender.
- h) Receipt of unsigned quotations to be dealt with as per para-7.2.3.
- i) If a single offer received against Limited / Open tender, the bid should not be opened at first instance and the same should be referred to Purchase department for necessary decision. If decided to re-tender, the bid should not be opened and same should be returned.
- j) Proper Record of EMD, Integrity Pact, Authentication / Authorisation letters need to be made. On the spot consolidated statement of tenders received, opened is to be prepared and signed by the tender opening committee.
- k) Further, in case of 'Two bid' system, after opening of the technical bids, the price bids, which are to be opened subsequently, will not be kept as loose envelopes. It is to be ensured that the tender opening officer/ committee has signed on the envelopes and the envelopes are placed in a bigger envelope/ box duly sealed and signed by the tender opening officer/ committee.

7.3.4 Offers received against Proprietary Tender or tender issued to a single party may be opened before the due date at the discretion of Head of IMM.

7.3.5 Tender opening Committee shall not open unsolicited tenders. Unsolicited Tender is defined at Para-7.5.

7.3.6 In two bid system, only the technical bid should be opened in the first instance. Purchase department would scrutinize the bids for their acceptability in respect of conformance to signing of Integrity pact, receipt of EMD etc., before forwarding the bids for technical evaluation. If bids are not meeting the tender conditions like EMD, signing of IP, unsolicited bids, unsigned quotes will be rejected and returned to the vendor with the reasons for such returning along with the other not qualified bids as indicated at para 5.3.2. Commercial bids of only technically acceptable offers should be opened only after the evaluation of technical bids and recommendation of TEC. The commercial bids of other offers which are not found to comply with technical requirements will be returned to vendors in sealed and unopened condition as received.

7.3.7 In case of the quotations in the two bid system, if party is submitting only one bid with rates and technical details / Technical and commercial bids in open condition inside one envelope only shall

not be considered. Further, in case of two bid system, if bidder submits price bid / indicate pricing aspects in technical bid either in manual tender or in the e-tender, the bid will not be considered for evaluation and will be rejected.

- 7.3.8 Members of the tender opening committee to give an undertaking that none of them have any personal interest in the vendors participating in the tender process. Any member having interest in any Company represented by the vendor should refrain from participating in the tender opening.

#### **7.4 Tender Opening Register**

Tender Opening Register shall be maintained in the Tender Cell. Tender No., type of tender, name of tenderers - whose tenders have been opened and signature of the tender opening authority shall be recorded in the register. Signatures of tenderers / authorized representative present at the time of tender opening shall also be obtained on the same page. Concerned dealing Purchase Officer shall sign while receiving the tender offers for further processing.

#### **7.5 Unsolicited Tender:**

Offers submitted by vendors to whom tender enquiries were not issued. However in case of Limited tender enquiry issued to registered vendors, a tender received from the authorized dealer/ distributor/ channel partner of the registered manufacturer along with authorization letter of the manufacturer to whom the enquiry was originally issued shall not be declared as unsolicited. Response received from branch offices/marketing offices/different divisions/subsidiary of the same company to whom tender issued is not to be declared as unsolicited. Such Tenders will be considered with the approval of Head of IMM.

#### **7.6 Late Tender**

- 7.6.1 Any tender received after the prescribed date and time shall be marked as late tender.
- 7.6.2 Any bid received by the Company after the due date specified in tender/RFQ must be kept intact, un-opened/sealed and not considered. The same will be retained in the concerned purchase file. Quotations/ bids, which are received late through Fax, shall also be treated in the same manner.
- 7.6.3 In case, the tender is against "Single Tender" enquiry (Proprietary/Customer nominated), a late tender may be considered after obtaining the approval of Head of Division.

#### **7.7 Postponement of Due Date**

- 7.7.1 In case of Open/Limited Tenders due date shall not be postponed normally. However, in case of change in the tender terms & conditions, specifications or tender opening date etc. is to be notified to all the bidders and posted on web site (in case the original tender was also published on web site) sufficiently in advance (minimum 3 working days).
- 7.7.2 In respect of complex procurements, development programmes, refurbishing of equipments etc opportunity to be given to vendors to seek clarification in respect of tender documents. The period within which the vendor can seek clarification should be specified in the tender document. A pre-bid conference may be arranged for potential bidders to seek clarification.
- 7.7.3 In the event of a query from any vendor requiring clarification, the clarification if it is applicable to be issued to all the vendors to whom the tender was floated. At this stage if it is considered that available time to respond is inadequate, the due date can be suitably extended.

7.7.4 The due date can also be extended, if so requested by any of the bidders, with justifiable grounds. Any bidder who has submitted his bid in response to the original invitation will have the opportunity to re-modify or resubmit as the case may be. In that case the last bid submitted or the bid as modified by the bidder will be considered for evaluation.

7.7.5 The postponement/extension of due date shall be made after approval from Head of Division.

## **7.8 Authority for Tender Opening**

7.8.1 Tender opening officers/committee shall be as follows :

Tender Value

- a) Up to Rs 15 lakhs - Dy. Manager (IMM) & Dy. Manager (Fin).
- b) Above Rs 15 Lakhs - Manager & above each from IMM & Finance

7.8.2 “Head of Division may authorise other officers of lower or higher grade for tender committee in coordination with Head of IMM and Finance where manpower of requisite grades are not available”.

## **7.9 Tender Evaluation**

7.9.1 Initiating Tender evaluation process (Either single bid or two bids) is the responsibility of the Purchase Department and shall be given due priority and care.

7.9.2 The Purchase Department shall study offers and prepare a statement for endorsing the offers that are prima facie suitable (that is the offer was received in time and is not unsolicited, offer is accompanied with IP signed wherever applicable or qualified offer and the offer is accompanied by Earnest Money Deposit if required, as per the Tender Conditions). The file then is to be passed to Technical Evaluation Committee/ Production Engineering / Material Planning / User Department for the further study and their recommendations.

**7.9.3 Technical Evaluation (Single Bid) :** In case of single bid tender, the technical evaluation and recommendation / acceptance of the offered items/materials in the quote shall be carried out by Material Planning/Production Engg./users deptt/facilities planning as applicable duly coordinated by officer authorized (as case may be) and approved by Group Head before preparation comparative statement. In case of 2 Bid System, the technical evaluation and recommendation / acceptance shall be carried out by TEC.

## **7.9.4 Technical Evaluation Committee (Two bid System)**

Technical Evaluation Committee shall be constituted as follows:

- a. In case of CFA for approval of the proposal is Board/ Procurement Sub-Committee/ CH/ MD/ Director, the Technical evaluation committee shall be headed by Head of Division with following members

Head of Production Planning Deptt.

Head of Quality Department

Head of User Department

- b. In case of sanction by Procurement Sub-Committee & Board, Head of Corporate Planning or his representative will be a member of Technical Committee in addition to above.

- c. In case of CFA for approval of the proposal is Head of Division, the Technical evaluation committee shall be headed by 'the Senior most Executive of the Division (AGM/DGM) in the Technical Discipline with following members

Representative of Production Planning Deptt.

Representative of Quality Department

Representative of User Department

To be nominated by the respective Head of Departments.

- d. The Head of Technical Committee may co-opt other members from within &/or outside Divisions based on expertise required.
- e. In case of CFA being level II and level III Officers (as defined in DoP), TEC may be constituted with the approval of Head of Division on need basis.

7.9.5 If so required for technical evaluation, clarification on technical aspects shall be sought from the bidders only once consolidating all the requirements as far as possible. If response is incomplete further clarification can be sought. Any new clarification not originally covered will require approval of divisional Head.

7.9.6 In case where vendors offer in their quote some alternate material / items against RFQ requirement, technical acceptance for such material / items needs to be carried out by Design Department (DLE) / Design Authority and Methods engineering in case of Project Material rather than user department, and in case of Non-project Material / Commercial Material technical acceptance shall be by User Department / Indenting Department or TEC if so desired by users / indenting dept.

7.9.7 The Technical Evaluation Committee's report in the existing Purchase proposal format shall bring out in detail compliance report of each technical feature of the RFQ, deviations if any, and the reasons for acceptance/ rejection of bids and should be signed by all members of the Committee. The report shall bring out acceptance or otherwise of the bids without any ambiguity and make clear recommendations.

7.9.8 Technical evaluation compliance report should be signed by all the members of the Technical Evaluation Committee after due verification of bid documents submitted by the bidders as per the eligibility criteria laid down in the tender.

- a. Relaxation of eligibility /prequalification criteria should be avoided.
- b. Technical clarification required from the bidders during technical evaluation should be sought through Purchase Department
- c. Introduction of new parameters which has not been indicated in the tender for evaluation is not accepted.
- d. Post tender changes in the technical specification are not acceptable. In case change in specification is required then the same needs to be justified and retendering action may be taken
- e. Selection of optional items and accessories to be finalized before opening the commercial bid.

**7.9.9 Commercial Evaluation:** Following points shall be paid special attention while compiling information on the tender evaluation sheet:

- i. The offer was received in time and is not an unsolicited or qualified offer and the offer is accompanied by Earnest Money Deposit/Integrity Pact if required, as per the Tender Conditions.

- ii. Basic price and the quantities for which it is valid. Also whether the price is firm and/ or any escalation formula is offered. In respect of RFQ covering more than one year requirement, RFQ may include a clause for escalation formula with CAP. The evaluation is to be made with escalation CAP quoted by the vendor. This aspect of evaluation to be spelt out in the RFQ to bring clarity and transparency.
- iii. Sales Tax, Customs Duty, Excise Duty, Services Tax, Withholding tax, R&D Cess and any other imposts / taxes that are payable.
- iv. Terms of delivery i.e. ex-factory, HAL stores and other terms and conditions.
- v. Packing and Forwarding charges.
- vi. Firm's willingness to accept penalties / compensation for late delivery as well as HAL's Standard Conditions of Contract.
- vii. Specifications offered are the same as demanded / alternative offered and benefits claimed for it. Tender not meeting the laid down specifications may not be ranked in consultation with Technical Department.
- viii. The terms of payment and request for advance payments / willingness to offer Bank Guarantee.
- ix. Assurance / Methods to replace defective supplies.
- x. After - sales - service arrangement and cost of such services, if any.
- xi. Samples if required are submitted with the offer or alternatively party agrees to submit samples as required in the enquiry.
- xii. Validity period is adequate. In case of vendor offering validity period less than what has been sought in the tender the same can be accepted subject to the following :
  - a) If the criteria for evaluation is lowest price conforming to the specification and
  - b) The validity period is adequate to process the tender.

If conformance to validity period sought by HAL is a criterion for evaluation of tender then the same need to be specified in RFQ and the tenders not conforming to the requirement can be rejected.
- xiii. Due price preference to Public Sector Undertakings, Ancillaries, Small scale Industries and Indigenous manufacturers as per Govt. Directives, issued from time to time.
- xiv. Foreign currency exchange rate as on date of bid opening stipulated in RFQ shall be considered for comparative price statement in Commercial evaluation. This aspect should be indicated in the RFQ. TT Selling rate to be considered for foreign currency exchange rate.
- xv. In respect of responses from foreign and indigenous sources, the evaluation should be based on landed cost at the Division by including freight charges, applicable taxes, and duties to the base price quoted by the vendors.
- xvi. Prices and applicable taxes indicated in the price bid shall only be considered.
- xvii. In case, RFQ call for evaluation of Bids using discounted cash flow method (DCF), net present value to be calculated for arriving L1 vendor.



xviii. The percentage of freight & insurance to be adopted shall be based on the 'percentage of total freight & insurance paid to purchases during the preceding year'. This percentage will be forwarded by the Divisional Finance to the IMM department of the Division and shall be applicable during the year for the evaluation purpose. These rates shall be announced once in a year in first week of financial year.

