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"Road Infrastructure in India 2011"

PPP of Special Purpose Vehicle (SPV) Projects for Ports & Rail Connectivity"

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Outline

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- Recommendations of the committee of Secretaries (CoS)
- Port road connectivity and estimated investment
- Road connectivity policy and scheme for financial
- Scheme of finance & Initiatives for capacity enhancement
- Major Initiatives of National Highways
- Rail Connectivity, action plans and RVNL
- Port Road Connectivity Projects, Issues & Challenges
- Models for rail port projects and SPV project structure
- Rail carriers in India
- Financing of the Port Connectivity Projects
- Dedicated Freight Corridor (DFC)
- Delhi Mumbai Industrial Corridor (DMIC)
- JN Port connectivity projects through SPV
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Road Connectivity: Overview

- India has an extensive road network of 3.3 million Kms, the 2nd largest in the world
- Roads carry about 65% of the freight and 80% of the passenger traffic
- Highways/Expressways constitute about 66,000 Kms (2% of all roads) and 40% of the road traffic
- Govt. of India plans to spend about US$ 10 billion p.a. on road development over the next five year
- The ambitious 7-phase National Highway Development Project (NHDP) is India's largest road project ever. Phase II, III and IV are under implementation

  Key Sub-Projects under the NHDP include:

  - ✓ The Golden Quadrilateral (Phase I: GQ-5,846 km of 4 lane highways)
  - ✓ North-South & East-West corridors (Phase II: NSEW – 7,300 km of 4 lane highways)
- Program for 6-laning of about 6,500 km of National Highways is underway

Source: www.investmentcommission.in

Overview

Highways

- 46,000 Kms to be developed by 2012: $59 bn (Rs. 2,36,000 Cr).
- PPP programmes approved so far : 21,036 kms
- Financing plan firmed up
  - ✓ Cess on motor fuels ($1.7 bn per annum) and toll revenues to finance the Programme
  - ✓ Vialibility gap funding upto 40%of capital cost.
- Model Concession Agreement for PPPs adopted
  - ✓ DBFO approach to be followed.
  - ✓ PPP projects to have larger stretched (100% o more.)
- Restructuring of NHAI being undertaken.

Railways

- Competition in container train movement introduced: 15 concession agreements signed.
- Private operaors have added 15% capacity in 3 years.
- PPP envisaged in new routes, railway stations, logistic parks, cargo aggregation & waregousing etc.
- SPV for Dedicated Freight Corridor set up.
  - ✓ Likely investment : US $10 bn (Rs. 40,000 cr.)

Recommendations of the committee of Secretaries (CoS) on Port Connectivity (28th Nov. 2005)

- Each Major Port should preferably have atleast four lane road connectivity as well as double line rail connectivity.
- Connectivity should be established within a well defined time frame.
- In order to meet the agreed timelines, funds should be earmarked for these projects while making annual plan allocations for the concerned Ministries.
- All those projects for road rail connectivity where the IRR is less than the minimum prescribed, would be considered on a case to case basis.
- Budgetary assistance as well as assistance under the Viability Gap Funding Scheme should be considered for projects with a relatively low IRR, depending on their importance.
- Environment clearances: Ministry of Environment & Forests would expedite environmental clearance for pending road rail connectivity projects.
- Monitoring: The Committee of Secretaries (COS) should review progress of implementation every quarter and submit a progress report to the Committee on Infrastructure.

Road Connectivity

Port Road Connectivity projects

- Road connectivity projects may be broadly divided into two categories.
  - Port Connectivity (PC): Projects where the length of the road is not very great (less than 50 km); and
  - Hinterland Connectivity (HC): Projects where connectivity to source of cargo such an iron ore mines/coal mines is to be provided.
- Scheme for port connectivity would be undertaken by NHAI on BOT basis. The national highways for port connectivity may be categorized as National Highways (PC).
- All National Highways (PC) where traffic count reaches 12,000 PCUs should be taken up for 4-laning on priority.
- All hinterland connectivity proposals would be taken up by NHAI on BOT basis as far as possible.
- Ongoing/sanctioned port connectivity road projects: 10 projects of length 327.02 kms costing Rs. 2,036 cr.
- Road projects to be sanctioned: 4 projects of length 364 kms costing Rs. 2,009 cr.)

