



Project Report on

## **Commercial Utilization of Surplus land of BWEL on PPP Pattern**

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# **Commercial Utilization of Surplus land of BWEL\* on PPP Pattern**

(\*Bharat Wagon & Engg Co. Ltd. is a CPSE under Ministry of Railways)

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**Indian Railways Institute of Transport Management**

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A no. of consultancy firms empanelled with RLDA (Rail Land Development Authority) were also consulted in preparation of the project, as follows:

- C.B. Richard Ellis Sonta Asia Pvt. Ltd.
- Capital Fortunes Pvt. Ltd.
- Price Water House Coopers Pvt. Ltd.
- Knight Frank (India) Pvt. Ltd.
- Deloitte Touche Tohmatsu India Pvt. Ltd.

In addition to above, a no. of websites, which offer a plethora of information, were also referred, as follows:

- [www.pppinindia.com](http://www.pppinindia.com)
- [www.pppindiadatabase.com](http://www.pppindiadatabase.com)
- [www.infrastructure.gov.in](http://www.infrastructure.gov.in)
- [www.rlda.in](http://www.rlda.in)
- [www.planningcommission.nic.in](http://www.planningcommission.nic.in)

The author is highly indebted to all the above sources.

## **DECLARATION**

I declare that the Project Report on **Commercial Utilization of Surplus land of Bharat Wagon & Engg Co. (BWEL) on PPP Pattern** is submitted by me on completion of course on **PPP in Infrastructure** to the Indian Railways Institute of Transport Management, Lucknow. My report may be used by Indian Railways/IRITM for official purposes.

(Signature)

**Date:** 14<sup>th</sup> June, 2013

**Place:** Lucknow.

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# 1. INTRODUCTION

This project was undertaken as an academic exercise after a one week course on Public Private Partnership (PPP) in Infrastructure, held at IRITM, Lucknow from 6<sup>th</sup>-10 May, 2013. The knowledge gained during the course, alongwith interaction held with various authorities like Rail Land Development Authority (RLDA), Railway Board, and Planning Commission, forms the basis of this project.

Bharat Wagon & Engineering Co. Ltd. is a CPSE under Ministry of Railways. The company was referred to BIFR in 2001, and at present reeling under severe crisis of working capital. Surprisingly, the company is having Fixed Assets (Land), the present value of which is above Rs. 100 Crores. A large part of this land is surplus land, or land which is being utilised uneconomically at present, or not being used at all!

BWEL has 26 Acres freehold land at Mokama, which is covered with thick wood. This land can be utilised for commercial plantation, to build warehouse/yard, a school/hospital and the like. Similarly, there are two colonies at Muzaffarpur, which have Single storied Residential Quarters, with lot of vacant space/ potential vacant space if units are re-organised into multi-storey apartments. The usages could be many and varied, and are limited only by your imagination. However, the buzzword here is commercial viability; and this is where the role of specialist agencies (consultancy firms) comes in. As they say – The job of specialists should be better left to specialists.

The objective of this study is to explore possible usages for commercial exploitation of surplus land, so as to provide a handsome source of revenue stream to the company, from land assets which are lying unused since several years, nay decades!

Surprisingly, on the one hand, the company has been struggling from the paucity of working capital even to sustain its core operations; on the other hand, the assets worth crores of rupees are lying unutilized.

## 2. DEFINING PPP

In India, the government is committed to raise the investment in infrastructure from the existing level of around 5 % of GDP to around 8%. The major policy challenges are implementation of infrastructure projects in a time bound manner, notwithstanding the budgetary constraints. Therefore, PPP approach appears to be best suited for development of infrastructure, as compared to the traditional EPC route. However, there needs to be a shift in the mindset of the government to treat the private sector as a partner, and not just a vendor of goods or services.

PPP is such a vast subject that no single definition serves the purpose. PPP can be defined in a no. of ways, as follows:

- Provision of a public service or goods by a private partner, who has been conceded the right (the concession) for the purpose, for a specified period of time, on the basis of predetermined revenue stream/s. The projects are domiciled in a Special Purpose Vehicle (SPV), which is typically a legal entity under the Companies Act.
- PPP uses advanced technologies and expertise available with the private sector, resulting in innovation and increased efficiency. PPP can be used by minimizing time and cost overruns.
- PPP is not about Privatization or Disinvestment. It's all about leveraging, innovation and Service efficiency of Private sector.
- PPP acknowledges that private sector is more innovative than the public sector.
- PPP is focused to maximize investment in infrastructure, while addressing budgetary constraints. PPP stresses o long term service delivery, rather than just assets creation. Private sector is looking for profits; however they are sharing the risks too.
- PPP tries to unleash value from low performing assets by putting them to better alternative uses, e.g. real-estate and manufacturing facilities. It transfers risks, and the rewards are conditional subject to delivery of service.