7.9.10 Taking into consideration the above factors, a net price comparison of the valid tenders only shall be prepared and tender evaluation sheet(s) shall be endorsed L1, L2, L3 etc., to indicate 1st lowest, 2nd lowest, 3rd lowest and so forth. In this tender evaluation statement, the tenders which are not meeting technical specification and where the tender formalities have not been complied with, and which were received late / delayed shall not be included.

7.9.11 An endorsement with reasons for non - consideration / non - inclusion of parties shall be separately made on the comparative price statement.

7.9.12 The Commercial Evaluation Statement shall be signed by the dealing officer and shall be vetted and countersigned by the next higher officer of the Purchase Department and it should also be checked and signed by Finance. The CFA is CMD or above, the same needs to be countersigned by head of IMM and Finance.

7.9.13 Timely evaluation of bids within bids validity period shall be carried out in equitable, fair and transparent manner.

## **7.10 Tender Evaluation of Capital Equipment**

7.10.1 Following procedure shall be followed for procurement of Capital Equipment:

- a) A Divisional Technical Committee (TC) is to be institutionalized which will be responsible for preparing, finalizing and approving the Technical Specifications of the Equipment. The committee is to be headed by Head of the planning functions of the Division and supported by the Head of Plant maintenance, Head of Quality and Head of Planning / Facility Planning who will be the secretary of the committee. Head/Deputy Head of the user department will be the co opted member. All capital items which require custom specification and cannot be sourced through standard specifications are to be finalized through Divisional Technical Committee.
- b) The Divisional TC should prepare a general brief on the scope of requirements. Initially, if so required, this should be sent by the TC to the various leading manufacturers of the equipment asking for detailed technical specifications/ features of their products to meet the requirements as a Request for Information (RFI). This data along with information available in the division / other divisions will form the basis for preparing the detailed specification of equipment. While approving the same, the TC should clearly identify the Essential and Desirable parameters of the equipment as detailed below.
- c) Essential. These are the Essential requirements in the performance of the equipment, non-compliance of which will make the equipment technically not suitable. Accordingly the 'essential' classification to a requirement must result from an in-depth critical analysis of the necessity of requirement.
- d) Desirable. All parameters other than essential will be classified as 'desirable'. This classification should be assigned to requirements corresponding to tasks that the machine is intended to fulfill but the same will however not affect the safety or functional performance in any way. The non-compliance of a requirement classified as 'desirable' is in itself not a sufficient reason to reject the tender.



- e) The classifications of essential and desirable as above should be as per the recommendation of TC with reference to Technical Specifications whereas the same in respect of commercial terms and conditions should be as per the recommendation of Purchase Department and should be mentioned in the RFQ in clear terms indicating that the “offers not meeting essential requirements shall not be considered”.
- f) As such, the responsibility of approving the specification on the above lines rests with the TC.

7.10.2 On receipt of Technical Compliance Report from Bidders, The file is to be passed to TEC/ Production Engineering / User Department for the further study and Technical acceptance of offers. The TEC shall also carry out selection of accessories, special tooling, and maintenance requirements and spares, special civil works etc., if any, needed, in respect of technically acceptable offers. Some of the essential factors which shall be taken into consideration are:

- a) Estimated operation cost, maintenance cost, and the total cost over the probable life of equipment.
- b) availability of service at the initial stage and regular after - sales - service
- c) availability of spares on ex-stock basis or delivery at short notice
- d) financial considerations including Foreign Exchange
- e) the existence of similar - make machines in service
- f) training of operators in case of special - purpose machine.

7.10.3 The concerned Purchase Officer shall make a note of specific points on which TEC/ Production Engineering/ user's comments are sought.

7.10.4 After technical study, a final price comparative statement shall be prepared in co-ordination with the TEC/ Production Engineering/ User Department to arrive at the ultimate price.

#### **7.11 Tender Evaluation for selection of Systems for Aircraft/ Helicopters/Accessories**

The following procedure is to be followed for selection of any system.

- a. RFQ for the system should clearly bring out the anticipated quantity and the period of requirement in addition to all other technical and commercial requirements.
- b. Quotes should be obtained for the prototypes and also for the subsequent series production requirements linked to an escalation formula based on recognized price indices.
- c. In case the quantity required is high, ToT for manufacture is to be sought. This aspect is to be decided before issue of RFQ based on the product and the likely investments required considering the technology. In case of strategic technologies, ToT is to be insisted upon, in case of foreign Vendors.
- d. In all cases, RFQ should specify the essential need for ToT for ROH in India. Quotes for the licence fee/ documentation cost/ Royalty is to be obtained along with the cost of facilities for ROH.
- e. Suppliers' commitment for technical assistance in setting up manufacturing / overhaul facilities is to be insisted upon.
- f. Supplier has to confirm that he would undertake defect investigation and repair/ overhaul, till

the facilities are set up in India. Cost of DI/ROH is also to be quoted in his offer; with escalation formula similar to equipment supplies.

- g. The supplier has to confirm uninterrupted supply of spares for lifetime product support. List and norms of consumption of spares with their individual prices are to be quoted in his offer. In case of Standard Price Catalogues, copy of the same is to be attached.
- h. The lead-time for supply of spares is to be clearly defined to ensure timely procurement action
- i. The supplier has to confirm that any documents pertaining to up-gradation of the system during its course of exploitation will be forwarded
- j. In the event of the supplier not meeting the product support requirements, his offer is to be considered as technically invalid
- k. The proposal will be evaluated on Life Cycle Cost basis

#### **7.12 Comparative Price Statement**

Utmost care shall be exercised while preparing the Comparative Price Statement of tenders. Any deviations from the tendered specification, delivery period or normal terms and conditions and any special conditions, assistance etc., stipulated by the firm, shall be highlighted. It shall be the responsibility of the concerned Purchase Officer to ensure prompt preparation of price statements as well as finalisation of the tender papers. The statement shall be signed by Head of IMM & Head of Finance where CFA is CEO/Director/ CMD/ PSC/ Board; and by respective officers as designated by IMM & Finance Heads in other cases. Format as per Purchase Proposal Format at **Encl-2 Annexure 21B** shall be used for this.

#### **7.13 Correspondence with Vendors:**

Indenting departments should not carry out any correspondence with suppliers. While Methods Engg. / Facility Planning, responsible for preparing specifications etc may correspond with various manufacturers to firm up their specifications, once a demand has been raised and sent to IMM for processing for any item/ equipment, all correspondence with Vendor/s, whether on technical or commercial points, has to be carried out only by IMM Deptt. It is to be ensured while seeking commercial clarification if any, there is no change in the price and L1 status.

#### **7.14 Acceptance of Tenders**

##### **7.14.1 A bid is considered as successful**

- a. when price is the only criteria, the bid with the lowest price conforming to the specifications
- b. When there are price and other award criteria, the most advantageous bid ascertained on the basis of criteria and procedure for evaluating bids as specified in the tender documents
- c. Where there are no financial criteria, the most advantageous bid ascertained on the basis of selected non-financial criteria or other parameters for evaluating bids as specified in the tender documents.

##### **7.14.2 Special care shall be taken to ensure proper scrutiny in the matter of financial soundness and technical capability of the firm. When, for valid reasons, it is necessary to accept a tender other than the lowest, the reason for overlooking the lowest offer must be clearly recorded in the file.**

7.14.3 Tenderers offering competitive prices but not accepting some of HAL's standard tender conditions such as credit terms, penalty for delayed delivery, etc., may be accepted on merits by appropriate authorities delegated with Purchase Powers.

7.14.4 As a matter of policy, the technically acceptable lowest offer shall be accepted. Lowest technically acceptable offer with variance in tender terms and conditions such as credit terms, delivery, penalty for late delivery etc. may be accepted on merits with the approval of CFA, after required loading towards such factors having direct financial impact in comparative price statement. In the normal course deviations from conditions such as SD/PBG shall not be agreed upon. The interest rate to be adopted in such cases shall be notified by Treasury wing of Finance Department of Corporate office during March of the preceding year for the succeeding year. If the case is under negotiation, the committee shall give its recommendation as to the acceptance or otherwise of the deviations.

**7.14.5 Quantity Distribution when L1 has not offered tendered quantity**

In case, the L1 vendor has not offered full quantity, the L1 vendor may be asked to confirm supply of full quantity and the quantity so confirmed shall be ordered on L1 vendor. The balance quantity can be ordered on the next higher responsive bidder at the rates offered by the L1 vendor.

If the full quantity is still not covered at L1 price, the balance quantity can either be re-tendered or cancelled with the approval of the competent authority as per DOP.

7.14.6 In case in the interest of securing continuity of supplies, it is so decided to split the orders on more than one vendor, a condition to this effect shall be stipulated in the RFQ specifying the basis of distribution of quantity provided bidders other than L1 agree to match up with L1 price. The basis for distribution shall be pre decided based on descending order with L1 getting highest share. The distribution pattern may be decided locally by the division. The illustrative distribution pattern among the vendors is indicated below

- i) among two vendors: 70:30
- ii) among three vendors : 60:25:15

**7.14.7 Minimum Order Quantity:** In case some of the bidders offer MOQ higher than the RFQ quantity for any item then the following to be considered;

- a If the MOQ offered results in excess qty. less than or equal to 20% of tender qty. then L-1 to be determined based on the unit price in respect of tenders for single item.
- b. If the MOQ offered results in excess qty. more than 20% of tender qty. and the tender is for more than one item then the L-1 shall be determined by making comparison of the total price (MOQ x unit price) with the total price of other bidders for RFQ quantity separately for each line item. However, the division may suitably take up the matter with the vendor for relaxation in MOQ. If not agreed by vendor, the division shall go ahead in purchasing the quantity as per MOQ and make adequate efforts for utilization of the items including the shelf life item before life expiry.
- c. In case MOQ offered by the vendors for an item is a combination of less than 20% and more than 20%, then the evaluation of the bids to be done based on total price as per (b) above.

7.14.8 In case of bidder insisting on minimum order value against RFQ requirement, the offer of L1 vendor for those items to be compared with other vendors. If the total cost impact of placing the orders on other vendors is less than the minimum order value as specified by the L1, the orders for those items may be placed on other vendors suitably.

- 7.14.9 In a situation where two or more bids are same in figures along with other terms & conditions of the RFQ, an opportunity shall be given to the bidders for making a revised offer in a sealed envelope and shall be opened by the tender opening committee on a fixed day in presence of the tenderers/their representatives. In the event of tenderers not agreeing to revise their bids or become same again in all respect including price, order can be placed on any one of such vendors.
- 7.14.10 In a limited tender for procurement of Goods, if at the TEC stage, only one vendor is found complying with all the RFQ parameters and TEC after review of the single vendor situation, comes to the conclusion that the specification tendered in the original RFQ is the essential requirement and it cannot be reformulated, the reasons for the same should be recorded by the TEC. In these cases, approval of Level-I Executive should be taken (before opening the commercial bid in case of two bid system) for processing the case for approval of CFA as per DOP.
- 7.14.11 A review of the procurement would also be carried out by the TEC who derives the causes of such single vendor situation at TEC stage and details should be brought out in its report.
- 7.14.12 TEC for evaluation of single bid tender is as per para 7.9.3 and in case of two bid system as per para 7.9.4.
- 7.14.13 On acceptance of a single offer in response to open/limited tender, reasons for single offer are to be analysed and recorded in the proposal for perusal of CFA. The single offer cases exceeding Rs. 1 crore each are required to be pre audited by Systems Audit.

#### **7.15 Validity Extension**

All efforts should be made to finalise and place the Purchase Order within the validity period of the quote received from the vendor. Cases requiring extension of validity should be rare. And in exceptional situations where the validity period is sought to be extended, it should be imperative to bring on record in real time, valid and logical grounds, justifying extension of the said validity.

In case validity extension is required, the same should be sought from the vendor before expiry of the quotes (preferably 3 days in advance). In case of two bid system, price bid of technically accepted offer should be opened for the offers having validity. Proposals put up for CFA's approval should have validity till approval is obtained.

