

OPPORTUNITY OF INVESTMENT IN INFRASTRUCTURE PROJECTS

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1

(A) Highway Projects

- Phase I – Golden Quadrilateral connecting 4 metros, Delhi, Mumbai, Chennai and Kolkata— 5846 km Almost completed. Funded from Petroleum product Tax and Govt. borrowing
- Phase II---North-South & East- West Corridors 7300 km. Connecting Srinagar to Kanyakumari & Silchar to Porbandar. Funding similar to Phase I
- Phase III National Highway Development Programme(NHDP) III to upgrade 12109 km of National Highway on BOT basis and connecting State capitals

Highway Projects contd...

- Phase IV– Widening of roads not part of Phases I,II &III 20000 km
- Phase V– Six laning of Existing 4 lane roads 5000 km
- Phase VI– Expressways to connect major coml..& industrial townships viz:Vadodara-Mumbai,Chennai-Bangalore,Kolkata- Dhanbad, Delhi- Jaipur, Delhi-Chandigarh
- Phase VII– Improvement of city roads by adding Ring Roads.

Highway Projects...contd.

NHDP Projects at a glance

Phases	Particulars	Length (km)	Indicative cost In million of Rupees	
Phase I&II	Balance work	13146	420000	
Phase III	4-laning	12109	550000	
Phase IV	2 laning	20000	250000	
Phase V	6 laning	5000	175000	
Phase VI	Expressway	1000	150000	
Phase VII	Improvement City roads	700	150000	
Total		52955	1695000	US\$ 40 billion

Salient Features

Draft Concession Agreement

- Risk allocation—
- Execution Risk .. to Concessionaire
- Political Risk viz. War, clearances.. to National Highway Authority of India (NHAI)
- Handing over of 80% land and Environment by clearance is condition precedent to Finance Closure
- Concessionaire to complete the Financial closure within 180 days of signing of Concession Agreement(CA) another 120 days on payment of penalty.

Salient features...continued

- Stiff penalty on failure of Operation & Maintenance
- Incorporation of Force Majeure clause
- Commissioning only after the project clears the specified test in respect of safety and quality of service to users.
- Termination... complete buy out by the NHAI

Salient features...continued

- Monitoring and supervision of construction and operation & maintenance by Independent Engineer selected by NHAI through transparent process
- All financial inflow and outflow through an Escrow Account
- Loan assistance from Authority for supporting debt service obligation in the event of shortfall in the projected revenue due to any default of Authority

Concessions granted for road construction

- 1. 100% FDI
- 2.No Import Duty on road building machinery
- 3.Income Tax Exemption for 10 years from signing of Concession Agreement
- 4. Govt. is considering for payment of annuity in case of roads where recovery is not matching with agreed return

Bid Process

- Bid process in two stages

Request for qualification (RFQ)

Request for proposal(RFP) from the short listed firms after evaluation of RFQ RFP may be in two parts for complex projects ie Technical and Financial

Highest Bidder who offers highest premium or ask for least grant will be the preferred bidder

No bidder can submit more than one bid either as single bidder or as a member in JV

.Bidder not to engage a person as an Advisor who has been working as an Advisor with the Authority within 3 years of start of commercial operation

Contd..

- Bidder not having Operation & Maintenance experience should agree to engage an experienced agency for a period of 5 years from the date of commercial operation.
- Change in composition of a consortium may be permitted if:
- The Lead Member continues to lead the consortium

Contd...

- The substitute is at least equal in terms of technical capacity or financial capacity so that modified consortium continue to meet RFQ criteria
- New member is not the member of any other consortium bidding for the same project
- Modified consortium shall submit a revised Joint Bidding Agreement and a power of attorney in the format, before Bid Due Date.

(B) Rail Based Transport

- Dedicated Freight Corridor: Eastern corridor (Ludhiana to Dankuni/Kolkata)& Western corridor (Dadri to JNPT/Mumbai)—2729 km—US\$ 9 billion
- High speed corridors by Indian Railways:
 - Bangalore-Kochi
 - Delhi-Jaipur
 - Kolkata- Dhanbad,
 - Delhi-Chandigarh

Rail Based Transport

- Regional Rail Transit System (RRTS)- National Capital Region Planning Board(NCRPB)...Detail Project Reports for Alwar- New Delhi, Panipat-New Delhi and Merrut-New Delhi routes are under preparation. Most probably these corridors will be implemented through PPP route. These corridors will be mostly elevated except the stretches in Delhi areas will be underground. Enough land is identified to cater for transit oriented development along the routes. Investment of more than US\$12 billion will be required