Road Connectivity: Policy

- 100% FDI under the automatic route is permitted for all road development projects
- Incentives
  - ✓ 100% Income Tax exemption for a period of 10 years
  - ✓ NHAI agreeable to provide grants/viability gap funding for marginal projects
  - ✓ Model concession agreements formulated

Scheme for financial support to PPPs

- Leveraging scare budgetary resources for addressing critical gaps in private sector financing,
- Economically justifies but financially unviable projects.
  - Long gestation periods
  - Inability to increase user charges to commercial levels
- Viability gap funding upto 20% of capital costs.
- Bidding for minimum capital grant based on pre-approved concession agreement and project specifications.
- Power , roads, ports, airports, railways, water supply and urban transport.
- 138 central and state projects with an investment of Rs. 118,830 cr. (US$ 30 bn.) cleared upto March 2009 with a total VGF commitment of about Rs. 23,766 cr. (US$ 6 bn.)

Major Initiatives for capacity enhancement of National Highways

- National Highways comprise about 2% of the total road length in the country and yet carryover 40% of the total traffic.
- The first and the foremost task mandated to the NHAI is the implementation of NHDP – comprising of the Golden Quadrilateral and North-South & East-West Corridors.
- In addition to the projects under NHDP, the NHAI is also currently responsible for about 1,000 Kms of Highway connecting Major Ports & also on National Highways 8A, 24, 6, 45 & 27.
- Highways length with NHAI currently is around 14,162 Kms.

Main components of NHDP includes

- Golden Quadrilateral (GQ) : Length 5,846 Kms., Connecting Delhi-Kolkata-Chennai-Mumbai
- North-South & East-West Corridors : Length 7,300 Kms., Kashmir to Kanyakumari – 4,000 Kms., (with a spur to Cochin) and Silchar to Porbandar – 3,300 Kms.
- Port road connectivity and estimated investment

Rail Connectivity

Rail Sector: Some key interventions

- Increasing the utilisation of existing capacity (bogeys) by cutting costs/fares
- Tying up with private players to run trains, depots to improve quality and operational efficiency.
- Offering volume based discounts to boost sales.
- Developing owned land and generating profits through these developments.
- Computerizing operations to improve transparency and efficiency.
- Lower passenger prices.

Rail reforms on the Anvil

- A new investment (Rs. 60,000 Cr. in current plan) for a dedicated Mumbai-Delhi freight corridor (DFC) is in the works.
  - ✓ Other dedicated corridors may come up soon.
- Private participation is being sought in track laying, freight, maintenance etc. (through the National Rail Vikas Yojana scheme)
- Plans are being formulated to bring in world class trains, and stations are to be built to standards that will complete with air-travel.

Action Plans of the Railways

- Provide Port Connectivity – complete the last mile links
- Capacity augmentation on the entire route to prevent bottlenecks
- Intensive utilization of the existing network-
  - ✓ Double stack & Triple stack trains
  - ✓ Wagons with higher axle loads
  - ✓ Strengthening track and bridges for 25 Tonnes axle load
  - ✓ Encourage opening up of new terminals and Multi Model logistics parks
- PPP Initiatives
  - ✓ Opening up of container transportation by rail
  - ✓ Model Concession Agreement signed
  - ✓ Allowing newer designs of wagons
  - ✓ Policy in leasing of wagons-under works
  - ✓ JV's and SPV's for new lines

National Rail Vikas Yojna

Models of Project Implementation

- Formation of Project Specific SPVs having equity and debt financing.
- Build Own Transfer (BOT) route, wherein the entire financing is arranged by the private developer through equity and debt route.
- Private Railway, wherein the project is funded as part of the port project.
- Projects are implemented either through the construction units of Zonal Railways or by award of EPC contract by RVNL and funds are raised by RVNL directly.
- Construction of about 1000 kms of track every year.
- Expenditure of about Rs. 3,000 cr every year
- Investment of 8 ongoing port rail connectivity project of 961.56 kms is Rs. 2,014 crores.
- Estimated cost of 5 port rail connectivity project to be sanctioned is about Rs. 944 crores for 263.66 kms link.