#### **7.16 Price Preference - Public Sector Undertakings, Ancillaries, Small Scale Industries and Indigenous Manufacturers**

- 7.16.1 Government directives, issued from time to time, lay down policies regarding price preference to be given to Purchases from Public Sector Undertakings, Ancillaries, Small Scale Industries and Indigenous Manufacturers and these shall be taken note of while carrying out price comparisons. Where price preference to be given exceeds the prescribed limits in force, prior approval of CMD shall be obtained.
- 7.16.2 In respect of MSME Govt. Policy is placed at **Annexure-17** and shall be applicable as amended from time to time.

#### **7.17 Negotiations**

- 7.17.1 There should not be any negotiations, where there has been competitive bidding. Negotiations, if at all, shall be held with L-1 only. Counter offers tantamount to negotiations and should be treated at par with negotiations.
- 7.17.2 Negotiations can be recommended in exceptional circumstances only after due application of mind and recording valid, logical reasons justifying negotiations. The negotiations should not unnecessarily delay the award of work/ contract.

- 7.17.3 Negotiations may be resorted to, to arrive at a fair price in the case of purchase of Licensed / Transfer of Technology (ToT) / OEM / proprietary articles or where tendering has evoked limited response or where the items to be purchased are such that there is only one or two established sources of supply and where the parties appear to have over - quoted.
- 7.17.4 Procedure for Holding Price Negotiation with Vendor shall be as prescribed in DoP. PNC chairman may decide for mode of negotiation i.e. teleconference, video conference, meeting across the table. Record of discussion / PNC minutes to be kept in file after getting signature of both parties. PNC recommendation should be prepared & coordinated by the members of PNC and approval of Chairman of PNC should be taken within a maximum period of one week of completion of PNC and the proposals for placement of orders are to be initiated only after finalization of PNC recommendation.
- 7.17.5 MIS information on negotiation, which are in progress for more than 3 months with indication of no. of discussions / rounds held, to be forwarded to CO-IMM for putting up to Management.
- 7.17.6 Price reduction taken up through correspondence shall not be treated as negotiation.

## **7.18 Re-Tendering**

- 7.18.1 Re - tendering is not to be resorted to in the normal course. However, re-tendering shall be considered in the following exceptional cases:
- When the prices are considered high taking into consideration of quantity, Industrial price escalation, Obsolescence, Nature of Item, Value of the proposal etc., in comparison to assessed reasonable prices even after receipt of at least 3 offers and the negotiation has not resulted in desired outcome.
  - When it is suspected that there is a ring / cartelization existing and price have been manipulated.
  - Material change in the basic specification has been introduced after receipt of tenders. The re-tendering in such a case should be resorted to only after recording detailed reasons for post tender change in specifications and obtaining the approval of Head of Division.
  - In situation where after opening of commercial bids, evaluation of tenders become difficult due to insufficient information available to objectively evaluate commercial bid.
  - None of the offers meet the desired specifications.
  - The L1 bidder withdraws the offer or fails to execute the order or do not agree for extension of validity when it becomes necessary.
  - When there is a sudden slump in the market.
  - No quote received from the bidder
  - In case, after review, TEC comes to the conclusion that original specification can be reformulated to avoid a single vendor situation, the same should be recorded and fresh RFQ either Limited Tender / Open Tender based on the merits of the case should be issued with the approval of Level I Executive.
- 7.18.2 The enquiry on Re-tendering shall not be floated to the L-1 bidder of the previous tendering in case the L1 bidder withdraws the offer within validity or fails to execute the order, and also appropriate action, if required, to be taken.

- 7.18.3 Re-tendering when resorted to shall be only after obtaining the approval of Head of Division when CFA for purchase is GM or below In case where Board/PSC/CMD/CEO is the authority for approving purchases as per DoP, approval of concerned CEO shall be obtained for re-tendering, except in case of para 7.18.1 (i) above. In case of stock out resulting in production hold up, a part quantity may be purchased on an emergent basis with justifications (reasons to be recorded in writing) after approval of authority that is authorized for approval of re-tendering. In such cases, quantity for re-tendering to be correspondingly reduced.
- 7.18.4 In case of change of mode of tendering, proper justification needs to be brought out clearly at the time of seeking re-tendering approval.
- 7.18.5 Upon approval for re-tender, proceedings of previous tender are treated as closed and refund of EMDs if any, shall be done to the bidders.

#### **7.19 Time frame for Processing**

Each Purchase Proposal being unique, time frame for processing would vary depending upon the type of proposal, Number of items involved, Category of the item in the proposal and Number of proposal which are under processing. The time frame for processing should ensure that all efforts are made to place the Purchase Order within the validity of the offer. However, for guidance indicative time frame is placed at **Annexure-18**.

## CHAPTER - VIII

### PURCHASE PROPOSAL, ORDER AND ORDER AMENDMENTS

#### 8.1 Purchase Approval

- 8.1.1 A purchase proposal for approval shall be comprehensive and self-contained. A standard proforma, as under, shall be used for putting up purchase proposals separately for Project Materials, Non-project Materials and Capital Items.
- Purchase Format A (**Annexure-19**)
    - For procurement of Project Materials.
  - Purchase Format B (**Annexure-20**)
    - For procurement of Non-project Materials.
  - Purchase Format C (**Annexure-21**)
    - For procurement of Capital Items.
- 8.1.2 Guidelines for filling up these formats are endorsed in italics in the format. The dealing officer will ensure that all the points are answered clearly without any ambiguity.
- 8.1.3 The Divisions, while putting up the proposal for Head of Division's approval need to indicate only the routing of the Division and for obtaining the approval of CEO/Corp. Office, necessary routing can be added accordingly. (Refer Page 2 of the formats).
- 8.1.4 While in the Divisions the format/proposal can be put up along with the file, for obtaining the approval of Complex/Corp. Office, only the format along with the necessary minimum enclosures as under are required to be forwarded:
- Technical Evaluation Statement
  - Comparative Statement of Prices
  - Commercial Evaluation Statement
  - Price justification
  - Agenda / points for negotiation
  - PNC Recommendation
  - Draft Agreement wherever required
- 8.1.5 On approval of the proposal, one copy of the proposal with necessary sanction would be returned to the Division/Complex for taking further action.
- 8.1.6 The division while putting up the proposal for PSC/ Board approval should ensure to enclose the brief summary as per the format (**Annexure-22**) along with the Board note/brief for the approval.
- 8.1.7 Chronology of progression of purchase proposal, placed at **Annexure-22A**, to be enclosed along with all proposals.
- 8.1.8 The Purchase Section, on the basis of approved purchase proposals, shall release purchase orders at the earliest.



**8.2 Purchase Order:** The following instructions shall be followed, while preparing the purchase orders

- a) All purchase orders shall be typed and not handwritten.
- b) Total No. of items must be mentioned in words to obviate any unauthorized alterations.
- c) Alterations, additions or amendments shall be avoided on Purchase Orders. Amendments if any are to be effected only by issuing Purchase Order amendments.
- d) Where CFA is CEO/Director/CMD/PSC/Board only purchase proposals along with relevant annexures to be put up for approval. Draft Purchase Order to be cleared by the Division.
- e) Draft Purchase Orders shall be signed by head of purchase where CFA is CEO/Director/ CMD/ PSC/ Board and by an Officer at the level of manager / Senior Manager in other cases. Draft purchase order shall be signed in full duly indicating designation on two copies of the purchase orders, one of which shall be sent to Finance and other to be retained as master office copy in the purchase file. The Draft Purchase Order should be superscribed as “draft” or “for internal use” to avoid any misuse or wrongful transmission of the PO to the vendor before approval by CFA. After approval of CFA the Purchase Order shall be signed by head of purchase where CFA is CEO/ Director/ CMD/PSC/ Board and by an Officer at the level of Manager /Senior Manager in other cases. Where availability of Manager /Senior Manager is not there in the department, IMM -Head may decide the lower rank officer for signing on such Purchase Orders.
- f) Regarding determination of CFA for the selected party, if there is considerable time gap in the date of preparation of comparative statement and submission of the proposal, the rate of foreign exchange as at the time of preparation of the purchase proposal to be considered if, there has been movement in the foreign exchange which is likely to affect the determination of CFA. This does not change the status of L1 as determined by the exchange rate at the time of tender opening.

**8.3 Delegation of Powers:** As approved by the Board of Directors shall apply.

- 8.3.1 Procurement action in the normal course should be processed based on the annual requirement of all items taken together for the ROH task and for other programme / task / project based on firm orders from customers, considering the lead time requirement and staggered delivery. Appropriate CFA for placement of order would have to be reckoned in line with the value of the annual requirement.
- 8.3.2 With regard to entering into LTBA/ LTRAs with Vendors for recurring requirement of Items the appropriate CFA for approval of LTBA/ LTRA would have to be reckoned in line with the value of total requirement during the period for which duration the LTBA is being finalised.
- 8.3.3 While processing orders for procurement of material(s) required in Design and Development / Limited Series Production (LSP), it is to be ensured that the CFA for its approval is determined appropriately taking into consideration, future requirements of such material(s) towards series production over the length of the project

**8.4 Purchase Order / Database**

All purchase orders including amendments should be processed through ERP system.

**8.5 Distribution of Purchase Order Copies**

- 8.5.1 Purchase order copies would need to be sent to Finance (along with copy of approved purchase proposal), The original purchase order is sent to vendor while a copy is retained in the purchase file.



Further, as a distribution of PO copies to other associated departments like Stores, Indenter, Quality and User department should have an access to Purchase Order through ERP. Such of the orders not accessible through ERP may be provided as hard copy against specific requirements.

## **8.6 Purchase Order Acknowledgement**

- 8.6.1 One copy of purchase order shall be sent to the supplier with a request to send back the acknowledgement as a token of acceptance of the order. (Proper acknowledgement form is to be enclosed).
- 8.6.2 While sending a copy of Purchase Order for acknowledgement by the supplier, a suitable mention must be made of the period within which the Vendor has to respond. In case the acknowledgement is not received within the stipulated period, the dealing officer should correspond with the supplier for an appropriate response

## **8.7 Purchase Order Amendment**

- 8.7.1 Amendment to purchase orders may arise due to :
- Change in price / payment terms
  - Change of delivery date
  - Amendment to quantity
  - Change in mode of transport
  - Correction of errors and omissions
  - Change in statutory requirements
  - Change in terms & conditions
- 8.7.2 Amendment to purchase order/Contract shall be approved by
- The same authority, which approved the Purchase Order duly concurred by appropriate Finance, if it results in financial implication to the Company, subject to the amended value being within the financial powers of the delegatee. If the amended value exceeds the delegatee power, then the same to be approved by the CFA as per the amended value.
  - Head of Division, where there is change in name, address of the firm, change in part no. for the same item, nomenclature, unit of measurement, delivery schedule amendment if LD is not leviable (LD not in PO or LD not applicable due to force majeure, delay not attributable to vendors / contractors etc.) and also deletion of items where the original proposal was approved by CEO or CMD. However, such amendments without any financial implication, to the POs approved by the Board and / or the sub-committee shall be approved by the CMD.
  - The same authority in cases of change in mode of transport with concurrence of Finance, if it results in financial implications to the Company
  - The same authority which approved the Purchase Order, for corrections of errors and omissions.

## **8.8 Purchase Order Terms and Important Conditions**

- 8.8.1 The terms & conditions in the purchase order, including payment terms, LD for delayed supplies and bearing the cost of LC confirmation/ extension etc, need to be very clear and may be amplified if necessary to avoid ambiguity/ mis-interpretation. No such condition, which has not been agreed and finalised with Vendor, should be incorporated unilaterally (**Annexure-23A**).

