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Raja Sekhar Mamillapalli
NICMAR - HYDERABAD

P Hanumatha Raao
NICMAR - HYDERABAD, hanu.finance@gmail.com

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A UNIQUE CASE STUDY ON PPP TERMINATION BY THE CONCESSIONAIRE - PNG TOLLWAY

Prof. Raja Sekhar Mamillapalli[1], Dr P Hanumatha Rao[2]

1.Assistant Professor, Email: nitmtech@gmail.com,
Mobile: +91 9502334187

2. Associate Professor, Email: hanu.finance@gmail.com
Mobile: +91 9705563910
NICMAR, Hyderabad,

Abstract

PNG Tollways, a special purpose vehicle of L&T Infrastructure Development Project Ltd, Ashoka Buildcon, and SBI Macquarie, has served a project termination notice on the Maharashtra government due to operational problems caused by locals and politicians. Further, it is dissatisfied with the compensation offered by the State for the losses incurred by the developer due to the non-collection of toll at the Nashik plaza. The failure of the projects raised many concerns about the fate of future road projects based on toll collections. It also expressed its unwillingness to take back the termination notice, said sources. The developer has sought the termination of projects with a payment of ₹1,600 crore and has incurred a loss of ₹100 crore due to non-payment of toll charges by some locals near the Nashik toll plaza. The present case study tries to investigate the causes and factors affecting the resultant closure of the project by the developer.

Key words: PPP, Road Widening project, Termination, Concessionaire, Toll roads

Introduction

Road infrastructure development is happening at a rapid pace after seeing the fruits from the Golden Quadrilateral success which help and contributed to the social and economic growth of the country. India with over 59 lakh kilometers of the road network, is second in the world next to the USA carrying approximately 30 crore vehicles serving 135 crore population. Existing road

infrastructure is not sufficient for the population and the needs of the economic growth that the nation is working towards. For improving road connectivity, the Government of India (GoI) proposed multiple schemes for enhancing road connectivity for both urban and rural areas across the country. For pacing up the infrastructure development Public-Private Partnership (PPP) is chosen as a model which is adopted from developed nations. For the major reason of the business models and policies, PPP has stumbled the large construction companies which are discouraging the large construction companies to take up projects under PPP. Pimpalgaon Nashik Gonde Tollway Limited (PNGTL is a special purpose vehicle (SPV) is also one such case of PPP project which attracts the interest of the researchers and policy makers for lessons to be learned in various dimensions like socio-political, financial, and operational issues in PPP projects.

About the project

Pimpalgaon Nashik Gonde Tollway Limited (PNGTL is a special purpose vehicle (SPV) with 48 % shareholding of L&T IDPL, 26% shareholding of L&T, and 26% shareholding of Ashoka Buildcon. PNG has executed the six-lane, 60 km stretch on design, build, finance, operation, maintenance, and transfer (DBFOMT) basis for 20 years, inclusive of the construction period. The total investment is estimated at Rs16 billion (US$270 million). The Pimpalgaon - Nashik - Gonde road project is a six-lane, 60 km route that connects the financial capital of India - Mumbai to states like UP, MP, West Bengal, and Orissa among others. The road is part of the NH-3 From Km 380.000 to Km 440.000 in the State of Maharashtra. The road has a 6.1 km long elevated corridor, seven flyovers, two major bridges, six vehicular under passes, six pedestrian under passes, and a subway. The flyover passing through Nashik city at Pathardi is India's longest integrated flyover. The project was launched on 15 January 2009. The concession agreement between NHAI and Pimpalgaon Nashik Gonde Tollway Private Limited (PNGTL) was signed on 3 July 2009 (see concession agreement). The road was expected to start operations in October 2012 but was delayed because political parties demanded no toll-collection until the project was complete.

What happened to the project?

Various time lines

15 January 2009 Launch of the project

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16 February 2009	Formation of SPV by L&T IDPL 48%, L&T 26%, Ashoka Buildcon 26 %
October 2012	Partial Commercial operations Expected to start
12 March 2014	Full Commercial operations Expected to start
February 25, 2016	Project Termination request by PNGTL to NHAI
March 29, 2016	Project Terminated by NHAI
13 April 2016	Project taken over by NHAI for operations and maintenance
30 August, 2016	Adhoc payment of Rs.100 Crore relased by NHAI to PNGTL
21 February, 2017	NHAI issued a termination notice
26 March, 2017	Payment of Rs. 323.06 Crore relased by NHAI to PNGTL
17 May, 2017	Adjudication Process initiated
July 04, 2017	Arbitral Tribunal was constituted
July 18, 2017	First meeting of the Arbitral Tribunal
8 September, 2017	Adjournment of the Arbitral proceedings
3 November, 2018	Second meeting of the Arbitral Tribunal
30 January, 2019	Hon'ble Delhi High Court has extended the Arbitral Tribunal madate
18 February, 2019	Third meeting of the Arbitral Tribunal
4 April, 2019	Settlement agreement between NHAI and PNGTL for Rs. 1238.06 Crore
14 May, 2019	Fourth meeting of the Arbitral Tribunal
April 2019	Paid the amount of Rs. 813 Crore Settlement by NHAI to PNGTL
January 3rd, 2029	End of Concessioner period

Project in amounts

Project Cost (as per Concession Agreement) in Rs Crore	-	752.47
Project Cost (Revised) in Rs Crore	-	940.00
Project Cost (Actual) in Rs Crore	-	1,691.00
PNGTL demand for termination in Rs Crore	-	1750.83
Settlement amount paid by NHAI to PNGTL in Rs Crore	-	1238.06

Road ahead

The only termination has been the choice and option left out for the project concessionaire as the project exhibits a loss in operations due to social issues.