Models for Rail Port Projects

- Special Purpose Vehicle
- BOOT model
- BOT Annuity Route
- Private Port Railways

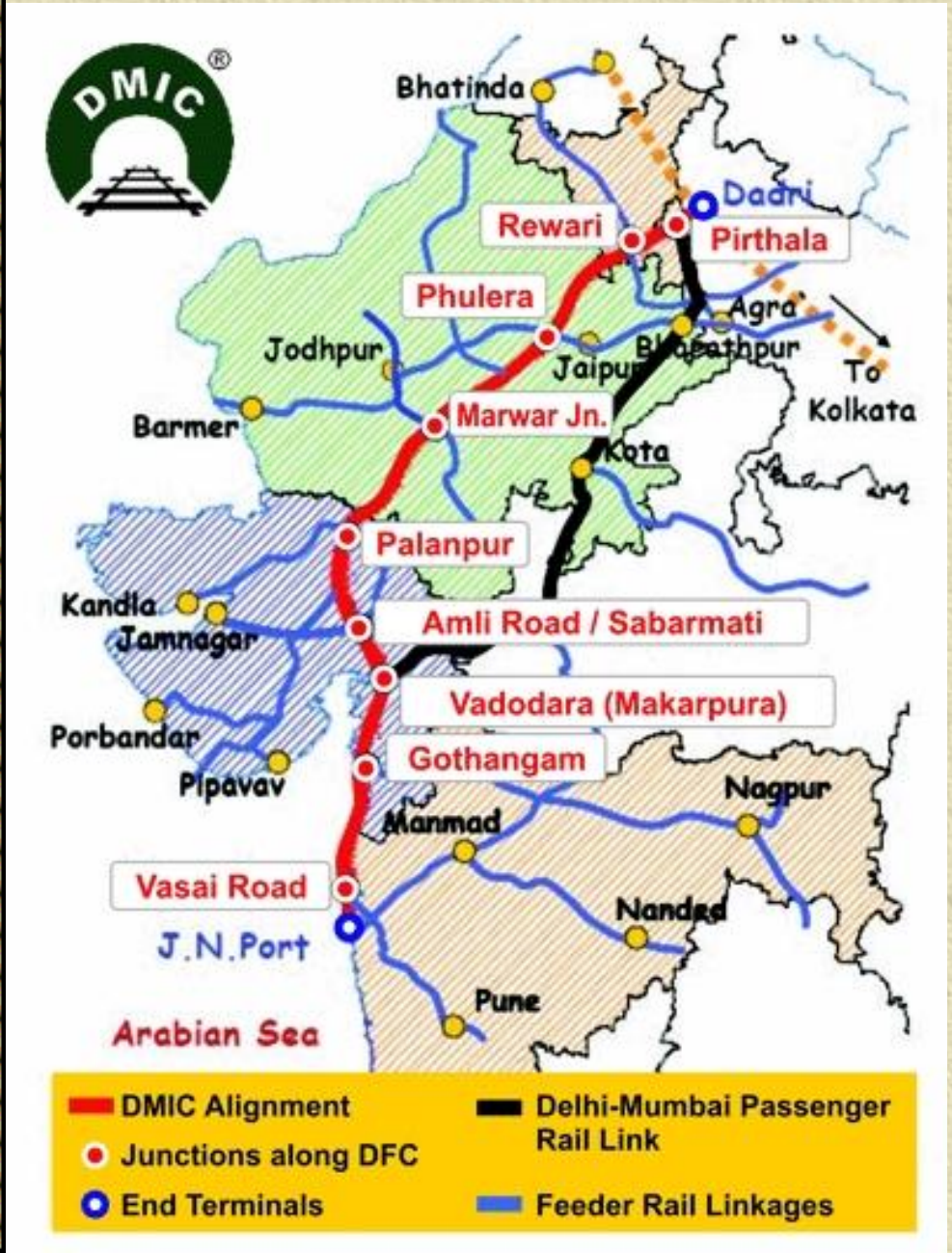
Rail SPV Project Structure

- Special Purpose Vehicle (SPV) structure proposed
- Shareholding between Railways and key Stakeholders
- Railway line to be owned and operated by SPV-BOT
- O & M contract with Zonal Railways which brings the Rollong Stock