## 8.8.2 Some of the important conditions of purchase orders are enumerated below

### 8.8.2.1 Standard Terms and Conditions

Suppliers generally quote as per their standard terms and conditions of sales. These conditions shall be examined and effort shall be made to bring round the supplier to agree to the standard terms and conditions of the Company. For any contract to be legally binding the acceptance of tender conditions in to is essential. If the tenderer has quoted his own terms and conditions he should either be persuaded to withdraw his terms and conditions or the same may be agreed to and incorporated in the order, depending upon the situation.

### 8.8.2.2 Prices

As far as possible, orders shall be on firm prices. In certain cases, some firms quote and insist on prices ruling at the time of dispatch and there may be no other option. In such cases, the firms may be advised to intimate the ruling price and obtain concurrence before dispatch.

### 8.8.2.3 Payment Terms

Payments on proof of dispatch shall be allowed only to approved suppliers and firms of repute. Under all circumstances, satisfactory proof of dispatch shall be insisted upon. The tender/ request for quotation should not indicate any advance in payment terms.

8.8.3 **Advance Payment:** However in case of a quote received with condition of advance payment, the leveling of quotes shall be carried out by appropriately accounting interest on advance to arrive at L1 quote, except where discounted cash flow method not applicable.

8.8.3.1 During the correspondence/discussions/negotiations with vendors (who have demanded for advance payments). Division should explore the possibility of obtaining vendor's concurrence for (i) making 100% against supply & acceptance or (ii) making advance payment with interest at the prevailing Bank Rate i.e. LIBOR plus 2% in the case of Foreign Suppliers & PLR (Prime Lending Rate) in the case of Indian suppliers.

8.8.3.2 No advance should be agreed, if the same has not been included in the original offer. If for reasons (to be recorded), the same is agreed later on, the advance shall be interest bearing at prevalent scheduled bank lending rates.

8.8.3.3 Any advance payments to suppliers shall be made only after receipt of an unconditional Bank Guarantee of equivalent amount from a nationalized Bank (in case of indigenous suppliers) or from an international bank of repute (in case of a foreign supplier)

8.8.3.5 In case an advance has been agreed as part of the contract, the advance payment may be released in-stages depending upon the progress of development work/ supplies.

8.8.3.6 The powers to approve advance payment without Bank Guarantee are subject to following:

- a) Specific insistence by the suppliers and not as a matter of routine.
- b) Approved delegation to the CEOs/Head of Division concerned with due financial concurrence.
- c) RBI guidelines issued vide "Foreign exchange Management Act" as amended from time to time, in case of advance in foreign currency and submission of evidence of import within the prescribed time limit.

d) Divisions making adequate assessment of the Vendor w.r.t. his credibility in meeting his obligations for which Advance has been paid, which will in turn depend upon:

- Division's documented assessment of credit-worthiness of the Vendor.
- Past experience with the Vendor in respect of his ability and intentions to meet the obligations of the contract/ purchase order.
- Total advance (including that on other orders on the Vendor), without Bank guarantee, outstanding with the Vendor.
- Vendor's guarantee or written commitment to return the advance (with interest) in case of failure to supply/ cancellation or termination of order and/ or Force Majeure conditions.

8.8.3.7 For advance payment to vendors, guidelines issued from time to time need to be followed.

#### **8.8.3.8 Advance upto Rs. 5 lakhs**

For interest free advance, CFA for approval of advance will be MC (Management Committee) and for interest bearing advance the CFA for approval of advance will be Director concerned.

#### **8.8.3.9 Advance above Rs. 5 lakhs**

- a. The cases where vendors agree for interest bearing advance up to 15%, the CFA for approving the advance payment will be the Director concerned. The interest on advance payment should be adjusted from the balance payments to be made to the vendor. A suitable provision in this regard be incorporated in such POs.
- b. The cases where vendors do not agree for interest bearing advance/advance more than 15%, Board approval needs to be taken prior to seeking approval of appropriate CFA as per DoP / CVC requirement for placement of order.
- c. Advance Payment beyond 15%, even if it is interest bearing, needs to be put up for Board approval.

8.8.3.10 In case CFA is the Board of Directors, while seeking Board's approval for the proposal specific approval for the advance payment needs to be obtained.

#### **8.8.4 Risk Purchase**

Risk purchase is only tenable, if made within six months of the cancellation of order and for the material to the same specifications.

#### **8.8.5 Arbitration Clause**

A standard arbitration clause as recommended by the Indian Council of Arbitration (ICA) or International Centre for Alternative Dispute Resolution (ICADR) under the Arbitration Act shall be incorporated.

#### **8.8.6 Security Deposits and Performance Guarantees**

8.8.6.1 The requirement of submission of interest free Security Deposit through Demand Draft or Bank Guarantee (BG) and Performance Bank Guarantee (PBG) covering the warranty period by the successful bidder may have to be incorporated in RFQ depending upon the nature and the merits of each case. In such a case, the Security Deposit (BG in lieu thereof) and PBG have to be obtained as per the prescribed schedule must be deposited by the firm within specified time.

- 8.8.6.2 Relaxation of condition relating to EMD/ Security deposits needs to be obtained prior to invitation of bid based on merit of each case, in line with DOP.

#### **8.8.7 Agents/Agency Commission**

- 8.8.7.1 Following clause shall be incorporated in all enquiries, tenders, purchase orders, contracts/ agreements:

- 8.8.7.2 The seller confirms and declares to the buyer that the seller is the original manufacturer or authorized distributor / stockiest of original manufacturer or Govt. Sponsored / Designated Export Agencies (applicable in case of countries where domestic laws do not permit direct export by OEMS) of the stores referred to in this offer / contract / Purchase order and has not engaged any individual or firm, whether Indian or Foreign whatsoever, to intercede, facilitate or in any way to recommend to Buyer or any of its functionaries, whether officially or unofficially, to the award of the contract / purchase order to the Seller; nor has any amount been paid, promised or intended to be paid to any such individual or firm in respect of any such intercession, facilitation or recommendation. The Seller agrees that if it is established at any time to the satisfaction of the Buyer that the present declaration is in any way incorrect or if at a later stage it is discovered by the Buyer that the Seller has engaged any such individual / firm, and paid or intended to pay any amount, gift, reward, fees, commission or consideration to such person, party, firm or institution, whether before or after the signing of this contract / purchase order, the Seller will be liable to refund that amount to the Buyer. The Seller will also be debarred from participating in any RFQ / Tender for new projects / program with Buyer for a minimum period of five years. The Buyer will also have a right to consider cancellation of the Contract / Purchase order either wholly or in part, without any entitlement or compensation to the Seller who shall in such event be liable to refund all payments made by the Buyer in terms of the Contract / Purchase order along with interest at the rate of 2% per annum above LIBOR (London Inter Bank Offer Rate) (for foreign vendors) and Base Rate of SBI (State Bank of India) plus 2% (for Indian vendors). The Buyer will also have the right to recover any such amount from any contracts / Purchase order concluded earlier with Buyer.

- 8.8.7.3 It should be ensured that the supplier confirms/responds to this clause at the time of registration as well as along with the offer.

- 8.8.7.4 Ministry of Defence has issued regulatory provisions in respect of Indian Authorised Representatives/ Agents, where permissible. (Ref: <http://mod.nic.in/newadditions/repagent.htm>)

- 8.8.7.5 Following additional clause shall be incorporated in all enquiries, tenders, purchase orders, contracts/ agreements.

“HAL has not appointed any agent in India or outside India for procurement of any items and deals directly with vendors. In case any individual or firm approaches you posing themselves as an authorized agent of HAL, it is requested that you should not entertain such claim and in addition inform immediately to HAL”. Designation of the officer to whom information to be sent should be indicated.

#### **8.8.8 Liquidated Damage Clause**

- 8.8.8.1 Liquidated damages are remedies available to compensate for the financial loss suffered as the result of a proven breach of contract.

- 8.8.8.2 A clause for recovery of liquidated damages may be included. The percentage of liquidated damages shall be realistic and have a relationship to a predetermined loss which the Company may suffer on account of delayed supplies. The contract may include LD at the rate of 0.5% per week and a

maximum of 10% for the duration of delay, beyond the delivery schedule as per PO or the schedule acknowledged by the vendor. In case of tenderers not agreeing for LD clause, the maximum LD amount / to the extent not agreed LD value, to be loaded in the Comparative Statement, to determine the successful bidder.

- 8.8.8.3 However, a careful watch shall be kept on agreed delivery schedule and the firm shall be warned by sending reminders at appropriate time before the expiry of delivery date. Liquidated damages due as per agreed amount shall be recovered from the payments due to the supplier and shall not be postponed till the final payment becomes due. However, in case where the delay has occurred on account of Force Majeure situation at the end of the vendor or is not attributable to the vendor, the PO shall be amended without imposition of LD. In case the delay is attributable to the vendor, but in the interest of securing supplies/further supplies and maintaining long term business relationship with the vendor in the commercial and financial interest of the company, it is considered not to impose LD, the same shall be waived with the approval of Competent Authority as per DOP.
- 8.8.8.4 When it is determined that a liquidated damages clause will be included in the contract/ Purchase Order, the applicable clause and appropriate rate(s) must be contained in the RFQ.
- 8.8.8.5 Once liquidated damages are included in a contract, actual damages are not recoverable.
- 8.8.8.6 Contracts with liquidated damages clauses should also contain excusable delay clauses. These typically provide that if the contractor is delayed by certain specified causes that are beyond the contractor's control (e.g., supply of materials/ drawings/ tools/ specifications by HAL, activities determining To etc) then the resulting delay is excused and liquidated damages will not be assessed.
- 8.8.8.7 Liquidated damages are not assessed after the date on which the work/ supply is substantially completed. Substantial completion is usually defined as the time when the construction site or the supplies delivered are capable of being used for their intended purposes. There is no predetermined percentage that will establish substantial completion and the decisions place more emphasis on the availability of the work for its intended use than on the use of formulas as to the percentage of completion of the work.
- 8.8.8.8 Determination and extent of Liquidated damages to be recovered from a supplier shall be determined by User/ IMM and advised to Finance. Document evidencing completion of Sellers obligation as per Incoterms indicated in para-20.27 or 20.28.5 (as the case may be Incoterm 2000 or 2010) will be the basis for determining LD.

#### **8.8.9 Price Escalation Clause**

Escalation clause, where agreed should have a fixed element and a variable element consisting of Labour and material. Price escalation clause, if agreed to, shall be clearly defined as to what extent and on what basis escalation is admissible. The clause should also specify cap on escalation. Price Escalation Clause needs to clearly define applicability of escalation up to point of ordering or point of delivery.

#### **8.8.10 Integrity Pact**

- a) The system of signing of an Integrity Pact (IP) has been introduced in HAL in line with Govt. directives for the Contract(s) / POs based on the threshold value notified from time to time.
- b) The IP essentially envisages an agreement between the prospective bidder(s) / seller(s) and the buyer committing the persons / officials of both the parties not to exercise any corrupt practices / influence on any aspect of the contract.

