

**Minutes of the meeting of chaired by the Chief Secretary, Jharkhand on issues of development of the proposed Eastern Corridor, Jamshedpur on 20.5.2014 at Ranchi**

1. The list of participants is at Annexure-I
2. Tata Steel has proposed development of 18.1 km elevated corridor connecting Hata Chowk to NH-33 via a new Bridge over River Suvarnrekha in Jamshedpur town in partnership with GoJ on PPP mode through Joint Venture route with 90:10 equity participation by Tata Steel & Government of Jharkhand (GoJ) respectively. The proposal includes project development by Tata Steel and sustained without any expenditure by the State govt.
3. Chief Secretary in a meeting on 22.5.2013 directed that, since the issue of equity share between JV partners is a complicated one, a sub-committee of Secretaries be constituted by the Industry department under chairpersonship of Pr. Secretary RCD and Secretary Finance & Industry to decide the same.


The Sub-Committee was accordingly constituted on 26.6.13 to deliberate with Tata Steel & suggest in respect of development of the proposed Eastern Corridor, Jamshedpur on PPP mode by Tata Steel on nomination basis on the following:

- (i) Equity share between proposed Joint Venture Partner on the account of the transfer of govt. land to SPV and other associated facilities
- (ii) Terms and conditions on equity ratio between JV partners

4. Since Equity gets factored in functioning, execution, debt servicing, liabilities etc, the Committee examined the complete proposal.
5. Company Laws would govern the Joint Venture. Govt. should have voting rights if at all the govt. decides on a JV partnership and on this the Sub-Committee further felt that Equity ratio should be 74 : 26 instead of 90:10 as proposed earlier by Tata Steel.

Certain calculations on following points were required to be firmed before arriving at an informed decision on the Equity share issue:

- (i) What is the initialized capital of Joint Venture Company? (ii) 26% shareholding of govt. will amount to how much? (iii) what is the extent of govt. land? (iv) How has it been determined that the Salami & Lease Rental amount of the 1<sup>st</sup> 3 years will suffice 26% equity participation? (v) Any kind of Cess of land payable to govt. (vi) What is the likely rental (Salami/rental/ cess etc)



(vii) additional land acquisition (viii) how has 30 year Concession period been worked out? (ix) other issues regarding Project Structure such as (a) who would be the Concessionaire (b) Liability of the govt. in the event of premature termination as also if the termination is during construction period and who owns the liability in that case (c) encroachment removal (x) Traffic Count & IRR, Selection of partner for JV etc.

6. Tata Steel sent its clarification through the Industry deptt. The findings were compiled. This was presented by the Pr. Secretary, RCD through power point before the Chief Secretary in a meeting on 20.5.2014.

7. The findings on aspects of equity holding, project structuring, project viability, Govt's liabilities in event of premature termination & project not succeeding etc are centred upon informations received from Tata Steel through Industry Deptt., GOI Guidelines & The Indian Toll (Jharkhand Amendment) Act .

**The presentation outlined the following:**

**(a) Project Structure:**

- 74 : 26 Joint Venture (JV) of Tata Steel with State Govt.
- 24 acres govt land parcel will form Equity share of the govt.
- Capital Cost of Project : Rs. 1475 cr

**(i) Reasons for constituting JV**

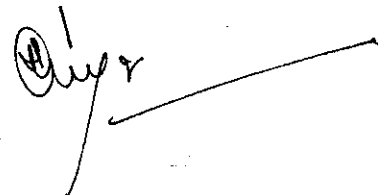
- Right to grant Tolling Rights to JV Company on nomination basis.
- Revenue of JV company for (i) operation & maintenance (ii) debt servicing

**(ii) Issues**

- GoI Guidelines 2009 on establishing JVs: Process of selection of private entity would have to be competitive, fair and transparent so as to afford an equal opportunity to competing applicants and for securing the best outcome for the Public sector entity.
- Selection through negotiations or on a nomination basis should normally be avoided.
- Any deviation needs to be explained

**(iii) Financial Issues**

- Debt: Equity ratio 70:30
- Total Project Cost Rs. 1475 cr
- Equity amount Rs. 442.5 cr
- 26% govt. equity share (in form of 24 acres govt land parcel land) Rs. 115.05 cr
- Land lease rental & salami of 1<sup>st</sup> 3 years would amount to Rs. 45 to 50 cr



- land rentals etc of 1<sup>st</sup> 3 years would not suffice 26 % govt shareholding. Govt., therefore may have to bear burden of additional Rs. 65 to 70 cr.
- How would Debt be raised by Tata Steel ?

**(iv) Concession Issues**

- Concession is proposed to be awarded by the govt to the JV company where govt. is also a shareholder.
- Govt, as such, is grantor of Concession as well as a Concessionaire. i.e govt is a regulator as well as regulated.
- Govt, therefore, will not remain insulated from law suits, arbitration etc in case of Project not succeeding
- Project strcture is not as per guidelines of GoI.

**(b) Project viability**

- Equity IRR : 2012 traffic 11.98 %  
: 2014 traffic 11.30 %
- Cost of Capital or discount rate 12% minimum

**Ministry of Road, Transport & Highways (MoRT&H) , GoI guidelines for investment in Road Sector suggests following :**

**(i) Annuity Projects**

Project IRR	: 12- 14 %
Equity IRR	: 14 -16 %

**(ii) BOT Projects (where the Concessionaire assumes Traffic Risk)**

Project IRR	: 14- 16 %
Equity IRR	: 18 - 20 %

IRR < Cost of Capital and much less than that required by MoRT&H Guidelines.