Rail Based Transport Mass Transit System

Delhi Metro	Phase III----US\$8 billion
Bangalore Metro	Phase I under implementation US\$ 2.5 billion Phase II under planning-US\$.4 billion
Chennai Metro	Phase I under implementation US\$ 3 billion
Kolkata Metro	Phase I under implementation US\$ (1+3) billion
Jaipur Metro	Phase I under Implementation US\$ 0.6 billion Phase II-under bidding—US\$2 billion--PPP
Hyderabad Metro	Phase I under implementation (US\$3 billion)---PPP
Mumbai Metro	line 1&2 under implementation (US\$ 3 billion)---PPP

Mass transit system at Chandigarh, Noida, Lucknow,Ludhiana and high speed link to Airport at Bangalore are in different stages of planning and tendering.

Rail Based Transport

Redevelopment of rail stations

- 100% FDI is permitted in non operating rail sector
- All operation & maintenance of the system by Indian Railways
- Indian Railways have proposed redevelopment of 22 rail stations on PPP route. Technically and financially, these works can be undertaken by foreign players (US\$15 billion)

11 th Plan appraisal

- Spending on Infrastructure- US\$ 440 billion
 - Private Funding---36.2%
 - Power sector 32.1%
 - Roads & Bridges 13.6%

Problem areas: Land acquisition

Environment clearance

Risk allocation

Finance

Highlight of 12 th. Plan 2012-2017

- Investment in infrastructure projects-US\$1t
- US\$500 billion to come as FDI
- GDP growth-----10% However this target is not likely to materialize on account of strained fiscal situation and high public debt-80% of GDP

THANK YOU

Opportunity of Investment in Infrastructure

Background: The Government of India has embarked upon the improvement in standard of living of all residents through a programme of all inclusive growth of economy. This is being effected by up gradation of existing infrastructure and creation of new infrastructure. Our five year plans have been targeting for the achievement of these goals. However, the finance required to achieve these goals cannot be met out of the budgetary support alone. Hence active participation of private party for arranging finance, implementation and operation and maintenance of the infrastructure thus updated or created is necessary. To promote these objectives the Government has taken initiative to attract Foreign Direct Investment (FDI) by raising it to 100% through automatic route in respect of some of infrastructures and raising it substantially in respect of items falling under the approval route. This has helped in implementing many projects financed out of FDI and has also brought new technology resulting into reduction in cost and improvement of quality. **The presentation highlights the investment opportunity in two areas, namely Highway sector and Rail based Transport.**

2. Highway Sector:

2.1 National Highway Authority of India is the nodal authority, which is assigned with the role of upgrading existing highways and development of new ones. Some of the important programmes being undertaken by this authority are as follows:

- Golden Quadrilateral (GC) connecting 4 metros ie. Delhi, Mumbai, Chennai and Kolkata (5846 km).The programme is funded out of petroleum product tax and Government borrowing.
- North South corridor from Srinagar to Kanyakumari and East West corridor from Silchar to Porbandar (7300 km)- This is also funded similar to GC.
- National Highway Development Plan (NHDP) III-up gradation of 12109 km of national highway connecting state capitals. The programme is to be implemented on Build Operate and Transfer (BOT) basis.
- Widening of roads not part of the above (20000 km)

- Six laning of existing 4 lane highways (5000 km)
- Expressway connecting major industrial and commercial township
- Improvement of city roads by adding ring roads and grade separators

The scope of the work for improvement of roads and construction of new facilities is around 5300km at an estimated cost of Rs.1695000 million (US\$ 40 billion)

2.2 Public Private Partnership in development of highways:

The Government has brought out **a policy Guidelines for Investment in Road Sector**. This guideline brings out the changes made in RFQ/RFP documents, Model Concession Agreement, Financing Plan, and Allocation of Risk in the implementation of the projects.

2.2.1 These projects may be implemented through any one of the following models: i) Build Operate and Transfer (BOT) basis, ii) BOT (Annuity) basis, iii) Operate Maintain and Transfer (OMT) basis and iv) Special Purpose Vehicle (SPV) route for port connectivity.

2.2.2 Concessionaire is selected based on 2 stages bidding process ie Request for Qualification (RFQ) and Request for proposal (RFP).