- c) The main highlights of implementation of IP are as follows :
- (i) Vendors / bidders / sellers, only those who commit themselves to IP with the buyer would be considered competent to participate in the bidding process. In other words, entering into this pact would be a preliminary qualification. IP needs to be signed with all the bidders who have participated in a tender, IP format along with appropriate clause needs to be included in the RFQ if IP requirement arises based on HAL's estimated value. In case of competitive tender, bids not accompanied with signed IP by the bidders along with the prequalification (three bid), technical bid (two bid) and price bid (single bid), the offers shall be summarily rejected.
  - ii) In case of non submission of signed IP by licensor / OEM/ proprietary source / single tender basis, the offer received from such vendor should be considered for evaluation, however vendors will be insisted upon to submit the signed IP before finalization of the Purchase Order/Contract. In such case signed IP should be obtained before putting up to the proposal for CFA's approval.
  - (iii) It has to be ensured through an appropriate provision in the contract that IP is deemed as a part of the contract so that the parties concerned are bound by its provisions.
  - (iv) IP should cover all phases of the contract i.e. from the stage of Notice Inviting Tender (NIT) / Request for Quotation (RFQ) till the conclusion of the contract i.e. the final payment or the duration of warranty / guarantee.
  - (v) Name and address of the concerned Independent External Monitor (IEM) should be invariably be cited in the NIT / RFQ.
  - (vi) A cross reference clause is required to be included in the Purchase Order / Contract to link and co-relate IP & Purchase Order/Contract accordingly.
- d) The standard format of HAL's revised IP format is as per **Annexure-24**.
- e) On opening of the respective tenders, it should be ensured that all vendors / bidders / sellers have signed and submitted the IP before processing the bids further.
- f) Integrity Pact needs to be signed by the bidder as per the HAL format. Signed IPs so received without any deviation (from HAL's approved format) from the bidders, to be put up to Head of the Division for signature. A copy of the signed IP by the HAL needs to be forwarded to the respective bidders preferably within 15 working days from the date of opening of first bid. In case bidder have signed IP with any material change / deviations (from HAL's approved format) against competitive tendering, the bids of such bidders needs to be summarily rejected. In case of deviation in signed IP by licensors/proprietary source/OEM/single source basis, such IP with deviation necessarily should be signed only after approval of the Board for the deviation before putting up to the Head of the Division for signature. After the signature, a copy of the IP to be forwarded to the bidder preferably within 7 working days. After approval of the deviation in the IP by the Board, the Head of the Division needs to forward a brief of the case to CVO, HAL to enable CO-Vigilance to forward the same to CVC with a copy to MoD for information.
- g) A copy of the signed IP along with brief of the tender needs to be forwarded to Corporate Office within 15 days from the opening of first bid.
- h) Once an IP with deviation(s) be approved by the board, approval of the board is not required once again for the same deviation submitted by the vendor for other tenders. However, separate IP needs to be signed against each tender.

#### **8.8.11 Immunity to Government of India**

Following clause on the subject shall be included in the Terms & Conditions of the Purchase Order/ Contract:

“It is understood and agreed that the Government of India is not a party to this agreement and has no liabilities, obligations or rights hereunder. It is expressly understood and agreed that HAL Design Complex is an independent legal entity with power and authority to enter into contracts solely in its own behalf under the applicable Laws of India and General Principles Contract Law. The vendor shall agree, acknowledge and understand that HAL is not an agent, representative or delegate of the Government of India. It is further understood and agreed that the Government of India is not and shall not be liable for any acts, omissions, commissions, breaches or other wrongs arising out of the contract. Accordingly, vendor expressly waives, releases and foregoes any and all actions or claims against the Government of India arising out of this contract, not to sue the Government of India as to any manner, claim, cause of action or thing whatsoever arising out of or under this agreement.”

#### **8.9 Purchase Order Returns**

- 8.9.1 The Purchase Order returns should be submitted (as per **Annexure-25**), every month, for all categories of Purchase Orders placed by the Divisions.
- 8.9.2 The PO returns are to be submitted to CO-IMM in Excel Sheets separately for imported & indigenous purchases, every month by 10th of the following month.



## **CHAPTER - IX**

### **SUB-CONTRACTING**

- 9.1 Sub contracting is covered under a separate Sub Contracting Manual. However in respect of subcontracting to OEM or Foreign Vendors, the movement of material and finished goods is through customs and mode of payment will be through foreign currencies .Purchase procedure within the delegation of powers as per Subcontracting can be followed.
- 9.2 Outsourcing to licensor/OEM sources in case of exigencies due to constraint of technology absorption/ capacity needs to be approved by the Board.
- 9.3 Purchasing from Licensor/ OEM where manufacturing facilities have been planned / established is not considered as sub-contracting. However the provisions of DoP required to be followed.



## CHAPTER - X

### IMPORT PURCHASE

#### 10. Custom Duties and System of classification of Goods

- 10.1 Customs duties are chargeable on the act of importation of Goods. On some goods, customs duties are also charged on the act of exportation. The nomenclature of goods form the basis for prescribing appropriate duty on goods imported / exported. The nomenclature combined with the duty rates is called the Tariff and 'Tariff Schedule'.
- 10.2 The Indian Customs Tariff has 21 sections and 98 chapters. A Section is a grouping together of a number of Chapters, which codify a particular class of goods. The Section notes explain the scope of chapters / headings, etc. The Chapters consist of chapter notes, brief description of commodities arranged at four digit, six digit and eight digit levels. Every four-digit code is called a 'heading' and every six-digit/eight digit code is called a 'subheading'. Applicable exemption notifications are also indicated after the classification.
- 10.3 "Classification of Goods" is determination of heading or sub-heading under which a particular item is covered is based on the Harmonized System of Nomenclature (HSN), which has been established by the World Customs Organization.
- 10.4 Goods are classified taking into consideration the scope of headings / subheadings, related Section Notes, Chapter Notes and the General Interpretative Rules (GIR).
- 10.4.1 The GIR is a set of 6 rules for classification of goods, to be applied sequentially:
- Rule 1: gives precedence to the Section notes / Chapter notes while classifying a product.
- Rule 2(a): applies to goods imported in assembled / unassembled condition. Such goods may be in incomplete or finished form.
- Rule 2(b): is applicable to 'mixtures' and 'composite goods'. Goods, which are not classifiable by application of Rule 2(b), will have to be classified by application of Rule 3.
- Rule 3: has three sub rules.
- Rule 4: states that goods, which cannot be classified by application of the preceding rules, may be classified under the heading appropriate to the goods to which they are most akin.
- Rule 5: applies to packing materials / articles in which the goods are carried.
- Rule 6: provides the general guideline for classification of goods under the appropriate sub heading.
- 10.5 The rate of duty specified in the Tariff Schedule is called 'Tariff rate of duty'. Goods which are not identified for concessional rate of duty / exemption from duty by issue of an exemption notification are levied to the tariff rate of duty. In the export tariff schedule, only the commodities on which export tariff is levied are stated which does not involve the rigorous process of classification. In fact export duties are leviable only on listed 26 commodities but by exemption notifications, all but one set of item (i.e., leather items) are completely exempt from export duties.
- 10.6 The duty structure is subject to change by the Government, generally on presentation of annual Budget in the Parliament or otherwise and it is necessary for the Purchase Groups to keep abreast of such changes and refer to the latest provisions only.

10.7 Permissibility of import and export of Goods is governed by the nomenclature, ITC (HS) classification of import and export goods, published by the Directorate General of Foreign Trade (DGFT). In this nomenclature, goods are arranged as they are in the HS but are codified by ten digit numerical code to identify goods with more precision for purposes of import / export control.

10.8 **Customs Valuation** : The rates of customs duties leviable on imported goods (& export items in certain cases) are either specific or on ad-valorem basis (i.e., depending upon its value) or at times specific cum ad-valorem.

**10.9 Clearance of Import Cargo & Demurrage Charges :**

10.9.1 To ensure timely receipt and forwarding of Shipment Documents viz. Bill of Lading / Airway Bill, Invoice, Packing List (s), Quality Certificate (s), Warranty / Guarantee Certificate, Certificate of Country of Origin, etc. to the clearing authorities well in advance along with copy of Purchase Order including its amendments.

10.9.2 To co-ordinate in providing timely information such as Technical Write-up, Literature, Clarifications, etc. to the Clearing Authorities wherever required, to speed up clearance.

10.9.3 A clause also is to be incorporated in the Purchase Order indicating that any demurrage charges paid by the clearing authority on account of delayed delivery of requisite documents or error in the documents provided by the Seller & attributes to Seller, the same will be to the account of the Seller.

10.9.4 A Clause is required to be incorporated in the Purchase Order clearly indicating that the seller shall notify the ultimate consignee, the details of shipment within 24 hours of dispatch of items from the port of shipment in respect of Sea Cargo. One set of shipment documents including Bill of Lading, Invoice, Packing List (s), Quality Certificate (s), Warranty / Guarantee Certificate, Certificate of Country of Origin, etc. is to be sent by Air Courier to reach buyer, within seven days of Bill of Lading.

10.9.5 Port of Discharge and Place of Delivery, to be clearly indicated in the Purchase Order, wherever Port of Discharge and Place of Delivery are not the same in respect of Sea Cargo.

**10.10. Rights of appeal and CESTAT:**

10.10.1 Under the Customs Act, 1962, an importer can appeal against a decision on valuation to the Commissioner (Appeal) in the first instance. A second appeal lies to the CESTAT (Customs, Excise & Service Tax Appellate Tribunal), the apex tribunal for deciding appeals against the orders passed by the commissioners of customs and central excise. However, in reference to Settlement of disputes between one Government Deptt. and another and one Govt. Deptt. and a Public Enterprise and Public Enterprises and another, the Govt. order no 3/3/91-PMA dated 5th May, 1993 specifies that –

- (i) Any litigation involving Ministries and public undertakings of Government of India before being taken up in courts or tribunal the matter be first examined by the Committee set up by Cabinet Secretary in order to get clearance for litigation. This Committee of Secretaries comprising of Cabinet Secretary, Secretary ID, Secretary DPE, Secretary Deptt. Of Legal Affairs, Finance Secretary and the concerned Secretary clear cases for litigation to be taken up with courts and tribunal.
- (ii) Any Public Sector Enterprises desiring to go for appeal to ITAT/CESTAT/ Railway claims Tribunal or courts should first get each case of dispute scrutinised carefully by their Board of Directors. The Board of Directors should clearly recommend after careful examination of all aspects of the case, whether it should be taken up to the Tribunal / Court. On the recommendations of the Board of Directors that the case should go to Tribunal or Court, it will again be scrutinised by

the administrative Ministry / Department concerned. Secretary to the administrative Ministry / Department would then carefully scrutinise the case in order to decide whether an appeal before Tribunal or Court is necessary and worthwhile.

- (iii) Only such cases that are recommended for appeal to ITAT/CESTAT/Railway Claims Tribunal and court by the administrative Secretaries of Ministries / Departments should be put up to the aforesaid Committee of Secretaries for getting clearance for further litigation.

10.10.2 In case where disputes arise between two Central Govt. Dept. or Public Sector Undertaking, there is no requirement of obtaining approval of the Committee on disputes for pursuing litigations as was being done. Field formations may now pursue their appeals in the respective Tribunals / Courts without obtaining clearance from the Committee of disputes. (Instruction F No. 390/R/260/09-JC dtd. 24.3.11).

#### **10.11 Provisional clearance of imported goods:**

10.11.1 Section 18 of the Customs Act, 1962 and Customs (provisional duty assessment regulation), 1963 [M.F. (D.R.) Notification No.181-Cus., dated 13th July, 1963], allows an importer to provisionally clear the imported goods from Customs pending final determination of value by giving a guarantee in the form of surety, security deposit or bank guarantee.

#### **10.12 Use of tariff to calculate Customs Duty**

10.12.1 Following paragraphs are given as general guidance to calculate Customs Duty. However current Customs Valuation (Determination of Price of Imported Goods) Rules, 1988, need only be referred to, for exact determination of Customs duty.

#### **10.13 Customs Duties -Imports**

10.13.1 There are several types of duties leviable on import and there are prescribed methods of computation of duties. It is useful to consider the following steps in determining the amount of duty payable.

- a) Obtain the Tariff Classification of goods.
  - i) The import invoice would indicate all items of purchase. If you wish to compute the total duty payable on each of the items, you have to first identify the various types of duties leviable on each of the items. For this purpose, you are required to determine the classification of each of the items of import as given in the import invoice based on your understanding of the item description. The rules of to be followed while determining the classification have been given in the General Rules of Interpretation of the First Schedule to the Customs Tariff Act, 1975.
- b) Compute the
  - i) Basic Customs Duty
  - ii) Countervailing Duty (CVD) (Equivalent to Excise Duty)
  - iii) Education cess and Secondary & Higher Education cess
  - iv) Special Additional Duty.
- c) Determine if there are any additional levies under different statutes
- d) Whether there are concessions and exemptions available on the item.