Financing of the Port Connectivity Projects

- Projects located in port area itself to be financed by the port authorities through their reserves or by budgetary support from the government
- Last mile railway connectivity project may be completed by generating funds through imposition of a surcharge on cargo
- Doubling of railway lines and otherwise financially viable railway projects should be funded by MoR
- Railway projects involving gauge conversion and/ or construction of new line can be taken up through project specific SPV having equity holders as MoR/RVNL, the concerned port and stratrgic user partners
- Projects which are considered to be operationally important by the port but are not found to be financially viable can be made viable through grant by the Port or MOSRTH
- Models for Rail Port Connectivity Projects: 1) Special Purpose Vehicle (SPV), BOOT model, 3) BOT Annuity Route, 4) Private Port Railways

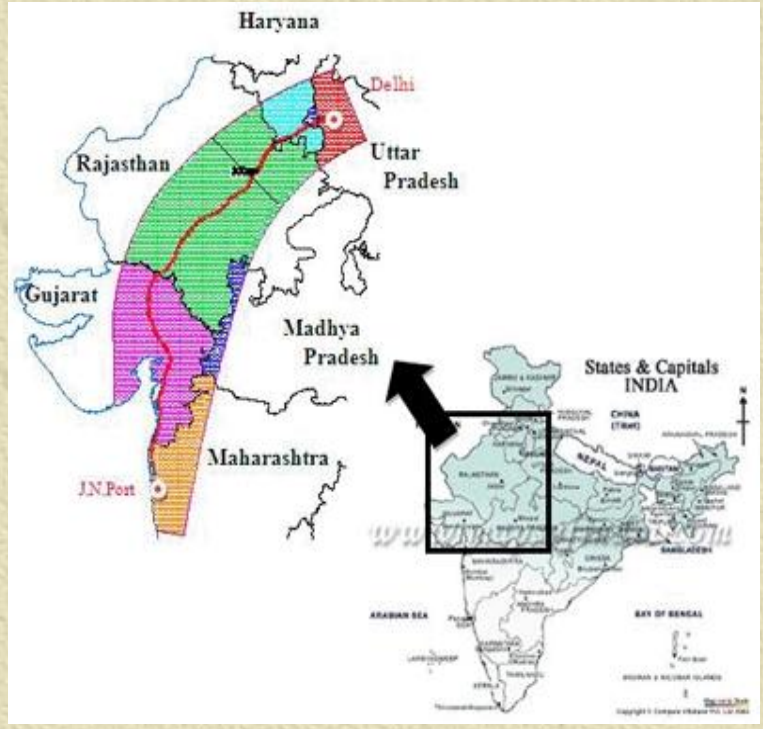
Delhi Mumbai Industrial Corridor (DMIC)



- DMIC: A mega infrastructure project of US$ 90 billion with the financial & technical aids from Japan.
- Overall length of 1483 KMs between the political capital, Delhi and the business capital of India, Mumbai.
- A MOU was signed in December 2006 between Vice Minister, Ministry of Economy, Trade and Industry (METI) of Government of Japan and Secretary, Department of Industrial Policy & Promotion (DIPP).
- A Final Project Concept was presented to both the Prime Ministers during Premier Abe's visit to India in August 2007.
- Several industrial estates and clusters, industrial hubs, with top-of-the-line infrastructure would be developed to attract more foreign investment.

DMIC : Opportunity for PPP and SPVs

- **This project incorporates:**
  - Nine Mega Industrial zones of about 200-250 sq. km.,
  - High speed freight line,
  - Three ports, and six air ports;
  - A six-lane intersection-free expressway connecting Delhi and Mumbai and
  - A 4000 MW power plant.
- **Funding from Indian government, Japanese loans, investment by Japanese firms and through Japan depository receipts issued by the Indian companies.**
- **The vision for DMIC is:**
  - To create strong economic base with globally competitive environment.
  - State-of-the-art infrastructure to activate local commerce.
  - Enhance foreign and real-estate investments and attain sustainable development.
  - Development of requisite feeder rail / road connectivity to hinterland / markets and select ports along the western coast.



- **This high-speed connectivity between Delhi and Mumbai offers immense opportunities for development of an Industrial corridor along the alignment of the connecting infrastructure.**

JN Port Connectivity Projects

Road Connectivity JN Port

- In view of expansions:
  - Two grade separators / flyovers, one at Karal Junction and another at Gavhan junction are planned along with,
  - Widening of SH-54 and NH-4B from 4 to 6/8 laning including grade separator to be carried out by the SPV formed between NHAI, JNPT and CIDCO and
- Consultant of DPR preparation under DBFOR appointed by NHAI
- DPR for entire project is prepared by the consultant for an estimated cost of Rs. 2,200 cr
- NHAI is in process of submitting the proposal to PPPAC
- In the mean time NHAI has invited RFQ documents for the proposed project and 33 bidders applid at RFQ stage.