**Project is not viable with the above low IRR.**

**(c) Govt's liabilities in case of premature termination:**

- **Termination due to Govt's default:** In all cases, where termination is effected on account of Govt's default (such as change in Law / Policy that undermines Tolling / Concession rights, Order of Court holding grant of rights by GoJ to Concessionaire as unlawful etc.), GoJ shall pay to the Concessionaire, by way of termination payment, an amount equal to Debt Due and 110% of the adjusted equity.
- **Termination due to Concessionaire's default (Concessionaire is declared bankrupt or insolvent, Concessionaire is liquidated, dissolved, wound up etc):** GoJ shall pay to Concessionaire by way of termination payment an amount equal to 90% of the Debt due less insurance cover received.

- In the event of premature termination, whole of project assets & Facilities (moveable & immovable) shall be transferred to GoJ which in turn shall be given to JV company or any affiliate of Tata Steel on perpetual lease at a token amount.

**(d) Debt Servicing**

- Equity IRR < Cost of procuring Capital required for the project.
- Equity IRR is low as compared to what is suggested for BOT projects in MoRT&H, GoI guidelines for investment in Road Sector and it is also less than the Cost of procuring Capital required for the proposed Project.
- With not enough Traffic, low revenue may lead to Debt servicing issues which is to the extent of 70 % of Rs. 1475 cr.
- In case of default on Debt payment & premature termination, govt. gets affected being a JV partner to the extent of 26%.
- The liability at this juncture cannot be clearly computed. It is also difficult for the govt. to commit to an unknown liability.

**(e) Conclusion**

- **Project structure does not seem appropriate**
- **Low IRR**
- **Project not likely to be viable**
- **State will be liable in event of project not being viable and premature termination and the liability which is not computable at this juncture.**

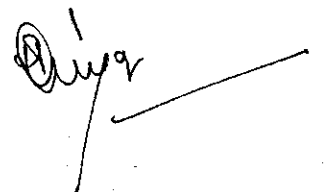
**8. Observations post deliberations in the meeting:**

(i) The main aim of the proposed eastern Corridor project is to cater to Tata Steel traffic & divert the through traffic between southern part of Jamshedpur (viz. Chaibasa / Hata Road) to NH-33 without passing through the city, thereby decongesting city's internal roads. This would also help reduce heavy pollution & road fatalities.

It is, therefore, a much needed project for Jamshedpur.

(ii) Nomination of Tata Steel as JV partner can be justified as it is a Tata specific project for Tata Steel traffic. It is to the extent of almost 80% of the total Traffic.

(iii) However, here the issue is one of viability of the project & project structuring. Toll based infrastructure projects essentially depend on traffic. With Equity IRR, based on 2014 traffic count undertaken by Tata Steel, being just 11.30 % as compared to 18 to



20% recommended by MoRT&H, GoI guidelines and is also less than Cost of procuring Capital, the said project is not viable.

Moreover, with not enough traffic, low revenues will lead to debt servicing issues. This may be substantial.

(iv) State govt, proposed as JV partner, would be affected in the event of default payment & premature termination and, thus, may not remain insulated from law suits, arbitration etc.

(v) So this kind of project structure where govt is grantor of Concession and a Concessionaire at the same time also does not seem appropriate.

#### 9. Possible way forward:

(i) Proposed Eastern Corridor can be developed solely by Tata Steel as a Tata Steel specific project and sustained throughout the Concession period without any expenditure by the state govt.

(ii) The state govt. may enter into specific agreement with Tata Steel for Concession Period exclusively for Tolling Rights to Tata Steel or any of its wholly owned subsidiary Company for specific purpose of developing the proposed Eastern Corridor" as per provisions of The Indian Tolls (Jharkhand Amendment) Act, 2002.

The form of Agreement for Tolling Rights may be formulated by Tata Steel and vetted by the Industry department of the State Govt.

(iii) The Industry Deptt. can look at a grant possibility to Tata Steel instead of govt. equity in Joint Venture as proposed by Tata Steel in light of guidelines of Govt. of India 2009 on establishing Joint Venture in Infrastructure Sector.

(iv) The grant could be by way of Lease Rental, Salami, Cess etc on govt. land parcel identified for the proposed Eastern Corridor for the 1<sup>st</sup> 3 years. The Lease Rental for the rest of the Concession Period can be paid by Tata Steel as normal revenue expenses to the state govt.

(v) Govt land parcel would be deemed leased Right of Way for the proposed project.


(vi) State govt through the Industry deptt would facilitate procurement of clearances by Tata Steel from govt entities. The state govt has been facilitating National Highways Authority of India (NHAI) in matters of Land Acquisition, Forest Diversion clearances etc in NHDP.



Industry Deptt. may take further action in the aforementioned regard.

The meeting ended with vote of thanks to the Chair.


This is issued with the approval of the Chief Secretary, Jharkhand.

  
24/6/2014  
(Rajbala Verma)  
Pr. Secretary, RCD

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Date: 25/6/14

Copy to Pr. Secretary, Revenue & land Reforms, GoJ, Ranchi / Secretary, Finance, Govt. of Jharkhand, Ranchi / Secretary, Industry Deptt. GoJ, Ranchi / Director, Industry, GoJ, Ranchi/ Sri D.P. Vidyarthi , Dy. Director, Industry cum Member Secretary, Industry deptt, Ranchi for information and necessary action.

  
24/6/2014  
Pr. Secretary, RCD  
Govt. of Jharkhand