### 3. TERMINOLOGY TO CONFUSE YOU?

As if PPP itself is not enough, Public Private Partnership uses terminology to further confuse you as follows:

- **SPVs** are not another fancy name for MUVs or SUVs. Contrary to what the name suggests, **Special Purpose Vehicle** is an organization set up to implement the PPP Projects.
- **MCA** is not the Masters in Computer Applications, but **Model Concession Agreement**, the agreement that the government enters into with a Concessionaire.
- **Concession** is not what you get on a PTO or a Privilege pass. It is the right conceded to the private party for undertaking defined obligations.
- **VGF** is not another form of VPF; rather it is **Viability Gap Funding**.

### 4. ADVANTAGES OF PPP

The following are the distinct advantages of PPP:

- Enhanced bankability of the projects due to rigorous project preparation.
- PPP attempts to deliver whole life solution and not just asset creation.
- Incentive to the developer for early completion of the project in the form of advanced receipt of access charges.

However, to fully exploit these advantages, it is necessary that the contacting parties should not be seen as adversaries. The partnership has to be managed for over 15-30 years. Background of mistrust has to be eliminated, and the project should have a win-win focus.

## **5. GOVERNMENT STRUCTURE FOR PPPs IN INDIA**

India's first example of PPP dates back to 19<sup>th</sup> Century with the birth of Indian School of Science, with the partnership between British GoI, Industrialist JRD Tata, and Princely State of Mysore.

In recent times, a number of PPP Projects have been successfully undertaken in India. For Example: Noida Toll Bridge, Konkan Railway, Delhi Metro etc.

The various initiatives undertaken by GOI for successful implementation of PPP in India are:

- Constitution of Committee on Infrastructure (CoI)
- Constitution of PPP Appraisal Committee (PPPAC)
- Full-fledged website on PPP Projects ([www.pppindia.com](http://www.pppindia.com))
- Setting up of India Infrastructure Finance Co. Ltd. (IIFCL) to meet Viability Gap Funding (VGF) of PPP Projects.
- Drafting of Model Concession Agreements (MCA) for various sectors by Planning Commissioning.

## **6. PPP PROJECTS IN INDIAN RAILWAYS**

Indian Railways has hundreds of sanctioned works, which require more than Rs. 80,000 Crore for completion. National Rail Vikas Yojna (NRVY) was an initiative to strengthen Golden quadrilateral route of Indian Railways. Rail Vikas Nigam Ltd. (RVNL) was set up as Special Purpose Vehicle (SPV) for implementing NRVY. It was set up to take up long pending rail projects, most of them through PPP route.

RVNL Projects include gauge conversion, doubling, new lines, railway electrification etc. It has more than 50 projects, amounting to more than 15000 crore. Rail Land Development Authority (RLDA) was constituted to commercially utilise surplus railway land.

Indian Railways is all set to attract 1 lac Crore of private investment through PPP mode. A no. of projects have been undertaken in Indian Railways on PPP pattern as follows:

- Konkan Railway Corporation Ltd. (KRCL) having 51% equity from MoR and 49% from four state governments.
- Surendernagar-Pipavav Gauge Conversion project
- Hassan Mangalore Railway Development

A few other projects are under pipeline, as follows:

- Dedicated Freight Corridors
- World Class Railway Stations
- Diesel Locomotive Factory at Marhaura and Electric Locomotive Factory at Madhepura.
- Facilities for manufacture of High Capacity Freight Bogies
- Multi-modal logistic hubs
- Inland Container Depots
- Construction of Road Over-bridges.

**PPP Models over IR:** Various PPP models are followed over Indian Railways, as follows:

- BOT – Build, Operate, Transfer
- BOO – Build, Own, Operate
- BOOT – Build, Own, Operate, Transfer
- DBFO – Design, Build, Finance, Operate.
- Joint Venture
- Licensing/Lease etc.