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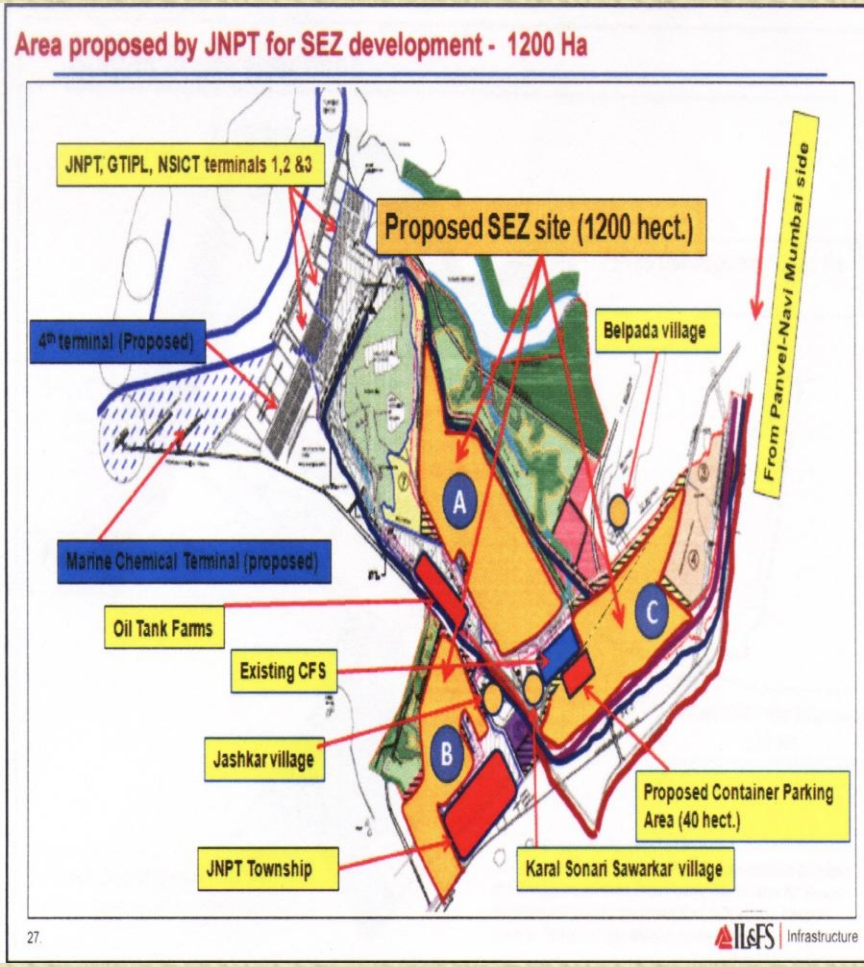
Development of Port Based multi product SEZ

- Port Based Multi Product SEZ (Phase-1) in 277 ha. on Port's land - approx: investment of Rs 3,000 crores on PPP basis.
- IL&FS IDC are the consultants.
- The Project has received 'in principle' approval of Ministry of Commerce on 10-3-'10.
- RFQ document: awaiting MoS's approval since March 2010
- Port is reviewing the proposal in order to meet the end of March 2012, in view of implementation of Direct Tax Code from April 2012..
- Port is awaiting the formal approval of Ministry of Commerce.



Issues / Challenges with Road / Rail connectivity

- Land acquisition for road / rail connectivity projects
- Environmental and social concerns regarding displacement of people, deforestation, etc.
- Financing for projects
- Rider ship concerns, Tariffs

To conclude ...

- Infrastructure in India is poised for good growth.
- Government is looking forward for development of this sector by bringing investments through private players or by forming SPVs.
- Public Private Partnership (PPP) is being construed as the best avenue for mobilizing resources for development of infrastructure and bringing efficiency in project management.
- Implementation of Road and Rail projects should be time bound and monitor regularly.
- Requirement of speedy and time bound Environment and security clearances to restrict the project cost.