## 10.14 Basic Customs Duty

10.14.1 Duty, which is specified against each Heading or Sub-Heading in the First Schedule to the Customs Tariff Act, 1975. This is usually referred to as Basic Customs Duty. There are different rates of duty for different commodities. These rates are found in column no. 4 (labeled as “standard rates”) of the tariff. There is also a 5th column specifying the “preferential rates”. These are different rates of duty for goods imported from certain countries in terms of bilateral or other agreements with such countries--which are called preferential rates of duties. The duty may be a percentage of the value of the goods (in such cases it is called ad-valorem duty) or at a specific rate, which is based on unit of measurement which is specified in the tariff entry. The rate of duty in percentage (in the case of advalorem duties) has to be applied on the Cost Insurance and Freight.

10.14.2 To ascertain the applicable rate of duty, refer to the Tariff rates of duties along with exemption notification, if any. Following sites are specifically useful for matters relating to Customs Procedures, Manual & Tariff:

Customs Deptt	: <a href="http://www.cbec.gov.in/">http://www.cbec.gov.in/</a>
Customs Acts	: <a href="http://www.cbec.gov.in/cae/customs/cs-acts-main.htm">http://www.cbec.gov.in/cae/customs/cs-acts-main.htm</a>
Customs Tariff	: <a href="http://www.cbec.gov.in/cae/customs/cs-tariff/cst-note.htm">http://www.cbec.gov.in/cae/customs/cs-tariff/cst-note.htm</a>
Customs Forms	: <a href="http://www.cbec.gov.in/cae/customs/forms_pdf/forms_idx_final.htm">http://www.cbec.gov.in/cae/customs/forms_pdf/forms_idx_final.htm</a>
Customs Notifications	: <a href="http://www.cbec.gov.in/cae/customs/cs-notfns-main.htm">http://www.cbec.gov.in/cae/customs/cs-notfns-main.htm</a>
Customs Manual	: <a href="http://www.cbec.gov.in/cae/customs/cs-manual/manual_idx.htm">http://www.cbec.gov.in/cae/customs/cs-manual/manual_idx.htm</a>

## 10.15 Countervailing duty (CVD) of customs

10.15.1 Additional duty of customs equal to the, excise duty leviable on like goods produced or manufactured in India. This is levied under Section 3 of Customs Tariff Act, 1975. This is usually referred to as “countervailing duty” (CVD). However, the correct description of this duty is Additional Duty of Customs. In order to determine the applicable rate, you have to obtain the correct classification of the goods under the Central Excise Tariff Act, 1986. The duties under the Central Excise Tariff are on ad-valorem basis. However, specific rates have been prescribed for some items. Importantly, the value for the purpose of computing additional duties of Customs is the total of the assessable value (generally the transaction value - roughly equal to the c.i.f. value) and the basic customs duty.

10.15.2 A manufacturer, who is importing goods to be used as inputs for manufacture of other goods, would be generally eligible for obtaining credit (called CENVAT credit) equal to the additional duty of customs paid on the imported goods. This duty amount is eligible for credit under input duty Central Excise Rules, 1944. This credit can be used for paying central excise duties on the manufactured goods.

10.16.1 Education cess as applicable from time to time on all Imports

10.16.2 Secondary & Higher Education cess as applicable from time to time on all imports

## 10.17 Special Additional Duty

10.17.1 A Special Additional Duty at a rate to be notified by the Central Government is leviable on any article imported into India. The maximum rate at which the Special Additional Duty can be levied is 8%. However, the Central Government has by Notification No. 18/2000-Customs, dated 1-3-2000 specified the rates of Special Additional Duties at different rates. The maximum rate specified under the said notification is 4% ad-valorem.

10.17.2 For details refer Section 3A of Customs Tariff Act, 1975 (51 of 1975).

#### **10.18 Other Additional Customs Duties**

10.18.1 Safeguard Duty (under Section 8B of the Customs Tariff Act, 1975) is applicable on certain goods at the time of import for specified periods in order to check their excessive imports which may be injurious to the Indian industry.

10.18.2 Some of the levies are commodity specific and would be applicable regardless of the time of import. These include cesses under various enactments as also Additional Duties on specified commodities for example Additional Duty on Stainless Steel Manufactures for household use, on Transformer Oil, on Motor Spirit (commonly known as petrol), on high speed diesel Oil etc. There are certain other levies, which are specific to the country of origin.

10.18.3 Countervailing Duty on bounty-fed articles is leviable under Section 9, of the Customs Tariff Act 1975. No such duty is however, being levied at present.

10.18.4 Anti-dumping Duty (under Section 9A, Customs Tariff Act 1975) on specified goods imported from specified countries to protect indigenous industry from injury resulting from dumping of goods. This is notified and published from time to time.

#### **10.19 Exemptions:**

10.19.1 The Central Government may notify certain exemptions and concessions, which may be conditional or absolute. These include exemption of imports for promotion of exports, import by UN bodies, defence imports etc. There are also exemptions, which are unconditional and are applicable across the board. There are other exemptions based on conditions of end use.

10.19.2 Exemption to imports relating to Defence and internal security forces, vide Notification No. 39/96-Cus., dated 23-7-1996 is of special significance to HAL. It exempts goods of the description specified there-in in column (2) of the Table, when imported into India, from the whole of the duty of customs only leviable thereon which is specified in the First Schedule and from the whole of the additional duty leviable thereon under section 3 of the second Act subject to the conditions, if any specified in the corresponding entry in column (3) of the said Table. However, the Ministry of Finance has by Notification No.: 29/2015-Customs dated 30-04-2015 has withdrawn the exemptions in respect of CVD, SAD & education cess against import by HAL.

10.19.3 Preferential rates of customs duty have been made applicable in respect of imports from certain countries such as Sri Lanka, Mauritius, Seychelles and Tonga provided certain conditions are satisfied. The goods in question must actually be manufactured or produced in such preferential areas. Rules have been framed in order to determine whether the goods have been manufactured or produced in such areas. Determination of origin of the goods is very essential in order to avail of the benefits of such concessional rates of duty.

#### **10.20 Note of Caution**

10.20.1 All the acts, rule, procedures and thereby the quantum of duties etc are subject to change by notifications issued from time to time. Therefore it is necessary to refer to updated information only, before entering into any commitment.

#### **10.21 Customs Duties : Exports**

10.21.1 Very few items are subjected to customs duties on their export. For details refer to the Second Schedule and the exemption notifications for exports. However, cesses are leviable on export of several commodities under various Acts.

## 10.22 **Excise Duty**

10.22.1 Duties of excise are attracted when excisable goods are manufactured or produced in India. There are several types of duties which become payable at the time of clearance of such goods. These duties are: -

- i) Basic Excise Duty
- ii) Special Excise Duty
- iii) Additional Duties of Excise and
- iv) Cess

10.22.2 **Basic Excise Duty:** This duty is specified against each sub-heading in the First Schedule to the Central Excise Tariff Act, 1985. There are however, notifications issued by the Central Government, which grant either total or partial exemption from incidence of basic duty. These exemptions are both general and conditional in nature. The effective rate of basic excise duty is thus determinable only after reference to the relevant exemption notification given under the heading “General Exemptions”.

10.22.3 **Special Excise Duty:** This duty is leviable only on a few items. The rate of duty and the items on which it is leviable are specified under the Second Schedule to the Central Excise Tariff Act, 1985.

10.22.4 **Additional Duties of Excise:** There are a number of additional duties leviable under different enactments on various commodities. Under Additional Duties of Excise (Textile and Textile Articles) Act, 1978, duties of excise are chargeable on specified textiles and textile articles. Additional Duties of Excise (Goods of Special Importance) Act, 1957 prescribes additional duties on sugar, tobacco products and textile articles in lieu of sales tax.

10.22.5 Cess: Different items are subject to levy of Cess at varying rates under different enactments.

10.22.6 To ascertain the applicable rate of duty, refer to the Tariff rates of duties along with exemption notification, if any.

**10.23 Custom Duty Exemption Certificate :** An appropriate Clause with regard to applicability / issuance of Custom Duty Exemption Certificate, if applicable, for import of material needs to be clearly indicated in the RFQ/Purchase Order. In case the need arises to render the Duty Exemption Certificate for import of material by Contractor / Sub-contractor of HAL against HAL order, it is to be ensured that the same may be rendered within 6 weeks from the date of submission of complete documents by the sub-contractor, as required under Notification No.39/96.

**10.24 Withholding Tax:** (If applicable appropriate clause needs to be included in the RFQ).

- i. HAL would be deducting at source applicable Income Tax as per Government of India Rules applicable at the time of making payments in respect of services rendered in India. (Generally on the amounts towards services like training, technical assistance offered by the bidder and license fees). As per the Rules, Income tax has to be borne by the recipient of the Income and relevant certificate to this effect will be issued to the bidder on deduction of such amounts, if applicable.
- ii. Bidder should bear the applicable withholding income tax in India. Tax would be deducted at source by HAL as per DTAA where the bidder could claim the benefit of double taxation in their country as per the bilateral agreement between the two countries. Certificate to this effect would be issued by HAL to enable the bidder to claim the benefit under DTAA.
- iii. Bidder is required to indicate the PAN No. issued by Indian Income Tax Authorities.



## CHAPTER - XI

### PURCHASE PROGRESSION

- 11.1 Monitoring is a vital part of any efficient managerial functioning. The efficiency of purchasing largely depends on a good and effective purchase progression system. The progression system should ensure the following in respect of each purchase request received by the Purchase Department :
- i) Enquiry is sent in time
  - ii) offers are received in time
  - iii) order is placed in time within the validity of offer
  - iv) goods on order are received as per delivery schedule and bills / discrepancies are settled promptly.
- 11.1.1 For ensuring the above, a progression cell should be specially organised in the Purchase Department to operate directly under the Head of the Purchase Department. Care should be taken to ensure that the cell deals with real time information and does not become a postmortem cell to find faults with the other sub-departments of Purchase. The cell shall provide a positive service by providing timely warning signals where delays are occurring so that timely corrective action is initiated by the Buyer.
- 11.1.2 Computer facilities are now available with the various Divisions of HAL. It is therefore, in the prime interest of Purchase Department to plan timely input of purchase data to the computer for obtaining Purchase Progression Service from the Computer Center. In the intervening period, the cell shall monitor the progression of purchases with the help of
- i) Purchase Request / Indent Progression Register/ Database (Pre contract stage)
  - ii) Purchase Order Progression Register/ Database (Post - contract stage)
- 11.2 Purchase Request / Indent Progression Register/ Database**
- 11.2.1 All indents received shall be entered in the Indent Progression Register/ Database. The register/ Database shall have the following columns:
- a) Serial Number
  - b) Indent Number and Date
  - c) Brief description of the item
  - d) No. of items on the indent
  - e) Estimated Value
  - f) Date Indent received
  - g) Date Enquiry issued
  - h) Due date for receipt of offers
  - i) Date of tender opening
  - j) No. of tenders received
  - k) Date comparative statement was prepared

- l) Date of putting up proposal for approval
- m) Purchase Order Number and Date
- n) No. of items in the Purchase Order
- o) Name of Supplier
- p) Value of the Purchase Order
- q) Remarks

Above details / information otherwise can also be maintained in IFS.

11.3 The Indent Progression Register/ Database shall be reviewed daily by the Purchase Officer/ Progress Assistant and a weekly report sent to the Senior Commercial Manager / Purchase Manager giving details of

- i) Indents where enquiries are not issued in time
- ii) Quotations not received as per due date
- iii) Price comparative statement not made within six (6) working days after tender opening
- iv) Purchase Proposals / Purchase Orders not raised for more than 10 working days
- v) Files pending for more than 7 working days with outside Department
- vi) Cases where Import Clearance has been received within 3 weeks

#### 11.4 **Purchase Order Progression Register/ Database**

11.4.1 All Purchase Orders issued shall be entered in the Purchase Order Progression Register/ Database. The register/ Database shall have the columns as given in **Annexure-26**.