## 7. UTILISATION OF SURPLUS LAND OF BWEL

This project was undertaken as an academic exercise after a one week course on Public Private Partnership (PPP) in Infrastructure, held at IRITM, Lucknow from 6<sup>th</sup>-10 May, 2013. At the same time, the intention is to explore commercial exploitation of Surplus land of the company BWEL (Bharat Wagon & Engineering Co. Ltd.) so as to provide some revenues to the company struggling with the paucity of funds. The knowledge gained during the course at IRITM, alongwith interaction held with the Rail Land Development Authority (RLDA) forms the basis of this project.

Indian Railways has entrusted development of surplus railway land and construction of Multi Functional Complexes (MFCs) to Rail Land Development Authority (RLDA). RLDA has been successfully carrying out the task assigned to them by MoR. Since, the present projects deals with an area, which is being handled by RLDA, a brief introduction to RLDA is imperative, and is given as Annexure-A.

## **Surplus Land in BWEL**

BWEL has 26 Acres freehold land at Mokama, which is covered with thick wood. This land can be utilised for commercial plantation, to build warehouse/yard, a school/hospital and the like. Similarly, there are two colonies at Muzaffarpur, which have Single storied Residential Quarters, with lot of vacant space/ potential vacant space if units are re-organised into multi-storey apartments.

There are striking differences in the land available at the two locations; the possible usages are also bound to be different. While Mokama land is in rural backdrop and occupied by thick jungle, Muzaffarpur land is in prime urban location in the fast developing city. A number of possible usages for each location are suggested as follows:

### **Mokama:**

- Clearing of jungle, and starting commercial plantation
- Lease of land for warehousing for 25-30 years term, in return of one time license fee/recurring annual fee.

### **Muzaffarpur:**

- Re-organization of single-storey quarters into multi-storey units, thus releasing about 2/3<sup>rd</sup> of total land for commercial development.
- Development of MFCs in the released land (shops, offices, ATMs, Milk booths etc.)
- Lease of land for public institutions (School, Hospital, Vocational Training centre etc.)
- Any other possible uses.

These suggested usages are not exhaustive, and many other possible usages can come up during feasibility studies/ upon calling of Expression of Interest.

However, the road is not as smooth, as it seems to be. There are a number of issues involved, as discussed below.

### **Major Issues involved:**

There are a number of constraints in implementation of the scheme proposed in this study. The major constraints are:

1. **Resistance from Unions/Local leaders:** Any attempt for commercial utilisation of surplus land without taking into confidence the employees/unions may prove out to be

redundant. They are to be convinced that this exercise is in the financial interest of the company, and will also be beneficial to the employees.

2. **BIFR Approval:** The company is a sick unit referred to BIFR (Board for Industrial and Financial Reconstruction) and the approval of BIFR will be required before any action for lease/licensing of company's assets is undertaken. But, BIFR would be more than happy to grant such approval, if the company is able to generate some funds from utilization of internal assets.
3. **Inadequate response due to Rural Set-up:** It is anticipated that land at Mokama unit may get inadequate response due to inadequate industries in the region. However, this point need not deter us to at least explore the feasibilities. Feasibility study by an expert agency needs to be carried out before reaching at any conclusion.
4. **Forest Department Clearance:** Clearance from Forest Department will be required for clearing the jungle land (land occupied by trees) before it could be cleared for any commercial activity.
5. **Availability of Land Records:** The company was transferred from Department of Heavy Industries to MoR in 2008. The availability of authentic and valid records also needs to be checked thoroughly. This is also an expert job, for which opinion of consultancy firms may be required.
6. **Availability of genuine Real-Estate developers:** If eligibility criteria is not defined meticulously, there is a possibility of fraudulent firms trying to grab the land.
7. **Approval of Administrative Ministry:** BWEL is a CPSE under the administrative control of MoR. Approval of MoR needs to be processed in time and monitored continuously so that it does not lead to inordinate delays.
8. **Clearance from local bodies:** Clearance from local bodies may be required for development of Multi-functional Complex.

### **Conclusion:**

The usages could be many and varied, and are limited only by your imagination. However, the buzzword here is commercial viability; and this is where the role of specialist agencies (consultancy firms) comes in. As they say – The job of specialists should be better left to specialists.

The (tentative) process of commercial exploitation shall be as follows:

- Approval of BoD, Administrative Ministry (MoR) and BIFR etc.
- MoU with Recognised Unions.
- Engaging of consultants for carrying out feasibility studies/business plan.
- Calling of Expression of Interest.
- Pre-Bid meeting.