Prequalification of bidders is based on the technical and financial expertise of the Firm and its track record in similar projects which meets the threshold technical and financial criteria set out in the RFQ document. Determination of technical and financial capacity of consortium applicants is in proportion to the committed equity holding of each consortium member in the project SPV

Commercial bid from prequalified firms are invited through issue of RFP. For BOT projects, the bid parameter is the premium offered to NHAI or the grant sought from NHAI. In case of Annuity projects the bid parameter is the semiannual annuity sought from NHAI. Some projects have been awarded based on revenue share basis.

The time gap between the two stages is normally 45 days.

To streamline the bidding and evaluation process, the Government has created appropriate policy, institutional and regulatory mechanism and has announced some fiscal and financial incentive to attract private participation in road building.

2.3 Salient Features of the New Concession Agreement:

- Risk Allocation in implementation of the Projects- All risk in execution of the projects is assigned to the Concessionaire where as NHAI is to take the risk connected with clearance/approval.
- Handing over of 80% of land and environment clearance is condition precedent to Finance Closure.
- Concessionaire is required to complete the Finance Closure within 180 days of signing of Concession Agreement. 20 days more may be allowed on payment of penalty.
- Stiff penalty is to be imposed on failure of Operation & Maintenance.
- Force Majeure clause has been incorporated.
- The project will be commissioned after it clears the specified test in respect of Safety and Quality of service to users.
- On termination, NHAI can buy out the project
- Monitoring and supervision of Construction and Operation & Maintenance are to be done by Independent Engineer selected by NHAI through transparent process.
- Bidder not having operation & maintenance experience may bid on the undertaking that he would engage an agency with requisite experience for a period of 5 years from the date of commercial operation.
- Change in the composition of Consortium is permitted subject to the condition that Lead Member continue to lead the Consortium and the Substitute is at least equal in terms of technical or financial capacity to that of member replaced, so

that the consortium continues to meet RFQ Criteria. And also the new Member is not the member of any other Consortium bidding for the same project.

2.4 Concession Available for Road Construction:

100% FDI is permitted. Concessionaire is not required to pay import duty on import of road building plant and equipment. There is exemption on payment of Income Tax for any consecutive 10 years in a period of 20 years.

3. Opportunity of Investment in Rail Based Projects:

Rail based projects may be classified in 3 categories namely Freight Corridor and High Speed Corridor as promoted by Indian Railways, Regional Rail Transit System (RRTS) being promoted by National Capital Region Planning Board (NCRPB) and metro rails promoted by different state Governments in association with Government of India.

3.1 Indian Railways promoted system:

Presently Indian Railways have major project in the form of dedicated freight corridors namely Eastern Corridor (Ludhiana to Dankuni/Kolkata) and Western Corridor (Dadri to JNPT/Mumbai) with combined route length of 2729 km. The estimated cost of the project is around US\$9 billion. The project is under implementation with the funding from World Bank and JICA. In addition, Indian Railways are going for setting up workshop for manufacture of High Power Locomotives to be used on dedicated freight corridor

High speed corridors are in different stages of investigation.

In addition Indian Railways have proposed redevelopment of 22 major railway stations on PPP route.

100% FDI is permitted in non operating railway sector. However, all operation and maintenance activities of the railways are to be done by railways only.

3.2 Regional Rail Transit System (RTTS):

National Capital Region Planning Board (NCRPB) has commissioned consultants to prepare detailed project report(DPR) in respect of i)Delhi -Alwar, ii) Delhi- Panipat and Delhi- Merrut. The combined route length is around 320 km and the estimated cost will be around US\$12 billion.**NCRPB has initiated action to form a separate company for implementation of the projects.**

3.3 Metro Projects:

Delhi has completed implementation of metro rail for around 200km in 2 phases.It is expecting Government sanction for another 108 km in 3rd phase at an estimated cost of around US\$ 8 billion.

Bangalore, Mumbai, Kolkata, Hyderabad, Chennai, Jaipur and Gurgaon are implementing metro rail for around 200 km. at an estimated cost of around US\$13 billion. Bangalore, Jaipur are also planning for 2nd phase.

Mass Transit System at Ludhiana, Chandigarh. Noida, Greater Noida, Lucknow are also in the pipeline.

4. Conclusion:

From the above it can be inferred that there is ample opportunity for investment in infrastructure projects. Policy Guidelines issued by the Government of India recently indicates the sincerity of the purpose on the part of the Government. The changes brought out in the RFQ, RFP and Concession Agreement are based on our experience for last 5 years. The issues such as land availability and mandatory clearances like forest and environment, pollution, techno economic clearances have been addressed properly. This should infuse enough confidence in the capable parties to put capital and technology in infrastructure building in India.