11.4.2 The register/ Database shall be reviewed by concerned officer. Letters/Fax/e-Mail reminders shall be sent at least 8 weeks in advance of scheduled delivery date in the case of foreign suppliers and 4 weeks in advance in the case of indigenous suppliers. A report is to be sent to the Commercial Manager/Purchase Manager in respect of the following:

- a) Where Order Acknowledgements are not received within 30 days in respect of foreign suppliers and 15 days in respect of local suppliers.
- b) Where Letter of Credit require revalidation / extension
- c) If supplies are overdue by more than 2 weeks
- d) Inspection reports not finalised within 2 weeks after receipt of items
- e) Details of rejections / refund of amount paid for rejected materials
- f) Suppliers' bills outstanding for payment more than 15 days.

#### 11.5 **Extension Of Delivery Period**

If the supplies are not affected within 2 weeks after the delivery date or if the suppliers ask for extension of time, the attention of the authority who signed the order shall be drawn. Action for necessary Purchase Order Amendment shall be taken in accordance with para on "Purchase Order



Amendment” (para 8.7). While granting extension of delivery time, financial implications shall be examined and financial concurrence obtained where it involves financial implications.

#### **11.6 Cancellation of Orders and Penalty**

For cancellation of order the approval of the CFA shall be obtained. Before imposing any penalty less than what has been laid down in the General Terms and Conditions of Supply the approval of CFA shall be obtained.

#### **11.7 Settlement of Vendors Bills**

In order to maintain credibility and project a proper image of the Company, it is of utmost importance that the bills of the vendors are paid in a reasonable time. Purchase Department being the sole contact point, it is necessary that the Purchase Department takes the responsibility of arranging timely payments by coordinating with Inspection, Stores and Finance Departments, for movement of the necessary documents for releasing the payments. A committee of finance, purchase and stores to review the pending bills and ensure payment by resolving all the issues. Payment can be made based on computer generated / scanned signed invoice. Ink signed invoice need not be insisted. Partial payment for accepted items / quantity can also be processed.

#### **11.8 Retirement of Documents through the Bank**

11.8.1 The Purchase Department ensures that the advices such as FLSC, etc., are collected on a day-to-day basis from the bank, scrutinize with the Purchase Order and recommends payments to the Finance Department for preparing the cheques. The Purchase Department collects the cheques, hands over to the Bank, retires the documents and forwards the same to the Stores for collection of the goods from carriers such as Roadways / Railways / Airways. For a general guidance, the following time schedule may be followed for retirement of the documents:

- i) The Purchase Department will verify with reference to the terms of Purchase Order and issue amendment where necessary, and forward the LSCs to the Finance Department preferably within 3 working days.
- ii) Finance Department will send the cheques to the Purchase Department preferably within 2 working days.
- iii) The Purchase Department will retire the documents from the Bank within one day.
- iv) Purchase Department will forward documents such as LR / RR / AWB etc. to stores for collection of materials on the same day / next day.

#### **11.9 Direct Payments on Open Account and Balance Payments**

11.9.1 It should be specified in the Purchase Orders that vendors should submit their bills to the Purchase Manager. The Secretariat Department should be advised to deliver all the vendors' invoices to the Purchase Department. If some bills are received in Finance direct, the same should be redirected immediately to Purchase Department.

- i) The bills received by the Purchase Department are scrutinised with reference to terms of Purchase Order and the Receiving Reports and then recommended for payment to the Finance Department preferably within 3 working days from the date of receipt of the bills / Receiving Report.
- ii) The Finance Department will release the payment preferably within 3 working days from the date of receipt of the recommendation from Purchase Department.

11.9.2 In case of any difficulty or delay in finalisation of Receiving Reports and for releasing payment by the Finance Department, the matter has to be sorted out by mutual discussion by officers of concerned Department. If the differences still persist, IMM should discuss with the Finance and if necessary with the Head of Division so that the payment could be arranged without any delay. In order to achieve this, the Purchase Department may establish a system of having weekly or fortnightly meetings with Finance Department to resolve any outstanding problem.

**11.10 Finalization of Receiving Reports :**

It should be ensured that all the Receiving Reports are finalised within a period of fifteen (15) working days and Head of the Divisions shall monitor the same for effective implementation.

## CHAPTER - XII

### VENDOR EVALUATION

12.1 It is an important responsibility of the Purchase Department to establish and deal with reliable vendors and this objective cannot be effectively met without a proper vendor rating system, the objective of which shall be to determine how well the suppliers are meeting the quality, delivery and price standards. Vendor rating provides the basis for comparing the performance of one vendor against the other and for eliminating vendors who repeatedly fail to meet minimum acceptable standards. For efficient rating of the supplier the relevant data has to be collected by Purchase, Inspection and Stores and collated by Purchase for final evaluation.

#### 12.2 Applicability

12.2.1 In the context of availability of limited resources, vendors shall be selected judiciously to derive the utmost benefit of the vendor rating technique. Areas where the vendor rating shall be made applicable:

- a) More than one source of supply for the same product where performances can be compared and the annual purchase value of a particular item are above Rs. 100, 000.
- b) Items for which there are parallel rate / running contracts.

12.2.2 Areas like capital equipment, or purchase from licensors, proprietary purchases, purchase from Government agencies or monopoly dealers are not amenable to vendor rating.

#### 12.3 Frequency

Approved Vendors shall be rated at least once in a year as per their performance, based on Quality Audit Reports or Quality records and their performance on previous supplies. Vendor rating exercise may be carried out more often if necessary.

#### 12.4 Rating

Vendor's actual performance after the orders have been placed shall be recorded. This shall include the quality of the product, delivery, after-sales-services, price, etc.

12.5 The responsibility of Vendor rating shall rest with Head of IMM group. A committee comprising of members of IMM, Quality Assurance, Finance and Production Engineering Departments shall review vendor performance based on price, delivery, quality and after-sales service. The committee shall rate the performance level of each vendor on a scale of 100 considering weightage for each criterion as follows: -

Criteria	Weightage	
<b>Price</b>		<b>25</b>
Response to Enquiries	4	
Competitiveness of the Price	10	
Acceptance of HAL Terms and Conditions	4	
Terms of Payment (Direct Payment/ Sight Draft/Letter of Credit, confirmed or un confirmed/ Advance)	2	
Relaxation In Period of Validity of Quotes	5	

<b>Delivery</b>		<b>25</b>
Promptness in Delivery as per Schedule	10	
Delivery without constant Follow Up	10	
Response To emergent requests	5	
<b>Quality</b>		<b>40</b>
Delivery of Quality Goods ;(i.e. conformity to Purchase Order in respect of Part No., Specifications, Standards etc.	30	
Completeness of documentations especially Test Reports etc.	10	
<b>After Sales Service</b>		<b>10</b>
Promptness In dispatching Quality Documents/ attending to complaints/ replacement of Rejected Supplies	5	
General Attitude In assisting HAL In settlement of Queries, Problems raised during usage	5	

### **Vendor Rating System**

- 12.6 The performance evaluation committee shall meet at least once in a year to review vendors' performance and rate them as per their recorded performances. The rating on each criterion shall be in percentage. Final gradation shall be arrived at by multiplying percentage obtained by a vendor on each criteria and weight-age assigned to the criteria. The records shall be maintained on computer. Vendors should be classified as Class 'A' (performance rating better than 80%), 'B' (performance rating better than 50%) and 'C' (performance rating less than 50%)
- 12.7 Areas needing improvement to be intimated to class 'B' vendors. Future enquiries shall not be sent to Class 'C' vendors. However, in case the number of approved suppliers is limited, Class 'C' vendors may also be contacted subject to approval of Head of Division.
- 12.8 The Purchase Officer shall watch the performance of the suppliers against each supply order.
- 12.9 The above are only guidelines. However vendor rating should be done based on the parameters which are measurable in the ERP system and accordingly program is to be designed to generate the report on vendor rating for a particular period.

## CHAPTER - XIII

### BUDGETING

#### 13.1 Purchase Budget

Purchase Budget comprises of Capital Budget, Revenue Budget and Foreign Exchange Budget. Annual Budgets at the Divisional level shall be formulated by Finance in close co-ordination with Purchase and Planning Departments. The Budget shall normally be compiled on a three year time-frame by about November of each year, covering the revised estimate for current year, budget estimate for the ensuing year, and forecast for the year after. On the basis of forecasts given by the Planning, Design and other indenting departments, the Purchase Manager will consider the following factors for compiling the Purchase Budget and forwarded to Finance.

#### 13.2 Commitment Budget

- a) Value of indents pending at the beginning of the year, which would be converted into Purchase Order during the year and the following year.
- b) The quantum of commitment expected to be made during the year and the following year, on the basis of the forecast given by the indenting departments.

#### 13.3 Expenditure Budget

13.3.1 The expenditure portion of the budget shall be compiled taking into account the following factors:

- a) Suppliers that are likely to materialise during the year, the following year and the year after, out of the commitments already made at the beginning of the year.
- b) Suppliers that are expected against commitments to be made during the year, the following year and the year after.

13.3.2 Purchase Budget shall be prepared by IMM/ Purchase and forwarded to the Finance, who shall arrange to send the same to Corporate Office.

#### 13.4 Capital Budget

13.4.1 This consists of three major heads viz. Plant, Machinery and Equipment, Civil Works and other Welfare items.

13.4.2 A detailed list of items proposed to be procured by the Division shall be submitted to the Corporate Office with full justification for approval. The approved Budget contains the list of all items ultimately approved for purchase. Where import of items is involved, the required Foreign Exchange provision shall be indicated against such items in the Budget. Capital Budget shall be prepared by the Finance in consultation with the concerned Departments and sent to Corporate Office.

#### 13.5 Foreign Exchange Budget

This shall be derived on the basis of projections in the Capital and Revenue Budgets and shall indicate the quantum of Foreign Exchange, both Free Foreign Exchange and for Capital as well as Revenue requirements. The Budget so prepared shall be sent to the Corporate Office for consolidation and projection to the Ministry. Foreign Exchange Budget shall be prepared by the Finance in consultation with the concerned Departments and sent to Corporate Office.

### **13.6 Responsibilities of Purchase Department**

- 13.6.1 As soon as the budget is finalised, the Purchase Department shall obtain a copy of the approved budget and the Head of the Department shall ensure:
- i) that the purchase requests for the long lead items are received from the concerned department in time and timely action is initiated by Purchase simultaneously to obtain offers, technical clearance from import angle and processing of the application for foreign exchange release / issue of import licence wherever necessary.
  - ii) to watch and take note of the progressive trends of Purchase Commitments and expenditure so that timely action could be taken to put budget revision proposals. In order to easily collect the commitment and expenditure data, the Purchase Manager shall carefully study the budget heads and shall arrange the purchase requests, purchase orders and incoming receipt information in line with the various budget heads. This would enable easy compilation of information for the timely guidance and action by the concerned officers / departments.
- 13.6.2 Purchase Department in co-ordination with Accounts shall prepare a monthly return which shall show the progress of commitments and expenditure vis-à-vis the projected budget estimates. The Head of the Purchase Department shall study these returns and plan out the Purchase Department's strategy to achieve the budget targets and cases of serious deviation shall be brought to the notice of the Head of Division and their intervention where necessary solicited.

## CHAPTER - XIV

### LEGAL ASPECTS OF PURCHASING

14.1.1 Purchase order is a legal contract between the buyer and the supplier and under this contract; both the parties have certain legal rights and obligations. Purchasing executives need to have a thorough knowledge of all the relevant laws pertaining to purchasing. This knowledge helps them to structure their agreement with the supplier properly. The main Acts but not restricted to, are the following :

- i) The Sale of Goods Act, 1930.
- ii) The Indian Contract Act, 1872.
- iii) The Arbitration and Conciliation Act, 1996.
- iv) The Partnership Act. 1932.
- v) The Negotiable Instruments Act, 1881.
- vi) The Companies Act, 1956.
- vii) The Central Sales Tax Act, 1956.
- vii) The Sales Tax Acts and Rules of various States.
- viii) The Customs Act, 1962
- ix) The Customs Tariff Act, 1975
- x) The Control Excise Act, 1944
- xi) The Central Excise Tariff Act, 1985

14.1.2 Unless a Buyer has basic knowledge of the legal aspects of purchasing he is likely to involve himself and the Company into legal complications which have to be avoided. The objective of this chapter is to make him familiar with some of the important legal aspects of purchasing.