- Submission of Bids
- Bid evaluation for Selection of eligible bidders
- Scrutiny of Financial bids (and declaration of highest bidder)
- Issue of LOA and Signing of Agreement.

**Note:** The scope of Consultancy firm should be vast, and should cover the following aspects:

- Carrying out feasibility study/Business Plan.
- Examination of Land Records
- Dealing with local authorities (Revenue/Forest Department etc.)
- Formation of SPV (if required)
- Monitoring of bidding process (fixation of Bid-variable, Reserve price, Lease/License fee etc.)
- All Legal and Financial issues
- Drafting and signing of Agreement.

## **An Introduction to RAIL LAND DEVELOPMENT AUTHORITY**

Indian Railways has entrusted development of surplus railway land and construction of Multi Functional Complexes (MFCs) to Rail Land Development Authority (RLDA). RLDA has been successfully carrying out the task assigned to them by MoR. Since, the present projects deals with an area, which is being handled by RLDA, a brief introduction to RLDA is imperative.

Rail Land Development Authority (RLDA) was established by The Railways (Amendment) Act, 2005 to generate revenue through commercial development of surplus railway land/air space. Developers are finalized through transparent, open, fair and competitive bidding process.

Before initiating the process of selection of developer for a site, RLDA carries out ***feasibility and business plan study*** for the site, preferably through professional consultants. The study involves inspection of site by RLDA officials, collection of land records and other ownership papers from zonal railway, survey and site plan development, macro and micro real estate market studies, development of concept plan of proposed development, financial modeling and land valuation. Final report on the conclusion of this study is examined by a ***High level committee*** and is accepted at appropriate level.

Based on the report a ***Project Information Memorandum (PIM)*** is prepared for each site which is provided to the prospective bidders/developers for assisting them in understanding and appraising the land.

RLDA offers land on long term lease generally for 30 to 45 years for commercial uses, such as offices, retail, hospitality, entertainment, transport logistics, institutional. (Lease for higher duration or for Residential purposes is offered only with case-specific prior approval of Railway Board).

### **7.1. Development Models and Reserve Price**

Based on the market potential, location etc., a suitable development model is selected for each site so that the return to the Government from the site can be maximized. Development model consists of selecting a combination of some of the following salient features:

- Redevelopment of Existing Railway Structures
- Payment of onetime Lease Premium
- Annual Lease Rent

- Present Value of Payment
- Revenue Share and
- Joint Venture

At the end of the lease term land alongwith the fixed Assets and Utilities is transferred to RLDA/Railways.

## **7.2. MFC Projects**

In the Railway Budget 2009-10, hon'ble Minister of Railways announced construction of Multi Functional Complexes (MFCs) at various railway stations across India that are important from tourist or pilgrimage point of view. These MFCs are to be developed by RLDA on land entrusted by the Ministry of Railways either through PSUs under the Ministry of Railways (IRCON, RITES and RVNL etc) or through private developers. Development of MFCs are to be carried out in a manner similar to the commercial development of land with certain additional features, such as mandatory passenger facilities.

## **7.3. Land Development Hand Book of RLDA**

RLDA has developed a Land Development Hand Book, and the present draft is under approval. According to this handbook, the complete set of Bid Documents for a project consists of six Parts.

- Part-I- 'Regulations for Bids and Lease Agreements' and Part-III- 'General Conditions of Lease Agreement' will form the Standard Component (Common for all Projects).
- Part-II- 'Instructions to Bidders and Bid Form', Part-IV-SCC, Part-V- 'Schedules & Specification' and Part-VI- Annexes (various forms for agreement), will form the variable component (Specific for each Project).

## **7.4. Limitations on Lease Rights**

- Ownership of Site and Assets constructed on Site to remain with RLDA at all times.
- No Sub-leasing/renting/assigning of any part or full of site.
- No mining right, no right on archeological discoveries no right to dispose/sell/remove excavation material except for implementing the Project.
- RLDA to continue to grant any easements over/ on/ under/ through/ across the site, provided not inconsistent with the development on the Site.

## References:

- *Ideas on Public Private Partnerships* - Dr. Kalpana Dube
- *Railway Land Management: A Practical Approach* – Rakesh Kumar
- *Briefs on Commercial Development of Land* – RLDA
- *Land Development Handbook* – RLDA
- *Project Information Memorandum (PIM) for MFCs* - RLDA
- [www.pppinindia.com](http://www.pppinindia.com)
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- [www.rlda.in](http://www.rlda.in)