Goals and deliverable

To understand the calculation of financials for the PPP project.

1. Need for a mechanism for calculation of project value at various stages of completion and operation.
2. Deriving the figures for compensation for termination of the project.

Assignment questions with Hints answers

1. How to calculate the project value at various stages of completion and operation.

Valuation is the analytical process of determining the current (or projected) worth of a project or a company. Many techniques can be used for purpose of valuation. An analyst aiming to value a project looks at the business's management, the composition of its capital structure, the prospect of future earnings, and the market value of its assets, among many other metrics. The discounted cash flow analysis is one method, which calculates the value of a project based on its earnings potential. Other methods include looking at past and similar transactions of company or asset purchases or comparing a company with similar businesses and their valuations.

The comparable project analysis is a method that looks at similar projects, in size and industry, and how they trade to determine a fair value for the project. The past transaction method looks at past transactions of similar companies to determine an appropriate value. There's also the asset-based valuation method, which adds up all the company's asset values, assuming they were sold at fair market value, to get the intrinsic value.

Sometimes doing all of these and then weighing each is appropriate to calculate intrinsic value. Meanwhile, some methods are more appropriate for certain industries and not others. For example, you wouldn't use an asset-based valuation approach to valuing a consulting company that has few assets; instead, an earnings-based approach like the DCF would be more appropriate.

Discounted Cash Flow Valuation

Analysts also place a value on an asset or investment using the cash inflows and outflows generated by the asset, called a discounted cash flow (DCF) analysis. These cash flows are discounted into a current value using a discount rate, which is an assumption about interest rates or a minimum rate of return assumed by the investor.

Particulars	31-03-2015	
1. Equity and Liabilities		
a. Shareholders' funds		
• Share Capital	1,691,000,000	
• Reserve & Surplus	(2,244,707,618)	
		(553,707,618)
b. Non-current liabilities		
• Long term borrowing	15,386,577,900	
• Other long term liabilities	817,867,994	
• Long term provisions	215,349,098	
		16,419,794,992
c. Current Liabilities		
• Trade payables	4,900,532	
• Other current liabilities	875,060,326	
• Short term provisions	76,906,949	
		956,867,806
TOTAL		
2. Assets		
1. Non – current assets		16,822,955,180

• Fixed assets o Tangible o Intangible	57,808,730 16,674,692,635	
• Long term loans and advances		
2. Current assets • Cash and bank balance • Short term loans and advances	57,808,730 16,674,692,635	16,822,955,180 49,936,594
TOTAL		40,517,221
		16,822,955,180

If a company is buying a piece of machinery, the firm analyzes the cash outflow for the purchase and the additional cash inflows generated by the new asset. All the cash flows are discounted to a present value, and the business determines the net present value (NPV). If the NPV is a positive number, the company should invest and buy the asset.

2. How to derive the figures for compensation for termination of the project.

Over the years, the public-private partnership (PPP) method of delivery of public infrastructure has been a successful, well-established, and much-replicated model. Termination and termination compensation forms the commercial backbone to the PPP risk allocation; it requires to be given a lot of legislative attention as it is seen in the case that when unforeseen circumstances have put the commercial viability of the project at stake, a lot of differences have come up to arrive at termination amount.

3. What are the KPI for the success of PPP Road Projects in India?

For the success of road project, the following can be identified as key performance indicators

i. Growth in revenue over the years

ii. Sources of revenue
iii. Revenue Concentration. ...
iv. Increase in profitability over the years
v. Working Capital financing

4. What are the key observations from the case in terms of Project cash flows?

When unforeseen circumstances have stopped the commercial operation of the project, the dispute resolution mechanism was found to be insufficient. In the future, there are going to be several road projects coming up under the PPP model, these kinds of situations will frequently come up. So, a better way of handling these kinds of situations must be devised.

Conclusion

Larger PPP projects were turned out to be heavy on Constriction companies with a financial burden to sink the company. There are many instances that PPP had killed some giants in the Indian construction industry with poor financial management and cash flow management due to various risks that hit at different phases of the project. The current project is a different case that posed a challenge in operation in toll collection due to socio-political reasons which forced the concessionaire to exit from the project after successful completion of the project execution. This posed the need for having a standard formula for deriving the figures for compensation for termination of the project at any stage of the project.

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