#### **14.3 Application of Law of Agency**

- 14.3.1 The basic authority for the acts of the Buyer is derived from the Law of Agency which gives him the authority to act for his Company. It is, therefore, necessary for the Buyer to know the amount of authority delegated to him for transacting business as the agent of the Company.
- 14.3.2 As in the case of the Buyer, Sellers and their staff similarly hold the status of selling agents for their firms. To ensure that a satisfactory contract has been executed, the Buyer must insist upon the acceptance of the offer by an authorised Company official.
- 14.3.3 While signing a contract, Buyer shall specially indicate on the document that he is acting in the capacity of agent for his firm and to avoid any possible misunderstanding between the Buyer and Seller as to who are the parties to the contract. Moreover, all information to be included as part of the contract shall appear above the agent's signature. It has been held by courts that the data appearing below the signature is for information only and therefore, does not form part of the contract.

#### **14.4 General Principles of Law of Contract**

In Law, Contract is an agreement which is enforceable by Law. All contracts are agreements but all agreements are not contracts. For, an Agreement may be for an illegal object or may be between parties who are not capable of entering into it or it may be entered into through mistake common to both the parties.

- 14.4.1 “Consensus ad-idem” means that both the parties must understand the same thing in the same sense. This is an essential prerequisite of a valid contract. In order to determine the existence of “Consensus ad-idem” it is usual to employ in a given contract the language of offer and acceptance.

#### **14.5 Purchase Contract**

- 14.5.1 The Buyer’s major responsibility is to ensure that Purchase Contract is properly drawn and is legally binding on the Supplier. To make it enforceable by Law, the Contract must contain the following four basic elements:

- a) Agreement (meeting of the mind) resulting from an offer from a Supplier and acceptance from the Buyer to be understood in the same sense.
- b) Consideration or obligation in the same form
- c) Parties shall be competent to enter into contract
- d) Purpose of the contract must be lawful

#### **14.6 Offer and Acceptance**

- 14.6.1 When a Buyer sends a Purchase Order to a Supplier, this act constitutes legal offer to buy materials in accordance with the terms set out on the order. Agreement does not exist however, until the Supplier accepts this offer in terms of the order. In the event of the Buyer requesting for a quotation from the Supplier, the Supplier’s quotation constitutes an offer. Agreement then exists when the Buyer accepts the quotation. Mere acknowledgement of offer does not constitute acceptance nor does silence constitute acceptance.
- 14.6.2 Under Sale of Goods Act, the Supplier has every right to revoke his offer at any time before it is accepted. The offer remains effective until it is rejected or the Supplier makes a counter - offer or until the period of offer is valid, and if that is not mentioned, until a reasonable period after the offer is made has elapsed (30 - 90 days).
- 14.6.3 When a Supplier accepts an order by using his own acceptance form which contains selling terms different from those in the order, legally it is considered as a counter - offer which terminates the Buyer’s original offer and therefore, no agreement exists until the Buyer and the Seller agree upon terms which are mutually acceptable and incorporate them in a new offer and acceptance.
- 14.6.4 It has been seen that in practice such conflicts of terms frequently occur but are not resolved. Perhaps in most of the cases, the Supplier is able to deliver the materials according to the terms and conditions of the order. But if problem arises before dispatch against such an order, the Buyer may well find that in fact he has legally no valid contract with the Supplier.
- 14.6.5 If a problem arises after the Buyer receives and accepts the material, the Law considers the Buyer to have accepted the counter - offer when he has accepted the material. It is, therefore, necessary that every Buyer shall examine the Supplier’s acceptance and try to reconcile with him any significant differences in contractual terms.



#### **14.7 Consideration**

- 14.7.1 In addition to meeting of minds a valid contract must also contain an element of obligation. Most purchase contracts are bilateral. The Buyer promises to buy from the Supplier certain material at a stated price and the Supplier promises to deliver the material in accordance with the stated contract conditions. What is important is the mutuality of obligation. The contract must be drawn in such a way that each party is bound by the contract. In Law, even if one party is not bound, there is no contract. In a Purchase Order the Buyer must mention the quantity, price, delivery in a very specific language so as to bind the Supplier for proper performance of the contract.

#### **14.8 Competent Parties**

- 14.8.1 A valid contract must be made by persons who are competent to contract. The Buyer exceeding his actual or apparent authority in making a contract shall absolve his company from the implications of the contract but he himself shall become liable for the consequences. The contract made by a minor or by an insane or intoxicant person is usually void ab initio under law.

#### **14.9 Legality of Purpose**

- 14.9.1 A contract whose purpose is illegal is automatically void and not enforceable by law. A contract whose primary purpose is legal, but one of whose ancillary terms is illegal may be either void depending upon the seriousness of the illegality. For example, if a Buyer purchases material at price which violated restraint of trade or price discrimination laws like Essential Commodities Act in India, the Contract would be legally void.

#### **14.10 Special Legal Considerations - Inspection Rights**

- 14.10.1 If the Buyer has not previously inspected the material purchased to ensure that it conforms to the terms of the contract, the Law gives him a reasonable period of time to inspect the material after it is received. If the Buyer raises no objection to the material within a reasonable period of time (15 - 30 days) he is deemed to have accepted it.

#### **14.11 Right of Rejection**

- 14.11.1 The Buyer has the right to reject material if it does not conform to the terms of the contract. If an excess supply is received, the Buyer can either reject the complete supply or he can reject the quantity in excess of the contract. When the Buyer does not wish to accept wrongly delivered material, he is required only to notify the Supplier and he is not legally bound to return the rejected material. If he neither returns the material nor notifies the Supplier of his rejection within a reasonable period of time, he is then obliged to pay for the material.

#### **14.12 Order Cancellation and Breach of Contract**

- 14.12.1 If a Supplier fails to deliver the goods against an order by the delivery date agreed in the order or if he fails to perform in accordance with the contract conditions, he commits breach of contract. The breach generally gives the Buyers a right to cancel the order. The time of delivery can, however, be extended by the consent of both the parties and on such terms as agreed to by them. At the time of granting of such extension of time for delivery, reservation could be made in respect of future increases in freight, custom duty, excise, sales tax, etc.
- 14.12.2 Where the order is cancelled, the Buyer can in addition sue the Supplier for the damages if he wishes. In case of delivery failure, if the Buyer subsequently purchases the material from elsewhere the damages are generally limited to the difference between the contract price and the price paid to the

new supplier. Any or all damages recoverable under this head is only 'actual' damages suffered and not punitive or exemplary damages.

14.12.3 For re-purchase or risk purchase at the expense of defaulting Supplier the following conditions shall be fulfilled:

- a) The Stores re-purchased shall be identical with the stores originally ordered.
- b) The re-purchase shall be made within a reasonable time (6 months) after the date of breach or within the time stipulated in the contract.
- c) The defaulting Contractor shall be served with notice of re-purchase.
- d) The re-purchase shall be on the same terms as in the case of original contract.

Note: Risk purchase loss shall be recovered only after the re-purchase contract has been executed.

14.12.4 It may also happen in some cases that a Buyer is compelled to cancel the order before the material is supplied. In such a case the Buyer breaches the purchase contract. This act is called 'Anticipatory Breach' and it makes the Buyer liable for any resultant injury to the Supplier. However, if the cancellation does not harm the Supplier, he cannot collect any damages. There will be cases where the cancellation of the order is due to factors beyond the control of the Buyer like labour strike in the factory of the Buyer, act of God, war etc. In such cases, the Seller has to accept the cancellation.

14.12.5 It is evident at the time a major contract is drawn that breach of contract would severely injure one or both parties and that damage would be difficult to determine. It is wise to include in the contract itself a termination or liquidated damages provision. Such provisions stipulate in advance the procedures to be used in determining costs and damages.

#### **14.13 Patent Infringement**

14.13.1 The Law gives a patent holder the exclusive right to manufacture, sell and use his patented item for a specified number of years. If an industrial purchaser engages in any of these activities during the period of patent protection without permission from the patent holder, he is guilty of patent infringement and can be sued for damages by the patent holder.

14.13.2 Buyers frequently have no way of knowing whether their Suppliers are selling patented materials with or without authorisation from the patent holder. If a Buyer unknowingly buys an item from a Supplier who has infringed the patent holder's rights, the Buyer is also guilty of infringement if he uses the item. To protect against such unintentional violations, most companies include a protective clause in their purchase orders which states that the Seller shall indemnify the Buyer for all expenses and damages resulting from patent infringement. Clauses of this type do not prevent the patent holder from suing the user. If properly stated, however, they can require the Seller to defend the user in such legal proceedings and can give the user legal recourse to recover any resulting losses from the Seller.

#### **14.14 Honest Mistakes**

14.14.1 When an honest mistake is made in drawing a Purchase Contract, the conditions surrounding such specific case determine whether the Contract is valid or void. As a general rule, mistakes made by only one party does not render the Contract void, unless the other party is aware of the mistake. For example, a quotation is submitted by a Supplier and he intends to quote a price of Rs. 260 per unit and through an error - may be typographical error - the price typed as Rs. 250 is transmitted to the Buyer. In such cases Courts have held that if the Buyer accepts the offer without knowledge of the error, a valid contract exists. On the other hand, if the price of Rs. 250 is incorrectly typed as Rs. 150

or Rs. 15 the Court would probably hold that a competent Buyer should recognise such an error and if one party knows or should know of other's error, the contract is void. However, a Buyer or Seller shall not assume that a mistake, however, innocent, will release him from a contractual obligation. In the majority of cases, it will not do so.

#### **14.15 Conclusion**

14.15.1 The purpose of this chapter is to make the Buyer alert and alive to the legal responsibilities involved in his job. It is not necessary that a Buyer should be a legal expert. But at the same time, the Buyer should know as to when to seek sound legal advice whenever any legal problems arise. He is also supposed to know the legal aspects of purchasing to the extent that in his job he does not hurt himself or his company. The best thing for a Buyer is to avoid legal problems by using his skill in selecting sound, co-operative and reliable Suppliers. He shall also use his skill in settling disputes by negotiations.

## **CHAPTER - XV**

### **ETHICS OF PURCHASING**

#### **15.1 Relationship with the suppliers**

15.1.1 In all their dealings and transactions, the personnel of the Purchase Departments shall conduct themselves in an exemplary manner in keeping with the best interest, dignity and tradition of the Company and their profession. In this connection, the 'Code of Conduct & Ethics' adopted by the Indian Institute of Materials Management, which is reproduced below, shall serve to guide their actions.

- a) To consider first, the TOTAL interest of one's organisation in all transactions without impairing the dignity and responsibility of one's office.
- b) To buy without prejudice, seeking to obtain the maximum ultimate value for each Rupee of expenditure.
- c) To subscribe and work for honest and truth in buying and selling, to denounce all forms and manifestations of commercial bribery, and to eschew anti - social practices.
- d) To accord a prompt and courteous reception, so far as conditions will permit, to all who call upon a legitimate business mission.
- e) To respect one's obligations and those of one's organisation, consistent with good business practices.

#### **15.2 Filing System**

15.2.1 The procurement files are very important and sensitive documents and thus there is a need to have a single file system with proper page numbering. In case of urgency, if opening of the part files is unavoidable, the same should thereafter be merged with the main file. The decisions and deliberations of the individuals or the Tender Committees also need to be properly recorded and well documented. The filing system must ensure accountability.